Bord na Móna

Consultation on Changes to Reduce Collateral Requirements in the Balancing Market SEM-22-024

Consultation Response

08 June 2022

Introduction

Bord na Móna (**BnM**) welcomes the opportunity to respond to the SEM Committee's consultation on Changes to Reduce Collateral Requirements in the Balancing Market. BnM support the Committee's proposal to amend the Single Suspension Delay period and reduce the collateral requirements of participants. Adapting the rules, where prudent, to increase the efficiency of the market and reduce unnecessary costs to participants is good practice and something we would support on principal.

Response to Consultation 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?

BnM supports the SEM Committee's proposal to amend the Single Suspension Delay Period to 5 days. We would agree with the Committees' view that it is unlikely to take the regulatory authorities longer than 5 days to issue a SOLR direction. Given that we see very little risk or potential harm to reducing the Undefined Exposure Period from 9 to 7 days. Improving the market rules and design to reduce unnecessary costs to participants is something we support, and we would be happy to see this change approved.

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?

BnM does not perceive any significant increase in bad debt risk arising from this change. As such we support reducing the collateral burden on Participants on an ongoing basis.

Question 3 In your view, what are the reasons why many Participants in the balancing market are posting extra Credit Cover, significantly over and above their Required Credit Cover?

BnM would suggest that it is the volatile market conditions that are leading participants to post additional Credit Cover beyond their Required Credit Cover. With the current degree of market volatility, a participant's Required Credit Cover can vary significantly. The timeline from receiving a CCIN to when the additional Credit Cover must be posted is short and there are administrative burdens, beyond approval times for Letters of Credit, to posting the additional Credit Cover. To avoid the risk of not having sufficient Credit Cover it can be prudent to leave some "headroom" above the Required amount.

Question 4 – In your view, are the approval times for Letters of Credit causing Participants to post extra Credit Cover as "headroom" as they believe they may find it difficult to meet the timelines of a Credit Cover Increase Notice (CCIN) with a Letter of Credit?

Approval times for Letters of Credit may be one cause of participants posting extra Credit Cover. As mentioned, there are other reasons why it can be prudent for participants to leave some "headroom". With current market volatility the increase to Required Credit Cover amounts can be substantial. From an administrative perspective it can challenging to get additional Credit Cover approved and posted within the required time period. We would support any modifications to market rules that could ease the administration challenge associated with this.

Question 5 – What are your views on the approval times for Letters of Credit generally? Are there any changes that could be made to the current approval processes that would allow Letters of Credit to be approved more quickly (bearing in mind that Letters of Credit must meet the conditions set out in Agreed Procedure 9)?

No comment.