Re: Repricing and Price Materiality Threshold Consultation Paper

Dear Karen and Gina,

Firstly, thank you for the opportunity to comment on the Repricing and Price Materiality Consultation Paper. Enerco Energy are Ireland’s largest independent wind energy generator having developed, built, or are currently building, over 700MW of wind farms.

Background and Context

With its existing portfolio of projects, and pipeline of future projects, Enerco Energy – part of the Craydel group - has made a significant contribution towards the Republic of Ireland’s efforts to meet its 2020 Renewable targets, and we are keen to be part of the solution in achieving the 2030 targets.

Enerco Energy would like to begin by expressing our concern at the current state of repricing and resettlement. In the Market Operator Users Group (September 11th, 2019) participants were told that under the proposals outlined in Option 1, the first months of the market would not be repriced and resettled until Q4 2020. Furthermore, under the proposals outlined in Option 2, the first two months of the market would not be repriced and resettled until June 2020. Neither of these outcomes are acceptable.

Moreover, given the track record in rolling out repricing and resettlement, it is distinctly possible that further delays may be encountered. Additionally, even if further delays in the technical solution are not encountered, the repricing itself could be disputed and repricing and resettlement delayed even further.

It must be emphasised that trading decisions, for all market participants, were made during these months based on the imbalance prices published at the time. Had these prices been different these decisions could have been different and possibly substantially so. To reprice the market and hold participants to those decisions is neither fair nor reasonable.

The idea that participants are faced with potentially large, undefined, liabilities is dangerous and risks undermining the credibility of the I-SEM market. In so doing, it damages the investment signal to maintain existing generation assets and build new generation assets.
Page 53 of the Republic of Ireland’s Climate Action Plan states that:

“To meet the required level of emissions reductions by 2030 we will increase electricity generated from renewable resources to 70%, indicatively comprise of at least 3.5GW offshore wind, up to 1.5GW solar, and up to 8.2GW onshore wind”

Noting that, as well as the 2030 targets of 70%, there are 2022 and 2025 milestones, of 45% and 52% respectively. Undermining the investment signal for new generation is highly likely to result in the Republic of Ireland missing its 2030 targets.

In addition to the issues caused for potential new projects, the failure to settle on time has undesirable effects on existing renewable projects. Under REFIT, audited figures for the previous PSO year (1st October – 30th September) are submitted by the REFIT generators supplier to the CRU by May 1st. Following this, there is a CRU decision on the PSO Levy for the following PSO year occurring in July, this process is known as R factor reconciliation.

In previous years all months would have been resettled to at least the M+4 stage, so the only changes would be between M+4 and M+13 resettlement. Given that these units are half hourly metered such changes were negligibly small. Under I-SEM, wind unit REFIT payments are struck against a deemed price, which is the lower of the Day Ahead price and an 80/20 blend between the Day Ahead and imbalance price, in each half hourly period.

Under both Options 1 & 2, the generators supplier will be forced to submit data that they know may change substantially when repricing and resettlement come in due to changes in imbalance price. This will lead to the CRU calculating a PSO levy that is highly likely to be wrong, quite probably by a significant amount.

Enerco Energy strongly agree with the statement on Page 6 of the consultation paper that market participants need to be provided with pragmatic options for progressing this issue on a timely basis. Consequently, we strongly favour Option 3, that the requirement for repricing from 1 October 2018 to 11 June 2019 is removed and urge SEM-O to ensure that such steps as are necessary are taken to prevent this reoccurring.

Finally, we note that, when polled by SEM-O on this issue recently, 70% of participants were in favour of not repricing, and just 16% - less than one in six – were in favour of repricing.

This response is submitted by Enerco Energy and reflects our own particular views, it should be noted that we are actively engaged as a member of IWEA and strongly endorse IWEA’s response to the paper.

Responses to Questions posed in the Consultation paper

**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%?

*This option is not the preference for Enerco Energy as it leaves market participants open to large undefined liabilities up to at least 2 years ex post. It holds participants to trading decisions made in the past, whilst changing the basis on which these decisions were made. Furthermore, it risks*
severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a crucial time. Moreover, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

**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 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?

Enerco Energy see no advantage in Option 2 over Option 1 in that both leave market participants open to large undefined liabilities well beyond M+13. As noted above, it holds participants to trading decisions made in the past, whilst changing the basis on which these decisions were made. Furthermore, it risks severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a crucial time. Moreover, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

Enerco Energy do not agree to apply a 0% price materiality threshold on a temporary basis as it modifies the Trading and Settlement Code for no good reason. That is, it does not fully, or even satisfactorily, solve the issues highlighted above.

**Question 3:** Interested stakeholders 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 from 1 October 2018 to 11 June 2019 (Option 1) 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 on a commencing 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.

Enerco Energy strongly favour Option 3 in that it solves all the issues that we have highlighted above. We have significant concerns over Option 4 in that delivering M+13 settlement on time must be considered business as usual and, whilst we consider the period between October 1st, 2019 and June 11th, 2019 as exceptional, this must not happen again. We are concerned that Option 4 may weaken the stimulus needed for the Market Operator to deliver M+13 settlement on time on an ongoing basis.
Summary

Enerco Energy are concerned about the repeated delays in resettling the market thus far, and whilst we acknowledge that it is a new market with new systems, this does not excuse the failure to deliver settlement and resettlement on time, especially given the prolonged nature of the market trial. To further delay resettlement, with the possibility that it may be delayed still further if other issues arise, or prices are disputed, is not acceptable.

As mentioned above, delaying resettlement leaves market participants open to large undefined liabilities for at least 19 months in even the least worst option, with the possibility that this may be delayed still further. It holds participants to trading decisions they made in the past, whilst changing the basis on which these decisions were made. This could lead to participants being penalised for decisions they otherwise would not have made, and does not reward them for decisions they would, in retrospect, have made, this is an entirely ludicrous situation for a traded market to be in.

It risks severely damaging the credibility of the I-SEM market and will damage the investment signal for new build at a time when it is needed like never before. Furthermore, it will lead to an incorrect PSO levy for the 2020/2021 PSO year.

Consequently, we strongly favour Option 3, that the requirement for repricing from 1 October 2018 to 11 June 2019 is removed and urge SEM-O to ensure that such steps are taken as a necessary to prevent this reoccurring.

Kind regards,

[Signature]

Andrew Burke
Head of Trading
Enerco Energy