

Single Electricity Market

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| Final REcommendation Report  Mod\_01\_19 negative interest rates in the SEM  12 March 2019 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 15 Mar 2019 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 27 Mar 2019 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| **Document Name** |
| [Trading and Settlement Code](http://www.sem-o.com/MarketDevelopment/MarketRules/TSC.docx) |
| [Modification Proposal Form](https://www.sem-o.com/documents/market-modifications/MOD_01_19/MOD_01_19NegativeInterestRatesinSEM.docx) |
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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval– unanimous Vote

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| **Recommended for Approval by Unanimous Vote** | | |
| Sinead O’Hare | Generator Member | Approve |
| Siobhan O’Neill | Interconnector Alternate | Approve |
| Philip McDaid | Supplier Member | Approve |
| Philip Carson | Supplier Alternate | Approve |
| Kevin Hannafin | Generator Member | Approve |
| Paraic Higgins | Generator Member | Approve |
| David Gascon | Generator Alternate | Approve |
| Robert McCarthy | DSU Alternate | Approve |
| Julie Anne Hannon | Supplier Member (Chair) | Approve |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on the 06th February 2019. This proposal was raised and voted on at Meeting 89 on the 20th February 2019.

Negative interest rates have been a feature of the Irish Euro market since the ECB introduced negative interest in June 2014. Most banks are now charging negative interest rates in respect of Euro deposits. Danske, as the SEM Bank, has not charged negative interest to date on (i) market funds held by SEMO on behalf of the market and (ii) collateral accounts on behalf of market participants.

The TSC currently only allows for positive interest to be applied. This inability by the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.

As result it is proposed to allow for the application of negative interest to be applied to all credit balances held with the SEM in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators which would be in line with the ECB practices who introduced negative interest since June 2014.

The SEM Bank services will be going out for tender in early 2019 and this matter will be specifically addressed within that tender’s scope.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

Deposits held by Danske accrue interest at ECB rates – these reference rates have been negative since June 2014 and at -0.4% since March 2016. Danske as the SEM bank has not applied these negative rates to SEM deposits to date.

This change would reflect current banking practice for the SEM Bank.

**3B.) Impact of not Implementing a Solution**

The TSC currently only allows for positive interest to be applied. This inability of the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.

**3c.) Impact on Code Objectiv****es**

# Working Group and/or Consultation

N/A

# impact on systems and resources

N/A

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting **89 – 20 february 2019**

This Modification Proposal allows for the application of negative interest to be applied to all credit balances held with the SEM Bank. Proposer confirmed that the SEM bank services will be going for tender and that the new SEM Bank should be in place in the next 3 months and this matter would be specifically addressed within that tender scope. Generator Member queried how interests would be applied in order to allow accounts to be replenished. Proposer confirmed that this would be completed on a quarterly basis and Participants would be informed through standard credit processes.

Supplier Member queried possible impact on UK accounts in terms of what would happen if the Bank of England also applied negative interests. It was confirmed that negative rates would be charged on sterling accounts also if this was the case. The Committee were satisfied to proceed to a Vote.

# Proposed Legal Drafting

As set out in Appendix 1.

# LEGAL REVIEW

The proposed Legal Drafting is as per Modification Proposal Form included in Appendix 1. However please note that included in the form is the following text from the Capacity Code:

*“Capacity Code*

*J.3.3.2 If a Participant elects to provide a cash deposit as, or as part of, its Performance Security, then the Participant shall:*

*a) instruct the System Operators to establish and maintain a Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to where the relevant Capacity Market Unit is located;*

*b) the Reserve Account shall be in the sole name of the System Operators with the designation “Reserve Account relating to [Insert Participant Details]”;*

*c) the Participant and the System Operators shall irrevocably instruct the SEM Bank to make payment against the sole instruction of the System Operators in accordance with this Code and the Bank Mandate. This Code shall take precedence over the Bank Mandate;*

*d) a Reserve Account shall be an interest-bearing account (Interest can be negative or positive)*

*, The Market Operator shall transfer quarterly to the relevant Participant the interest if credited to the relevant Reserve Account unless the Participant requests otherwise. However should interest be debited this shall be applied to the relevant SEM Collateral Reserve Account as appropriate*

*Glossary Capacity Code*

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| ***Reserve Assets*** | *means the aggregate of:*   1. *amounts from time to time credited to the Reserve Account;* 2. *amounts which any Participant, where applicable, is from time to time obliged to pay to the credit of their respective Reserve Account; and* 3. *interest receivable and / or payable on the Reserve Account(s).* |

*“*

The above text is to be considered for information purposes only. A separate Modification has already been raised for these changes at the Capacity Market Working Group and it is being progressed under that governance.

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification implemented as the Modifications Committee have Recommended it for Approval and on a Settlement day following receipt of the RA Decision.

# Appendix 1: Mod\_01\_19 negative interest rates in the sem

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| **MODIFICATION PROPOSAL FORM** | | | | | |
| **Proposer**  *(Company)* | **Date of receipt**  *(assigned by Secretariat)* | | **Type of Proposal**  *(delete as appropriate)* | | **Modification Proposal ID**  *(assigned by Secretariat)* |
| **SEMO** | **06 February 2019** | | **Urgent** | | **MOD\_01\_19** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Patricia Brankin** | |  | | Patricia.Brankin@sem-o.com | |
| **Modification Proposal Title** | | | | | |
| **Introduction of Negative Interest on credit balances held with the SEM Bank in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators** | | | | | |
| **Documents affected**  *(delete as appropriate)* | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC Part A**  **T&SC Part A**  **T&SC Part B**  **T&SC Part B** | | **Section 6.16-6.19 & 6.35**  **AP-17 Banking and Participant Payments**  **Section G.1.4.3 to G.1.4.5 & G.1.5.1**  **AP-17 Banking and Participant Payments** | | **Part A (Version 20.0 )**  **Part B 07 April 2017**  **Part C June 2017** | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| **Negative interest rates have been a feature of the Irish Euro market since the ECB introduced negative interest in June 2014. Most banks are now charging negative interest rates in respect of Euro deposits. Danske, as the SEM Bank, has not charged negative interest to date on (i) market funds held by SEMO on behalf of the market and (ii) collateral accounts on behalf of market participants.**  **The TSC currently only allows for positive interest to be applied. This inability by the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.**  **As result it is proposed to allow for the application of negative interest to be applied to all credit balances held with the SEM in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators which would be in line with the ECB practices who introduced negative interest since June 2014.**  **The SEM Bank services will be going out for tender in early 2019 and this matter will be specifically addressed within that tender scope.** | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| 6.16 The Market Operator shall establish and operate in accordance with the Code:  1. a euro SEM Trading Clearing Account at a branch of the SEM Bank in Ireland; and  2. a pounds sterling SEM Trading Clearing Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Trading Payments calculated in accordance with the Code are to be made.  Each SEM Trading Clearing Account shall be an interest bearing account. Interest can be Negative or Positive  6.17 The Market Operator shall establish and operate in accordance with the Code:  1. a euro SEM Capacity Clearing Account at a branch of the SEM Bank in Ireland; and  2. a pounds sterling SEM Capacity Clearing Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Capacity Payments calculated in accordance with the Code are to be made.  Each SEM Capacity Clearing Account shall be an interest bearing account. Interest can be Negative or Positive  6.18 Any Interest credited and / or debited on the SEM Trading Clearing Accounts and the SEM Capacity Clearing Accounts shall accrue to the Market Operator and shall not therefore be part of those accounts for the purposes the trusts established under this section 6. The Market Operator shall take such Interest into account in proposing to the Regulatory Authorities any Market Operator Charge or component thereof.  6.19 A Participant may at any time provide a cash deposit as part of its Required Credit Cover as permitted pursuant to paragraph 6.162. Where a Participant decides to provide such a cash deposit, then the Participant shall instruct the Market Operator to establish and maintain a SEM Collateral Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to whether the Participant has a registered Unit in either Ireland or Northern Ireland respectively and so that the relevant cash deposit shall be paid into such SEM Collateral Reserve Account. Each SEM Collateral Reserve Account shall be an interest bearing account. Interest can be negative or positive. If a Participant elects to provide a cash deposit as part of its Required Credit Cover, then the Participant shall fully comply with any applicable Account Security Requirements (including, for the avoidance of the doubt, the Deed of Charge and Account Security) in relation to the provision of cash collateral as set out in paragraphs 6.20 and 6.21 of this Code and in Agreed Procedure 1 "Participant and Unit Registration and Deregistration", Agreed Procedure 9 "Management of Credit Cover and Credit Default" and Agreed Procedure 17 "Banking and Participant Payments".  6.35 Notwithstanding paragraphs 6.33 and 6.34, if a Participant is not in default in respect of any amount owed to a SEM Creditor, then:  1. The Market Operator shall transfer quarterly to the relevant Participant the interest if credited to the relevant SEM Collateral Reserve Account unless the Participant requests otherwise.  2. However should interest be debited this shall be applied to the relevant SEM Collateral Reserve Account as appropriate  Part A Agreed Procedure  2.2 Elements of the Banking Arrangements  The banking arrangements consist of seven major elements that impact or result from Participants’ activities:   * Amounts to be paid by Participants under the Code * Amounts to be paid to Participants under the Code * Drawdown of cash collateral * Calls on Letter of Credit (LOC) collateral * Deposits into Collateral Reserve Accounts * Deposit Interest and charges/fees on Collateral Reserve Accounts   **Glossary Part A**   |  |  |  |  | | --- | --- | --- | --- | | Interest | | means interest debited and or credited on the deposits in the SEM Trading Clearing Accounts, SEM Capacity Clearing Accounts and SEM Collateral Reserve Accounts. | | | SEM Collateral Reserve Assets | | means the aggregate of: (1) amounts from time to time credited to the SEM Collateral Reserve Account(s); (2) amounts which any Participant, where applicable, is from time to time obliged to pay to the credit of their respective SEM Collateral Reserve Accounts; and (3) Interest receivable and or payable on the SEM Collateral Reserve Account(s). | |   Part B  G.1.4.3 The Market Operator shall establish and operate in accordance with the Code:  a) a euro SEM Account at a branch of the SEM Bank in Ireland; and  b)a pounds sterling SEM Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Trading Payments, Trading Charges, Capacity Payments and Capacity Charges calculated in accordance with this Code are to be made. Each SEM Account shall be an interest bearing account. Interest can be negative or positive  G.1.4.4 The Market Operator shall establish and operate in accordance with the Code:  a) a euro SEM Deposit Account at a branch of the SEM Bank in Ireland; and  b) a pounds sterling SEM Deposit Account at a branch of the SEM Bank in the United Kingdom,  For the purposes of cash pooling arrangements across SEM Bank accounts. Each SEM Deposit Account shall be an interest bearing account. Interest can be negative or positive  G.1.4.5 Any interest credited and or debited on amounts held in the SEM Accounts and the SEM Deposit Accounts shall accrue and belong to the Market Operator and shall not therefore be part of the amounts held in those accounts for the purposes of the trusts established under section **Error! Reference source not found.**. The Market Operator shall take such Interest into account in proposing to the Regulatory Authorities any Market Operator Charge or component thereof.G.1.5.1 A Participant may at any time provide a cash deposit as part of its Required Credit Cover as permitted pursuant to paragraph **Error! Reference source not found.**. Where a Participant decides to provide such a cash deposit, then the Participant shall instruct the Market Operator to establish and maintain a SEM Collateral Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to whether the Participant has a registered Unit in either Ireland or Northern Ireland (respectively) and so that the relevant cash deposit shall be paid into such SEM Collateral Reserve Account. Each SEM Collateral Reserve Account shall be an interest bearing account; Interest can be negative or positive. If a Participant elects to provide a cash deposit as part of its Required Credit Cover, then the Participant shall fully comply with any applicable Account Security Requirements (including, for the avoidance of doubt, the Deed of Charge and Account Security) in relation to the provision of cash collateral as set out in paragraphs **Error! Reference source not found.** and **Error! Reference source not found.** of this Code and in accordance with Agreed Procedure 1 " Registration", Agreed Procedure 9 "Management of Credit Cover and Credit Default" and Agreed Procedure 17 "Banking and Participant Payments".  Part B Agreed Procedure 17  2.1 Elements of the Banking Arrangements  The banking arrangements for financial Settlement consist of seven key elements that impact or result from Participants’ activities:  (a) amounts to be paid by Participants under the Code;  (b) amounts to be paid to Participants under the Code;  (c)drawdown of cash collateral;  (d)calls on Letter of Credit collateral;  (e)deposits into SEM Collateral Reserve Accounts; and  (f) deposit Interest and charges / fees on SEM Collateral Reserve Accounts. Interest can be negative or positive.2.7.4 Interest  If interest is credited to a SEM Collateral Reserve Account, a Participant may request repayment from that account using collateral refund process outlined in Agreed Procedure 9 “Management of Credit Cover and Credit Default”.  Capacity Code  J.3.3.2 If a Participant elects to provide a cash deposit as, or as part of, its Performance Security, then the Participant shall:  a) instruct the System Operators to establish and maintain a Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to where the relevant Capacity Market Unit is located;  b) the Reserve Account shall be in the sole name of the System Operators with the designation “Reserve Account relating to [Insert Participant Details]”;  c) the Participant and the System Operators shall irrevocably instruct the SEM Bank to make payment against the sole instruction of the System Operators in accordance with this Code and the Bank Mandate. This Code shall take precedence over the Bank Mandate;  d) a Reserve Account shall be an interest-bearing account (Interest can be negative or positive)  , The Market Operator shall transfer quarterly to the relevant Participant the interest if credited to the relevant Reserve Account unless the Participant requests otherwise. However should interest be debited this shall be applied to the relevant SEM Collateral Reserve Account as appropriate  Glossary Capacity Code   |  |  | | --- | --- | | **Reserve Assets** | means the aggregate of:   1. amounts from time to time credited to the Reserve Account; 2. amounts which any Participant, where applicable, is from time to time obliged to pay to the credit of their respective Reserve Account; and 3. interest receivable and / or payable on the Reserve Account(s). | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| **Deposits held by Danske accrue interest at ECB rates – these reference rates have been negative since June 2014 and at -0.4% since March 2016. Danske as the SEM bank has not applied these negative rates to SEM deposits to date.**  T**his change would reflect current banking practice for the SEM Bank.** | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
|  | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| **The TSC currently only allows for positive interest to be applied. This inability of the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.** | | | | | |
| **Working Group**  *(State if Working Group considered necessary to develop proposal)* | | | **Impacts**  *(Indicate the impacts on systems, resources, processes and/or procedures; also indicate impacts on any other Market Code such as Capacity Marker Code, Grid Code, Exchange Rules etc.)* | | |
|  | | |  | | |
| ***Please return this form to Secretariat by email to*** [*modifications@sem-o.com*](mailto:modifications@sem-o.com) | | | | | |