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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** | **02/08/18** | **Standard**  | **MOD\_25\_18** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Christopher Goodman** |  |  |
| **Modification Proposal Title** |
| **Part B Unsecured Bad Energy Debt and Unsecured Bad Capacity Debt Timelines and Correction** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B****Glossary Part B****Agreed Procedures Part B** | **T&SC Part B Section G****Glossary Part B****Agreed Procedure 15 Sections 2 and 3** | **Version 20** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| Part A Modification Proposal 02\_17 on the timing of payment whenever an Unsecured Bad Debt event occurs has resulted in a proposal to change the payment obligation on the Market Operator from payment being made by close of business on the fourth working day after invoices have been issued to payment being instructed by midnight on the fourth working day after invoices have been issued. Discussions on this Part A proposal led to confirmation that similar issues that led to the requirement for Part A payment obligation timing changes exist for Part B. As a result this proposal seeks to make the same change for Part B to move the obligation on the Market Operator from payment being made by close of business on the fourth working day after invoices have been issued to payment being instructed by midnight on the fourth working day after invoices have been issued. This approach was discussed and agreed at meeting 84 of the Modifications Committee.Discussions at meeting 84 also led to agreement that SEMO should raise a proposal to address incorrect references to Unsecured Bad Debt leading to a reduction in payments out to SEM Creditors in Part B. This is because the approach under Part B is reduce payments or increase charges on Generator Units pro rata on metered quantity and such units may be SEM Debtors under the new balancing market arrangements whereas in Part A the reduction was to SEM Creditors pro rata on payment due. Since the reference to SEM Creditors has been retained in error when drafting the Part B provisions it is necessary to correct this as it is currently internally inconsistent.This proposal seeks to correct this inconsistency by removing references to SEM Creditors and replacing them with references to Reduced Participants etc. While drafting this proposal it also became evident that reference in paragraph G.2.7.7 to pro rating of Debit Note Excess based on proportionate ‘entitlements’ is also incorrect as a result of text from Part A being retained so we propose a correction there also.  |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| **Trading and Settlement Code Part B Section G:**G.2.5.4 Payment shall be in accordance with the following: * + - * 1. each Settlement Statement, Settlement Report and Settlement Document shall be based on the data then available to the Market Operator at the time of its production;
				2. each Settlement Document shall include the amount of all applicable Trading Payments and Trading Charges and, where required under paragraph G.2.5.3, Capacity Payments and Capacity Charges;
				3. any Participant in receipt of a Settlement Document shall pay the net amounts due in full without deduction, set-off or counterclaim (except as otherwise expressly provided for in the Code):

by paying the amount due into the relevant SEM Account by the Payment Due Date;by the Market Operator transferring an amount out of the Participant’s SEM Collateral Reserve Account in accordance with paragraph G.1.6.6(d); orby a combination of the foregoing.(and the Payment Due Date for the purpose of this sub-paragraph (c) is 12:00, 3 Working Days after the date of the relevant Settlement Document);* + - * 1. the Market Operator shall, subject to the provisions of the Code, pay the amount set out in each Settlement Document (to any Participant who is a SEM Creditor) from the SEM Account to the SEM Creditor’s designated bank account or bank accounts for full value by the Payment Due Date (and the Payment Due Date for the purpose of this sub-paragraph (d) is 17:00, 4 Working Days after the date of the relevant Settlement Document except where an Unsecured Bad Debt has occurred); and
				2. Where an Unsecured Bad Debt has occurred, the Market Operator shall, subject to the provisions of the code, instruct payment of the amount set out in each Settlement Document less the amount set out in any applicable Debit Note (to any Participant who is a SEM Creditor) from the SEM Account to the SEM Creditors designated bank account or bank accounts for full value by 00:00 4 Working Days after the date of the relevant Settlement Document.
1. * + 1. Where a Participant has an Unsecured Bad Debt then, without prejudice to the Market Operator’s rights or obligations under the Code and notwithstanding any other provisions of the Code, the Market Operator shall procure that each Settlement Document relating to the period affected by such Unsecured Bad Debt shall be adjusted by a reduction in the amount payable to each affected Participant (“**Reduced Participants**”) determined in accordance with paragraphs to (excepting any Defaulting Participant(s), and subject to paragraph until the Unsecured Bad Debt and any applicable Default Interest has been recovered in full and any Settlement Documents issued to it shall, until such event, be subject to the calculation of an adjustment by such amount or amounts up to the amount of the Unsecured Bad Debt and any applicable Default Interest, and relevant Debit Notes shall be issued to it) for payment of the relevant Unsecured Bad Debt, in accordance with the Code. The Market Operator shall issue the appropriate adjustments to the Settlement Documents in the form of a Debit Note to each of the affected Reduced Participants and the Defaulting Participant within the timeframe of making the payment due to the Reduced Participant. The Market Operator shall make payments to each Reduced Participant for the amount indicated in the applicable Settlement Document less the amount in the applicable Debit Note in accordance with paragraph .
			2. In the event that, for any Reduced Participant (an “**Excess Participant**”), the amount of the Debit Note would exceed the amount payable to the Reduced Participant in the applicable Settlement Document (a “**Debit Note Excess**”), the Market Operator will make no payment to the Excess Participant in respect of that Settlement Document. In addition, the Excess Participant shall, within 2 Working Days of the receipt of the relevant Debit Note, make a payment to the relevant SEM Account for the amount of the Debit Note Excess. The Market Operator shall calculate further reductions in the payments to each Reduced Participant (other than the Excess Participant) by the amount of the Debit Note Excess applied pro-rata to their respective proportionate Metered Quantity for their Generator Units. The Market Operator shall issue a Debit Note to each Reduced Participant showing the original reduction resulting from the Unsecured Bad Debt and, in respect of each Reduced Participant other than the Excess Participant, the relevant proportion of the Debit Note Excess. In the event that upon receipt of an Excess Debit Note, a further Participant or Participants become Excess Participants, then the Market Operator shall repeat the process of calculation of reduction, and the resultant Debit Notes shall show the resultant reductions for each relevant Reduced Participant, until the amount due in respect of each Settlement Document net of a Debit Note or Excess Debit Note is positive or zero. Any Debit Note Excess which remains unpaid by 12:00 on the WD+2 following the date of issue of the Settlement Document shall be treated as a Shortfall in accordance with paragraph G.2.7.1.
			3. All Parties agree that the Market Operator as trustee and agent shall be entitled and irrevocably authorise the Market Operator, subject to paragraph G.2.7.9 to take all necessary action against a Participant (or its Party where legally necessary) with an Unsecured Bad Debt to recover any Unsecured Bad Debt on behalf of Reduced Participants who have incurred a loss relating to such Unsecured Bad Debt and to deal with any recovered monies relating to such Unsecured Bad Debt in accordance with the Code. Any such action of the Market Operator to recover the Unsecured Bad Debt shall not be subject to the Dispute Resolution Process.
			4. Where the Market Operator partially or fully recovers any Unsecured Bad Debt, the Market Operator shall procure the payment of any such monies into the relevant SEM Account. Then the Market Operator shall issue an appropriate Settlement Document to each Reduced Participant for an amount pro-rated to the individual respective proportionate entitlement of each Reduced Participant in the amount of the relevant Unsecured Bad Debt recovered with the issue of the Settlement Documents for the then next immediate Billing Period or Capacity Period (excepting, where the Unsecured Bad Debt and any applicable Default Interest has not been fully recovered, the Defaulting Participant, subject to paragraph until the Unsecured Bad Debt and any applicable Default Interest has been recovered in full). The Market Operator shall pay each such Settlement Document in accordance with the Code.

**Trading and Settlement Code Part B Glossary:**

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| **Debit Note** | means a debit note issued to a Reduced Participant or a Defaulting Participant following and relating to an Unsecured Bad Debt. The Debit Note will identify the amount by which the payment to the Reduced Participant or the Defaulting Participant shall be reduced from that set out in the previously submitted Settlement Document. |

**Trading and Settlement Code Part B Agreed Procedure 15:*** + 1. *Unsecured Bad Debt Charge*

The rules applicable to Unsecured Bad Debt are set out at paragraph G.2.7 of the Code.Where the amount due under a Settlement Document is not fully paid and a drawdown of Posted Credit Cover does not cover the Shortfall by the Settlement Document Payment Due Date, the unpaid amount is referred to as Unsecured Bad Debt. In the event of Unsecured Bad Debt, the Market Operator shall adjust the Settlement amounts of other Participants in order to balance Settlement for that Settlement Period. The amount of the adjustment will be the Unsecured Bad Debt Charge. Each Settlement Document affected by an Unsecured Bad Debt Charge shall be subject to an adjustment to the amount payable to or paid by each affected Participant in respect of their Generator Units. These Participants are known as the Reduced Participants (in accordance with paragraph G.2.7.3 of the Code) and the Participant who has incurred the Shortfall and subsequently the Unsecured Bad Debt is known as the Defaulting Participant. The Market Operator will issue a Debit Note to each Reduced Participant via Type 2 Channel or Type 3 Channel. The amount included on this Debit Note will represent the amount by which the original Settlement Document will be adjusted.Where the Unsecured Bad Debt is an Unsecured Bad Energy Debt or an Unsecured Bad Capacity Debt, the payments to Participants will be reduced in accordance with the methodology set out in chapter G of the Code3.1 Settlement Documents in respect of Billing Period Initial Settlement and Settlement Rerun

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| Calculate and issue Debit Notes for the applicable Participants. | Before 00:00, 4 WD after the date of issue of the Settlement Document | Email / Facsimile | Market Operator | Reduced Participant |
| Instruct payment of the net of the Settlement Document and the Debit Note to each Participant. | Before 00:00, 4 WDs after the date of issue of the Settlement Document | In accordance with Agreed Procedure 17 “Banking and Participant Payments” | Market Operator | Participant |

3.2 Settlement Documents in respect of Capacity Period Initial Settlement Statements and Settlement Rerun

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| Calculate and issue Debit Notes for the applicable Participants. | Before 00:00, 4 WD after the date of issue of the Settlement Document | Email / Facsimile  | Market Operator | Participant |
| Instruct payment the net of the Debit Note and Settlement Document to each Participant. | Before 00:00, 4 WD after the date of issue of the Self Billing Invoice | In accordance with Agreed Procedure 17 “Banking and Participant Payments” | Market Operator | Participant |

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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| This proposal is required to ensure that the codified timelines for payments to be made where an Unsecured Bad Debt Occurs are achievable.This proposal is also required to correct an error whereby those Participants whose payments are decreased or charges are increased are incorrectly referred to as SEM Creditors where this can in fact be SEM Creditors and SEM Debtors as the Part B provisions provide for a pro rata smear of the bad debt based on Metered Quantity for Generator Units as opposed to on payment amounts for SEM Creditors. |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| * + - * 1. to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;
				2. 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)* |
| If this proposal is not implemented the Part B rules governing the treatment of Unsecured Bad Debts will include a payment timeline that is not achievable and will be materially incorrect with regards incorrect references to SEM Creditors experiencing reduced payments. |
| **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.)* |
| No | No system or process impacts anticipated |
| ***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.**