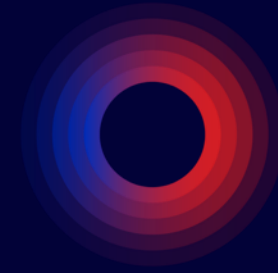


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Pinerogy

Mod_01_22 Balance Surety/Demand Guarantee

Modifications Committee Meeting – 10 February 2022



Agenda

- Context & Background
- Demand Guarantee – What is it?
- Benefits for Market Participants
- Key Drafting Amendments to Code
- Code Objectives furthered

Context & Background



- T&SC provides for 2 forms of credit collateral
- Cash
- Letter of Credit (LoC)
- Modification proposes permitting a new form of collateral called a Surety or Demand Guarantee to be permitted by the Market Operator

Demand Guarantee – What is it?



- Similar to LoC, except guarantee is provided by Insurance Underwriter
- Demand Guarantees used extensively across the globe
- In Irish context, Demand Guarantee accepted by Revenue Commissioners for customs bonds and State contracts including construction and service delivery obligations.
- In energy context, Demand Guarantees accepted by TSO and DSO
- Guarantors include global Insurers Chubb, AIG, Tokio Marine HCC, QBE, Aviva, Euler Hermes (Allianz), Great American.

Benefits for ALL Market Participant's (MP's)



- More choice brings competition to existing LoC providers benefiting all MP's
- Demand Guarantees can often have superior terms to LoC's in terms of:
 1. Cost
 2. Security required
 3. Doesn't diminish borrowing capacity of obligor
 4. Generally executing a Demand Guarantee is easier administratively for MP's than a Bank Guarantee
 5. Demand Guarantee providers implement a rigorous due diligence process specifically in relation to their financial strength and ability to perform their contracts
- Covenant from is equal if not superior to LoC providers. Guarantor's have credit ratings of AA or more
- Liquidity is not impacted. Credit calls can be satisfied within existing time frames provided for within the T&SC

Key Drafting Changes to T&SC



- G9.1.2 – adds a Demand Guarantee as an acceptable form of collateral
- G9.1.3 – Broadens an acceptable “Credit Cover Provider” to include an Insurance Undertaking that is authorised by Central Bank of Ireland or equivalent in EEA and UK to carry out Suretyship insurance activities.
- G9.1.3 - Maintains the minimum credit rating and Net Asset Value criteria as apply in the case of LoC’s.
- Glossary adds definitions for a Demand Guarantee and Insurance Undertaking to reciprocate definitions of Letter of Credit and Bank
- Appendix A updated to include Standard Template for Demand Guarantee.
- Agreed Procedures updated reflecting above

Feedback from Review by SEMO Legal team – 9 February



Glossary

1. Slight amendment to definition of Insurance Undertaking in glossary

Insurance Undertaking means an undertaking that is authorised ~~by~~:

(i) in accordance with Directive 2009/138/EC (as amended) by the Central Bank of Ireland or equivalent regulatory authority in any European Economic Area (EEA) member state to carry out Suretyship insurance activities in Ireland; or

(ii) by the Financial Conduct Authority in the United Kingdom to carry out Suretyship insurance activities in the United Kingdom (including Northern Ireland). ~~(in each case as applicable)~~

Feedback from Review by SEMO Legal team – 9 February



TSC

2. the lettering in the added sections in paragraphs G.9.1.2 and G.9.1.3 should be labelled (c) and (d)
3. More clarity of the context of collateral being provided within definition of a 'Credit Cover Provider'

G.9.1.3 A Credit Cover Provider shall in respect of a Letter of Credit be a Bank which must [...]

G.9.1.3 A Credit Cover Provider shall in respect of a Demand Guarantee be an Insurance Undertaking which must [...]

4. G 9.1.3

There should be an 'and' after sub-paragraph (a) to clarify that this is not an 'either / or' test.

In sub-paragraph (i), we should capitalise Insurance Undertaking and refer to the 'United Kingdom (including Northern Ireland)'.

In sub-paragraph (ii), this should presumably refer to a company being a subsidiary of an 'Insurance Undertaking'

Feedback from Review by SEMO Legal team – 9 February



Form of Demand Guarantee

5. There is a stray reference to “this Letter of Credit” which should instead say “this Demand Guarantee”
6. There are various references to correspondence by email. Suggest that we include a field at the start of the form of Demand Guarantee for the insurance undertaking to include their email for this purpose.

AP9 & 17

7. The addition of **Insurance Undertaking** where ‘Bank Eligibility Requirements’ missed in paragraph 2.8 and 2.9 of AP9;
8. Review found term ‘Bank Eligibility Requirements’, while capitalised in AP09 & AP17 is not actually defined in the Glossary or in the specific list of defined terms in the Agreed Procedures. – Legacy issue uncovered by this amendment.
 - Therefore, a further definition should be added to Glossary:
 - *Bank and Insurance Undertaking Eligibility Requirements : list of requirements a Credit Cover Provider shall fulfil as defined in paragraph G.9.1.3 of the Trading and Settlement Code*

Feedback from Review by SEMO Legal team – 9 February



AP9 & 17

9. Section 3.3 of AP9 (*Ongoing Monitoring of Credit Cover Providers*) should also reference Insurance Undertakings and Demand Guarantees

8. Paragraph 2.7.2 of AP17 “... Participant must ensure that it is issued by a Bank or Insurance Undertaking (as applicable) that fulfils the Banking and Insurance Undertaking Eligibility Requirements.”

Feedback from Review by SEMO Legal team – 9 February



Other Comments

- **G2.6.2(c)**: [...] shall as soon as reasonably practicable after making such a Credit Call and issuing the notice under sub-paragraph (b), notify the Participant of the amount of Shortfall, the Settlement Document to which the relevant Shortfall relates, the sums called from the Participant’s SEM Collateral Reserve Account (if any) and Letters of Credit (if any) and Demand Guarantees (if any), and, if appropriate, the Imbalance Settlement Period(s) concerned.
- “**Credit Cover Provider**” means the provider of a Participant’s Letter of Credit, a Participant’s Demand Guarantee, or the SEM Bank as provider of the Participant’s SEM Collateral Reserve Account, or each or both of them as appropriate.
- “**Posted Credit Cover**” means at any time the total amount of Credit Cover provided by a Participant posted in their designated Currency and in the form of Letters of Credit, or a Demand Guarantee, or a deposit in a SEM Collateral Reserve Account

Code Objectives Furthered



- to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;
- to promote competition in the Single Electricity Market;
- to ensure no undue discrimination between persons who are parties to the Code;
and
- to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability, and security of supply of electricity.