

Single Electricity Market

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| Final REcommendation ReportMod\_13\_21 Interest Modification20 July 2021 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 7th July 2021 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 20th July 2021 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| **Document Name** |
| [Trading and Settlement Code](https://www.sem-o.com/rules-and-modifications/balancing-market-modifications/market-rules/TSC-Part-B.docx) |
| [Modification Proposal](https://www.sem-o.com/documents/market-modifications/Mod_13_21/Mod_13_21InterestModification.pdf) |
| [Presentation](https://www.sem-o.com/documents/market-modifications/Mod_13_21/CopyofCopyofInterestShadowCalculationsforMOD_13_21.xlsx) |

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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval– Unanimous Vote

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| **Recommended for Approval by Unanimous Vote** |
| Eoin Murphy | Assetless Alternate | Approve |
| Ian Mullins | Supplier Member | Approve |
| Stacy Feldmann | Generator Member | Approve |
| Paraic Higgins (Chair) | Generator Member | Approve |
| Robert McCarthy | DSU Member | Approve |
| Sean McParland | Generator Alternate | Approve |
| Cormac Daly | Generator Member | Approve |
| Bryan Hennessy | Supplier Member | Approve |
| Philip Carson | Supplier Member | Approve |
| Andrew Burke | Supplier Member | Approve |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on 3rd June 2021. The proposal was raised and voted on at Meeting 105 on 17th June 2021.

The proposed change is to clarify how interest is calculated for resettlement. In the current version of Agreed Procedure 15 interest is calculated by using one LIBOR + 1% rate, which is the most recent rate available, and applied to the number of days of resettlement annualised. The change we are proposing is to use individual daily LIBOR + 1% rates over the applicable resettlement period. For example:

1. As per AP15, currently, M+4 would use the most recent LIBOR + 1% rate for calculating interest and apply that to the number of days in M+4 resettlement annualised
2. As per this modification M+4 would use over 100 (i.e. 4 months \* c. 30/31 days LIBOR) daily LIBOR + 1% rates annualised for calculating interest and apply that to the number of days in M+4 resettlement

See 1 and 2 below for further details.

1. Current AP15 calculation of interest:

 = Total Adjustment Amount for a Settlement Rerun for Interest \* Latest Daily LIBOR + 1% Interest Rate \* number of days of interest annualised i.e. divided by 365 days

1. Modification calculation for interest:
2. First Daily interest amounts are calculated by

(Total Adjustment Amount for a Settlement Rerun per Settlement Document line item \* individual Daily LIBOR + 1% Interest Rate / 365)

Daily Interest Amounts should then be summed (for all days in the period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.)

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

The modification is to clarify how the settlement system is currently calculating interest payments and

charges at present. We feel this is the most accurate way to calculate interest as it removes peaksand

troughs from varying interest rates as it uses daily interest rates instead of the most recent interest

rates.

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

Interest payments or charges could fluctuate significantly in a short period of time if interest rates

swing markedly. This modification would ensure that the interest paid or charged would be a based on

each daily rate which would be a more accurate reflection of the period.

**3c.) Impact on Code Objectiv****es**

The modification furthers the following code objective:

* to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner

This Modification would enable a more accurate reflection of interest payments and charges to all participants in the market. By using daily interest rates it removes the potential for peaks and troughs as interest rates can vary significantly.

# Working Group and/or Consultation

N/A

# impact on systems and resources

No impact to the settlement system is as it is already calculating interest in this way.

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting 105 – 17 June 2021

The Proposer delivered a short [presentation](https://www.sem-o.com/documents/market-modifications/Mod_13_21/CopyofCopyofInterestShadowCalculationsforMOD_13_21.xlsx) on this Modification Proposal noting that it was in relation to how interest was calculated in resettlement. The Proposer went through a calculations example advising that this was the most effective way to calculate interest as it uses daily interest rates for each day in the range instead of the single most recent interest rate applicable, therefore reducing the impact of sudden variations.

There was agreement amongst Members that this was a good Modification to progress.

# Proposed Legal Drafting

As per legal drafting section of Appendix 1. For clarity please find below a tracked changed version of legal drafting in Appendix 1

* + - 1. Where any Settlement Document must be re-issued due to a Settlement Rerun then interest as set out in Agreed Procedure 15, “Settlement and Billing” shall apply on the difference between the amount received or paid pursuant to the relevant prior Settlement and the amount due or payable pursuant to the Settlement Rerun accruing from the Payment Due Date + 1 applicable to the relevant prior Settlement up until the date of the issue of the applicable Settlement Document.

APPENDIX 1: Interest Calculation Example

Interest is applied when a Settlement Rerun increases or decreases the total amount payable for a Billing Period and/or a Capacity Period.

For Settlement Reruns, the net adjustment amounts are calculated and shown on the Settlement Document. Interest is calculated by applying a daily interest rate to the adjustment amount on the Settlement Document.

The revised interest calculation includes following steps:

1. **Adjustment Amounts for a Settlement Rerun** are calculated for each Settlement Document line item amount as the difference between the previous amount and the current amount for the relevant line item.
2. **Total Adjustment Amount for a Settlement Rerun** is calculated as sum of all adjustment amounts for each Settlement Document line item
3. **Total Adjustment Amount for a Settlement Rerun** for Interest calculation is determined as the sum of adjustment amounts for each Settlement Document line item excluding those flagged as “No Interest on revised amounts”. These line items are flagged as zero interest rate.
4. **Daily Interest Rate** is calculated as the interest rate, on a particular day which is charged at LIBOR + 1%, divided by the number of days in the year configured in the system.
5. The days to be included in the interest calculation will be determined as the number of days in the period between the Initial Payment due date of the original Settlement Document + 1 day and the date of issue of the latest Settlement Document.
6. The interest amount for the Settlement Rerun will be calculated as the **Daily Interest Rate** (found in step 4) multiplied by the **Total Adjustment Amount for a Settlement Rerun for Interest** (found in step 3) summed for each of the days (found in step 5) for interest calculation.

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| *Interest Amount* *a) First Daily interest amounts are calculated by* *(Total Adjustment Amount for a Settlement Rerun per Settlement Document line item \* individual Daily Interest Rate / 365)**b) Daily Interest Amounts should then be summed (for all days in the period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.)* |

**Glossary Changes**

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| LIBOR | means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) on the banking day immediately following the due date for the payment of a sum due under the Code for overnight deposits in the Currency of such sum. |
| Resettlement LIBOR | means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day). Resettlement LIBOR is then used for each day in the *period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.* |

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is recommended that this Modification should be made effective from the first Settlement Date following publication of SEMC decision.

# Appendix1: Mod\_13\_21 Interest Modification

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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** | **3rd June 2021** | **Standard**  | **Mod\_13\_21** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **John Tracey / Lauren Skillen-Baine** |  | John.Tracey@Eirgrid.com |
| **Modification Proposal Title** |
|  |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B****T&SC Part B Glossary****Agreed Procedure 15** | **G.8.1.3 in T&SC Part B****Appendix 1 in Agreed Procedure 15** | **V23** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| 1. The proposed change is to clarify how interest is calculated for resettlement. In the current version of Agreed Procedure 15 interest is calculated by using one LIBOR + 1% rate, which is the most recent rate available, and applied to the number of days of resettlement annualised. The change we are proposing is to use individual daily LIBOR + 1% rates over the applicable resettlement period. For example:
2. As per AP15, currently, M+4 would use the most recent LIBOR + 1% rate for calculating interest and apply that to the number of days in M+4 resettlement annualised
3. As per this modification M+4 would use over 100 (i.e. 4 months \* c. 30/31 days LIBOR) daily LIBOR + 1% rates annualised for calculating interest and apply that to the number of days in M+4 resettlement
4. See 1 and 2 below for further details.
5. Current AP15 calculation of interest:

 = Total Adjustment Amount for a Settlement Rerun for Interest \* Latest Daily LIBOR + 1% Interest Rate \* number of days of interest annualised i.e. divided by 365 days1. Modification calculation for interest:
2. First Daily interest amounts are calculated by

(Total Adjustment Amount for a Settlement Rerun per Settlement Document line item \* individual Daily LIBOR + 1% Interest Rate / 365)Daily Interest Amounts should then be summed (for all days in the period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.) |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
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7. 1.
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**T&SC Part B changes:*** + - 1. Where any Settlement Document must be re-issued due to a Settlement Rerun then interest as set out in Agreed Procedure 15, “Settlement and Billing” shall apply on the difference between the amount received or paid pursuant to the relevant prior Settlement and the amount due or payable pursuant to the Settlement Rerun accruing from the Payment Due Date + 1 applicable to the relevant prior Settlement up until the date of the issue of the applicable Settlement Document.

**Agreed Procedure 15 Settlement and Billing changes:**APPENDIX 1: Interest Calculation ExampleInterest is applied when a Settlement Rerun increases or decreases the total amount payable for a Billing Period and/or a Capacity Period.For Settlement Reruns, the net adjustment amounts are calculated and shown on the Settlement Document. Interest is calculated by applying a daily interest rate to the adjustment amount on the Settlement Document. The revised interest calculation includes following steps:1. **Adjustment Amounts for a Settlement Rerun** are calculated for each Settlement Document line item amount as the difference between the previous amount and the current amount for the relevant line item.
2. **Total Adjustment Amount for a Settlement Rerun** is calculated as sum of all adjustment amounts for each Settlement Document line item
3. **Total Adjustment Amount for a Settlement Rerun** for Interest calculation is determined as the sum of adjustment amounts for each Settlement Document line item excluding those flagged as “No Interest on revised amounts”. These line items are flagged as zero interest rate.
4. **Daily Interest Rate** is calculated as the interest rate on a particular day, which is charged at LIBOR + 1%, divided by the number of days in the year configured in the system.
5. The days to be included in the interest calculation will be determined as the number of days in the period between the Initial Payment due date of the original Settlement Document + 1 day and the date of issue of the latest Settlement Document.
6. The interest amount for the Settlement Rerun will be calculated as the **Daily Interest Rates** (found in step 4) multiplied by the **Total Adjustment Amount for a Settlement Rerun for Interest** (found in step 3) summed for each of the days (found in step 5) for interest calculation.

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| **Interest Amount** 1. First Daily interest amounts are calculated by

(Total Adjustment Amount for a Settlement Rerun per Settlement Document line item \* individual Daily Interest Rate / 365)1. Daily Interest Amounts should then be summed (for all days *in the period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.)*
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**Glossary Changes**

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| --- | --- |
| LIBOR | means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) on the banking day immediately following the due date for the payment of a sum due under the Code for overnight deposits in the Currency of such sum. |
| Resettlement LIBOR | means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day). Resettlement LIBOR is then used for each day in the *period between Initial Payment due date of the original Settlement Document + 1 day until the date of issue of the latest Settlement Document.* |

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| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| 1. The modification is to clarify how the settlement system is currently calculating interest payments and charges at present. We feel this is the most accurate way to calculate interest as it removes peaks and troughs from varying interest rates as it uses daily interest rates instead of the most recent interest rates.
 |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of Part A and/or Section A.2.1.4 of Part B of the T&SC for Code Objectives)* |
| The modification furthers the following code objective:* to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner
1. This Modification would enable a more accurate reflection of interest payments and charges to all participants in the market. By using daily interest rates it removes the potential for peaks and troughs as interest rates can vary significantly.
 |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| 1. Interest payments or charges could fluctuate significantly in a short period of time if interest rates swing markedly. This modification would ensure that the interest paid or charged would be a based on each daily rate which would be a more accurate reflection of the period.
 |
| **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.)* |
| n/a | No impact to the settlement system is as it is already calculating interest in this way.  |
| ***Please return this form to Secretariat by email to*** balancingmodifications@sem-o.com |