

**Power NI Energy Limited
Power Procurement Business (PPB)**

**I-SEM Operational Parameters
Credit Cover and Imbalance Settlement**

Consultation Paper

SEM-17-009

Response by Power NI Energy (PPB)

20 March 2017.



1. Introduction

Power NI Energy – Power Procurement Business (“PPB”) welcomes the opportunity to respond to the consultation paper on the I-SEM Operational Parameters Credit Cover and Imbalance Settlement.

2. General Comments

It is generally accepted that the SEM is an over collateralised market. When the I-SEM design was being considered hope was raised that this over collateralisation would be addressed with a netting of collateral across all the new markets. Unfortunately, due to the design decisions made, this has not been achieved. As netting of collateral is not being adopted across the Ex-Ante and Balancing markets it appears that the I-SEM will be even more inefficient requiring substantially higher levels of over collateralised than the SEM.

The credit parameters outlined in this consultation paper have a considerable impact to the overall collateralisation. It is important that each parameter is not assessed on an individual basis but that the total impact of the combined parameters is considered such that collateral requirements are kept to a minimum for the Balancing Market.

3. Comments on the proposed Credit Cover Parameters

3.1. Fixed credit Requirement for Suppliers

PPB agrees that the existing values should be retained for I-SEM.

3.2. Fixed credit Requirement for Generator Units

PPB agrees that the existing values should be retained for I-SEM.

3.3. Fixed Credit Requirement for Netting Generator Units

PPB agrees that the fixed credit requirement for Netting Generator Units should be removed under I-SEM.

3.4. Fixed Credit Requirement for Capacity Market Units

PPB agrees that the fixed credit requirement for the new Capacity Market Unit should be set to zero for I-SEM go-live.

3.5. Number of days in the Undefined Exposure Period for each Undefined Exposure Period

As acknowledged in the consultation paper the purpose of the undefined exposure period is to ensure that a participant has sufficient collateral in place to cover all liability until they are removed from the market.

The Supplier of Last Resort event which occurred in December 2016 has provided actual data to assess the timelines required to remove a participant. On this occasion the participant ceased to incur costs after 3 days. Therefore one can conclude that 16 days to remove a participant would appear to be excessive leading to an excessive credit burden on participants in the I-SEM which, as we have already identified, will be even more over collateralised than the SEM.

PPB acknowledges that 3 days is probably the fastest possible time to remove a participant and that some buffer should be introduced. PPB would suggest a period of 7 days would be more reasonable.

3.6. Number of days in the Historical Assessment Period

The number of days in the Historical Assessment period impacts credit cover volatility for participants, driven by market conditions e.g. fuel prices. Increasing the volatility by reducing the number of days will result in participants factoring in headroom which will lead to further over collateralisation and increased costs.

PPB would suggest retaining the current level of 100 days until data is available post go-live for considered analysis such that a more informed decision can be made.

3.7. Analysis Percentile Parameter

It is not clear from the paper what would constitute a “*burdensome increase in credit cover*” and in any event “burdensome” will likely be different for each participant. PPB does not see any reason why this parameter should be increased from the 95% to 98% percentile at this stage. We would suggest waiting until post go-live when data would be available to enable analysis and for a more informed decision to be made.

3.8. Credit Cover Adjustment Trigger

It is not possible to predict how participants will trade across the I-SEM markets and, as the RAs have previously acknowledged, and as has been the experience in other markets, it will likely take a period of time after I-SEM commences before the markets stabilise. Generators will be exposed to Euphemia dispatch risks, illiquid Intra day market, availability risks and balancing actions therefore the amount traded in the balancing market could fluctuate significantly. This raises the appropriateness of the credit cover adjustment trigger for generators. However, as per our responses above PPB would suggest waiting until after I-SEM go-live until data is available to enable appropriate analysis to be conducted that would allow an informed decision to be made. Therefore PPB believes this parameter should be retained at 30%.

3.9. Level of the Warning Limit

As the warning limit is used by participants to internally manage and forecast their credit requirements PPB would favour this parameter being configurable such that participants could request their own level.

3.10. Level of the Breach Limit

Further clarity is requested on suspension from the Ex-Ante markets due to insufficient collateral in the Balancing Market. The market design prevents netting of collateral across the Ex-Ante market and the BM and it is anticipated that most participants will perform the majority of its trading in the Ex-Ante markets with only a small amount being concluded in the BM. Therefore it seems perverse that a participant can be excluded from these markets, where they may be fully collateralised, due to a temporary shortfall of funds in the BM.

Given the complete credit cover calculation including the Undefined Exposure period and the Analysis percentile ensures that there is enough collateral in place it raises questions over the need to reduce the breach limit from 100% since reducing it creates over collateralisation. Reducing the limit to 92.59% mandates that all participants maintain a 7.41% headroom figure. Given that the credit cover calculation is designed to ensure sufficient collateral is in place mandating 7.41% headroom creates further over collateralisation.

4. Comments on the proposed Imbalance Settlement Parameters

4.1. Uninstructed Imbalance Parameters

(Engineering Tolerance, MW Tolerance, FUREG, FDOG & FPUG)

PPB supports the retention of the SEM parameter levels for imbalance settlement for I-SEM.

4.2. Imbalance Weighting Factor for each Imbalance Settlement Period

The need for an imbalance weighting factor for each Imbalance settlement period has arisen due to the DAM trading hourly whilst the BM trades half hourly. With the DAM being the primary route to market it is anticipated that most participants will trade in this market. Splitting the hourly outcome into half hourly quantities makes balance responsibility more difficult for participants who can forecast their requirements accurately if the IDM has poor liquidity.

PPB believes that all the I-SEM markets should be traded at the same level of granularity or where this is not possible, that PNs are used for Generators since they are already required to allocate into more discrete periods.

4.3. Settlement Recalculation Threshold

As the settlement recalculation threshold is now being assessed at a participant level, PPB sees merit in changing the adjustment to a monetary value. Given the importance of the level to small participants PPB agrees with the €15,000 value.

4.4. Information Imbalance Price

Although PPB appreciates that the information imbalance charges will be set to zero at I-SEM go-live we remain concerned at its existence. Information imbalance charges penalise participants for events that are outside their control. Participants do not set out to mislead the TSOs. The initial PNs that are submitted are a technically feasible set based on a (possibly not technically feasible) schedule from Euphemia. Intra day trading is necessary to improve on the schedule received from Euphemia and to allow participants to respond to commodity price movements, changes to wind generation levels, plant availability, demand errors and the behaviours of other participants. Charging for PN movement is not going to change participant behaviour as they have no control over these events as they are a product of the market design. If charging is introduced participants will reflect this in their bid/offer prices and ultimately the consumer will pay.

Such charges would also be discriminatory since they are unlikely to affect baseload generators but would have a substantial impact on PPB whose traded units are the “swing” generators in the market and whose output can fluctuate wildly from day to day depending on wind and interconnector activity. This can be evidenced by the level of deviations PPB sees between the Indicative running notices and the actual dispatch which is provided by the TSOs who have all the information at their disposal. It will therefore be even more difficult for an individual generating unit to predict its likely traded position with only a small subset of the information currently available to the TSOs. The imposition of such penalties will therefore distort liquidity in the IDM and will be priced into prices as any penalty would be a cost to the generator.

PPB does not favour the introduction of Information Imbalance charging.