

**Power NI Energy Limited
Power Procurement Business (PPB)**

SEM

**Repricing and Price Materiality
Threshold Parameter Consultation**

**Consultation Paper
SEM-19-042**

Response by Power NI Energy (PPB)

27 September 2019.



Introduction

PPB welcomes the opportunity to respond to the SEM Committee (SEMC) consultation on Repricing and Price Materiality Threshold Parameters in the Balancing Market (BM).

General Comments

The extent of pricing and settlement errors in the Balancing Market (BM) has distorted the efficient functioning of the wider energy markets as participants have not been able to rely on the signals provided by the BM prices to facilitate rational assessment of the markets that would have enabled coherent refinement of trading strategies, as would have been expected in response to those price signals. Even before consideration of the pricing, the current M+4 resettlement illustrates the impact of what should be “simple” settlement calculations but which have resulted in significant payment differences that impact on participants’ cashflows.

The impact of re-pricing is an even larger unknown that, if re-priced will potentially have a significant impact on pricing and hence settlement but against which participants’ trading responses cannot be modified. This was always a risk that was provided for under the Trading and Settlement Code (TSC), but the expectation would have been that it would have only been for short periods and would have been corrected quickly. This is clearly not the actual outturn experienced where a full year of the market is nearly complete but with prices incorrectly determined for the first 8½ months of the market with further manifest errors identified since 11 June 2019. This has been an unwelcome outcome for the market and participants therein, particularly given trading decisions will have been taken over that long period but which cannot be revised to reflect any subsequent pricing change.

These have been substantive market risks but the response must not be to layer on “regulatory” risk by retrospectively changing the TSC. We consider that Option 3 can be developed to provide a pragmatic solution that provides certainty to participants given that repricing would be affecting settlement well over a year after the prices were originally determined and against which participants made trading decisions that cannot be revisited. Such an approach would also enable SEMO resources to concentrate on resolving existing defects to ensure the problems encountered over the last year are fully addressed, IT systems include the functionality required to enable full compliance with the TSC and that confidence in the ongoing reliability and integrity of BM pricing (and the incentives and signals they provide) is forged.

Comments on the Consultation Paper Questions

Question 1: Is your preference for repricing from 1 October 2018 to 11 June 2019 (and from 11 June 2019 onwards) to proceed based on the current price materiality threshold of 5%?

In normal circumstances, PPB would consider that repricing in accordance with the TSC would be the only acceptable approach given that we do not support retrospective changes to the TSC as that would introduce regulatory risk at odds with established good regulatory practice.

However, we recognise the significant problem that exists as a result of SEMO not procuring systems that are compliant with the TSC and where system changes to deliver such functionality cannot be delivered until, at the earliest, Q4 2020. The consequence is that repricing and resettlement cannot occur in accordance with the TSC until, at best, two years after the original BM pricing. PPB agrees that such ongoing uncertainty is not appropriate or acceptable.

Question 2: Do you agree with the proposal to apply a 0% price materiality threshold on a temporary basis?

If the price materiality threshold is changed to 0% on a temporary basis, stakeholder views are invited on whether this should be applied for repricing required for the period from 1 October 2018 to 11 June 2019 only or until such time as an updated repricing solution to manage the 5% Price Materiality Threshold can be implemented.

Do you see any issues with the proposed approach to repricing outlined in the 'Recommended Values for SEM Price Materiality Threshold' Report to the Regulatory Authorities?

We do not support the proposal to retrospectively change the price materiality threshold to 0% even on a temporary basis. This would be a clear contravention of the TSC and good regulatory practice and must be avoided.

We also note from the most recent MOUG that the software release that includes functionality to deliver repricing without any threshold will not be available prior to the commencement of M+13 resettlement and hence would require, assuming the software is successfully tested and deployed (which given experience to date is not a given), further ad-hoc resettlement to resettle at a minimum October and November 2018. In addition, there have been further manifest errors that have affected days since 11 June 2019 but

there has been no indication as to the impact of these errors on the pricing from 1 October 2018 to 11 June 2019 although there must be a number of days in that period that are similarly affected and therefore a high likelihood that further repricing would be required for a number of periods since market commencement to address the most recently identified manifest errors.

Notwithstanding our strong objections to the adoption of this approach, if the SEMC were to proceed with this change, it should only be applied for the minimum possible period. Our concern is that if the pricing materiality were changed, there is a high risk that it lessens the incentive to deliver IT systems that are fully compliant with the original TSC requirements.

In conclusion, we do not agree or accept that this approach has any merit given it is a clear retrospective change to the TSC and there remain manifest errors that may require further repricing and resettlement of settlement periods from 1 October 2018. This creates ongoing uncertainty for participants and we consider that resources would be better employed addressing the existing defects and delivering robust repricing functionality that is fully compliant with the TSC.

Question 3: *Interested stakeholder's views are invited in relation to the option to raise an urgent modification to the Trading and Settlement Code.*

This would entail an amendment to Section E.3.8 of the Code to either remove the requirement for repricing for the period from 1 October 2018 to 11 June 2019 (Option 3) or to require any repricing to be completed by the 13th month of the Settlement Calendar at the latest (Option 4), which would have the effect of repricing not being carried out for the period from October 2018 to October 2019 based in a commencement date of M+13 resettlement in November 2019.

For both options, the detailed legal drafting of any change would be raised and discussed through the Trading and Settlement Code Modifications Committee.

As we have already noted, we do not support retrospect changes to the TSC. However, it is perhaps more arguable that Option 3 is less of a retrospective change but more a waiver to deal with the fact that pricing remains incorrect more than a year after the event with a derogation from repricing for a specified period being a pragmatic solution in these special circumstances. Such an approach is also in line with the results of SEMO's June 2019 repricing survey where the preference of the vast majority of respondents was to not reprice, with only 13.5% favouring repricing.

On the basis of being the less obtrusive option and creating certainty, we would therefore strongly support Option 3.

We would not support Option 4 as we do not see a need for such an enduring provision. We must reach a position where there are no doubts over the integrity of the SEM Balancing Market and in such circumstances, repricing should be a very exceptional occurrence. Hence even if an issue were to arise, it should be an isolated event and repricing must be completed expediently and certainly within the M+4 timeframe. Introducing a perpetual M+13 cut-off sends the wrong signal and we consider should be avoided.

In conclusion, while we are unhappy that BM pricing has been subject to many flaws since the commencement of the market, we are now a year into the market and there remains great uncertainty for participants. We do not believe retrospective changes to the TSC should be contemplated and consider a pragmatic solution is needed to enable a line to be drawn on the historic pricing flaws to give certainty for participants while at the same time allowing SEMO resources to be focused on addressing outstanding defects (including the most recently identified manifest errors).

On that basis, we consider Option 3 which introduces a code modification that explicitly waives repricing, following adoption of the code modification, for any settlement period within a window commencing on 1 October 2018, to be the best option available.

The consultation proposed that the end date should be 11 June 2019. However, given the uncertainty arising from the most recently identified manifest errors, there may be merit in the TSC modification providing some flexibility over the end date, for example by stating the end date to be 11 June 2019, or such later date as notified by the SEMC, but with such specified date being no later than 31 December 2019. This would provide some time limited flexibility to extend the non-repricing period without the need for a further TSC modification.