

An Coimisiún
um Rialáil Fóntas
Commission for
Regulation of Utilities



Trading and Settlement Code Modifications Committee
C/O Esther Touhey
SEMO Modifications Committee Secretariat
The Oval
160 Shelbourne Rd
Dublin 4

22 February 2017

Our Ref: D/18/2994

SEM Committee Decision for the Regulatory Authorities in relation to Mod_06_17 (Final Recommendation Report FRR_06_17)

Dear Esther

On 5 October 2017, the Market Operator submitted Modification_06_17. The purpose of the proposal is to provide a workable solution to how credit cover will be managed during the transition from the current Gross Mandatory Pool market set out in Part A of the Trading and Settlement Code (“the Code”) to the revised SEM arrangements set out in Part B of the Code.

The proposal aims to ensure that:

- appropriate levels of credit cover are maintained in line with the collateralisation principles of the SEM;
- practical and plausible implementation of the transitional arrangements is achieved given the timelines, effort and legal considerations; and,
- 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 also aimed to avoid the scenario where excessive collateral was retained under Part A of the Code in the post Go Live period.

The Regulatory Authorities note that a presentation was made to the Modification Committee meeting on 19 October 2017 where the reasoning for the proposal was explained, and proposed changes to the Code were set out in detail. The presenter explained the timelines, activities, methodologies and credit cover calculations for this transition. The Modification was discussed

again at the subsequent meeting on 21 November 2017, where responses to a number of queries that arose at the previous meeting were provided by the proposer.

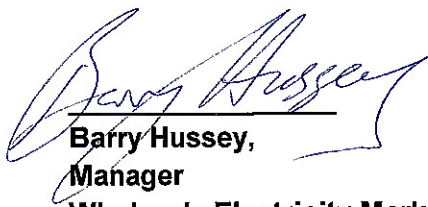
The Regulatory Authorities note that the Members of the Modifications Committee were unanimous in their view that the Modification Proposal would better facilitate the achievement of the Code Objectives to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner.

In reviewing the legal drafting accompanying the FRR, the Regulatory Authorities have noted a number of minor drafting issues. The Regulatory Authorities are of the view that it would be preferable that such drafting issues are identified and resolved between proposer and Members of the Committee prior to submission to the SEM Committee for decision. Notwithstanding this, the Regulatory Authorities agree with the Modifications Committee that the Modification furthers the objectives of the Code and should be made.

Considering the above, the SEM Committee directs that, broadly in line with the recommendation of the Modifications Committee in FRR_06_17, the Modification Proposal Mod_06_17 should be made and should be implemented on a Trading Day basis two Working Days after the date of this letter.

The version of the Modification to be made is that set out in the Appendix to this letter.

Yours sincerely,



Barry Hussey,
Manager
Wholesale Electricity Markets

APPENDIX A – Part C Section 11 – Credit Cover

11 CREDIT COVER

11.1 Forecast Volumes

11.1.1 Each Part B Participant shall provide the Market Operator with an estimate of its forecast demand in respect of its Supplier Units or forecast imbalance volumes in respect of its Generator Units under Part B for a period equal to the Historical Assessment Period by as far as possible not later than 16 weeks prior to the Cutover Time.

11.2 Transitional Required Credit Cover

11.2.1 For the purposes of credit cover monitoring and calculation under Part B from the Cutover Time until the expiration of a period equal to the Historical Assessment Period after the Cutover Time, all Part B Participants shall be treated for the purposes of this Part C as New Participants at the Cutover Time and the calculation of Transitional Required Credit Cover will be carried out on this basis.

11.2.2 The Market Operator shall calculate the Transitional Required Credit Cover for each Part B Participant utilising:

- (a) the estimates of forecast (as applicable) demand or imbalance volumes provided by Participants to the Market Operator in accordance with paragraph 11.1.1; and
- (b) the Transitional Credit Assessment Price determined in accordance with paragraph 11.3.1.

11.2.3 The Market Operator shall send each Part B Participant details, by email, of their initial Transitional Required Credit Cover no later than 12 weeks prior to the Cutover Time, provided that (and without prejudice to its right to do so after the Cutover Time in accordance with the Code):

- (a) the Market Operator may by notice to the relevant Part B Participant, revise such initial Transitional Required Credit Cover up to 14 Working Days prior to the Cutover Time; and
- (b) notwithstanding paragraphs G.16.3.2 and G.16.3.3 of Part B, the initial Transitional Required Credit Cover shall not take into account any Settlement Reallocation Agreement unless this has been registered by the Market Operator no later than 16 weeks prior to the Cutover Time.

11.2.4 The Market Operator shall utilize the Annual Capacity Charge Exchange Rate approved by the Regulatory Authorities for the purposes of section F.19.1 of Part B between euro (€) and pounds sterling (£) at least 16 weeks prior to the Cutover Time to calculate the initial Transitional Required Credit Cover or any revised initial Transitional Credit Cover, for any Participant using pounds sterling as their Settlement currency.

11.3 Calculation of Transitional Credit Assessment Price

11.3.1 The Market Operator shall determine a Transitional Credit Assessment Price for use until a full set of Imbalance Settlement Prices is available, from the Cutover Time for a period equivalent to the Historical Assessment Period.

11.3.2 The Market Operator shall calculate the Daily Average Shadow Price (PDAS_d) for each Settlement Day *d* in the Previous Year and for each Settlement Day in the Current Year up to 14 weeks prior to the Cutover Time as follows:

$$PDAS_d = \frac{\sum_{h \text{ in } d} SP_h}{\text{count}(SP_h : \overset{\forall}{h \text{ in } d})}$$

where:

- (a) SP_h is the Shadow Price in Trading Period h , as determined in accordance with Appendix N.16 of Part A;
- (b) $\sum_{h \text{ in } d}$ is a summation over all Trading Periods h in Settlement Day d ; and
- (c) $\text{count}(SP_h : \overset{\forall}{h \text{ in } d})$ is the number of all Shadow Prices in each Settlement Day d .

11.3.3 The Market Operator shall calculate the Ratio of Daily Average Shadow Price (RPDAS_d) for each Settlement Day in the Current Year relative to the same Settlement Day in the Previous Year, up to 14 weeks prior to the Cutover Time as follows:

$$RPDAS_d = \frac{PDAS_d}{PDAS_{d-365}}$$

where:

- (a) $PDAS_d$ is the Daily Average Shadow Price for each Settlement Day in the Current Year up to 14 weeks prior to the Cutover Time; and
- (b) $PDAS_{d-365}$ is the Daily Average Shadow Price for the corresponding Settlement Day in the Previous Year.

11.3.4 The Market Operator shall calculate the Average Ratio of Daily Average Shadow Price (RAPDAS) as follows:

$$RAPDAS = \frac{\sum_{d \text{ in } y} RPDAS_d}{\text{count}(RPDAS_d : \overset{\forall}{d \text{ in } y})}$$

where:

- (a) $RPDAS_d$ is the Ratio of Daily Average Shadow Price for each Settlement Day in the Current Year up to 14 weeks prior to the Cutover Time;
- (b) $\sum_{d \text{ in } y}$ is a summation over all Settlement Days d in the Current Year y up to 14 weeks prior to the Cutover Time and
- (c) $\text{count}(RPDAS_d : \overset{\forall}{d \text{ in } y})$ is the number of all Ratios of Daily Average Shadow Price in each Settlement Day d in the Current Year y up to 14 weeks prior to the Cutover Time.

- 11.3.5 The Market Operator shall calculate the Extrapolated Daily Average Shadow Price ($PDASE_d$) for each Settlement Day in the Current Year from 14 weeks prior to the Cutover Time to the Cutover Time as follows:

$$PDASE_d = PDAS_{d-365} \times RAPDAS$$

where:

- (a) $PDAS_{d-365}$ is the Daily Average Shadow Price for the corresponding Settlement Day in the Previous Year ; and
 - (b) $RAPDAS$ is the Average Ratio of Daily Average Shadow Price.
- 11.3.6 The Market Operator shall determine that the Daily Average Imbalance Settlement Price ($DAPIMB_d$) for each Settlement Day d in the Current Year up to 14 weeks prior to the Cutover Time as follows:

$$DAPIMB_d = PDAS_d$$

where:

- (a) $PDAS_d$ is the Daily Average Shadow Price for the Settlement Day d determined in accordance with paragraph 11.3.2 above.
- 11.3.7 The Market Operator shall determine that the Daily Average Imbalance Settlement Price ($DAPIMB_d$) for each Settlement Day d in the Current Year from 14 weeks prior to the Cutover Time until the Cutover Time as follows:

$$DAPIMB_d = PDASE_d$$

where:

- (a) $PDASE_d$ is the Extrapolated Daily Average Shadow Price for the Settlement Day d determined in accordance with paragraph 11.3.5 above.
- 11.3.8 The Market Operator shall calculate Transitional Credit Assessment Price in accordance with paragraphs G.14.2.2 to G.14.2.5 of Part B as if "PCAg" was the Transitional Credit Assessment Price.

11.4 Calculation of Fixed Credit Requirement

- 11.4.1 The Fixed Credit Requirement under Part A in respect of a Part A Participant which is subject to an approved Interim Transfer Facility shall:

- (a) remain at the level it was immediately before the Cutover Time (in this paragraph 11.4.1, called the "**current level**") until after the adjusted invoices resulting from the last Billing Period +4 months and Capacity Period +4 months Timetabled Settlement Rerun in accordance with paragraphs 6.70 and 6.71 of Part A have been paid in full; and then
- (b) be equal to half the current level until after the adjusted invoices resulting from the later to occur of:

- (i) the last Billing Period +13 months and Capacity Period +13 months Timetabled Settlement Rerun in accordance with paragraphs 6.70 and 6.71 of Part A ; and
 - (ii) the last Settlement Query raised under paragraph 6.101 of Part A ,
have been paid in full; and then
 - (c) be zero.
- 11.4.2 Where a Part B Participant is subject to an approved Interim Transfer Facility, the Fixed Credit Requirement under Part B in respect of that Part B Participant shall:
- (a) be zero until after the adjusted invoices resulting from the last Billing Period +4 months and Capacity Period +4 months Timetabled Settlement Rerun in accordance with paragraphs 6.70 and 6.71 of Part A have been paid in full; and then
 - (b) be equal to half the value approved by the Regulatory Authorities for the purposes of section G.10 of Part B until after the adjusted invoices resulting from the later to occur of:
 - (i) the last Billing Period +13 months and Capacity Period +13 months Timetabled Settlement Rerun in accordance with paragraphs 6.70 and 6.71 of Part A; and
 - (ii) the last Settlement Query raised under paragraph 6.101 of Part A,
have been paid in full; and then
 - (c) be equal to the full value approved by the Regulatory Authorities for the purposes of section G.10 of Part B.
- 11.4.3 For the avoidance of doubt, paragraphs 11.4.1 and 11.4.2 do not apply to a Participant that is not subject to an approved Interim Transfer Facility and, accordingly, such a Participant must post its full Fixed Credit Requirement as required and calculated in accordance with each of Part A and Part B separately.
- 11.4.4 The Market Operator shall notify Part A and Part B Participants that are each subject to the same approved Interim Transfer Facility when there is a change to the Fixed Credit Requirement for the purposes of Part A or Part B under this section 11.4.
- 11.4.5 In this section 11.4, the expression "Timetabled Settlement Rerun" has the meaning given in Part A.
- 11.4.6 In this section 11, where a Part A Participant or a Part B Participant is subject to an approved Interim Transfer Facility, a reference to (as applicable) the "**corresponding Participant**", the "**corresponding Part A Participant**" or the "**corresponding Part B Participant**", is to the other (as applicable) Part A Participant or Part B Participant that is subject to the same approved Interim Transfer Facility.
- 11.5 Transfer of Posted Credit Cover Facility**
- 11.5.1 Any Party that is both a Part A Participant and a Part B Participant, may apply to the Market Operator for the Part A Participant and Part B Participant to be approved as subject to an Interim Transfer Facility, by not later than 8 weeks prior to the Cutover Time.
- 11.5.2 An application to be made by a Party under paragraph 11.5.1 shall be accompanied by the following documentation (in each case, in the form and within the timeframe specified by the Market Operator and, to the extent applicable, to be duly executed in the manner as may be specified by the Market Operator):

- (a) written confirmation of the Part A Participant and the Part B Participant that they wish to be subject to an Interim Transfer Facility;
 - (b) details and authorisations from both the Part A Participant and the Part B Participant that will be subject to the Interim Transfer Facility;
 - (c) (as applicable) duly executed Deed of Charge and Account Security and Notices of Assignment and Acknowledgement (in each case in the form of the Standard Deed of Charge and Account Security and Notices of Assignment and Acknowledgement in Part C Appendix B) in relation to any SEM Collateral Reserve Account maintained in respect of the Part B Participant as part of its Required Credit Cover under Part B;
 - (d) (as applicable) the submission of a Letter(s) of Credit by the Part A Participant which has been amended to also cover obligations under Part B and which can enter into full force and effect (subject only to any approval or confirmation as may be specified by the Market Operator having been obtained by such Part A Participant), or the submission of a Letter(s) of Credit by the Part B Participant as part of its Required Credit Cover (in the form of the Standard Letter of Credit Template in Part C Appendix A) and which can enter into full force and effect (subject only to any approval or confirmation as may be specified by the Market Operator having been obtained by such Part B Participant); and
 - (e) such other documents and information as the Market Operator may reasonably require.
- 11.5.3 If the Market Operator is satisfied that the documentation provided under paragraph 11.5.2 in respect of a Part A Participant and Part B Participant is complete and effective, then it shall approve the Interim Transfer Facility and notify the applicant.
- 11.5.4 For the avoidance of doubt, any Part A Participant or Part B Participant that does not have an approved Interim Transfer Facility will be treated as a separate and distinct Participant and each Part A Participant and each Part B Participant shall be required to maintain its own separate Posted Credit Cover for the purpose of its Required Credit Cover under (as applicable) Part A or Part B, and any such Part B Participant shall be required to have its Posted Credit Cover in place 10 Working Days before the Cutover Time.
- 11.6 Last Billing Cycles for Part A of the Code**
- 11.6.1 The last Billing Period for the purposes of paragraph 6.41 of Part A shall end at the Cutover Time. Invoicing and payment cycles shall be scheduled for the last Billing Period based on the Settlement Calendar (within the meaning of Part A).
- 11.6.2 The last Capacity Period for the purposes of paragraph 6.44 of Part A shall end at the Cutover Time. Invoicing and payment cycles shall be scheduled for the last Capacity Period based on the Settlement Calendar (within the meaning of Part A).
- 11.7 Credit Reports Undefined Exposure for Part A**
- 11.7.1 After the Cutover Time, when calculating and recalculating the Required Credit Cover of Part A Participants under Part A, the Market Operator shall set their Undefined Potential Exposure (within the meaning of Part A) to zero.
- 11.8 Credit Reports**
- For the avoidance of doubt, from the Cutover Time until after the end of the period defined in paragraph 11.4.1 (b), the Market Operator:

- (a) shall continue to send Part A Credit Reports to Part A Participants in accordance with paragraphs 6.177 and 6.177A of Part A;
- (b) may issue a Credit Cover Increase Notice (within the meaning of Part A) in accordance with paragraph 6.179 of Part A;
- (c) shall also provide Part B Required Credit Cover Reports to Part B Participants under paragraph G.12.1.2 of Part B; and
- (d) a Part B Required Credit Cover Report may contain a Credit Cover Increase Notice (within the meaning of Part B) in accordance with paragraph G.12.1.2(b) of Part B .

11.9 Reallocation of Collateral

11.9.1 In the case of each approved Interim Transfer Facility, the Market Operator shall calculate and reallocate Posted Credit Cover from a Part A Participant that is the subject of the Interim Transfer Facility to the corresponding Part B Participant in accordance with this section 11.9. Posted Credit Cover that has been reallocated under this section shall be regarded as having been provided by the corresponding Part B Participant under, and in accordance with, Chapter G of Part B.

11.9.2 The reallocated amounts shall be calculated at the following times and shall be reflected in the Part B Credit Reports provided by the Market Operator the following Working Day:

- (a) after the last Part A Credit Report has been published prior to the Cutover Time; and
- (b) in respect of each Billing Period or Capacity Period [in each case] (within the meaning of Part A), after the end of day on which all payments have been received for the Billing Period or Capacity Period under Part A.

11.9.3 The Market Operator shall determine the amount to be reallocated based on the latest Part A Credit Report as follows:

$$TPCCA = PCC_{pr} - (TFCR_{pr} + ASE_{pf} + AGE_{pf} + IUTE_{pr})$$

where:

- (a) TPCCA is the amount of Posted Credit Cover being reallocated from the Part A Participant to the corresponding Part B Participant;
- (b) PCC_{pr} is the Posted Credit Cover for Part A Participant p in Settlement Risk Period r (within the meaning of Part A);
- (c) TFCR_{pr} is the Total Fixed Credit Requirement (within the meaning of Part A) determined in accordance with paragraph 6.231A of Part A;
- (d) ASE_{pf} is the Actual Supplier Exposure for Participant p in respect of its Supplier Units (within the meaning of Part A) for the Actual Exposure Period (within the meaning of Part A) f determined in accordance with paragraph 6.186 of Part A;
- (e) AGE_{pf} is the Actual Generator Exposure (within the meaning of Part A) for Participant p in respect of its Generator Units (within the meaning of Part A) for the Actual Exposure Period (within the meaning of Part A) f determined in accordance with paragraph 6.187 of Part A; and

- (f) IUTEpr is the Interconnector Unit Traded Exposure (within the meaning of Part A) for Participant p in respect of its Interconnector Units (within the meaning of Part A) in Settlement Risk Period (within the meaning of Part A) r determined in accordance with paragraph 6.187A of Part A.
- 11.9.4 Without prejudice to paragraphs 2.317 to 2.327 (Limitation of Liability) of Part A and section B.21 (Limitation of Liability) of Part B, the Market Operator shall have no liability to any Participant (including any Participant in its capacity as a Part A Participant or a Part B Participant for any act or omission of the Market Operator relating to any approved Interim Transfer Facility, or in relation to the reallocation of Posted Credit Cover or Excess Collateral under this Part C and, without prejudice to the foregoing provisions of this paragraph 11.9.4, to the extent that any liability arises, each such Participant (including any Participant in its capacity as a Part A Participant or a Part B Participant hereby irrevocably waives any right to bring any claim, suit or proceedings against the Market Operator in respect of any such liability.
- 11.10 Refunds of Collateral**
- 11.10.1 A Participant shall not request refund of any Posted Credit Cover, whether it takes the form of a reduction in the value of letters of credit or refund of cash deposits during the period from 2 weeks before the Cutover Time until after the final initial settlement billing cycle under Part A has been completed.
- 11.11 Deposits of Collateral**
- 11.11.1 Where a Participant deposits cash collateral, increases a Letter of Credit, or registers a new Letter of Credit, the increased collateral will be allocated to the Part B Participant unless confirmed via email to the Market Operator that the deposit should be assigned to the Part A Participant.
- 11.12 Collateral Reallocations in the Case of Credit Cover Increase Notices**
- 11.12.1 With effect from the Cutover Time (and in the case of a Participant which is both a Part A Participant and a Part B Participant and which has been approved as subject to an Interim Transfer Facility and only to the extent the Posted Credit Cover secures/ or covers obligations under Part A and Part B):,
- (a) where a Part A Participant receives a Credit Cover Increase Notice (within the meaning of Part A), the relevant Authorised Requester of the corresponding Part B Participant, may request the Market Operator to reallocate any amount up to the Excess Collateral of the related Participant registered under Part B to the Participant registered under Part A to cover part or all of the Credit Cover Increase Notice.
- (b) where a Part B Participant receives a Credit Cover Increase Notice (within the meaning of Part B), the relevant Authorised Requester of the corresponding Part A Participant may request the Market Operator to reallocate any amount up to the Excess Collateral of the related Participant registered under Part A to the Participant registered under Part B to cover part or all of the Credit Cover Increase Notice.
- 11.12.2 Any such request under (as applicable) paragraph 11.12.1(a) or 11.12.1(b) shall be made to the Market Operator must be received using the collateral refund procedure described in the applicable Part A or Part B Agreed Procedure 9 "Management of Credit Cover and Credit Default" (depending on which Participant is making the request) and shall be submitted to the Market Operator within one Working Day of the Credit Cover Increase Notice being issued under (as applicable) Part A or Part B.

11.12.3 Where the latest available Credit Report considered by the Market Operator shows that the Participant has Excess Collateral in place the Market Operator may apply a reallocate of Posted Credit Cover from and to the relevant Part A and Part B Participant, based on the reallocation amount specified in the collateral refund request under (as applicable) paragraph 11.12.1(a)11.12.1 or 11.12.1(b) (in any such case up to the applicable amount of Excess Collateral).

11.13 Collateral in the Case of Shortfall

11.13.1 Where a Part A Participant has a Shortfall (within the meaning of Part A) under paragraph 6.51 of Part A, and the Shortfall is not completely covered by Posted Credit Cover of Participant A, and both of the following requirements have been met:

- (a) the Part A Participant is subject to an approved Interim Transfer Facility ; and
- (b) the corresponding Part B Participant has Excess Collateral based on the latest Part B Required Credit Cover Report provided to the Part B Participant by the Market Operator

then the Market Operator shall make a Credit Call on the Part B Participant's Posted Credit Cover (within the meaning of Part B) up to the amount required to satisfy the remaining Shortfall of the Part A Participant. (such amount not to exceed the Part B Excess Collateral).

11.13.2 Where a Part B Participant has a Shortfall (within the meaning of Part B) under section G.2.7 of Part B, and the Shortfall is not completely covered by Posted Credit Cover of Participant B, and both of the following requirements have been met:

- (a) the Part B Participant is subject to an approved Interim Transfer Facility; and
- (b) the corresponding Part A Participant has Excess Collateral based on the latest Part A Credit Report provided to the Part A Participant by the Market Operator (the "**Part A Excess Collateral**"),

then the Market Operator shall make a Credit Call on the Part A Participant's Posted Credit Cover (within the meaning of Part A) up to the amount required to satisfy the remaining Shortfall of the Part B Participant. (such amount not to exceed the Part A Excess Collateral).

11.13.3 Where under (as applicable) paragraph 11.13.1 or 11.13.2 the Market Operator makes a Credit Call on a Participant's Posted Credit Cover under the relevant Part of the Code, the Market Operator shall:

- (i) be entitled to draw down on the Participant's Letter of Credit or the SEM Collateral Reserve Account (where applicable) under that Part of the Code in whatever order, proportion or combination it decides; and
- (ii) as soon as reasonably practicable notify the Participant in writing, using a rapid means of communication such as email or facsimile, that it has made the Credit Call.

