ELECTRICITY ASSOCIATION OF IRELAND

6 Merrion Square North

Dublin, D02 FF95

Date 31/05/2022

By email: TSC@cru.ie and Karen.Shiels@uregni.gov.uk

RE: SEM-22-024 Consultation on changes to reduce Collateral Requirements in the Balancing Market

Dear Karen,

EAI welcomes the opportunity to respond to the consultation on SEMC collateral proposals. While the EAI members believe this to be a positive step, we have made specific comments on behalf of our members in the sections below.

Question 1 Do you agree with the SEM Committee's proposals to amend the Single Suspension Delay Period to 5 days and thereby reduce the Undefined Exposure Period to 7 days?

EAI members agree that the proposal is a positive step to alleviate some of the impact of high prices in the market at this time. We are encouraged by the reference to a determination being issued to signal this change and provide certainty to the market of this formal change in process timelines.

However, as signalled below, we consider that whilst a positive step, this is only a marginal step towards alleviating current challenges in the market faced by market participants. Furthermore, some members have concerns around the potential for bad debt to accrue should the regulators not meet the 5-day self-imposed deadline around making a Supplier of Last Resort decision. Some member's view is that this risk should be mitigated to protect against the potential that even a 1-day slippage in timeline could result in bad debt to remaining market participants that are being asked to approve this market design change. The proposal should bode well for suppliers in maintaining competitiveness which will ultimately benefit consumers. However mitigating actions should be adopted to also ultimately protect consumers against having to cover off bad debt accrued by an unexpected exit and these mitigating measures include:

- An assurance, be it on the RAs to meet the 5-day deadline or on SEMO to use its contingency fund, that participants that remain in the market will be largely protected against the bad debt risk the RAs refer to in the consultation, and/ or
- A letter of credit raised by SEMO to cover off such a scenario (I.e. the RAs missing the 5-day deadline).

Question 2 Do you agree that an increased risk of bad debt in the balancing market is an acceptable trade-off when weighed against the reduced collateral burden on all Participants in the market on an ongoing basis?

Members on both of the EAI Retail and Markets Committees have deliberated particularly over this concern raised by the SEM Committee. Having carefully considered this concern as outlined in the paper, provided the RAs meet the 5-day deadline our members can see no immediate tangible impact arising from the change in this process, with respect to bad debt while the immediate benefit in terms of reduced collateral costs is evident. The process change being proposed is internal to the Regulators, therefore, the increase to bad debt of suppliers arising from this action, would only truly correlate in the way the SEM Committee has signalled in this paper at the behest of the SEM Committee – hence our asks in answer to question 1 above.

We would then agree with the overall conclusion that the measure proposed to adjust the Single Suspension Delay Period and subsequently the Undefined Exposure Period, is reasonable provided mitigating actions such as those suggested in answer to question 1 above are incorporated into the final decision. Reduced collateral will help maintain competitiveness which benefits consumers. Simultaneously however consumers' longer-term interests and risks of bad debt exposure (which could run into millions of euro) should also be acknowledged and protected against through the decision on this consultation. We do not believe that the mitigating actions we are proposing would be overly burdensome or costly for the RAs and/ or SEMO.

With respect to questions 3-5, since we are a consensus-based association with a strong awareness of our competition law limitations, there was insufficient content that we could provide specifically in response. But we have encouraged our members to take the opportunity to provide their own experiences with respect to Credit Cover and Letters of Credit.

Electricity Association of Ireland
Registered Office: 127 Baggot St Lower, Dublin 2, Ireland D02 F634
Registered No. 443598 | VAT No. IE9682114C
T +353 1 524 1046 | **E** info@eaireland.com | @ElectricityAI
www.eaireland.com

What we can offer by way of commentary regarding Credit Cover is as follows:

1. As we have previously signalled, it is crucial to improve collateral arrangements in the electricity market which will help to reduce the likelihood of emergency liquidity measures / government guarantees having to be utilised (albeit they are still needed to be put in place). Collateral requirements in the SEM are unnecessarily onerous by a requirement for market participants to effectively double collateralise the market. Removing this unnecessary requirement could reduce SEM collateral requirements at current prices by almost €300m.
2. In this respect, our members would agree that approval times for Letters of Credit and timelines for Credit Cover Increase Notices are challenging to meet. We cannot comment on whether this is precipitating individual behaviour that leads to posting of extra Credit Cover.
3. Lastly, our members wish to acknowledge and welcome the approval of Mod_01_22 Balance Surety Demand Guarantee[1]. This modification intends to diversify the types of parties that can be underwriters for Letters of Credit. Our members consider this modification will go some way to assisting participants with the challenge of providing collateral to such an extent, in this market.

Please contact Dara Lynott, CEO if you should have questions or require any clarifications regarding this request. We would also welcome further discussion on the double collateralization issue and EAI's letter to you regarding EU interventions (31/03/22) where we covered the collateral issue in some detail, at your convenience.

Yours Sincerely

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Dara Lynott

CEO

Electricity Association of Ireland

[1] https://www.sem-o.com/documents/market-modifications/Mod_01_22/DecisionLetteronMod_01_22.pdf