

## I-SEM Transitional Credit Cover - Temporary Process

As outline in the daily cutover call with Participants, a process issue has been identified with the Transitional Credit Cover Arrangements.

The expectation was that SEM Required Credit Cover (RCC) would be static or decreasing from I-SEM cutover as payments are made. However, continued indicative settlement, initial settlement and capacity settlement is resulting in fluctuations in this SEM RCC. This has the potential to cause multiple (e.g. ~25+) Credit Cover Increase Notices (CCINs) per day in the SEM as any excess posted credit cover has already been allocated to the I-SEM and there is no margin left in the SEM posted credit cover. The issue appears to effect relatively small amounts e.g. single settlement day amounts per Participant.

The transitional procedure that was defined to manage the need for increase in SEM posted credit cover is for Participants to use the collateral refund procedure to transfers posted collateral between SEM and I-SEM and alleviate these CCINs. However, it was not expected when defining this procedure that it would involve such high numbers of CCINs and as such the procedure is too cumbersome, time consuming and confusing to be workable in practice.

To mitigate the process issues, SEMO intend to implement the following change in processes until after the last SEM Capacity Invoices payments have been processed (~ 15th Oct 2018) and then phase back in the three daily I-SEM credit reports:

- Where a Participant has an Interim Transfer Facility in place, posted collateral will be automatically allocated to the SEM Credit Reports in order to minimise any CCINs that may eventuate due to minor fluctuations in the SEM RCC e.g. indicative/initial settlement, capacity settlement.<sup>1</sup>
- Any remaining posted collateral will be allocated to the 15:30 run of the I-SEM Credit Report
- Only the 15:30 I-SEM Credit Report will be run, the 9am or 12pm I-SEM Credit Reports will not be run.

The mitigation measures will allow:

- Participants to received clear, timely and relevant credit reports for the SEM/I-SEM.
- Allow participants to have a clearer understanding of their credit positions and posted credit cover
- Remove the overheads and potential confusion for Participants regarding requesting allocations of collateral between the SEM and I-SEM.
- Provide a workable solution to the identified process issue allowing the orderly operation of the SEM/I-SEM.

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<sup>1</sup> Participants can opt out of this automated allocation by contacting [crmteam@sem-o.com](mailto:crmteam@sem-o.com). However, they must realise that any CCIN generated from the SEM credit reports would then be valid and must be resolved within 2 working days. This opt out has been included in case the Participants want to manage the SEM CCIN in another way. e.g. pay invoices early