

SEMC 22-024

CONSULTATION ON
CHANGES TO REDUCE
COLLATERAL
REQUIREMENTS IN THE
BALANCING MARKET

SSE Response

INTRODUCTION

SSE welcomes the opportunity to respond to this consultation seeking views on measures proposed to alleviate some of the challenges experienced in the SEM as a result of external market factors.

For the avoidance of doubt, this is a non-confidential response.

WHO WE ARE

At SSE we're proud to make a difference. From small beginnings we've grown to become one of Ireland's largest energy providers, supplying green electricity and natural gas to over 700,000 homes and businesses on the island. We are driven by our purpose: to provide energy needed today while building a better world of energy for tomorrow.

Since entering the Irish energy market in 2008 we have invested significantly to grow our business here, with a total economic contribution of €3.8bn to Ireland's economy over the past five years. We own and operate 890MW of onshore wind capacity across the island (including Northern Ireland's largest, Slieve Kirk Wind Park), offsetting over 700,000 tonnes in carbon emissions annually. Our portfolio includes Ireland's largest onshore wind farm, the 174MW Galway Wind Park, which was jointly developed with Coillte. We also own and operate the Great Island Power Station, Ireland's newest gas station and a strategic asset for Ireland's security of electricity supply.

As a leading developer of offshore wind energy in Great Britain, we believe offshore wind has the potential to transform Ireland's response to climate change. SSE is currently progressing the development of a consented offshore windfarm off the coast of Co. Wicklow - Arklow Bank Wind Park Phase 2. We also have plans to progress projects at Braymore Point and in the Celtic Sea.

SSE are proud to have been a Principal Partner for COP26 – the 26th United Nations Climate Change Conference of the Parties – where world leaders sought a more ambitious climate change agreement. We look forward to continuing to work with the UK and Irish governments and other stakeholders to support the delivery of successful climate change targets.

SSE RESPONSE

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?

SSE would be of the view that this proposed measure is a step in the right direction. We are encouraged by the intention in the paper that this will be formalised by a determination issued by the SEM Committee. Our only concern otherwise with this change is that it could be a challenge to meet and therefore, certainty of best endeavours at least would be welcomed.

We would welcome clarity as to how this is intended to be implemented when not all five-day periods would fall on working days and the Regulators of course operate a five-day working week. This would be the only issue we can see with meeting this promising shorter process timeframe.

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 have carefully considered this aspect of paper. Our conclusion is that the possible outcome of increased bad debt would arise solely from a difficulty in meeting the new shorter timeframe of five-days proposed above. This process is internal to the Regulators and therefore, given the awareness of the possible risk to bad debt, we are comfortable that this risk can be managed.

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?

The onerous nature of the currently overly collateralised market can lead participants to seeking to over-protect themselves in the case of potential default or failure to meet the very aggressive timescales for posting of Letters of Credit. It is also true that it can take several weeks for a Letter of Credit increase or decrease to be accepted, which can lead to an appearance of over or under-protection simply because the process is not executed in a timely manner.

We welcome the approval of Mod_01_22 Balance Surety_Demand Guarantee¹. This modification intends to diversify the types of parties that can be underwriters for Letters of Credit. We would consider this modification will also go some way to assisting participants with the challenge of providing collateral to such an extent, in this market.

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 and timelines for Credit Cover Increase Notices are prohibitive in this market. However, solely increasing the timelines will not resolve the issue if all parties do not act in a timely manner. A volatile market requires rapid response. Security changes that can currently take several weeks as the full end-to-end process is not acknowledged and executed in a timely manner by SEMO, does not demonstrate an awareness of the impact this can have to market participants during volatile market conditions.

We cannot speak to the correlation of this and the posting of additional headroom for other participants in the market. But it is clear that these timescales should be addressed and better executed at least in this current volatile climate.

¹ https://www.sem-o.com/documents/market-modifications/Mod_01_22/DecisionLetteronMod_01_22.pdf

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)?

This process would be more reliable if the Operator's bank would agree to complete the final step of the Letter of Credit Amendment process in a timely manner. On occasion, the specific wording within Letters of Credit can be prohibitively specific which, can also slow the process. Ultimately, no change is affected until the Operator's bank electronically communicates acceptance of an amendment to the Participant's bank. This last step can take several weeks and repeated requests to SEMO. As above, these timeframes should be reconsidered and better executed.

The necessity of a doubly collateralised market in the SEM, as has been mentioned by the EAI, should also be reconsidered. It is unreasonable to overly cover the market up to such a degree. We can appreciate that the impetus is the protection of customers and ensuring that they are shielded from any market defaults. However, the degree of protection is relative, and the current extent in our view could be seen as excessive.