

Single Electricity Market

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| Final REcommendation Report  mod\_06\_17 Transitional Credit Cover Provisions  21 December 2017 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 21 December 2017 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 10 January 2018 | 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](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/MOD_06_17%20-%20Modification%20Proposal%20version%202.docx) |
| [Presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Transitional%20Credit%20Cover%20Provisions%20Mod.pdf) |
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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval – unanimous Vote

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| --- | --- | --- |
| **Recommended for Approval by Unanimous Vote** | | |
| Conor Powell | Supplier Member | Approved |
| Derek Scully | Generator Alternate | Approved |
| Clive Bowers | Generator Alternate | Approved |
| Jim Wynne | Supplier Member | Approved |
| David Gascon | Generator Alternate | Approved |
| Brian Mongan | Generator Member | Approved |
| Philip Carson | Supplier Alternate | Approved |
| Julie-Anne Hannon | Supplier Member (Chair) | Approved |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on 5 October 2017. This proposed change seeks to provide a workable solution to how credit cover will be managed during the transition from the TSC Part A (SEM) to the TSC Part B (I-SEM) arrangements. It seeks to clarify the timelines, activities, methodologies and credit cover calculations for this transition.

The term ‘Transitional Credit Cover Provisions’ is used throughout this modification proposal to refer the transitional arrangements for credit cover.

The proposal aims to ensure:

* The appropriate levels of credit cover are maintained, in line with the full collateralisation principles of the SEM.
* That practical and plausible implementation of the transitional arrangements is achieved given the timelines, effort and legal considerations.
* That Participants have a clear understanding of how transitional credit cover requirements will be determined, and how and when they will be need to take actions in order to meet these requirements.

The Modification Proposal was discussed at Meeting 76 on 5 October and then voted at Meeting 77 on 21 November where it was voted on.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

With the focus on the completion and approval of the main body of the TSC Part B (I-SEM arrangements) combined with, at the time, a lack of clarity on the transitional arrangements for credit cover, there is limited detail provided in the TSC on how SEM credit cover requirements will be managed during the transition from the TSC Part A (SEM) to TSC Part B (I-SEM) arrangements.

There are certain elements of the enduring TSC that do not provide for the efficient transition of collateral requirements from the SEM to the I-SEM. For example, if enduring TSC rules were followed there would be a duplication of the collateral requirements and the need for separate cash collateral accounts and Letters of Credit to be setup for SEM and I-SEM Participants.

In addition, there are certain elements of the enduring TSC that do not cater for the initial start of the I-SEM arrangements when certain information may not be available. For example, use of historical Imbalance Prices for the calculation of the Credit Assessment Price.

Participants have also become increasingly interested in what the Transitional Credit Cover Provisions are going to be in order to allow planning, preparation and compliance with the requirements.

This modification provides a proposal to clarify the timelines, activities, methodologies and credit cover calculations over the transitional period.

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

The implications of not implementing transitional arrangements include:

1. Participants will need to maintain SEM collateral at levels higher than what is actually needed
2. The I-SEM may not be collateralized appropriately (given Credit Assessment Prices will not be able to be calculated as historical Imbalance Prices are not available) leading to increased risks of bad debt to Participants

Participants having limited time to put in place Initial Credit Cover Requirements for the I-SEM arrangements

**3c.) Impact on Code Objectives**

The implications of not implementing transitional arrangements include:

1. Participants will need to maintain SEM collateral at levels higher than what is actually needed
2. The I-SEM may not be collateralized appropriately (given Credit Assessment Prices will not be able to be calculated as historical Imbalance Prices are not available) leading to increased risks of bad debt to Participants

Participants having limited time to put in place Initial Credit Cover Requirements for the I-SEM arrangements.

1. **Assessment of Alternatives**

N/A

# 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 **76 – 5 october 2017**

Proposer delivered a [presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Transitional%20Credit%20Cover%20Provisions%20Mod.pdf) summarising the requirement for this proposal.

The proposer discussed the background to why the modification was being raised and the need for it - specifically the need to have transitional arrangements in place for credit cover requirements in the transition from SEM to I-SEM. They described how the modification had developed further since submission on 5th October - in order to further mitigate concerns about duplication of collateral, administrative burdens of the transition, and concerns over treatment of posted collateral in bad debt scenarios. The proposer then provided details of the ‘enhanced’ modification and how it improved the original modification proposal. The proposer then requested the modifications committee to confirm the modification was developing, in principle,  in the right direction before undertaking the detailed legal drafting. Next steps were to provide the updated modification, with the enhanced details and the legal text drafting, before the next modifications committee meeting in November.

Chair confirmed that the committee felt the proposal was being developed in the right direction with all members welcoming a reduction in collateral requirements but asked if the issue of due diligence could be further clarified. It was noted that a week review period would be sought for the revised proposal and all members were asked to take the proposal in house and discuss with a view to progressing the proposal at the next meeting.

**Actions :**

* Members to review the additional detail provided in the presentation and submit any questions or feedback to [modifications@sem-o.com](mailto:modifications@sem-o.com) for inclusion in the development of version 2.0 of the proposal – **Closed**
* Proposer to develop version 2.0 of the proposal and issue to the committee for a 1 week review in advance of the next meeting - **Closed**

The proposal was deferred.

## Meeting **77 – 21 November 2017**

Proposer delivered a presentation covering areas such as the possible magnitude of credit required and the beneficial rationale for removing duplication of collateral requirements. There was unanimous support for the proposal however further clarification remains sought in the following areas –

* Legal implications of deed of charge references to Part A

The deed of charge does not need to be amended or renewed should Part A of the Code be removed. The deeds would still be enforceable.

* Query as to whether older deeds can be released once new deed implemented

Older deeds could be released, but there is a significant cost associated with these. ~100-200 Euro per Deed

* Document requested to provide clarity regarding mapping of IDs from SEM to I-SEM
* This will be provided to Parties on request as part of the process of signing up for the interim transfer facility
* Check/amend typo error in legal text of summation subscript clause 11.3.4

This will be confirmed as corrected as part of the final version published with the FRR.

* Provide document summarising business process with timelines

This will be provided to as part of the ‘application pack’ for the interim transfer facility which will be issued in December.

Committee were happy to vote subject to satisfactory resolution of the queries stated above. Proposer to resolve all queries as soon as possible.

The proposal was Recommended for Approval.

# Proposed Legal Drafting

As set out in Appendix 1 below.

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification is implemented on a Trading Day basis with effect from one Working Day after an RA Decision.

# Appendix 1: Mod\_06\_17 version 2.0: Transitional credit cover provisions

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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** | **5th October 2017** | | **Standard** | | **Mod\_06\_17** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Christopher Goodman** | |  | | **Christopher.Goodman@sem-o.com** | |
| **Modification Proposal Title** | | | | | |
| **Transitional Credit Cover Provisions** | | | | | |
| **Documents affected**  *(delete as appropriate)* | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC Part C** | | **Part C Introduction, Part C Section 11, Part C Glossary and Part C Appendix** | | **Version 20** | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| *It is recommended to read the “Modification Proposal Justification” section of this proposal to provide the context for its submission prior to reading this section on the explanation of the proposed changes.*  *This modification proposal has been updated based on discussion held in Modification meeting76 which took place on the 19th October 2017. Changes from the original proposal are change tracked for convenience.*  **Objective of the Proposal**  This proposed change seeks to provide a workable solution to how credit cover will be managed during the transition from the TSC Part A (SEM) to the TSC Part B (I-SEM) arrangements. It seeks to clarify the timelines, activities, methodologies and credit cover calculations for this transition.  The term ‘Transitional Credit Cover Provisions’ is used throughout this modification proposal to refer the transitional arrangements for credit cover.  The proposal aims to ensure:   * The appropriate levels of credit cover are maintained, in line with the full collateralisation principles of the SEM. * That practical and plausible implementation of the transitional arrangements is achieved given the timelines, effort and legal considerations. * That Participants have a clear understanding of how transitional credit cover requirements will be determined, and how and when they will be need to take actions in order to meet these requirements.   **Considerations**  There are a number of considerations in looking to define Transitional Credit Cover Provisions. These are outlined below, with the approach to be taken to deal with them in *italics*.  ***Legal***  SEMO have been advised to avoid the “commingling” of trading, capacity and collateral funds as an important safeguard for SEMO in fulfilling its duties as trustee under the TSC. In addition commingling raises concerns over the apportioning of collateral to SEM or I-SEM arrangements in the case of default.  *Solution: the proposal is that, although separate Clearing Accounts will be maintained for the SEM and I-SEM arrangements, and collateral will be separated on an accounting basis, rather than separate collateral accounts being needed for the SEM and I-SEM.*  ***Entity Setup***  The mapping of participants in the SEM and I-SEM and therefore the assignment of financial obligations between I-SEM and SEM participants is not explicit, due to:   1. Parties amending their participant setup in the I-SEM either through forced changes due to the new I-SEM entity model, or through their own requested changes 2. Differences in Settlement Reallocation Agreements between Participants in the SEM and I-SEM arrangements meaning different financial obligations are present in each set of arrangements.   *Solution: this mapping from SEM to I-SEM participants is not explicit the proposed approach involves the SEM and I-SEM Participants providing written confirmation of the mapping of SEM and I-SEM participants and approval to use the methodology for associating collateral with the SEM or I-SEM arrangements accordingly.*  ***Systems and Process***  The systems and processes used for the calculation of credit cover for the SEM and I-SEM are separate and distinct. They both rely on different inputs and different systems for calculation and publication.  Attempting to merge these processes and arrive at combined credit cover requirement, for what is a short transitional period, is not practical given the implications for systems, resourcing, and the increased risk of error in such an approach. This impact is likely to be applicable to both Participants and the Market Operator who will need to operate under both arrangements.  *Solution: separate credit report runs will be maintained for SEM and I-SEM during the Transitional Period. Allocations of Posted Credit Cover associated with each will be based on rules of accounting for the allocation of Posted Credit Cover to the SEM and I-SEM defined in the Transitional Rules via this Modification.*  ***Credit Cover Related Documentation***  Certain references in Credit Cover related documentation, such as Deeds of Charge and Letters of Credit, are specifically related to only Part A of the TSC.  *Solution: there will be a requirement to amend or provide new versions of these documents to reference both Part A and Part B of the TSC.*  **Implications**  The implications are that Participants will need to:   1. Maintain their existing SEM Letters of Credit (LOC’s) and/or cash collateral accounts (with amendments needing to be submitted to the LOC wording) to cover both the SEM and I-SEM collateral requirements 2. submission of new Deeds of Charge and associated documentation to make them applicable to both SEM and I-SEM 3. Provide written confirmation of the linkage between the SEM and I-SEM Participants to ensure that Posted Credit Cover is accounted for correctly between the two, and they are not then treated as separate participants and need to maintain separate (and therefore duplicate) Posted Credit Cover. 4. Monitor their Required Credit Cover in both SEM and I-SEM during the Transitional Period to ensure they comply with credit cover requirments under both sets of arrangements   The proposed approach will require a number of activities to be performed by Participants, SEMO, and the SEM Bank in order to ensure credit cover requirements are met.  **Calculation of I-SEM Initial Credit Cover Requirements**  SEMO must calculate and provide each Participant with their Initial Credit Cover Requirement (ICCR) well ahead of I-SEM go-live to ensure Participants have sufficient time to consider whether they need additional credit cover facilities in place and to organize such a facility.  While there are rules for classifying Participants as ‘New’ or ‘Adjusted’ Participants under the TSC Part B (I-SEM), in order to calculate ICCR the equations are reliant on the existence of historical Imbalance Prices to determine the applicable Credit Assessment Price. Because there is no historical basis for the Imbalance Price a methodology for determining the initial Credit Assessment Price is needed.  **Proposed Approach**  The proposed approach, with broad timelines indicated, is provided below.    **Appendix A** accompanying this Modification Proposal provides a more detailed draft of the timeline proposed for the activities related to the Transitional Credit Cover Provisions. This is provided as indicative only and is subject to confirmation with the SEM Bank and other parties involved. The intention is to include this timeline as part of the published Transitional Registration Plan in order to provide Participants with a clear indication of the timelines they need to adhere to.  **Modifications to make Credit Cover Requirements work during the Transitional Period**  The general approach is to classify all I-SEM Participants as ‘New’ for the purposes of calculation of ICCR and I-SEM credit cover during the transitional period, and to apply the relevant Part B credit calcuations. However there are some elements of the existing TSC that require amendment.    The following provides a description of the elements of the proposal that look to make interim amendments to the existing TSC rules to make them implementable as Transitional Credit Cover Provisions.  These elements include:   * A methodology for determination and application of the Credit Assessment Price * A methodology for determination and use of Forecast Volumes * A procedure for the accounting of participant collateral as relating to the SEM or I-SEM   ***Methodology for Determination and Application of Credit Assessment Prices***  There will be no historical Imbalance Prices to use for the determination of the Credit Assessment Price, although all other inputs to the Credit Assessment Price should be known by February 2018.  Calculation of a forecast Imbalance Price is an extremely subjective topic and one that could be debated for many months or years. However, the proposal applies a pragmatic approach which utilises the existing SEM Shadow Price information as a basis for the calculation of forecast Imbalance Prices. This is based on the premise that Shadow Prices could be considered a de facto for the price in the I-SEM balancing market as they are both reflective of the marginal incremental cost of generation.  The methodology is described below and entails using historical Shadow Prices to forecast Imbalance Prices from the I-SEM Cutover Time, then applying the standard methodology in the TSC (G.14.2.3 through G.14.2.6) to determine a Credit Assessment Price and a Combined Credit Assessment Price (CCAP).The Credit Assessment Prices is then fixed and applied for the first 100 days of the I-SEM to provide stability and certainty to Participants on their credit cover requirements. The specific steps are:   1. Calculate previous SEM financial year’s (Oct 2016 to Sept2017) and the current SEM financial year’s (up to the 14 weeks prior to the Cutover Time) daily average historical Shadow Prices 2. Calculate the ratio, for each day, in the current SEM financial year that we have a daily average Shadow Price (i.e., cutover – 14 weeks), relative to the same day in the previous calendar year 3. Calculate a single average of all the daily ratios calculated in the current SEM financial year. 4. Based on this obtain a forecast daily average Shadow Price for each day from 14 weeks prior to the Cutover Time up to Cutover Time using the relevant previous calendar years daily average Shadow Prices mulitipled by the single average daily ratio. 5. Set the Daily Average Imbalance Prices that are used for calculation of the Credit Assessment Price equal to the values determined in step 1 for the current SEM financial year until the date 14 weeks before the Cutover Time. 6. Set the Daily Average Imbalance Prices that are used for calculation of the Credit Assessment Price equal to the values calculated in step 4 for the current calendar year from 14 weeks prior to the Cutover Time until the Cutover Time. 7. Use the set Daily Average Imbalance Prices to determine a fixed Credit Assessment Price for the first 100 days of ISEM based on G 14.2.2 to G 14.2.5.   ***Methodology for Determination of Forecast Volumes***  Given the nature of the I-SEM design the use of historical volumes for the determination of ICCR is not practical or appropriate. For example, I-SEM Generator standard credit cover calculations for the future exposure are based on historical ‘daily amounts’. These relate to the SEM where all volumes are going through the Ex-Post market. However, for the I-SEM the volumes going through the TSC settlement will only be for imbalance settlement. Hence reliance on the ‘daily amounts’ from the SEM is not appropriate.  Therefore, it is appropriate for simplicity, transparency and efficiency to classify all units as ‘new’ for the I-SEM and request forecast Imbalance and Metered Demand volumes from Participants for their Generators and Suppliers respectively. These volumes will then be used for calculation of the ICCR and also for the initial period of the I-SEM until sufficient (100 days) historical information is available to apply the Standard Participant approach  Consideration as part of the use of forecast volumes was given to including Code amendments to give SEMO powers to reject forecast volumes and stop a Participant becoming effective under Part B of the Code, if SEMO believed the forecast volumes were not representative. This has not been included in the amendment for the following reasons:   * The general principle of the Code and SEMO’s role as administrator, is that SEMO do no make subjective decisions but administer the Code through objective and defined rules. * Participants are better placed to estimate their imbalance forecast volumes as SEMO is not party to the Participants intended trading strategies between the Ex-Ante and Balancing Market. * The existing process of receiving forecasts for new Participants has worked without issue in the 10 years of operation of the SEM. With the use of informal guidance in the submission of forecast being appropriate. * Any subjective SEMO decision making power would require similar review and dispute processes to those defined for qualification under the Capacity Market Code. These processes are seen as onerous and inappropriate for the transitional circumstances * If SEMO believe that forecasts are intrinsically wrong this could be raised with the Market Monitor for investigation as non-compliance by a Participant with the Code. * Self regulation will occur with Participants subject to Credit Cover Increase Notices, which they will need to comply with within 2 working days, once actual exposures begin to become part of the credit reports.   ***Procedure for Accounting for Collateral in SEM or I-SEM***  To aid in the efficient use and transition of collateral from the SEM to I-SEM arrangements, SEMO are proposing to provide an interim facility to account for collateral held in LOC’s or cash collateral as SEM or I-SEM related, without the need for it be held as a separate LOC or in separate cash collateral account.  Participants would need to provide a formal written instruction to SEMO that they wish to avail of the interim facility and confirm the correct linkage between the SEM and I-SEM particpiants that it should apply to.  There are in excess of 150 cash collateral accounts in the SEM at present. However, approximately 40 of these relate to Suppliers who are most likely to have excess cash collateral once the SEM starts to wind down. Generator only Participants are not expected to be able to avail of this facility to the same degree as they will only have posted the Fixed Credit Requirement (FCR) for the SEM which would still need to be held in place for 13 months after the I-SEM Cutover Time. However, Generator I-SEM credit cover requirements are expected to be low due to a) they are generally creditors b) FCR requirements being amended for the I-SEM for the first four months from the Cutover Time (see later description)  Given the numbers involved, SEMO are proposing to include interim arrangements for the 2 weeks either side of the I-SEM Cutover Time where weekly batches of accouting transfers between the SEM and I-SEM are processed. These transfers would occur (based on a 23rd May 2018 Cutover Time) as the evening of the 22nd May, evening of the 23rd May, evening of the 30th May and evening of the 6th June. The accounting transfers would be based on a predefined formula to determine the amount to transfer. The formula would be:  *Amount to Transfer from SEM to I-SEM = SEM Posted Credit Cover less (FCR + Actual Exposure + Traded Exposure).*    The Participant would have to previously provided written instructions to transfer Excess Posted Credit Cover from SEM to I-SEM.  To make this process more manageable, refunds of collateral or monetary reductions in LOC’s, for the 2 weeks either side of the I-SEM Cutover Time, woud be restricted to avoid risks of errors or under collateralisation of a market during this critical period.  **Plain English Summary of Modification Legal Drafting**  The following provides a summary of the modifications needed to the TSC to accommodate the proposed Transitional Credit Cover Provisions. Detailed drafting of the legal wording of the TSC is provided in the next section.  The changes relate to TSC Part C Transitional Arrangements.  The identified changes are:   1. Maintaining SEM Undefined Exposure Period (UDE) until the I-SEM Cutover Time, then a allocation of the collateral which is no longer needed for this UDE to the I-SEM (for those that have provided written instructions to the Market Operator) 2. The last Energy Week and Capacity Month to end on the day before the I-SEM Cutover Time, with invoicing and payments for these performed based on the settlement calendar defined timings. 3. Provision to use the same calculation of ICCR as is used for ‘new’ Participants to make it explicit that Participants that are joining the I-SEM arrangement will be classified as ‘new’. 4. Define 16 weeks before I-SEM Cutover Time as the date that Participants must provide forecast volumes for use in the ICCR. 5. Define 12 weeks before I-SEM Cutover Time as the date SEMO will aim to publish ICCR, assuming all inputs e.g. relevant charges are approved etc. 6. Define 8 weeks before I-SEM Cutover Time as the date Participants must have Deeds of Charge, Letter of Credit amendments and formal written instruction for interim facility provided to cover I-SEM TSC requirements 7. Clause to say if Participants have not:    1. provided a formal written instruction to SEMO that they wish to avail of the interim facility and have not confirmed the correct linkage between the SEM and I-SEM particpiants    2. provided the relevant deeds of charge on collateral accounts to cover both the SEM and I-SEM    3. amended relevant LOC’s to cover both the SEM and I-SEM (or put in a combination of SEM and I-SEM LOC’s to cover their liabilities)   then the SEM and I-SEM Participants will be treated as separate and distinct and the interim facility for accounting for collateral for the SEM and I-SEM will not apply. Each Participant must instead have their own separate collateral accounts, letters of credit, and the I-SEM Participant will have to have collateral in place 10WD before the Cutover Time [meaning a duplication of collateral to cover the SEM and I-SEM Particpiants]   1. That new Deeds of Charge are required to secure Cash Collateral Accounts for the I-SEM and that these new Deeds of Charge and related Security documentation must have been approved by the deadline stipulated under item 6 above. 2. Methodology for calculation of initial Credit Assessment Price given lack of historical Imbalance Prices 3. FCR maintained for SEM Participants until after the last M+4 invoices are paid, then FCR halved in SEM and at the same time FCR in the I-SEM FCR applied (at half approved I-SEM FCR values). 4. FCR set to zero in SEM once last M+13 or ad-hoc resettlement(which ever is the later) has invoices paid. FCR increased in the I-SEM to approved I-SEM FCR values at the same time. 5. For an interim period from the I-SEM Cutover Time until the day of the last SEM initial settlement payments the Market Operator will perform reallocations of collateral between the SEM and I-SEM. These reallocations would occur (based on a 23rd May 2018 Cutover Time) as the evening of the 22nd May, evening of the 23rd May, evening of the 30th May and evening of the 6th June. With application of these accounting reallocations in the following days SEM and I-SEM credit reports. 6. The accounting reallocations would be based on a predefined formula to determine the amount to transfer. The formula would be: Amount to Transfer from SEM to I-SEM = SEM Posted Credit Cover less (FCR + Actual Exposure + Traded Exposure). 7. Any deposits of cash collateral or amendments that increase LOC values will have the increased value allocated to the I-SEM Participant unless confirmed via email to SEMO that the deposit should be assigned to the SEM Participant. 8. The Participants involved must have provided prior to this, and in line with the deadline stipulated in item 6 above , written instructions to transfer Excess Posted Credit Cover from SEM to I-SEM. 9. Refunds of cash collateral or monetary reductions in LOC’s will not be allowed for the 2 weeks either side of the I-SEM Cutover Time to minimize risks and workload during the transition. 10. Where a default and Shortfall arises under a SEM/I-SEM Participant, and the related I-SEM/SEM Participant has Excess Collateral, based on the latest credit cover report, the Market Operator will use this Excess Collateral to cover the Shortfall, or the proportion of the Shortfall that the excess collateral can cover. 11. Participant will receive separate credit report and Credit Cover Increase Notice (if applicable) for each of the SEM and I-SEM. 12. Where a SEM/I-SEM Participant receives a Credit Cover Increase Notice, through the relevant Authorised Person for Collateral Refunds, they may request the Market Operator to transfer any amount up to the Excess Collateral of the related I-SEM/SEM Participant to SEM/I-SEM Participant to cover part or all of the Credit Cover Increase Notice. | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| Refer to separate legal drafting document ”[MOD 06\_17\_Part\_C\_Legal\_Text version 3](http://www.sem-o.com/Publications/General/MOD_06_17_Part_C_Legal_Text%20v3.docx)” and Deed drafting “[MOD\_06\_17\_Part\_C\_Appendix\_B](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/MOD_06_17_Part_C_Appendix_B.docx)” | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| **Why is the Modification being raised?**  With the focus on the completion and approval of the main body of the TSC Part B (I-SEM arrangements) combined with, at the time, a lack of clarity on the transitional arrangements for credit cover, there is limited detail provided in the TSC on how SEM credit cover requirements will be managed during the transition from the TSC Part A (SEM) to TSC Part B (I-SEM) arrangements.  There are certain elements of the enduring TSC that do not provide for the efficient transition of collateral requirements from the SEM to the I-SEM. For example, if enduring TSC rules were followed there would be a duplication of the collateral requirements and the need for separate cash collateral accounts and Letters of Credit to be setup for SEM and I-SEM Participants.  In addition, there are certain elements of the enduring TSC that do not cater for the initial start of the I-SEM arrangements when certain information may not be available. For example, use of historical Imbalance Prices for the calculation of the Credit Assessment Price.  Participants have also become increasingly interested in what the Transitional Credit Cover Provisions are going to be in order to allow planning, preparation and compliance with the requirements.  This modification provides a proposal to clarify the timelines, activities, methodologies and credit cover calculations over the transitional period. | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
| This Modification proposal aims to further the Code Objectives under the T&SC , specifically the elements shown in bold below.  (1) to **facilitate the efficient discharge** by the Market Operator of the obligations  imposed upon it by its Market Operator Licences;  (2) to **facilitate the efficient, economic and coordinated operation**, administration  and development of the Single Electricity Market **in a financially secure**  **manner;**  (5) to **provide transparency in the operation** of the Single Electricity Market; | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| The implications of not implementing transitional arrangements include:   1. Participants will need to maintain SEM collateral at levels higher than what is actually needed 2. The I-SEM may not be collateralized appropriately (given Credit Assessment Prices will not be able to be calculated as historical Imbalance Prices are not available) leading to increased risks of bad debt to Participants 3. Participants having limited time to put in place Initial Credit Cover Requirements for the I-SEM arrangements | | | | | |
| **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.)* | | |
| In order to provide clarity and certainty to Participants about the Transitional Credit Cover Provisions, and allow sufficient time for Participants to prepare financing and account setups, it is proposed that the focus be on using this proposal as a basis for the final modification. As such, we suggest that any amendments made to the proposal should be done via direct interaction at the Modifications Committee, rather than progressing via a separate working group which may take considerably more time and effort. | | | Based on the proposal, there may be impacts during the transitional period requirements around managing collateral, requesting and processing refunds or transfer. Although some of these may appear as negative impacts, the alternative options are less palatable.  Impacts include:   * SEMO and Participant Transitional Credit Cover processes and procedures, as application of these in the credit systems will need defining and testing prior to use. * SEMO will require ~ 1 additional person for 2 months before the Cutover Time through to ~ 1 month after the I-SEM Cutover Time to prepare the relevant processes and procedures for managing the Transitional Credit Cover Provisions and to administer the additional tasks realted to the same. | | |
| ***Please return this form to Secretariat by email to*** [***modifications@sem-o.com***](mailto:modifications@sem-o.com) | | | | | |