Electric Ireland Response:

I-SEM Operational Parameters

Credit Cover and Imbalance Settlement

SEM-17-009

20th March 2017

General Comments

Electric Ireland (EI) welcomes the opportunity to comment on the Consultation for I-SEM Operational Parameters for Credit Cover and Imbalance Settlement. Consistent with our previous consultation responses of this nature, Electric Ireland views these proposals from the perspective of a standalone supplier and as a representative of the customer. The background of the ETA parameters have been developed through the market rules working group and the Trading and Settlement Code consultation, which we responded to recently.

Efforts must be made to ensure that the overall collateral requirements are not excessive for participants with the move to ISEM.

Credit Cover Parameters

We welcome the requirement for the MO to report to the RAs with proposed parameters to be used in the calculations of Required Credit Cover at least four months before the start of the Trading Year. This four month window should also be considered for the I-SEM go live date. The parameters should be made available to participants in a timely manner.

Electric Ireland understands the balance between maintaining a low level of bad debt risk while not over burdening participants with onerous credit cover requirements.

From Electric Ireland's analysis of the parameters pertaining to the Balancing Market, no significant changes have been observed from the current arrangements in SEM. Electric Ireland however is very cognisant of how the additional credit cover requirements associated with the ex-ante markets will impact us as a supplier.

Level of Breach Limit

This has additional complexity under I-SEM. If participants don't manage to adjust their credit cover before the breach limit expires, they are suspended from trading in the ex-ante markets.

SRAs will be replaced by ARAs so it will not be as easy to adjust the credit cover by manually putting an SRA in place or increase a letter of credit. The implications for participants will be they will be either over collateralised by having large Letters of Credit in place or require the facility to move cash available to them.

The document proposes setting the Breach Limit at the spuriously precise value of 92.59% on the basis that it will reduce the risk of bad debts. So too would a Breach Limit of 50% but this is clearly unacceptable. The proposed value would have the effect of increasing average collateral by approximately 8% which would be on top of the approximate 19% increase due to the Analysis Percentile Percentage. Electric Ireland believes that this is not justified and that the Breach Limit should remain at 100%. Further evidence is required that such a change is necessary e.g. after a period of experience of behaviour in the Balancing Market. Any change must be the subject of a Regulatory consultation since a reduction would directly impose costs of participation on all Participants.

Credit Cover Adjustment Trigger

This is the expected percentage change in future generation or demand which leads a Participant to report to SEMO that it should become an Adjusted Participant, rather than a Standard Participant and have its Credit Cover requirements calculated on the basis of its forecasts of future demand or generation. The requirements of an Adjusted Participant are much more onerous than that of a Standard Participant and the consultation document discusses setting the Adjustment Trigger at a level to separate typical events from extraordinary events that would require different solutions. Electric Ireland believes setting the trigger at 10% is too low since it would catch the normal event of the switching of a large customer between suppliers in the business markets. Given that the Analysis Percentile Parameter has been significantly increased (+19%) and that the Historical Adjustment Period has been reduced (-67%) to make collateral levels more responsive to e.g. recent levels of demand, Electric Ireland believes that prudent steps have already been taken to ensure collateral adequacy and that the trigger level should remain at 30%. Otherwise Participants would have to resort frequently to manual systems to fulfil Adjusted Participant requirements.