Gaelectric Trading and Market Services Limited

Response Paper to:

I-SEM Operational Parameters

20/03/2017

Public

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Document Details

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1 INTRODUCTION

Gaelectric Trading and Market Service ("GTAMS") would like to take the opportunity to commend and thank the SEM Committee for consulting with industry on matters relating to the operating parameters in I-SEM. Operational Parameters will be particularly important in ensuring the efficient functioning of the I-SEM, and for the unobstructed participation of all parties in the market. The intention of these parameters should be to avoid creating a high barrier to entry whilst ensuring that the market is securely operated in the face of a certain degree of complexity.

We believe that the parameter values should be set in order to ensure that risk is appropriately distributed in the market with pricing signals and settlement reflecting market fundamentals. We equally believe that over-collateralisation of the market is inefficient and should be avoided in the market design. In this context we have provided the feedback below to clarify certain issues and offer our views.

2 PARAMETER FEEDBACK

Fixed Credit Requirement Parameter

GTAMS are comfortable with maintaining a fixed credit cover requirement of €5,000 for generator units.

Undefined Exposure Period

GTAMS believe that a blanket requirement of 16 for the posting of collateral has not been appropriately justified by the SEM Committee for generators. It is clear that not all participants are contributing to the same risk profile and there is therefore merit in considering alternative approaches depending on the registration profile. By way of example, there is no requirement to transfer customers to a supplier of last resort should a generator be suspended from the market. We do not therefore believe that the undefined exposure period for a generator should be as high as 16 days.

Currently in SEM, the generation suspension delay period is 7 days and we believe a similar period should be carried over to I-SEM. Under such an arrangement, less collateral would need to posted to cover a generators future undefined exposure, which in turn will lower the barriers to entry in the market when compared to the existing proposals. Furthermore, this will not endanger security of the market in any way.

Credit Cover Adjustment Trigger & Historical Assessment Period

Both the Credit Cover Adjustment Trigger and Historical Assessment period are closely linked and we will therefore discuss them together.

GTAMS believe that reducing the historical assessment period to 30 days somewhat mitigates the requirement for the reporting of events to trigger the change from a standard to an adjusted participant. GTAMS support reducing the historical assessment period to 30 days. We believe this better captures seasonal variations coupled with updated trading strategies to help prevent over collateralisation while capturing needs for increased collateral requirements.

While GTAMS support the provision for notification of the market operator of issues such as outages and additional units being added to participants/parties, given that such modifications will fundamentally change the volumes traded. However, issues such as variations in bid/offer acceptances and pricing, renewable energy forecast deviations and ultimately imbalance price fluctuations are not all with the control of the generator. With this in mind, we believe such sensitivities should not be considered in the threshold for triggering the change to an adjusted participant. GTAMS would welcome more clarity what exactly should be reported to the NEMO that would trigger a change from a standard to adjusted participant as this has not been adequately addressed in the paper.

Furthermore, given the reduction to 30 days of a historical assessment period, GTAMS believe the threshold should be higher than 10% as the exposure over the previous 30 days will quickly capture changes in trading behaviour and market conditions. Setting a threshold too low may lead to events outside the control of the participant effecting the move from a standard to adjusted participant.

CCIN Warnings, Breach Limits and Trading Halt

GTAMS support proposals to set the notification regarding a Credit Cover Increase Notification ("CCIN") warning limit at ~70% of the total required collateral. From here we believe that the level at which the actual issuance of a Credit Cover Increase Notification should be ~80%. From this point, participants will have 2 days to arrange transfer of collateral to reduce their exposure below 80% before market suspension processes begin.

At the Business Liaison Group on March 9th, the concept of a *trading halt* in the ex-ante markets was introduced. This process involves a credit cover limit which, if exceeded, would trigger the Breach Remedy Period. If participants do not arrange transfer of collateral during this period, trades executed in the ex-ante ("EA") markets will be refused. Participants were informed at this meeting that the trading halt process would operate in parallel to the credit cover increase notifications.

GTAMS believe that both the CCIN period and breach remedy period should complement each other and for this reason we believe that the breach limit beyond which the Breach Remedy Period would begin should be set at 90%. The duration of the Breach Remedy Period has not been decided and GTAMS believe it should be long enough to ensure collateral can physically be transferred. We therefore believe that 2 working days should be allowed to resolve this. The reason for having 2 working days is that in an instance where a CCIN is initiated by virtue of increasing exposure to 80%, and the exposure then ratchets up to 90% in a short period, the penalties from the Breach Remedy Period (if less than 2 working days) will impact the ability of the generator to trade out of its position in the EA markets during *day 2* to resolve the CCIN.

Engineering Tolerance & MW Tolerance

GTAMS are comfortable with the engineering and MW tolerance values as set out in the consultation document.

PUG/DOG Factors

GTAMS are comfortable with the PUG/DOG factors as set out in the consultation. It's important to emphasise that these values should not be applied to intermittent renewables. Participants will endeavour to manage their balancing exposure however, they should not be penalised for variations outside of their control.

Imbalance Weighting Factor

GTAMS believe that an imbalance-weighting factor of one is the most suitable factor at this point. Should imbalance settlement periods of EA trading periods change in granularity at some point the future, then this factor can be re-visited.

Information Imbalance Price

GTAMS strongly support keeping the information imbalance price at zero. A non-zero value for the information imbalance would only serve to reduce intraday liquidity with little material gain. Generators need to be incentivised to increase their flexibility and through setting the information imbalance charge to zero, this incentivises generators to maximise value where possible in the Intra-Day market

3 CONCLUSION

GTAMS would like to take the opportunity to thank the SEM Committee for engaging with participants on these issues. These parameter values are of utmost importance in ensuring appropriate allocation of risk in the market while not being overly burdensome on market participants. It is in this context that we have provided the feedback above. Should you have any question on the comment above please do not hesitate to contact us.