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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)* |
| **SEMOpx** | **28 November 2017** | **Urgent** | **Mod\_17\_17** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Nigel Thomson** |  |  |
| **Modification Proposal Title** |
| **Recovery of Costs due to Invalid Ex-Ante Contracted Quantities in Imbalance Settlement** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B**  | **Section B.21.1.8, Section B.18.5.6****Section G** | **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 and subsequent sections of the proposed changes.***The changes proposed to the TSC seek to provide a workable solution to how specific low probability risks are mitigated in the I-SEM - given the interrelated nature of the Ex-Ante Markets and Imbalance Settlement. The risks relate to invalid Ex-Ante Market Contracted Quantities which lead to imbalances. The modification proposal will ensure that all avenues for recovery of the costs from the Relevant Participant are available. Thus ensuring the financial stability of all the I-SEM markets.The modification consists of changes, mostly to Section G of Part B of the Code. A summary of the intent of each clause addition to the Code is provided belowB.21.1.8– Ensures the obligations for recovery of costs related to invalid Contracted Quantities are considered liabilities for the Relevant Participant.B.18.5.6 – Allows the Market Operator (MO) to reject Contracted Quantities in respect of a suspended unit.G.2.10.1 – Defines what an invalid Contracted Quantity is i.e. a trade that relates to a Trading Period that is: 1. before a unit is effective in the balancing market, or
2. where the MO is not accepting contracted quantities due to insufficient credit cover conditions, or
3. the unit is suspended from the Balancing Market

G.2.10.2 – Details the notification needed from the SEM NEMO to the MO. Note: only invoked where the SEM NEMO requires assistance from the Balancing Market in the recovery of costs. G.2.10.3 – Notice to MO by SEM NEMO needs to be given before the Payment In Due DateG.2.10.4 – Requirements to issue received notice by MO to the market.G.2.10.5 – MO assists in minimising the financial costs by a)i) withholding payments to the Relevant Participanta)ii) utilising credit cover of the Relevant Participantb) ensuring the amount payable by the SEM NEMO is reduced by the Recovered Amount from the Relevant Participantc) ensuring the SEM NEMO and MO have an obligation to will share information to ensure co-ordinated recovery of the costsG.2.10.6 – MO continues to try to help recover costs through future payments to the Relevant Participant until it is determined that the costs have been recovered through the TSC or by the SEM NEMO by other means.G.2.10.7 – The Reassigned Amount (amount needing recovery from the Relevant Participant) is considered as a an amount owed by the Relevant Participant for credit cover calculation purposesG.2.10.8 – SEM NEMO has obligation to take all reasonable steps to recover the imbalance (not just rely on MO to recover it)Definitions – New definitions need to cover these new clauses. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| The following provides the legal text changes needed to the TSC to accommodate the modification. ***In paragraph B.21.1.8, replace any words after the second reference to “limitation of liability” with the following:***“and without limiting sections G.2.7 or G.2.10.”***Insert the following words at the end of paragraph B.18.5.6(a):***“and/ or any Contracted Quantity submitted for the Participant under section F.2.2”***Insert a new section G.2.10 at the end of Section G.2, as follows:*****G.2.10 Invalid Contracted Quantities**G.2.10.1 For the purposes of this section G.2.10, a Contracted Quantity submitted by a SEM NEMO under paragraph F.2.2.1 (in its capacity as a Scheduling Agent) for a Participant is invalid where:1. the Contracted Quantity results from a trade in an Ex-Ante Market before the relevant Unit’s registration under this Code takes effect; or

1. the Contracted Quantity results from a trade in an Ex-Ante Market relating to a period during which the Market Operator is not accepting Contracted Quantities in respect of the Participant pursuant to section G.12.3; or
2. the Contracted Quantity results from a trade in an Ex-Ante Market relating to a period during which the relevant Unit is suspended from participation under this Code in accordance with section B.18.5.

G.2.10.2 Where a SEM NEMO considers that a Contracted Quantity is invalid, then the SEM NEMO may notify the Market Operator where it believes there is a risk the costs (or part thereof) incurred in relation to the invalid Contracted Quantity will not be recovered under the Market Rules of the Ex Ante Market. Any notification so given will specify:1. the Unit to which the invalid Contracted Quantity relates (in this section G.2.10 called the “**specified Unit**”); and
2. the applicable invalid Contracted Quantity; and
3. the Imbalance Settlement Period to which the invalid Contracted Quantity relates; and
4. the steps that the SEM NEMO (or any Delegate (as defined in paragraph B.8.1.4(a) of the Code) has taken or will take to recover the costs incurred in relation to the invalid Contracted Quantity and the mechanisms that will be used (whether by the SEM NEMO or any Delegate) to seek to recover those costs under the Market Rules of the Ex Ante Market; and
5. the reason the SEM NEMO believes there is a risk that the costs (or part thereof) incurred in relation to the invalid Contracted Quantity will not be recovered under the Market Rules of the Ex Ante Market.

G.2.10.3 A notice under paragraph G.2.10.2 must be given before the relevant Payment In Due Date.G.2.10.4 As soon as practical after receiving a notice under paragraph G.2.10.2, the Market Operator shall publish the notice.G.2.10.5 Notwithstanding anything else in this Code, where the Market Operator receives a notice under paragraph G.2.10.2 in respect of a Contracted Quantity before the time determined in accordance with paragraph G.2.10.3:1. the Market Operator shall take the following steps:
2. to the maximum extent permissible at law, the amount payable by the Market Operator to the Participant in respect of the specified Unit (called the “**Relevant Participant**”) under section G.2.5 on the relevant Payment In Due Date shall be reduced by an amount (called the “**Reassigned Amount**”) equal to the specified invalid Contracted Quantity multiplied by the Imbalance Settlement Price for the Imbalance Settlement Period to which the invalid Contracted Quantity relates; and
3. to the extent that the Reassigned Amount is less than the unadjusted amount payable by the Market Operator to the Relevant Participant under section G.2.5 on the relevant Payment In Due Date (the difference between the two amounts is in this sub-paragraph (ii) referred to as the “**initial shortfall**”), the Market Operator shall make a Credit Call on the Relevant Participant’s Posted Credit Cover for payment of the lesser of the initial shortfall and the amount of the Posted Credit Cover (and, for the purpose of making such Credit Call on the Relevant Participant’s Posted Credit Cover:
	1. clause G.2.6.2 applies as if the draw-down amount was a “Shortfall” (and ignoring references to Agreed Procedure 15 when applying paragraph G.2.6.2); and
	2. the Relevant Participant shall be deemed to be in default of an obligation to pay the amount drawn-down pursuant to this Code),

(the aggregate amount of the reduction under sub-paragraph (i) and the amount drawn down under sub-paragraph (ii) is called the “**Recovered Amount**”); and1. the amount payable by the relevant SEM NEMO to the Market Operator under section G.2.5 on the relevant Payment Out Due Date shall be reduced by the Recovered Amount; and
2. the Market Operator shall share information with the SEM NEMO on the Relevant Participant’s payments, collateral and the Recovered Amounts in order to co-ordinate the recovery of the Reassigned Amount, whether under this Code or under the Market Rules for the Ex-Ante Market.

G.2.10.6 Notwithstanding anything else in this Code, where:  1. the Market Operator receives a notice under paragraph G.2.10.2 in respect of a Contracted Quantity before the time determined in accordance with paragraph G.2.10.3; and
2. the Market Operator has taken the steps contemplated by paragraph G.2.10.5(a) in respect of the specified invalid Contracted Quantity, but the Recovered Amount is less than the Reassigned Amount,

the Market Operator shall reapply paragraph G.2.10.5 (*mutatis mutandis*) on one or more subsequent Payment Due Dates under this Code until either:1. the Reassigned Amount has been recovered in full from the Relevant Participant in respect of the relevant Unit; or
2. working with the relevant SEM NEMO, the Market Operator confirms that the Reassigned Amount has been recovered in full through a combination of steps taken by the Market Operator under paragraphs G.2.10.5 and G.2.10.6 and steps taken by the SEM NEMO as contemplated under paragraph G.2.10.8, and that therefore no further action is required in relation to the invalid Contracted Quantity in accordance with this section G.2.10.

G.2.10.7 Despite paragraphs G.2.10.5 and G.2.10.6, when calculating the level of Required Credit Cover for the Relevant Participant and the relevant SEM NEMO, the Reassigned Amount shall be regarded as owed by the Relevant Participant and not owed by the SEM NEMO. G.2.10.8 Where a SEM NEMO has provided a notice under paragraph G.2.10.2 to the Market Operator, that SEM NEMO shall take all reasonable steps expressly available to it under the Market Rules of the Ex Ante Market or otherwise to recover the Reassigned Amount from the person whose trade in the Ex Ante Market gave rise (in whole or in part) to the invalid Contracted Quantity.***NEW DEFINITIONS (to be inserted in alphabetical order in the Glossary):***

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| **Clearing Conditions** | where a SEM NEMO has appointed a separate clearing house to act as the central counterparty for the Ex Ante Market the SEM NEMO operates, means the rules, code, procedures, terms and conditions under which the clearing house carries out that role. |
| **Ex-Ante Market** | means a day-ahead market or an intraday market operated by a SEM NEMO and includes the markets operated by EirGrid plc and SONI Limited (in their capacity as SEMOpx). |
| **Market Rules** | in respect of anEx-Ante Market:1. means therules, code, procedures, terms and conditions governing that market; and
2. where a separate clearing house has been appointed to act as the central counterparty for the Ex Ante Market, includes the Clearing Conditions.
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| **Payment In Due Date** | in respect of an invalid Contracted Quantity within the meaning of paragraph G.2.10.1, means the Payment Due Date for the purpose of sub-paragraph G.2.5.4(c) in respect of Settlement Documents covering the Imbalance Settlement Period to which the invalid Contracted Quantity relates. |
| **Payment Out Due Date** | in respect of an invalid Contracted Quantity within the meaning of paragraph G.2.10.1, means the Payment Due Date for the purpose of sub-paragraph G.2.5.4(d) in respect of Settlement Documents covering the Imbalance Settlement Period to which the invalid Contracted Quantity relates. |
| **Reassigned Amount** | in respect of an invalid Contracted Quantity within the meaning of paragraph G.2.10.1, has the meaning given in paragraph G.2.10.5(a)(i). |
| **Recovered Amount** | in respect of an invalid Contracted Quantity within the meaning of paragraph G.2.10.1, has the meaning given in paragraph G.2.10.5(a). |
| **Relevant Participant** | in respect of an invalid Contracted Quantity within the meaning of paragraph G.2.10.1, has the meaning given in paragraph G.2.10.5(a)(i). |

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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| **Why is the Modification being raised?**The design of the I-SEM includes a component related to Imbalance Settlement being based partly on Contracted Quantities agreed in Ex-Ante Markets. The consequences of any such Contracted Quantity being considered invalid by the Market Operator (MO) is an imbalance occurring against the relevant SEM NEMO under the Trading and Settlement Code - for the value of the Contracted Quantity at the Imbalance Price.During SEMOpx’s evaluation of financial risks associated with the interrelationship between the Ex-Ante Markets and Imbalance Settlement there have been identified specific “scenarios” that could lead to this situation of Contracted Quantities being considered invalid in Imbalance Settlement. Although they have an extremely low probability of occurrence the impact in terms of financial costs needing recovery could be high.SEMOpx has limitations on financial resources and is constrained by the operating environment it is under. However, it has been able to work with TSC Participants and its service providers to identify a workable solution for the I-SEM go-live in terms of the financial obligations and mechanisms for recovery of costs related to invalid Contracted Quantities.The solution proposed includes the SEM NEMO (or its Delegate)[[1]](#footnote-1) remaining balancing responsible and adhering to the imbalance settlement payment deadlines - even in the case of the invalid Contracted Quantities scenarios. This solution is provided on the basis that:* The additional measures for recovery of the costs of invalid Contracted Quantities -as outlined in this modification - must be available under the TSC and must form part of this solution. These additional measures include - where seen as necessary and where other means have not resulted or may not result in the recovery of the costs - that the MO will assist the SEM NEMO in recovery of the costs by withholding payments to the Relevant Participant in the Balancing Market, and/or using available Balancing Market Credit Cover to offset the cost needing recovery. Hence minimising the imbalance the SEM NEMO is exposed to.
* That as part of the approval of the modification proposal a commitment is given from the Modification Committee to work toward a solution for Day 2 that takes account of the trading halt due to insufficient balancing market collateral requirement, mitigates the risks and minimizes the overall costs of participating in the I-SEM markets. These measures may include further amendments to the TSC or Ex-Ante Market/Clearing Rules, and if seen as necessary, other measures such as delivery margins. These would need to be discussed, agreed and implemented prior to Day 2 go-live.

In turn, TSC Participants will not be exposed to any short pay due to invalid Contracted Quantities, nor be the ultimate backstop for recovery of invalid Contracted Quantity costs for I-SEM go-live.**Implications for Imbalance Settlement**To recover the costs associated with any of the invalid Contracted Quantity scenario, a SEM NEMO will need to obtain the relevant costs from the Exchange Member in order to pay the imbalance. The processes to recover these costs may not be able to be completed in sufficient time to meet the required payment deadlines for Imbalance Settlement.In addition, although a SEM NEMO will utilise several mechanisms in order to recover the invalid Contracted Quantity costs, there is still an extremely low probability that the costs are never fully recovered and therefore the imbalance can never fully be recovered by SEM NEMO in Imbalance Settlement.This provides two key issues of:1. Who funds the working capital of the imbalance under Imbalance Settlement until the costs of the invalid Contracted Quantity are recovered?; and
2. Who ultimately, if all other measures fail, bears the cost of any residual costs related to the invalid Contracted Quantity?

**Who funds the Working Capital to cover the Imbalance prior to Recovery?**Based on the discussions held as a result of the raising of this modification in November 2017, the SEM NEMO (or its Delegate) will fund the working capital to cover the Imbalance, if required. This is subject to the additional measures to recover costs as outlined in the ‘Explanation of Proposed Change’ and ‘Legal Drafting Change’ sections of this modification being available under the TSC.**If all else fails, who bears any residual costs of the invalid Contracted Quantity?**Based on the discussion held as a result of the raising of this modification in November 2017, the SEM NEMO (or its Delegate) will bear any residual costs as a result of the invalid Contracted Quantitites. This is subject to the additional measures to recover costs as outlined in the ‘Explanation of Proposed Change’ and ‘Legal Drafting Change’ sections of this modification being available under the TSC.Since the raising of this modification in November 2017, confirmation of the measures to recover the costs of invalid Contracted Quantities have been confirmed and are outlined below:1. SEM NEMO instructing the Exchange Member to close out invalid Contracted Quantities by countertrading, or for the Clearing House to trade in the Ex-Ante Markets to close out positions/minimize costs.
2. SEM NEMO withholding payment to the Exchange Member for the value of the invalid Contracted Quantities therefore minimising the costs needing recovery.
3. SEM NEMO to charge the Exchange Member that caused the invalid Contracted Quantities through trading in the Ex-Ante Markets, when not authorised to do so.
4. SEM NEMO to recover costs from the Exchange Member’s Clearing Member or Direct Clearing Participant Ex-Ante Collateral (as applicable)
5. SEMO to withhold any payments for the Relevant Participants of the Units in Imbalance Settlement to minimise the costs needing recovery.
6. SEMO to use Posted Credit Cover for the Relevant Participants of the Units in Imbalance Settlement to minimise the costs needing recovery.
7. Where the issue can be attributed to SEM NEMO’s service providers, recovery of costs through liability provisions.

**Other Mitigation Measures that were Considered but Dispelled**There were also other measures considered to mitigate the impacts of these invalid Contracted Quantity scenarios. However, these have not been included as they are seen as inappropriate due to one or more of the following: they result in additional and considerable upfront and continuing costs for Exchange Members to cover a risk that has extremely low probability, the solution may cause major issues with the ongoing viability of the Ex-Ante Markets, or they are not feasible for implementation in the timeframes before I-SEM go-live. The measures that were considered, but dispelled were:1. Imposing significant additional collateral requirements on all Exchange Members to cover this risk scenario
2. Taking out insurance against these scenarios
3. Increasing Exchange fees upfront to cover this potential risk
4. Increasing Exchange fees after the event occurs to cover the realised residual costs.
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| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section A of T&SC for Code Objectives)* |
| This Modification proposal aims to further the Code Objectives under TSC Section A.2.1.4, specifically the elements shown in bold below.(b) to **facilitate the efficient, economic and coordinated operation**, administrationand development of the Single Electricity Market **in a financially secure****manner;****(c)** to **facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity** in the trading arrangements under the Single Electricity Market;(e) to **provide transparency in the operation** of the Single Electricity Market;(g) to **promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price**, quality, reliability, and security of supply of electricity.  |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| The implications of not implementing this modification proposal could include:a) liability clauses related to the SEMOpx Rules will not be able to be agreed and Exchange Members will not be willing, without these clauses known, to sign the Exchange Member Agreement to facilitate trading in the I-SEM Ex-Ante Markets.b) a viable solution under which the invalid Contracted Quantity costs can be managed and assigned will not be available for I-SEM go-live. c) contractual details between SEMOpx and its service providers will not be able to be finalized in time for I-SEM go-live |
| **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.)* |
| Given: the limited time available, in order to provide clarity and certainty to Exchange Members and Participants about the recovery of costs related to invalid Contracted Quantities, it is proposed that the focus be on using this proposal as a basis for the final modification with any amendments being made to the proposal rather considering a number of alternatives from scratch which may take considerably more time, effort and may jeopardize the readiness of the market for I-SEM go-live. | The outcome of this modification proposal will have implications on:* SEM NEMO Rules/Clearing House Rules/SEM NEMO Processes and Procedures.
* SEM business processes and procedures will need to be reviewed to cater for these mitigation measures under the TSC
 |
| ***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.**

1. In the case of SEMOpx, ECC is the Clearing House that will perform the balance responsibility under the TSC on behalf of SEMOpx (i.e. as delegated). [↑](#footnote-ref-1)