

Single Electricity Market

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| Final REcommendation ReportMod\_13\_17 deferral of sem nemo credit reports and non-acceptance of contracted quantities 19 January 2018  |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 19 January 2018 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 |  | 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_13_17%20Deferral%20of%20SEM%20NEMO%20Credit%20Reports%20and%20Non-acceptance%20of%20Contracted%20Quantities.docx) |
| [Modification Proposal Version 2](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_13_17%20Deferral%20of%20SEM%20NEMO%20Credit%20Reports%20and%20Non-acceptance%20of%20Contracted%20Quantities%20Version%202.docx) |
| [Mods Panel 78 Mod\_13\_17 Contract Refusal Deferral](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mods%20Panel%2078%20-%20Mod_13_17%20Contract%20Refusal%20Deferral.pptx) |
| [Presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_13_17%20Deferral%20of%20SEM%20NEMO%20Credit%20Reports%20and%20Non-acceptance%20of%20Contracted%20Quantities%20Version%202.pptx) |

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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 |
| Kevin Hannafin | Generator Member | Approved |
| Clive Bowers | Generator Alternate | Approved |
| David Gascon | Generator Alternate | Approved |
| Brian Mongan | Generator Member | Approved |
| William Steele | Supplier Member | Approved |
| Julie-Anne Hannon | Supplier Member (Chair) | Approved |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on 7 November 2017.

This proposal aims to remove the obligation on SEMO to publish additional outage adjusted wind and solar forecast reports. These reports are now considered to be surplus to Market Operator requirements due to a change of approach in relation to the Aggregator of Last Resort (AOLR) solution, which originally required these publications, but no longer does. Also, the revised approach for I-SEM is that outage adjustments will be directly applied to existing four day rolling forecast reports.

The Modification Proposal was discussed and voted on at Meeting 78 on 12 December 2017.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

**Version 1 Justification**

The system functionality to deliver SEM NEMO Credit Reports and the Contract Refusal process cannot be developed in time to manage the refusal of Contracted Quantities from go live and although the potential for a manual workaround has been explored this is also not possible operationally. This is militated by the SEMOpx suspension and rules as detailed in the ‘Explanation of Proposed Change’ section.

The change to defer these processes is time limited and SEMO will seek to introduce them as part of the Day 2 Deployment to reduce the potential exposure of Participants to Bad Debt events. The vendor has indicated that seeking to deliver this functionality for go live would risk jeopardising the delivery of core market systems functionality for go live. As this is one of the more material deferrals required SEMO will treat this item as high priority for delivery as early as possible post go live.

**Version 2 Updates**

Version 2 of this proposal retains the SEM NEMO Credit Report obligations and defers only the Non-acceptance of Contracted Quantities. It also adds additional mitigations for the deferral and in an enduring sense by obliging SEM NEMOs not to notify Contracts to the Balancing Market Operator where a Suspension Order has been issued or where SEM NEMO Credit Reports indicate that a breach limit has been exceeded for an entire response period as enduring provisions.

This position, arrived at by seeking to introduce additional measures to address Committee Members concerns about the consequences of the first version of the proposal, represents the maximum extent to which SEMO can mitigate the non delivery of contract refusal functionality for I-SEM go live.

The justification as drafted for version 1 of this proposal still applies, albeit now only to contract refusal and not to SEM NEMO Credit Reports and with the addition of the mitigation measures detailed above.

SEMO would like to emphasize that it is still committed to prioritising the introduction of the deferred functionality at the earliest possible point post go live and we hope that the additional measures introduced in version 2 of this proposal provide adequate mitigation to ensure that the Committee are comfortable proceeding with this proposal.

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

**Version 1 Implications**

Not implementing this proposal would mean that the delivery of core market systems functionality for go live would be put at risk due to the requirement to deliver this less critical functionality.

**Version 2 Update**

In addition to the implications detailed in version 1, since version 2 also seeks to introduce additional enduring mitigations for exposures related to contract notification where a Party is subject to a suspension order and also add an obligation for SEM NEMOs not to notify contracts where the contract refusal trigger applies. Not implementing this proposal would mean that the additional enduring mitigations proposed would not be in place.

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

to facilitate the efficient discharge by the Market Operator of the obligations imposed upon it by its Market Operator Licences;

1. **Assessment of Alternatives**

N/A

# Working Group and/or Consultation

N/A

# impact on systems and resources

Without contract refusal in the Balancing Market, any ex-ante market operator may be indifferent to whether it notifies contracts that lead to imbalance liabilities that a failing Participant cannot pay for. If this occurs it may lead to the smearing of Bad Debt across Participants and without SEM NEMO Credit Reports, any SEM NEMO may not know whether the Ex-Ante contracts it is arranging will lead to this situation.

Note that, as detailed in the ‘Explanation of Proposed Change’ section, this scenario is well mitigated by the use of Suspensions in the Ex-Ante markets.

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting  **78 – 12 December 2017**

Proposer delivered a [presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mods%20Panel%2078%20-%20Mod_13_17%20Contract%20Refusal%20Deferral.pptx) summarising the requirement for this proposal. Proposer indicated that implementing this modification to defer this functionality to the Day 2 implementation impacts credit cover risk by one day only as rules relating to the failure to respond to a Credit Cover Increase Notice under the Code will apply. Discussion took place regarding the suspension process and communication of credit cover increase notices. Manual workarounds were also discussed. One potentially simple manual workaround relating to sending an email from SEMO to SEMOpx once SEMO becomes aware that a Response Period Duration for a party has expired and its credit cover hasn’t been fixed, will be considered further by SEMO.

Implications for the SEMOpx market were also raised. It was reiterated that this proposal is a deferral and will be implemented as soon as possible after go-live. It was suggested that consideration be given to placing an obligation on SEM NEMOs not to submit contracts when participants were subject to a suspension order.

Committee sought further clarifications on this matter with a view to then vote at Meeting 79 in January.

Decision

The proposal was Deferred.

**Actions :**

* Proposer to review Agreed Procedure 9 to clarify process and ensure that process is explicit- **Open**.
* Proposer to explore if simple workaround process discussed is viable option - Open.
* Consider if it is appropriate to include an obligation on SEM NEMOs not to submit contracts when participants are subject to a suspension order.

## Meeting  **79 – 25 January 2018**

Proposer summarised the requirement for this proposal. Proposer addressed the outstanding actions in detail noting that a new proposal had also been raised to codify an obligation on the Market Operator to notify SEM NEMOs whenever a Suspension Order had been issued. It was advised that a manual workaround to provide SEM NEMO Credit Reports appears viable and will be confirmed once process development and testing have been completed. Questions were raised in relation to when the workaround would be finally confirmed and what it entailed. It was advised that this should be confirmed at the February Committee meeting and involved manual provision of the SEM NEMO Credit report to be issued via email. Proposer advised that they had considered whether it was appropriate to add a provision to require SEM NEMOs not to submit Ex Ante contracts where a Suspension Order has been issued or Contract Refusal triggers in relation to Credit Breaches occur and that they were happy to include this as an enduring provision in a second version of the proposal on the basis that it provides additional mitigation. Members wished to have final confirmation of the workaround and review a further version of this proposal with additional detail on this provision and the workaround prior to moving to a vote.

Decision

The proposal was Deferred.

**Actions :**

* Proposer to provide version 2.0 of this proposal - **Open**

# Proposed Legal Drafting

As set out in Appendix 1below.

#  LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification is implemented as the Modifications Committee have Recommended it for Approval. (ET to check settlement day following decision)

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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** |  | **Standard** | **Mod\_13\_17 V2** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Christopher Goodman** |  | **Christopher.Goodman@sem-o.com** |
| **Modification Proposal Title** |
| **Deferral of SEM NEMO Credit Reports and Non-acceptance of Contracted Quantities Version 2** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B****Agreed Procedures Part B****Glossary Part B** | **Part B clauses F.2.2.1, G.12.3, F.2.2.3, B.19.2.1, and H.9****Part B Agreed Procedure 09 section 2.5.2** **New Glossary Definition – Mod\_13\_17 Deployment Date** | **Version 20** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| **Version 1 Explanation**The system change required to deliver credit checking functionality involving the determination of SEM NEMO Credit Reports and subsequent Non-acceptance of Contracted Quantities cannot be incorporated into the market systems prior to go live. Discussions with the vendor have determined that to incorporate this functionality into the design would risk impacting the delivery of core functionality for go live. As a result, the system functionality to deliver this process will not be available for go live.The risks associated with this process not being in place at go live are partially mitigated by the following processes and market rules in relation to suspension and the fact that Participation under the Trading and Settlement Code is a requirement for exchange members to participate in the SEMOpx exchange;1. The Trading and Settlement Code requires SEM NEMOs (as informed parties) to be advised of when a suspension begins. This is achieved via the business process for suspensions which includes steps to inform SEMOpx that a suspension is under way.
2. Since participation under the Trading and Settlement Code is a requirement for exchange members participation in SEMOpx (and would be a requirement for any additional SEM NEMO), suspension under the Trading and Settlement Code would result in the relevant exchange member being in breach of the SEMOpx Rules and therefore being subject to suspension in the SEMOpx Ex Ante Markets. Any additional NEMO would be responsible for establishing similar rules and arrangements to allow for this, and would also be informed sufficiently to be able to enact such a process in the same way as with SEMOpx.
3. Once SEMOpx has been notified that suspension from the SEM applies, SEMOpx is obliged under its own rules to ensure that suspension from the SEMOpx Day-Ahead Market and Intra-Day Market is enacted. For SEMOpx, its vendor in relation to NEMO systems (i.e. EPEX) will be notified that suspension is to be enacted; that notification will be via an agreed business process.
4. Any other SEM NEMO would need to put in place similar market rules to ensure that units in their markets are valid under the Trading and Settlement Code.

Given the various rules governing suspensions as described above we note that there is some mitigation for not having the SEM NEMO Credit Report and Contract Refusal functionality in place at go live.**Version 2 Updates**On foot of Modifications Committee Discussions SEMO have investigated the possibility of fulfilling the obligations contained in section G.12.2 clause G.12.2.1 detailing the provision of SEM NEMO Credit Reports to SEM NEMOs via a simplified manual workaround. We have confirmed that this workaround is viable and have therefore removed the legal drafting which defers SEM NEMO Credit reporting functionality while retaining the legal drafting which defers the Contract Refusal functionality since this cannot be delivered for go live either via systems or via a manual process.Modifications Committee discussions also identified a desire to codify an obligation on SEM NEMOs not to notify Ex Ante Contracts to the Balancing Market where as Suspension Order has been issued or where the Credit Cover Ratio is equal to or exceeds the Breach Limit and this is not remedied within the Response Period. In simple terms this would require SEM NEMOs to not notify Contracts where a Participant is subject to a Suspension Order or where the SEM NEMO Credit Report indicates a breach limit being exceeded for the duration of a response period.The expectation is that this obligation on SEM NEMOs not to notify Contracts in these scenarios should endure as opposed to ceasing whenever the Non acceptance of Contracted Quantities comes into effect once the deferral period has ended.We have endeavoured to capture this in the updated legal drafting below and now submit this for the consideration of the Modifications Committee. Please note that the contract refusal nuances of accepting contracts where they would reduce the required credit cover in the balancing market and potentially accepting some contracts up to the breach limit where there are multiple contracts for a given period, as detailed in G.12.3.3, cannot be applied here to the obligation not to notify contracts. This means that the proposed obligation on SEM NEMOs as Scheduling Agents to not notify contracts for this credit breach scenario is marginally more severe than the contract refusal functionality and this should be taken into account when considering this proposal. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| **Part B Section F**F.2.2.1 Each Scheduling Agent for a Participant shall, in accordance with the Settlement Calendar, submit to the Market Operator details of the Contracted Quantities (the Day-ahead Trade Quantities and Intraday Trade Quantities, qTDAxuh, qTIDxuh, qTDAxvh and qTIDxvh), the durations relevant to the trades (Day-ahead Trade Duration and Intraday Trade Duration, DTDAx and DTIDx), and the prices relevant to those quantities (the Day-ahead Trade Price and Intraday Trade Price, PTDAxuh, PTIDxuh, PTDAxvh and PTIDxvh), for each Generator Unit, u, and each Supplier Unit, v, registered in respect of that Participant, for each Trade, x, in each Period, h, in this context meaning each Day-ahead Trading Period and each Intraday Trading Period (save where either paragraph F.2.2.1A or F.2.2.1B applies).F.2.2.1A Each Scheduling Agent for a Participant shall not submit to the Market Operator details of any Contracted Quantities, as contemplated by clause F.2.2.1, for any Participant registered under a Party for whom suspension is in effect under a Suspension.Order. F.2.2.1B Each Scheduling Agent for a Participant shall not submit to the Market Operator details of any Contracted Quantities, as contemplated by clause F.2.2.1, for any Participant whose Credit Cover Ratio has been equal to or exceeded the Breach Limit in every SEM NEMO Credit Report in a given Response Period.**Part B Section H**H.9 **Non-Acceptance of Contracted Quantities**H.9A Until the date that is the Mod\_13\_17 Deployment Date, B.19.2.1 shall be replaced with’“B.19.2.1 Where a Dispute concerns:* + - * 1. the application of the provisions of the Code relating to Credit Cover Requirements and action is being taken under section G.2.6 or G.12.1; or
				2. Intentionally Blank,

then: * + - * 1. the Disputing Party and the Market Operator shall negotiate in good faith and use reasonable endeavours to resolve the Dispute within 1 Working Day or otherwise as soon as is practicable; and
				2. unless the Disputing Party and the Market Operator agree a resolution to the Dispute:

within five Working Days of receipt of the Notice of Dispute; orwithin 10 Working Days, if the Disputing Parties agree to extend this time, the Disputing Party may refer the Dispute to a Dispute Resolution Board by issuing a Referral Notice as soon as practicable, and in any case within 5 Working Days of the expiry of the negotiating timelines set out in this paragraph B.19.2.1, otherwise the Dispute will be deemed to be withdrawn.H.9B Until the date that is the Mod\_13\_17 Deployment Date, F.2.2.3 shall be replaced with:  “F.2.2.3 Intentionally Blank”H.9C Until the date that is the Mod\_13\_17 Deployment Date, G.12.3 shall be replaced with:  “G.12.3 Intentionally Blank” H.9D Until the date that is the Mod\_13\_17 Deployment Date, G.12.3.1 shall be replaced with:  “G.12.3.1 Intentionally Blank”H.9E Until the date that is the Mod\_13\_17 Deployment Date, G.12.3.2 shall be replaced with:  “G.12.3.2 Intentionally Blank”H.9F Until the date that is the Mod\_13\_17 Deployment Date, G.12.3.3 shall be replaced with:  “G.12.3.3 Intentionally Blank”H.9G Until the date that is the Mod\_13\_17 Deployment Date, G.12.3.4 shall be replaced with:  “G.12.3.4 Intentionally Blank”H.9H Until the date that is the Mod\_13\_17 Deployment Date, Agreed Procedure 09 section 2.5.2 ‘Non-acceptance of Contracted Quantities’ shall be replaced with: “Each Scheduling Agent for a Participant shall submit to the Market Operator details of the Contracted Quantities in accordance with paragraph F.2.2.1 of the Code. ”.H.9I Until the date that is the Mod\_13\_17 Deployment Date, the Procedural Step details of Step 2 in Agreed Procedure 09 section 3.1 ‘Management of Credit Cover Requirements’ shall be replaced with;“In respect of any Participant the Market Operator shall accept Contracted Quantities for any Units submitted by the relevant Scheduling Agent under paragraph F.2.2.1 of the Code and update the Credit Assessment for that Participant as appropriate.”**Part B Glossary**

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| **Mod\_13\_17 Deployment Date** | means the date proposed by the Market Operator following discussion with the Modifications Committee, and approved by the Regulatory Authorities for the purpose of H.9, such date to be published on the Market Operator web site at least three Working Days in advance of the date concerned. |

 |
| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| **Version 1 Justification**The system functionality to deliver SEM NEMO Credit Reports and the Contract Refusal process cannot be developed in time to manage the refusal of Contracted Quantities from go live and although the potential for a manual workaround has been explored this is also not possible operationally. This is militated by the SEMOpx suspension and rules as detailed in the ‘Explanation of Proposed Change’ section.The change to defer these processes is time limited and SEMO will seek to introduce them as part of the Day 2 Deployment to reduce the potential exposure of Participants to Bad Debt events. The vendor has indicated that seeking to deliver this functionality for go live would risk jeopardising the delivery of core market systems functionality for go live. As this is one of the more material deferrals required SEMO will treat this item as high priority for delivery as early as possible post go live.**Version 2 Updates**Version 2 of this proposal retains the SEM NEMO Credit Report obligations and defers only the Non-acceptance of Contracted Quantities. It also adds additional mitigations for the deferral and in an enduring sense by obliging SEM NEMOs not to notify Contracts to the Balancing Market Operator where a Suspension Order has been issued or where SEM NEMO Credit Reports indicate that a breach limit has been exceeded for an entire response period as enduring provisions.This position, arrived at by seeking to introduce additional measures to address Committee Members concerns about the consequences of the first version of the proposal, represents the maximum extent to which SEMO can mitigate the non delivery of contract refusal functionality for I-SEM go live. The justification as drafted for version 1 of this proposal still applies, albeit now only to contract refusal and not to SEM NEMO Credit Reports and with the addition of the mitigation measures detailed above. SEMO would like to emphasize that it is still committed to prioritising the introduction of the deferred functionality at the earliest possible point post go live and we hope that the additional measures introduced in version 2 of this proposal provide adequate mitigation to ensure that the Committee are comfortable proceeding with this proposal. |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| to facilitate the efficient discharge by the Market Operator of the obligations imposed upon it by its Market Operator Licences;  |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| **Version 1 Implications**Not implementing this proposal would mean that the delivery of core market systems functionality for go live would be put at risk due to the requirement to deliver this less critical functionality.**Version 2 Update**In addition to the implications detailed in version 1, since version 2 also seeks to introduce additional enduring mitigations for exposures related to contract notification where a Party is subject to a suspension order and also add an obligation for SEM NEMOs not to notify contracts where the contract refusal trigger applies. Not implementing this proposal would mean that the additional enduring mitigations proposed would not be in place.  |
| **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.)* |
| Not Required | Without contract refusal in the Balancing Market, any ex-ante market operator may be indifferent to whether it notifies contracts that lead to imbalance liabilities that a failing Participant cannot pay for. If this occurs it may lead to the smearing of Bad Debt across Participants and without SEM NEMO Credit Reports, any SEM NEMO may not know whether the Ex-Ante contracts it is arranging will lead to this situation. Note that, as detailed in the ‘Explanation of Proposed Change’ section, this scenario is well mitigated by the use of Suspensions in the Ex-Ante markets. |
| ***Please return this form to Secretariat by email to*** ***modifications@sem-o.com*** |

**Notes on completing Modification Proposal Form:**

1. **If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.**
2. **Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Modifications Committee.**
3. **Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.**
4. **For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:**

**Agreed Procedure(s): means the detailed procedures to be followed by Parties in performing their obligations and functions under the Code as listed in either Part A or Part B Appendix D “List of Agreed Procedures”. The Proposer will need to specify whether the Agreed Procedure to modify refers to Part A, Part B or both.**

**T&SC / Code: means the Trading and Settlement Code for the Single Electricity Market. The Proposer will also need to specify whether all Part A, Part B, Part C of the Code or a subset of these, are affected by the proposed Modification;**

**Modification Proposal: means the proposal to modify the Code as set out in the attached form**

**Derivative Work: means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal**

**The terms “Market Operator”, “Modifications Committee” and “Regulatory Authorities” shall have the meanings assigned to those terms in the Code.**

**In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section 2 of Part A or Chapter B of Part B of the Code (and Part A Agreed Procedure 12 or Part B Agreed Procedure 12) , which I have read and understand, I agree as follows:**

**1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:**

* 1. **to the Market Operator and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;**
	2. **to the Regulatory Authorities, the Modifications Committee and each member of the Modifications Committee to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;**
	3. **to the Market Operator and the Regulatory Authorities to incorporate the Modification Proposal into the Code;**

**1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.**

**2. The licences set out in clause 1 shall equally apply to any Derivative Works.**

**3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.**

**4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.**

**5. I hereby acknowledge that the Modification Proposal may be rejected by the Modifications Committee and/or the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.**