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20th March 2017

RE: Trading & Settlement Code, I-SEM Operational Parameters, Credit Cover and Imbalance Settlement Consultation Paper, SEM-17-009 ("the Consultation")

Dear Sheena and Kenny,

Bord Gáis Energy (**BG Energy**) welcomes this opportunity to respond to the Consultation on the I-SEM Operational Parameters relating to (1) Credit Cover and (2) Imbalance Settlement. Our comments on these two areas are provided separately below.

1. I-SEM Operational Parameters, Credit Cover

1.1. Fixed Credit Requirement (FCR) Parameter

Bord Gáis Energy supports the proposed supplier unit and generator unit FCR parameter on the premise that operational experience to date demonstrates that these values are sufficient to cover typical amounts arising without being burdensome on market participants. With regard to Capacity Market Units, a value of zero for the first year of I-SEM operation is considered appropriate in the absence of operational data to assess whether a separately defined FCR for such units is necessary or not .

BG Energy also agrees that further consideration of the suitability of these parameters and values should occur once sufficient operational experience of the I-SEM and data elements required for informed assessments, become available.

1.2. Number of Days in the Undefined Exposure Period

BG Energy believes that a single Undefined Exposure Period across all market participants is not necessarily required in I-SEM. With regard to the Undefined Exposure Period for generator units, we believe that further consideration should be given to shortening the suspension delay period from the 14 day Supplier Suspension Delay Period used to calculate their credit cover. A reduction towards the shorter 7 day Generator Suspension Delay Period would greatly reduce the credit burden on generator units and is preferable. With regard to the Undefined Exposure Period for supplier units, this should be no longer than the proposed 16 days.

1.3. Number of Days in the Historical Assessment Period (HAP)

BG Energy is strongly in favour of a market that is adequately collateralised. A balance however is required between sufficient collateralisation and not unduly burdening market participants with credit cover or collateral requirements. Based on the analysis in the Consultation, the shorter the duration of the HAP, the more quickly the system can react to market changes which in turn reduces the risk of under-collateralisation when settlement amounts increase quickly. Simultaneously however, the accuracy of credit cover settings in terms of minimising the potential for over- or under- collateralisation is also important and it is

clear that as the duration of the HAP increases, the risk of under-collateralisation is unlikely to improve. On this basis, BG Energy supports a HAP of 30 days.

1.4. Analysis Percentile Parameter (AnPP)

In general, a credit cover assessment approach should be as accurate as possible while not unnecessarily increasing credit cover or collateral requirements. To date the 95% AnPP has been sufficient to provide confidence in the statistical analysis for determining the Undefined Exposure of a party in SEM. The higher the confidence level provided to the market the better, but the extent to which an increase in the AnPP from 95% to 98% improves the potential to avoid over- and under- collateralisation, as well as the resulting increase in credit cover/ collateral requirements due to the 3% increase in I-SEM, is unclear. Before a final decision on the 3% increase is made, the Regulatory Authorities (**RAs**) should be satisfied that the improved effectiveness of protection offered by the increase warrants a knock-on increase in credit cover/ collateral requirements in I-SEM. Ultimately a change from the current level should be clearly justified in terms of the cost and/ or benefits of the change.

1.5. Credit Cover Adjustment Trigger

BG Energy supports the proposed 10% value for the Credit Cover Adjustment Trigger to apply before a party is considered to be an Adjusted Participant for the purposes of the Trading and Settlement Code.

1.6. Level of the Warning Limit; and
1.7. Level of the Breach Limit

BG Energy puts forward its view on these two related parameters together.

Firstly, we support the parameterisation of credit cover warning and breach limits in the Trading and Settlement Code. Secondly, on examining the options put forward in the Consultation, subject to our views outlined below, we believe that the proposed Warning Limit of 77.95% and proposed Breach Limit of 92.59% are suitable for I-SEM go-live. The Warning Limit provides sufficient notice to market participants of potential credit cover issues that may lead to default, without leading to unnecessary numbers of warning notices being issued. Regarding the Breach Limit, BG Energy understands that on the basis that the 92.59% takes into account the two days for which a party has to increase its credit cover upon receipt of a Credit Cover Increase notice, then once a party reaches the 92.59% it is still permitted to trade for up to two days (or up to 100% of its initial credit cover limit), after reaching the 92.59% limit. Provided this is the case, then the 92.59% is a suitable value as two days to rectify the credit cover/ collateral issue is considered sufficient and the 92.59% value could potentially reduce unsecured debts arising.

2. I-SEM Operational Parameters, Imbalance Settlement

2.1. MW Tolerance and Engineering Tolerance

BG Energy agrees that the fundamentals on which these parameters are based are not changing in the move from SEM to I-SEM arrangements. A 1% factor for each of these parameters (1MW for MW Tolerance; 0.01 for Engineering Tolerance) is therefore suitable. BG Energy also accepts that the MW Tolerance will not vary on a Trading Day basis. Potential future changes to these parameters should however be consulted upon giving reasonable notice of possible changes to market participants.

2.2. System Per Unit Regulation Factor (FUREG)

BG Energy agrees with the principle of the FUREG parameter being included in the tolerance for over/ under generation in I-SEM. However, it is noted that the proposed value of 0.04 (4%) which is carried over from SEM, is based on a typical unit having a 4% speed droop. BG

Energy submits that where a unit has a speed droop that differs from the 4%, that unit's specific droop factor should be considered in the settlement calculations. Otherwise a machine could, unfairly, breach uninstructed imbalance tolerances more quickly than comparative technology types.

2.3. Discount for Over Generation (DOG) Factor, Premium for Under Generation (PUG) Factor

BG Energy accepts the proposals for the DOG and PUG factors, being set at 0.2 for all units in line with current values. BG Energy does not however agree with the proposal for the DOG and PUG parameters for interconnector units under test to be set to zero. On review of the 2012 rationale behind applying a zero factor for interconnectors under test, it appears that the key driver is that the systems are unable to accept a testing profile for interconnectors unlike other generator units for which test profiles are accepted. BG Energy believes that the move from SEM to I-SEM provides an opportunity to amend the systems to cater for interconnector test profiles. Zero DOG and PUG factors for interconnectors under test do not incentivise the interconnector to follow its test profile, yet interconnectors are capable of causing large uninstructed imbalances which will ultimately be paid for by the consumer through imperfection charges. Ultimately interconnectors should be treated akin to other generator units when under test for uninstructed imbalance purposes. We therefore urge the RAs to apply equal treatment in this regard, in terms of applying uninstructed imbalances to interconnectors under test as they apply to generator units under test.

It is noted that once operational data of the I-SEM and the costs of constraining units up and down is ascertainable, these values may be changed. BG Energy believes that reasonable advance notice to market participants of such a review and of the application of potential new values is necessary.

2.4. Imbalance Weighting Factor (IWF)

BG Energy supports the proposal that from I-SEM go live, the IWF should be set at "1" for all Imbalance Settlement Periods. In general, we are supportive of the concept of an IWF but as noted in our response to the Trading and Settlement Code consultation (SEM-16-075), the current functionality of the calculation for ex ante quantities (QEX) in section F.5.2.7 of the Trading and Settlement Code has potential negative repercussions in calculating certain settlement components, e.g. when calculating Premium/ Discount components for Bias volumes (see F.6.7). We understand that a review of the core imbalance equation would be required to mitigate this and we urge the RAs to resolve potential repercussions and to undertake a consultation on the introduction of an IWF before applying a change in its value.

2.5. Settlement Recalculation Threshold (SRT)

In general, BG Energy is not in favour of regular, unnecessary settlement re-runs occurring given the administrative burden of such for market participants. On the basis that the proposed value of €15,000 takes into account the avoidance of arbitrary triggering of settlement reruns, while being low enough to reflect the value to smaller participants of the change in settlement amounts; BG Energy accepts the proposed €15,000 threshold. However this is on the basis that the assessment of the impact of a settlement re-run is calculated as against the settlement amounts of the party raising the query (and not against settlement amounts across the market); otherwise a much higher threshold is required. BG Energy submits that the regulators should reserve the right to review the SRT if it becomes apparent that the number of settlement re-runs in I-SEM materially increases compared to current numbers.

2.6. Information Imbalance Price; and
2.7. Information Imbalance Quantity Weighting Factor; and
2.8. Information Imbalance Tolerance

BG Energy puts forward its position on these three parameters relating to Information Imbalance and physical notification submissions in I-SEM, together.

In general, BG Energy believes that careful consideration of the application of a positive information imbalance charge must occur. In light of the existence of imbalance price exposure, uninstructed imbalance charges and generator performance incentives, another layer of charging in the guise of information imbalances may result in I-SEM trading being viewed as prohibitively risky which is not conducive to market liquidity, competition or security of supply.

While it is important that the TSOs have the best possible available information (Physical Notifications - PNs) on which to base decisions, the application of the Information Imbalance charge should not interfere with market dynamics. The proposal in the Consultation to allow the value of the charge to be influenced by factors such as the timing of a PN change or the notice/ response/ ramping ability and requirements of a unit, have significant potential to influence market outcomes. For example, setting the value based on a unit's ability to respond to short notice decreases/ increases in demand may erode the desirability to participate in the market on short notice if such reactions and consequential PN changes will attract a penal information imbalance charge. This is likely to affect flexible, fast acting plant, having a knock on effect on units necessary to support a renewables heavy system. Furthermore, levying a higher charge for PN changes that occur closer to gate closure 2 will have the effect of undermining intraday market liquidity to the detriment of balancing responsible parties and ultimately consumers. In addition, changes to PNs at the intraday stage that incur charges may be absorbed in intraday bidding increasing the costs of adjustments for balance responsible parties, which will eventually impact consumer prices.

In conclusion, BG Energy agrees that the factor should be zero for go-live. Overall, the levying of a positive charge could easily be perceived as counter-intuitive to market principles particularly when varying treatment of units and weighting of charges is mooted. Before consideration of its application in the future, we urge the RAs to undertake an in-depth analysis and industry consultation to fully understand the costs/ benefits of its application and mitigate potential impacts where possible.

I hope you find the above comments and suggestions helpful. Please do not hesitate to contact me should you wish to discuss further.

Yours sincerely,

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Julie-Anne Hannon
Regulatory Affairs- Commercial
Bord Gáis Energy

{By email}