



I-SEM Project: Stocktake Summary

October 2016

SUMMARY

The I-SEM Project is currently running to a Go Live date of October 2017. With this being a little less than 12 months away, the SEMC has undertaken a stocktake exercise, to identify design and delivery risks associated with the I-SEM Project, and to determine whether an October 2017 Go Live should still be pursued.

ESP Consulting has now completed this exercise. An initial report was submitted to the SEMC meeting in September 2016. Subsequent to this, further work and analysis was completed prior to a final report submitted to the SEMC meeting in October 2016. The SEMC is pleased to note that the Stocktake acknowledged the significant progress being made by the many parties, across the multiple workstreams, in a highly complex programme. The SEMC also notes that the Stocktake confirmed the I-SEM design is fit for purpose, and accepts the two recommendations to cushion the commercial and operational impact of its introduction.

However, the SEMC also accepts the report's recommendation that there are a number of risks in proceeding to the current timeline that are at an unacceptably high level, in particular, associated with the challenges for industry readiness.

On this basis, the SEMC agrees to the report's recommendation that the I-SEM delivery is best de-risked through a reprogramming of a number of key milestones. This reprogramming has been completed, with the following objectives in mind:

- the central systems and processes which support the I-SEM market are targeted to be delivered by end 2017;
- this will support a four month market trial (running in parallel to the existing SEM) starting in January 2018;
- the first CRM auction is due to take place in December 2017; and
- I-SEM is then planned to Go Live during May 2018.

The reprogramming will:

- align all delivery activities within the I-SEM Project, addressing serious challenges in the CRM pathway and providing additional contingency throughout for all parties;
- maintain a focus on delivery of fully tested central systems and processes for the energy market by the end of 2017;
- give more time for testing and trialling to de-risk the likelihood of identifying problems close to the Go Live date;
- increase market participant confidence in the Go Live date and thus facilitate their commercial, organisational and systems delivery and readiness activities; and
- support parallel SEM operation, and I-SEM trialling, to afford participants extended time for commercial testing and readiness, thereby reducing risk at Go Live.

BACKGROUND TO THE RECOMMENDATION

The I-SEM Stocktake focused on two areas:

- I-SEM design risk ('will the solution work in line with the baseline design'); and
- I-SEM delivery risk ('can the programme be delivered in the proposed timeframe').

The Stocktake included a comprehensive review of both RA and TSO delivery plans. In addition, a sample of Market Participants were interviewed to determine their views on design and delivery risks, and the results of the Market Participant Readiness Survey published in September 2016 were also taken into account.

In terms of **I-SEM design risk**, the Stocktake concluded that the baseline design is fit for purpose. In terms of **I-SEM delivery risk**, the Stocktake concluded that the I-SEM Project has delivered well to date. Much has been accomplished despite its overall complexity, involving multiple parties, a large number of policy areas, and associated market systems, many of which are interdependent. Successes include:

- significant policy decisions by the RAs, across all areas of energy trading, CRM, market power and forwards and liquidity;
- reflecting the policy decisions, development of the I-SEM market design for energy and capacity, thence the completion of the system design specifications by the TSOs, and the commencement of the systems build;
- development and publication of the I-SEM Test Strategy, setting out the overall approach to testing;
- completion of the design and governance arrangements for the NEMO;
- successful completion of the EUPHEMIA trail;
- establishment of the four participant liaison groups, and of the readiness reporting arrangements;
- completion of Tranche 1 of the changes to the TSO and MO licences; and
- enactment of the requisite primary legislation for I-SEM in both jurisdictions.

Other activities that are continuing substantially to plan include:

- the finalisation of the Trading and Settlement Code, in advance of formal consultation; and
- the build programme for the central systems.

However, whilst recognising this success, the Stocktake has also identified four 'Significant Pathways' of work that need to be completed for I-SEM Go Live, but which include significant risks associated with delivery against the existing timeline. These are:

- CRM: whether activities leading up to the CRM auction will complete on time, including the external dependency on state aid approval by the European Commission, such that it will allow the auction to be completed sufficiently far in advance of I-SEM Go Live to manage transition to the new market;
- Testing and trialling of market systems: whether the overall test programme for I-SEM is sufficient both in time and scope to establish the completeness and robustness of the delivered solution and thus the security of Go Live and subsequent operation;

- Market coupling: whether the agreements between NEMOs and TSOs in GB, NI and Ireland, as approved by the RAs, and subsequent activities necessary for the delivery of ex-ante markets, including trialling, can be completed for Go Live; and
- Participant readiness: whether the participants will have completed the full programme of system delivery, commercial and operational readiness activities to allow their participation to the extent necessary in I-SEM.

The report concluded that the overall level of risk inherent in these Significant Pathways places considerable doubt over the achievability of an I-SEM Go Live date of October 2017. In addition, fixing any one Significant Pathway will not resolve this issue; all four need to be addressed in parallel.

Addressing these risks leads to a reprogramming of some I-SEM delivery activities and milestones. These are summarised in Table 1 below, and include:

- the central systems and processes which support the I-SEM market are targeted to be delivered by end 2017;
- this will support a four month market trial (running in parallel to the existing SEM) starting in January 2018;
- the first CRM auction is due to take place in December 2017;
- I-SEM is then planned to Go Live during May 2018.

Table 1: revised I-SEM Project major milestones

<i>Milestone</i>	<i>Current Date</i>	<i>Revised Date</i>	<i>Comments</i>
Publication of the Trading and Settlement Code	March 2017	March 2017	No Change
Publication of the Capacity Market Code	March 2017	June 2017	Constituent consultations realigned; aligned to anticipated State Aid decision
Generator and Supplier Licence Consultation	September 2016	June 2017	Now follows publication of T&CS and CMC
Completion of Central System Design, Build and Test	May 2017	November 2017	Realigns testing programme and includes additional contingency
Start of Market Trial	June 2017	December 2017	One month prep to support clean entry to four month trial period
CRM Auction	June 2017	December 2017	Increased pre Go Live window
FTR Auction	April 2017	1Q2018	TBC
I-SEM Go Live	1 October 2017	23 May 2018	

In line with established I-SEM Project procedures, a complete set of revised Level 1 and Level 2 milestones will be published for participant consideration through the I-SEM Change Control procedure, during November 2016.

In undertaking this reprogramming, it should be noted that:

- this is not a uniform slippage of all programme delivery activities to the right – by default, current timescales will be maintained for activities where possible, and thus the overall pace of the programme;

- contingency will be added into the plan in order to minimise the risk of any further slippage; and
- a 'Framework for Go Live Readiness' will be introduced into the programme in order to maintain momentum towards each of the four major market events: the FTR auction, CRM auction, commencement of Market Trial, and I-SEM Go Live. The RAs will publish further details of this process, including overall governance, the Go Live criteria, and contingency plans for each event, by 1Q2017.

In proposing this reprogramming, the SEMC consider that it will:

- align all delivery activities within the I-SEM Project, addressing serious challenges in the CRM pathway and providing additional contingency throughout for all parties;
- maintain a focus on delivery of fully tested central systems and processes for the energy market by the end of 2017;
- provide clarity on the ongoing revenue streams (capacity payments and directed contracts) in the current SEM;
- allow the CRM auction to take place in December 2017, five months prior to Go Live of the energy market;
- increase market participant confidence in the Go Live date for energy and CRM, and thus facilitate their commercial, organisational and systems delivery and readiness activities; and
- support parallel SEM operation, and I-SEM trialling in the energy market, to afford participants extended time for commercial testing and readiness, thereby reducing risk at Go Live.