



CONSULTATION ON CHANGES TO REDUCE
COLLATERAL REQUIREMENTS IN THE BALANCING
MARKET
SEM- 22-024

June 8th, 2022

Panda Power welcome the opportunity to respond to this consultation on collateral proposals. We believe this is a positive step from the RAs.

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?

This is a positive step to alleviate some of the impacts of high pricing. It is welcome to see the reference to a determination being issued to signal this change. However, this proposed step will only deliver marginal relief. Please see our suggestion further below for other means of providing relief.

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?

We feel that the potential level of bad debt would be very low in this instance and would be an acceptable trade off.

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?

To prevent CCINs and the tight turnaround to remedy them.

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?

There is typically 2 working days to remedy a CCIN and a cash transfer is usually the quickest way. It is not always practical to update a LOC in 2 working days depending on the internal approvals as well as the LOC provider's approvals. While a participant can make a cash payment with a same day transfer to cover a CCIN it can take SEMO up to a working week to return excess cash collateral. This can be a frustrating process which ties up working capital unnecessarily that could be used to pay a settlement document that is yet to be published.



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)?

While we do not have any fundamental issues with the LOC conditions a wider variety of providers would be an ask.

Please see below further points to alleviate the collateral burdens.

Collateral requirements in the SEM are unnecessarily onerous by a requirement for market participants to effectively double collateralise the market. Should this requirement be amended it would free up significant liquidity for individual participants.

We would request that the settlement of supplier capacity payments move to weekly settlement rather than monthly. This will reduce the build-up of collateral on suppliers at certain times in the month. If weekly payments cannot be facilitated, pre-payment of capacity payments should be facilitated. This will prevent the requirement of posting additional collateral while fulfilling our capacity payment obligation.

We are open to working with SEMO on any other solutions that allow for more efficient settlement procedures that allow us meet our obligations while ensuring cash flow is being utilised efficiently.

Your sincerely

A handwritten signature in black ink that reads "Alan Reynolds".

Alan Reynolds
Head of Regulation and Energy