Power NI Energy Limited
Power Procurement Business (PPB)

Collateral Requirements in the BM

Consultation on Proposed Changes

SEM-22-024

Response by Power NI Energy (PPB)

1 June 2022.

Introduction

PPB welcomes the opportunity to respond to the SEMC consultation on changes to reduce collateral requirements in the Balancing Market.

General Comments

While we welcome and support all efforts to ensure only appropriate levels of collateral are required in the SEM, we are disappointed that this consultation only addresses calculations on the periphery of the problem and do nothing to address the primary issue whereby participants are doubly collateralised by being required to post collateral in both the Ex-Ante markets and also in the Balancing Market. This inefficiency was highlighted to the RAs, SEMC and SEMO in the development of the SEM but was deemed too difficult to solve in the time available to implement the new SEM arrangements.

The very material cost of this failure is even more clearly spotlighted by the magnitude of the increase in commodity prices driving a consequent increase in collateral requirements in the SEM. This issue needs to be expediently resolved to ensure the collateral requirements are minimised and efficient for the overall SEM wholesale market.

Specific Questions

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?

PPB understands the rationale for the change and generally agrees that the collateral burden on suppliers should be minimised. To the extent that the Undefined Exposure Period is too long then we agree that it should be reduced to reflect the actual Undefined Exposure Period.

However, this response is caveated by our response to question 2 below.

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?

The proposal will increase the risk of bad debt where the Undefined Exposure Period is reduced by 2 days to 7 days. However, the risk is wholly dependent on whether the relevant Regulatory Authority issues the SOLR direction within 5 days.

The consultation paper merely states that "*a Single Suspension Delay Period of 5 days **would generally be adequate time** for the relevant Regulatory Authority to make a decision to issue an SOLR direction following the issuance of a Suspension Order*".

This is not a commitment by the RAs and hence the increased risk of bad debt arising from a shorter Single Suspension Delay Period is really driven by an increased regulatory risk, with generators bearing the burden.

The RAs must commit to issuing an SOLR notice within 5 days to ensure the market remains appropriately collateralised. If the RAs are not willing or able to make this commitment then the burden of any bad debt should not be socialised over Generators (as is currently the case under the Trading and Settlement Code) but should be socialised over all Customers, given they are the ultimate beneficiaries of reduced collateral arrangements.

Questions 3-5: ***No comments***