

SEMO 2018-2021
CAPITAL
EXPENDITURE



INTRODUCTION

SSE welcomes the opportunity to comment on *SEMO 2018-2021 Capital Expenditure*.

SSE is a large generator of renewable and thermal energy in the market and we actively participated in the development and operation of the new market. We have experienced various challenges following go-live, reflected in the projects outlined below, which emphasise mitigation of specific issues following roll out.

We note that this consultation follows from the previous SEMO Market System Development Plan which SSE responded to via the IWEA industry response. We have provided our response to the extensive consultation questions in the table outlined below. We have also made some general comments regarding the content of SEMOs proposals and missing activities that we consider should have been included in SEMO's cost submissions for this review.

The operation, facilitation and maintenance of the new SEM within this period has required a significant breadth of activity by SEMO and has brought significant challenges which we recognise, not least of these would be the procurement arrangement with ABB which has led to a considerable degree of frustration by industry.

We are supportive of IWEA's response to this consultation on behalf of its members. We have provided additional comments in addition to the content of that industry response.

For the avoidance of doubt, this is a non-confidential response.

SSE RESPONSE

As mentioned above, we have provided some general comments a specific response under the consultation questions.

General comments

We have previously raised our concerns regarding the Market System Development Plan, following the publication of that SEMO consultation. In particular, we are concerned with how this particular period of capex expenditure has and is being managed by SEMO and the RAs. We can appreciate that there is an information asymmetry and there may have been reluctance by SEMO to provide cost forecasts in the face of uncertainty. However, given the high degree of work needed to stabilise the market following go-live as well as expected future adjustments to the market to reflect those areas that were not able to be delivered before go-live, we would consider it to be the time for an increased degree of accountability and oversight.

As we reference in our specific responses below, it is important to clarify that defects, failures in planning and delivery, and delays in implementation of core aspects of market design are being recouped separately and additionally, ringfenced from initial scoping and development of the SEM. It is our view that these activities should have realistically formed part of the go-live I-SEM project. Where it is identified that these issues outlined below should have been part of the I-SEM delivery project, participants should not bear the cost. Furthermore, where these issues are a result of inadequate service from the vendor, these should be addressed via contractual arrangements and financial redress, and again not at cost to market participants.

We acknowledge the SEMC's confirmation that subsequent Capex reviews will be published and considered in good time prior to the period to which they relate. However, we are not confident that SEMO

will provide sufficient detail in future reviews both in good time and with sufficient detail without additional regulatory measures to ensure submissions are in fact detailed, timely and adequate. We would welcome clarity from the SEMC regarding the measures they will take to ensure there is no repeat delay of Capex project estimates. We would suggest clear requirements on SEMO for delivery of estimates, detailed business cases, as well as clear milestones to ensure not only timely publication, but clear consequences and monitoring of delivery. Finally, we would welcome clarity as to the price control mechanisms applied in each instance, for recovery of uncertain or unexpected costs.

It is SSE's view that early engagement including with stakeholders is to be encouraged, since we have noted that unlike the price controls for other parties, there has been no proactive engagement from SEMO prior to publication of the MSDP, or to indicate how proposed cuts in allowances essentially already scoped and likely spent between 2018-2021, will be addressed. We are therefore concerned as to what will be delivered and what may not, before the end of the period since all of the projects below in some way relate to core objectives of market design.

Finally, we note a large degree of the costs in the business cases below are related to IT delivery, which would already have been scoped within a specific approach during the period and with little prospect for amendment at this late stage. Bearing this in mind, we would have been supportive of a single lump sum allowance (on a once-off-basis), for use to deliver as much as possible by 2021. It otherwise appears, given the low level of detail in the business cases, that there could be a danger of double-counting across the various projects.

Procurement

We have raised previously that the current procurement arrangements in place have never appeared to have included any incentives attached to delivery either for SEMO or their vendor. We as market participants have therefore had to contend with delays, frustration, poor communication and still lack of satisfactory delivery as we enter the early months of 2021.

We are aware that procurement for system services is due for renewal in 2021. We would encourage the SEMC to engage with the regulated businesses to understand how they are planning to procure renewed services and include penalties for lack of delivery by the vendor.

We would also advocate that considering the separate projects below, procurement should be based project-by-project with suitable incentives for delivery within clear timeframes to help provide market confidence. This could allow a degree of competition in the delivery of specific projects, as well as ensuring that any contractual arrangements relating to penalties for non-delivery, can be proportionate.

Day 2 issues

We note that Day 2 issues are mentioned in this paper, but that there is no capex related to delivery of these. We understand that some of these have been delayed as a direct result of the dysfunctions in market delivery since go-live, which SEMO are still scrambling to remedy. However, this does not mean that Day 2 issues and indeed Day 1 issues which were clearly expected to be delivered in good time following go-live, should have been shelved. It is unacceptable for instance, that there is still not an enduring secondary trading facility in the market, particularly now given the change in market conditions given prolonged system

tightness and loss of market coupling from 1st January 2021. You will note particularly in recent days, high degrees of system stress and high prices which is challenging for market participants to manage without facilities such as secondary trading.

Projects missing from MSDP in this new submission

2 projects missing are Market Monitoring Systems and Participant Urgent Communication. Notable is the omission of Participant Urgent Communications as a project due for funding. Over the course of the period since go-live there has been greater need for urgent communications such as out of hours and other instances where participants needed smooth communications channels to manage events and maintain dialogue. We would consider that funding should be considered to support the system during out of hours and exceptional circumstances like Brexit, which as below, has not been factored into any cost forecasts or expenses outlined in this review.

Brexit, EBGL, Clean Energy Package

This brings us to the topic of gaps in the capex review namely projects relating to Brexit contingency or development of a suitable alternative in 2021 and delivery of Clean Energy Package or Electricity Balancing Guidelines requirements. We cannot fathom that no expenditure has been due for preparations relating to Brexit. Furthermore, we cannot imagine that 2021 will close without some consideration, scoping or development of a possible alternative to the loss of Day Ahead market coupling. Furthermore, both the Electricity Balancing Guidelines and Clean Energy Package requirements are in force. No development or scoping costs relating to delivery of these projects in any way confirms that the market will be non-compliant for a prolonged period, given the very long lead time for code releases. We would have expected that projects relating to delivery of these requirements or contingencies should have formed part of SEMO's activities during this period. We also consider that lessons learned from the delivery of the new SEM should have been considered as this would point to early scoping and development with additional attention paid to testing and post production support for instance as part of the delivery of EBGL and Clean Energy Package requirements in the market.

Response to consultation questions

Section	Consultation question	Response
1 Market System Release Capital	Do respondents have any views on: a) this Market System Release Capital project in general,	We consider that there may be some duplication here, given that some specific defects are already called out in Code Releases outlined below under the Day 1+ project.
	b) SEMO's proposal for a 133% annual increase in vendor hours per year in comparison to the legacy SEM,	We acknowledge the need for vendor hours to be increased because of significant issues still to be remedied. We have indicated before that in our view this demonstrates that the market is not yet in a stabilisation phase and additional monitoring and reporting from SEMO should still be required. We note that we have not seen any reporting as indicated would be required as condition of granting the derogation for repricing. We also note that repricing is still not delivered and would like

		<p>confirmation of how many vendor hours are still left to complete this required functionality.</p> <p>We have made it clear previously that the need for additional vendor hours to fix issues is a direct result of insufficient incentives laid on SEMO (through regulatory measures) or the vendor (through contractual arrangements), to ensure complete, accurate and compliant delivery. We would welcome confirmation from SEMO as to whether the systems were delivered on a fix-priced contract, or what costs the vendor has incurred as a result of defects caused by incomplete delivery.</p> <p>Finally, we expect that where a single tender action is being used, that there have been assurances and demonstration that this represents value for money.</p>
	c) the RAs' proposed allowances, particularly for tariff year 2020/21.	<p>It has not been demonstrated that the costs have been efficiently incurred and without such justification it is not clear under what Justification the RAs can pass such costs on to market participants. Furthermore, as mentioned previously, it is not clear that these costs have not already been included at initial design stages.</p>
2 Release Support Capital	Do respondents have any views on: a) this Release Support Capital project in general,	<p>We are concerned that this project is needed at all. This project indicates that there has been an insufficient delivery framework provided ahead of go-live despite the expected routine code releases needed to effect TSC modifications, at the very least. We assume that this project relates to non-internal vendor hours, since project 1 clearly appears to relate to internal vendor hours. We would welcome clarity regarding this distinction.</p> <p>We agree that €4.7m is a significant cost for contractors and would welcome greater clarity of procurement procedures and detail of the specific services provided for the price. We would also welcome any indication of how value can be quantified in relation to this project and its deliverables, which could provide greater explanation of the significant cost.</p>
	b) the RAs' proposed allowances, particularly for year 2020/21.	<p>As before, we are not comfortable that participants are paying for a facility where it is not demonstrated that it has been efficiently incurred, separate from initial scoping of the system.</p>
3 Settlement Support and Resettlement	Do respondents have any views on: a) this Settlement Support and Resettlement project in general,	<p>There are several capex activities listed in the business case for this project which would be eligible for recovery. In addition, this project is ongoing and incomplete since repricing is not yet delivered.</p>

		<p>We consider this not to be a one-off project, but a longer-term project until settlement support and resettlement enters a phase of stabilisation and routinisation. We have not reached that level and consider that this project and the costs associated should be essential, with additional monitoring and conditions attached, to ensure that market confidence is restored, and stabilisation is delivered.</p>
	<p>b) the RAs' proposed allowance and treatment of €0.614m as opex rather than capex.</p>	<p>We do not agree that this should totally be considered as Opex. We understand the additional resource needs have been the focus and appreciate this has been where a lot of cost has resided. However, we do not accept that this should all be treated as Opex. Furthermore, we have no clarity as to how this cost compares to costs recouped through imperfections charges where system issues have been recouped.</p>
<p>4 Market System Data Archiving</p>	<p>Do respondents have any views on: a) this Market System Data Archiving project in general,</p>	<p>We are surprised that this project is only in the scoping phase at this point and we are supportive that this is delivered as soon as possible.</p> <p>Being only at initial stages of the project indicates that there is currently insufficient archiving since 2018. This is very concerning. It is assumed that this would have been considered and scoped before go-live, reflecting the obvious need for archiving facilities from the moment of the new market. It should be confirmed that initial outlay during scoping and development of the design did not include any expenditure relating to this activity.</p> <p>It is unclear where this archived data would be located. We would encourage that this archive is confirmed to be accessible to the market.</p> <p>In addition, it would also be useful to understand how this archiving would differ from procedures outlined in AP5 of the Trading and Settlement Code and if there would be increased legal standing associated with archiving as a result of this more direct project.</p> <p>Finally, it is worth considering whether if this was included in the design phase of the new SEM, if that would not have resulted in a cheaper overall solution, rather than now, where this project appears to point to a re-engineered solution to retrospectively include an archiving function.</p>
	<p>b) the RAs' proposed allowance of €1.128m to SEMO,</p>	<p>We have no comment regarding the allowance as there is insufficient detail at this stage. We would encourage scrutiny and engagement on the procurement and delivery of this project.</p>

	c) the RAs' request that this project be prioritised for completion in 2021.	We agree that this project should be a priority but would welcome consideration of other projects that we realise would also be priorities for 2021, including Auction Format D delivery, final delivery of repricing, enduring secondary trading and development of an alternative solution following the loss of Day Ahead Coupling which is indicated for delivery in early 2022, and we expect would be scoped and considered in terms of initial costs and initial development, in 2021.
5 Additional Market Environments	Do respondents have any views on: a) this Additional Market Environment project in general,	<p>It is unclear what these market environments are in addition to the claimed testing environments recently implemented to manage the defects arising from previously incomplete testing of code releases prior to delivery.</p> <p>As a matter of course for such a complex market system, it is surprising that testing environments were not part of initial IT scoping and outlay to ensure that exceptional as well as routine code changes could be successfully delivered and also assessed prior to delivery. We would welcome clarity as to whether this was already costed as part of initial scoping of the market systems, and just not delivered.</p>
	b) the RAs' proposal to not include an allowance at this stage.	<p>As outlined in our general comments, it is very difficult now to accurately analyse costs that were never adequately forecast in order to compare for an ex post review. We would not be in favour of no allowance in this area if it led to a repeat of our experience in nearly every code release to date, including those most recently delivered, i.e. issues, hot fixes and defects arising from insufficient or incomplete testing prior to code release delivery. Therefore, we would want to ensure that all necessary testing environments are delivered.</p> <p>We are disappointed to see that industry feedback does not appear to be considered as we have repeatedly requested clarity regarding testing and have advocated for offline replica systems for fixing of defects, as well as the facility for participants to contribute in testing stages.</p>
6 MMS Performance Enhancements	Do respondents have any views on: a) this Market Management System Performance Enhancement project in general,	We would like clarity as to what is proposed to be achieved with such a modest budget, and more detail on how this will specifically reduce Dispatch Balancing Costs or make RTD more efficient.
	b) the proposed enhancements and which should be prioritised,	No comment

	c) the SEMO estimated project costs of €0.570m, d) the RAs' proposed reduction to €0.526m.	
7 Market Analysis Tools	Do respondents have any views on: a) this market analysis tools project in general,	We consider that it is more important for the delivery of data archiving and delivery of market environments to avoid any future issues following code releases, and to importantly address market confidence. We are supportive that delivery of this project should be postponed. SSE would advocate consultation with stakeholders on what market analysis tools are needed ahead of the new delivery of this project.
	b) particular analytical tools which should be prioritised,	It is SSE's view is that other ground level priorities that would facilitate analysis tools, still need to be delivered.
	c) the estimated amount of €0.250m for the design phase only, and	We are supportive of an indicative review of this project but as indicated, other projects are higher priority, both outlined here and missing from this set of business cases (e.g. Auction Format D, secondary trading and Brexit market alternatives).
	d) the RAs' proposal for the design phase of this project to be deferred by one year given the dependency on the Data Archiving project.	We are supportive of this.
8 Compliance Management	Do respondents have any views on: a) this Compliance Management project in general,	SEMO hold the view that the development of a compliance system is needed. We agree but we consider that a compliance management system must be developed by an independent vendor, not ABB to ensure independence and remove any risk of conflict. A compliance system could be beneficial in the effectiveness of market audits so specific attention to how this management system would facilitate market audits and also track improvements would also be an important aspect of the project.
	b) the RAs' proposal to defer an allowance for possible consideration as part of the 2021 – 2024 price control.	We are supportive that this project is deferred. We would ask that stakeholders are engaged with to input into scoping and development to understand the proposed scope in terms of codes and licence obligations.
9 Website Development	Do respondents have any views on: a) this Website Development project in general,	We are supportive of improvements to the website and would encourage that the focus is concerned with: <ul style="list-style-type: none"> • User friendliness

		<ul style="list-style-type: none"> • Clearer areas for publication of consultations, settlements and market data • Review of the dashboard and other market data to ensure it is still fit for purpose • Greater visibility regarding interconnector activities • Publication of specific reports (Elexon's Balancing Market reports are a useful approach to consider and seek to replicate)
	b) the provision of €0.230m to SEMO for an enhanced website which includes dynamic reporting by September 2021?	SSE welcomes dynamic reporting by Q4 2021 and would also encourage a review of the suite of reports provided by SEMO to ensure that there are no other reports that would be useful for market participants. We expect that industry as a whole would like to be involved in the scoping and initiation of the website development since it needs to be functional for its users.
10 I-SEM Project: Post Production Support	Do respondents have any views on: a) this I-SEM Post Production Support project in general,	We are not clear how this project is eligible for a Capex recovery. We acknowledge the need for this project, but again consider complete planning and development at the outset should have realised that there may have been post production issues. SEMO was categorical in the need for an initial 6-month bedding in period, presumably because it was anticipated that additional support would have been needed since they had experience of similar high volumes of issues and disputes at the start of the old SEM. Whilst this was necessary work it was not unanticipated and therefore, it should be confirmed that initial outlay during scoping and development of the market design did not include any expenditure relating to this activity. If not, we would not be supportive of additional allowance being awarded for something we consider should have been included in those early stages of scoping.
	b) the RAs' proposed allowance for recovery of the full amount requested.	We welcome the transparency about this project.
11 I-SEM Day 1+	Do respondents have any views on: a) this I-SEM Day 1+ project in general,	As above, as these are defects resulting from an incomplete delivery of the market system prior to go-live, it is concerning that this is scoped as a separate project with additional costs. We have been clear that these defects should be the responsibility of the vendor to remedy as a result of their contractual arrangements to deliver a specific and accurate system in compliance with specific design requirements.

		<p>We note the reference to certification of the Balancing Market and Capacity Market algorithms. We would be interested to know when last this certification was carried out and how this is related to the delivery of the Auction Format D, which has received very little by the way of transparency as to cost, effect and delivery.</p> <p>Day 1+ also specifically flags two major releases in January 2019 and March 2019. This does not consider the code releases prior or after, which have also delivered priority defects, such as no loads costs.</p>
	<p>b) the RAs' proposed allowance for recovery of the full amount requested.</p>	<p>We have made our comments clear in the response above.</p>