

Single Electricity Market Operator

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5 March 2020

RE: Derogation from repricing obligations of E.3.8 pursuant to interim provision H.13.1 on of the SEM Trading and Settlement Code

Dear Barry

In this letter SEMO seeks derogation from its obligations to reprice for the period of 1 October 2018 to 11 June 2019. In this submission, we outline the background leading to this request, the legal basis under the SEM Trading and Settlement Code (TSC or the Code), the obligations impacted and the justification for this request.

Background:

As you will be aware, the SEM Committee published a consultation paper SEM-19-042 on *'Repricing and Price Materiality Threshold Parameter Consultation'* in which the SEM Committee identified that between 1 October 2018 and 11 June 2019, there are a significant number of Imbalance Pricing Periods and Imbalance Settlement Periods that are subject to an upheld Dispute and therefore would require repricing pursuant to Section E.3.8 of the TSC. SEM-19-042 and its ensuing decision paper considered the impact of a number of scenarios on repricing and in particular on M+13 resettlement processes.

On 21 November 2019, the SEM Committee issued a decision on *'Repricing and the Price Materiality Threshold Parameter'* ([SEM-19-058](#)). In the SEM Committee's view, the points raised by the majority of respondents provided a compelling argument as to why it is not practical or in line with the objectives of the TSC for the period in question from 1 October 2018 to 11 June 2019 to reprice on a manual basis (Option 1 of the Consultation) or to apply a Price Materiality Threshold of 0% Price Materiality Threshold on a temporary basis until such time as an IT solution that could calculate materiality was delivered (Option 2 of the Consultation).

The SEM Committee decided to give effect to Option 3 of the Consultation through implementing a Modification to the TSC. This Modification Proposal was to be narrowly framed and targeted at the current situation to temporarily amend Section B.14 of the Code (via an amendment to Section H 'Interim Arrangements') in order to allow for the Market Operator to seek a derogation in respect of a specific obligation under Section E.3 of the Code from the RAs for a limited period and until 1 January 2021.

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Legal Basis under the SEM TSC:

Following on from this, on 6 February 2020, the SEM Commission issued a decision for the Regulatory Authorities in accordance with Paragraph B.17.18.1 of the TSC in relation to Modification Proposal Mod_23_19v2 to allow SEMO to seek relief from an obligation under Section E.3.8 of the TSC which modification would be implemented on an interim basis until 1 January 2021.

Obligations Impacted:

Section E.3.8.1 of the SEM TSC provides:

"If the Market Operator identifies a manifest error in a published Imbalance Settlement Price:

- (a) within 5 Working Days of its publication (whether or not as a result of a Settlement Query or a Pricing Dispute); or*
- (b) as part of the resolution of a Pricing Dispute as per paragraph B.19.2.2 (a)*

the Market Operator shall correct the manifest error and shall publish the corrected Imbalance Settlement Price as soon as possible and within 1 Working Day of making the correction."

Material Impact on the Achievement of the Code Objectives:

SEMO is now seeks a derogation from the above detailed obligations in Section E.3.8 of the TSC as SEMO reasonably expects to be unable to meet such obligations under the Code. Due to a continuous cycle of defects in the Central Market System which have been discussed in detail with market participants at Market Operator User Group Meetings, (links to the presentations of these meetings are provided in Appendix 2 of this submission), meeting the obligations of Section E.3.8 of the TSC would place an undue burden on SEMO's operations. In addition compliance with these obligations for the period of 1 October 2018 to 11 June 2019 would have a material impact on the achievement of the Code Objectives.

The concerns raised by participants with respect to repricing for the period of go-live of the revised SEM arrangements to 11 June 2019, have been summarised by the SEM Committee in its [SEM-19-068](#) decision and include:

- 1. "The risk of errors arising in repricing if a 5% Price Materiality Threshold is applied manually by SEMO for the period between 1 October 2018 and 11 June 2019.*
- 2. The timelines associated with repricing which would see repricing being completed a number of months later than the timelines which are envisaged in the TSC.*
- 3. The impact of repricing the majority of Imbalance Pricing Periods (5-minute prices) and Imbalance Settlement Periods (30-minute prices) for the first nine months of the new market, which is not in line with the intention of the market design whereby prices should prompt commercial decision making from participants and act as a reference price for forwards trading. A number of respondents argued that commercial trading decisions were made based on prices at the time and participants' approach to risk may have been different based on different price signals at the time.*
- 4. That there is currently no visibility for participants on the potential outcome of repricing and how it will impact them financially.*
- 5. The broader financial impact for the market if repricing were to occur many months after the fact in terms of investor certainty, financial reporting and the calculation of the PSO levy.*

6. *Where repricing for this period is carried out, the potential for introduction of additional RO price events for an unknown number of periods in the past which participants would have no ability to manage.*¹

Given the number of manifest errors which have been detailed in Appendix 1 to this submission, SEMO submits that meeting such obligations would place an undue burden on SEMO's operations and that compliance with such obligations would have a material detrimental impact on the achievement of code objectives set out in Section A.2.1.4 of Part B of the Code and in particular:

- *(a) to facilitate the efficient, economic, and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;*
- *(e) to provide transparency in the operation of the Single Electricity Market;*
- *(g) to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability and security of the supply of electricity.*

SEMO recognises that the price in any energy market must strike a balance between price certainty and accuracy. The intention in electricity market design is that prices should prompt commercial decision-making from participants and act as a reference price for forwards trading. Therefore the criteria governing any subsequent repricing should ideally be explicit and time-bound. SEMO is of the view that exposing the market to cyclical repricing of the same trading periods cannot ensure certainty for market participants. For this reason, in the short-term as the Central Market Systems in the revised SEM arrangements are imbedded, SEMO is of the view that a trading period should only be re-priced on one occasion and it is for this reason that derogation from Section E.3.8 of the TSC is being sought as laid out herein.

Undue burden on SEMO's Operations:

Repricing of the period from 1 October 2018 to 11 June 2019 would consume necessary resources while the repricing of these periods would not at this point in time provide any additional certainty to market participants. Initial estimates by SEMO are that it will take one day to reprice a day, which includes the time to prepare the batch information, execute the price calculation runs and perform some level of checking of the results. Given that a very significant number of trading periods appear to require repricing, it seems unlikely that such a repricing would be completed by the end of 2020.

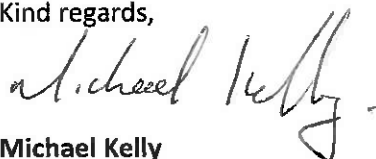
A number of pricing issues have been identified since the go-live of the revised SEM arrangements, which are detailed in Appendix 1 to this submission. Whilst many of these have already been resolved, SEMO recognises that some software issues will remain or be identified beyond the time at which repricing is carried out. Given the potential continued existence of some software issues in the short-term, and in particular the period from 1 October 2018 to 11 June 2019, the Code may require numerous iterations of repricing. These factors combined would place an undue burden on the operation of the market and would therefore also have a material detrimental impact on the achievement of the Code objectives.

It is for these reasons, and following on from the extensive consultation on this issue with industry by the SEM Committee that SEMO seeks derogation under Section B.14.1.6 of the Code of repricing obligations contained in Section E.3.8 of Part B of the TSC for the period 1 October 2018 to 11 June 2019.

¹ SEM-19-068 Page 20

SEMO fully accepts that the Modification which permits this derogation was raised following consultation and under a particular set of circumstances and should not be taken as a precedent for any derogation from obligations under the Code in future.

Kind regards,

A handwritten signature in cursive script that reads "Michael Kelly". The signature is written in black ink and is positioned to the right of the typed name.

Michael Kelly

Head of Trading

1. APPENDIX 1 – MANIFEST ERRORS

In the interests of transparency SEMO has identified manifest errors relating to this issue grouped as follows:

- the data SEMO receives (TSO Non-RTD);
- TSO calculations (RTD – Non-Energy and Non-Marginal Flagging);
- The application of that data by SEMO (incorrect application of correctly calculated flags); and
- The Imbalance Price calculation itself (MA and MIDB).

Issue Type	Count of Issues	Issue ID
Imbalance Price Calculation	10	5739; 5737; 5831; 5806; 5875; 5817; 5929; 5957; 112877; 6076
TSO (Non-RTD) Data Errors	4	Rpc3; Rpc4; Rpc1; Rpc2
RTD – Non-Energy and Non-Marginal Flagging	2	6105; 6003
Incorrect Application of correctly calculated SO Flags	2	5720; 5973

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-10-October-2018.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-25-October-2018.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-8-November-2018.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-22-November.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-11-December.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-17-January.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-27-February-2019.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-3-April-2019.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-16-May-2019.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-20-June-2019.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-18-July-2019.pdf>

<https://www.sem-o.com/documents/general-publications/Market-Operator-User-Group-Presentation-11-September-2019.pdf>