

# **The Single Electricity Market (SEM)**

## **Agreed Procedure 17: Banking and Participant Payments**

**Version 10.0**

**21 October 2011**

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## SEM Agreed Procedure

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## DOCUMENT HISTORY

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1.2	22/06/2007	Regulatory Authorities	Approved for Go-Active by Regulatory Authorities and TSO/SEM Programme
2.0	20/11/2007	Modification Committee Secretariat	Includes RA Approved Mod_73_07
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5.0	07/04/2009	SEMO	SEMO Design Baseline Documentation at V5.0
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6.0	30/10/2009	SEMO	Mod_49_08 Aggregate Payments for Invoices
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## RELATED DOCUMENTS

Document Title	Version	Date	By
Trading and Settlement Code	V10.0	21/10/2011	Regulatory Authorities
Agreed Procedure 9 "Management of Credit Cover and Credit"			
Agreed Procedure 15 "Invoicing",			

## **1. INTRODUCTION**

### **1.1 BACKGROUND & PURPOSE**

This Agreed Procedure describes the specific procedures for the banking arrangements under the Trading and Settlement Code (the “Code”) required for the financial settlement of the pool, and describes how Participants will make payments, and how Participants will receive payments pursuant to their respective rights and obligations as set out in the Code. This Agreed Procedure also describes the procedures for the management of the Collateral Reserve Accounts. All parties to the Code must comply with this Agreed Procedure.

### **1.2 SCOPE OF AGREED PROCEDURE**

This Agreed Procedure provides further detail relating to the banking arrangements under the Code and describes the procedural steps to be followed by the MO and by Participants. It forms an annexe to, and is governed by, the Code. This document is a statement of process and procedure. Parties’ rights and obligations are set out in the Code.

### **1.3 DEFINITIONS**

Save as expressly defined, words and expressions defined in the Code shall have the same meanings when used in this Agreed Procedure.

References to particular sections relate internally to this Agreed Procedure unless otherwise indicated.

### **1.4 COMPLIANCE WITH AGREED PROCEDURE**

Compliance with this Agreed Procedure is required under the terms of the Code.

## **2. DESCRIPTIVE OVERVIEW**

### **2.1 BANKING ARRANGEMENTS**

The banking arrangements for financial settlement under the Code are set out in section 6 of the Code. The banking arrangements have been put in place to ensure that both the Participants and the MO can meet their respective payment obligations set out in the Code.

The SEM Bank is the Danske Bank, which is represented by the Northern Bank in Northern Ireland and by the National Irish Bank in the Republic of Ireland. The SEM Bank is a bank that meets the requirements of the Code in relation to the financial standing and constitution of the SEM Bank.

### **2.2 ELEMENTS OF THE BANKING ARRANGEMENTS**

The banking arrangements consist of seven major elements that impact or result from Participants' activities:

- Amounts to be paid by Participants under the Code
- Amounts to be paid to Participants under the Code
- Drawdown of cash collateral
- Calls on Letter of Credit (LOC) collateral
- Deposits into Collateral Reserve Accounts
- Deposit Interest and charges/fees on Collateral Reserve Accounts

#### **2.2.1 Currency Matters**

In order to deal with Currency Costs as defined in the Code and described in Agreed Procedure 15 "Invoicing", the Bank will:

1. at the request of the MO purchase either Euro or Pounds Sterling at an agreed rate of exchange; and
2. provide the MO with the appropriate rate of exchange required in order for the MO to publish the Trading Day Exchange Rate as required by the Code.

### **2.3 BANK ACCOUNTS**

#### **2.3.1 SEM Bank Accounts**

For each type of bank account listed below there will be both a Euro and Pounds Sterling bank account. The Euro accounts will be held with National Irish Bank in the Republic of Ireland and the Pounds Sterling accounts will be held with Northern Bank in Northern Ireland. Participants will pay into and/or receive funds from the bank account corresponding to the Currency Zone of that Participant.

#### **2.3.2 SEM Trading Clearing Accounts**

These accounts will be used to receive in and pay out all amounts in relation to Trading Charges and Payments as calculated pursuant to the Code. The accounts will be in the name of the MO and held on trust on the terms set out in the Code.

#### **2.3.3 SEM Capacity Clearing Accounts**

These accounts will be used to receive in and pay out all amounts in relation to Capacity Charges and Payments as calculated pursuant to the Code. The accounts will be in the name of the MO and held on trust on the terms set out in the Code.

### 2.3.4 Collateral Reserve Accounts

These accounts will be set up where a Participant decides to post some or all of its Required Credit Cover in the form of cash collateral. The accounts will be held in the sole name of the MO and will be held on trust as further described in the Code. The SEM Bank, the Participant and the MO will sign a form of Bank Mandate which shall irrevocably instruct the SEM Bank to make payment against the sole instruction of the MO. In the event of a Shortfall, the MO may drawdown funds from these accounts to meet such Shortfall as further described in the Code.

### 2.3.5 Market Operator Charge Accounts

These accounts will be used to receive all payments due under the Code for the Fixed and Variable Market Operator Charges.

The Market Operator Charge Accounts will not be held in Trust as they are set up to receive payment of Market Operator charges to which the MO is beneficially entitled.

A general illustration of how these accounts will be set up is illustrated below:

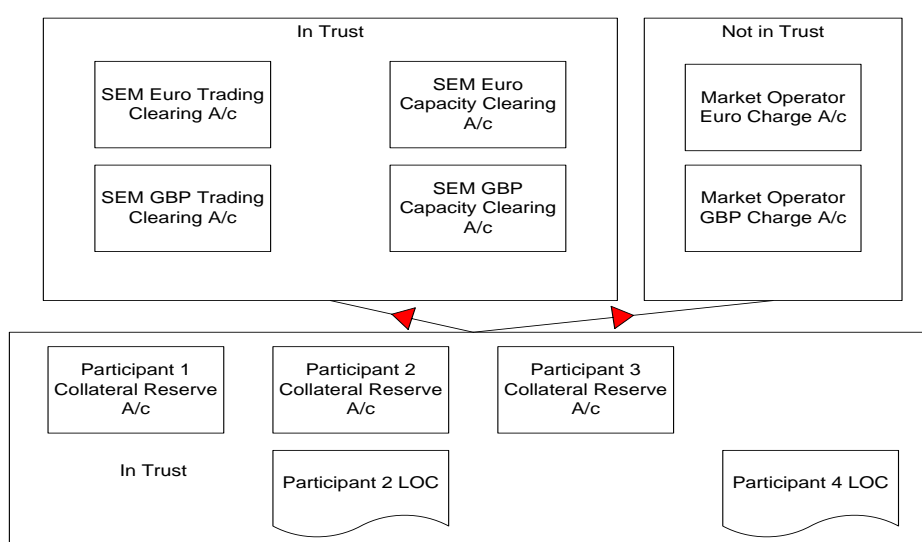


Figure 1 – Bank Account Set up for MO

## 2.4 ONLINE BANKING

The MO will use the Business eBanking Application provided by the SEM Bank. This application will allow same day and standard payments in both jurisdictions, download statements and provide for the monitoring as provided by the Code of both the Collateral Reserve Account balances and the posted LOCs. The application is accessed over the internet via a secure website.

Agreed Procedure 15 “Invoicing” describes in detail the timelines applicable for payment, however, for present purposes, the most relevant is the payment of Invoices (issued by the MO to Participants in respect of sums due to be paid to the MO) that must be paid by the relevant Participant by 1200hrs 3 Working Days after issue. The MO must then pay Self Billing Invoices (issued by the MO to SEM Creditors) by 1700 hrs on the next Working Day.

To meet with payment timelines for Self Billing Invoices as set out in the Code the MO will need to effect same day Electronic Funds Transfer (EFT) payments to Participants. The Business eBanking Application is essential to enable the MO to submit payment files (which has to be done by 15:30 on the Working Day that payment is made to Participants against Self Billing Invoices) to ensure that payment to Participants is made against the relevant Self

Billing Invoice by 1700hrs on that Working Day. This electronic file will be generated by the Financial Application after the initial approval by the MO, encrypted and securely sent to the Bank. This electronic file will then have subsequent MO approval on the Business eBanking Application. Checks will be made by the MO that the file approved from the Finance Application has been correctly loaded into the Business eBanking Application. Once verified and approved the payment file will from that point be “processed”. The Bank will then make the payments as instructed.

## **2.5 PAYMENTS FROM PARTICIPANTS**

Payments by Participants in relation to Units will in respect of those Units be made according to the Currency Zone in which that Participant has registered such Unit and the payment type to which the invoice relates. There are three payment types: Trading, Capacity and Market Operator. Each payment type has a corresponding bank account;

- Trading Payments – SEM Trading Clearing Account;
- Capacity Payments – SEM Capacity Clearing Account;
- Market Operator Payments – Market Operator Charge Account.

The Participants with Units registered in Northern Ireland will in respect of those Units pay into the corresponding bank account at Northern Bank in Pounds Sterling and Participants with Units registered in the Republic of Ireland will in respect of those Units pay in Euro into the corresponding bank account at National Irish Bank.

### **2.5.1 Method of Payment**

It is a requirement upon the MO that all payments made will be by way of EFT. Any other forms of payment will not be accepted.

The following EFT payment methods can be used to effect a payment under the Code. The Participant must consider the relevant payment cycle to allow payment to be met by the relevant due date.:

Standard payment methods:

- BACS (UK) – normally a 3 day cycle, standard payment
- EFT (Ireland) – normally a 2 day cycle, standard payment

Same day payment methods:

- CHAPS (UK) – 1 day cycle, same day payment
- Same day payments (Ireland) – 1 day cycle, same day payment

Payments are to be made within three working days of issuing an invoice. Based on these payment cycles, to ensure payments are made on time, a BACS instruction needs to be presented on the invoice date, an EFT instruction on invoice date +1 day and using the CHAPS or same day facility would mean sending an instruction on invoice date +2 days.

Example:

- Trading Charge Invoice is raised on Billing Period +5 12:00, Friday
- Payment is then due on Billing Period +8 12:00, Wednesday
- To meet 12:00 Wednesday deadline
  - BACS – submit Friday, presented 3WD later, Wednesday morning
  - EFT – submit Monday, presented 2 WD later, Wednesday morning
  - Same day – submit Tuesday, presented on the same day, Tuesday evening.



If submitted Wednesday, the payment will not be presented until after 12:00

### **2.5.1A Aggregated Payments**

To reduce the number of payments a Participant needs to make, the option is available for the Participant to aggregate payments that are for the same Account, for the same Invoice type (namely, each of the Trading Charge, Capacity Charge or Market Operator Charge Invoice types) and fall on the same due date.

This option shall be deemed to have been exercised in the event that the payment submitted exceeds the amount of the Invoice identified in the associated payment reference.

Note: For avoidance of doubt:

- The 'same Account' in this case refers to the Invoices that are for the same Account ID e.g. PT 400999.
- Aggregate payments can only be made for Invoices. Self Billing Invoices cannot be netted off Invoices due.

When an aggregate payment is made, Invoices will be settled for payment for the same Participant, same Invoice type and same due date as the Invoice number used in the payment reference.

If the amount paid exceeds the amount of the Invoice identified in the relevant payment reference then any surplus will be applied to outstanding Invoices for the same Account, for the same Invoice type and for the same due date in order of decreasing Invoice value.

If the Participant's aggregate payment is less than the total amount required to settle all Invoices that are due for the given Invoice type and due date, then the Participant will be subject to the normal payment default processes for the unpaid Invoices as defined in Section 6 of the Code.

If the Participant's aggregated payment is greater than the total amount required to settle all Invoices that are due for the given Invoice type and due date, then the normal overpayment process as defined in Section 6 of the Code will apply.

To allow the MO to quickly and accurately reconcile payments the payment references for aggregated payments should be as detailed in Section 2.5.3 and 2.5.4.

### **2.5.2 Payment References**

Participants shall process their payments using a reference that the MO will use to identify these payments. Depending on the chosen method of payment there will be a requirement to provide a different reference as detailed below. This reference is essential to allow the MO to quickly reconcile the accounts in order to give enough time to process the payment obligations that the MO has to Participants in respect of Self Billing Invoices the following Working Day.

As noted in 2.5.1 there are two EFT standard payment methods in the UK and Ireland and they use the same referencing on payments. All banks in the Northern Ireland and Ireland use this standard referencing.

When using a standard payment method, as described in section 2.5.1, the Participant's bank will allow a payment reference of 18 characters that will appear on the relevant MO's bank account statement. This reference will be prescribed by the MO and must be used by

Participants, as detailed in section 2.5.4. This will be used to allocate the receipt to the relevant Invoice

When using a same day payment method the Participant's bank will allow up to 4 lines of text each with up to 35 characters. Again part of this reference must contain the prescribed reference, as described in section 2.5.5, that the MO will use to use allocate the receipt to the correct Invoice.

### **2.5.3 References used by the MO**

Participants will on registration be given a Participant Identification Number or Short Name (Participant ID). This will be in the format PT\_nnnnnn, where nnnnnn is a six digit, unique integer.

Invoices will be raised with a format of mmmmmmmmmm (10 digits).

In order to successfully identify both the Participant and the Invoice that is being paid a combination of both the Participant ID and the invoice number is required to be used as the payment reference.

### **2.5.4 Standard Payments**

Participants using the standard payment method shall use the following format:

Format: N[Invoice number]A[Participant ID (without any PT\_ prefix)]

Example:

- Participant PT\_000321 must pay Invoice 0987654321
- The Participant supplies a payment reference N0987654321A000321

For aggregate payments the Invoice number should be for the highest priority Invoice that needs payment for the given Account, Invoice type and due date.

### **2.5.5 Same Day Payments**

Participants using the same day payment method shall use the following format in the description (4 lines of free text available on Same Day Payment Advice):

Format: <SMO>N[Invoice number]A[Participant ID (without any PT\_ prefix)]</SMO>

Example:

- Participant PT\_012345 must pay Invoice 0123456789
- The Participant supplies the user reference <SMO>N0123456789A012345</SMO>

For aggregate payments the Invoice number should be for the highest priority Invoice that needs payment for the given Account, Invoice type and due date.

Participants are not required to provide further information on the 4 lines of text available for messages, however, the above reference in the required format must appear somewhere within those 4 lines. Nothing but the reference shall be recognised by the MO.

Market Participants should comply with the above requirements for the details required for Same Day Payments. If, and only if, technical constraints on the Participant's Banks Payment system mean this is not possible, then they should use the 18 character reference field on the Same Day Payment Advice to specify the Invoice and Participant ID

Format: N[Invoice number]A[Participant ID (without any PT\_ prefix)]

Example:

- Participant PT\_000321 must pay Invoice 0987654321

- The Participant supplies a payment reference N0987654321A000321

## **2.6 PAYMENTS TO PARTICIPANTS**

All payments made to Participants will be made by same day payments in order to comply with the payment timelines of the Code. The MO will use the 4 lines of text on each payment as described in 2.5.2 to provide information to the Participant. The information provided will include the name of the MO, the name of the Participant, the Self Billing Invoice number being paid and the payment type to which the invoice relates (Trading, Capacity or Market Operator).

In accordance with the Code, payments due to Participants will be made by 17:00 on the Self Billing Invoice due date.

The MO will assume that the accounts specified by Participants for the receipt of payments will be opened in the same currency as their Currency Zone.

## **2.7 COLLATERAL RESERVE ACCOUNTS**

Under the Code, if a Participant chooses to hold their Required Credit Cover in the form of cash then they will need to open a Collateral Reserve Account, which will be held in the sole name of the MO, with the SEM Bank. The Collateral Reserve Account will be held on trust in accordance with the Code.

The Participants may also have all or part of their Required Credit Cover in the form of a LOC. If this is the case, then the LOC must be held with a bank whereby the MO can make a Credit Call.

The Collateral Reserve Account may be set up at registration, in which case the Participant shall complete the required Collateral Reserve Account bank account mandate as part of the registration package, or following registration, in which case a mandate shall be completed subsequent to registration.

The form shall be held on the Market Operator Website and shall be downloaded by the Participant, completed and signed before being sent to the Market Operator.

The Market Operator shall check that the Participant has completed the form correctly.

If the Participant has not completed the form correctly the MO shall return it to the Participant who will need to re-submit the form.

If the form is complete, the MO shall countersign it and then send the form to the appropriate SEM bank for that Participant's Currency Zone.

The SEM bank shall set up the account and inform the Market Operator and the Participant.

### **2.7.1 Drawdown of Cash Collateral from Collateral Reserve Accounts**

If the MO is required to make a call against a Participant's Credit Cover it may involve the MO drawing down on a Participant's cash collateral up to the value of the Shortfall or to the extent available. This will be done at the instruction of the MO via the Business eBanking Application and will be in the form of a transfer of funds from the Participant's Collateral Reserve Account to the appropriate SEM bank account according to the payment type in respect of which the Shortfall has occurred.

The transfer of funds will be made by way of a same day payment.

The reference that will be used by the MO will be in the format:

<SMO>COLL[Participant ID (without any PT\_ prefix)]</SMO>.

Participants will be able to see this on any statements provided to them by the Bank.

### **2.7.2 Calls on a Letter of Credit**

A Participant may hold all or part of their Required Credit Cover in the form of an LOC. The LOC must be in the form provided for in Appendix A to the Code and the Participant must ensure that it is issued by a bank that fulfils the Banking Eligibility Requirements.

If the Participant defaults on any payment obligation and causes a Shortfall, the MO will make a Credit Call which may involve calling on the LOC. If this happens then the LOC will be called for the value of the Shortfall or to the extent required. The funds will be transferred into the appropriate SEM bank account according to the payment type in respect of which the Shortfall has occurred.

When required to make a Credit Call against an LOC, the MO will procure that an authorised person presents a Beneficiary Statement to the LOC bank in the form set out in Appendix A to the Code. The Beneficiary Statement will set out, with respect to each relevant Settlement Period, the amount of the Shortfall in accordance with the Code.

### **2.7.3 Deposits to and from Collateral Reserve Accounts**

When a Participant has acceded to the Code, they will be required to have a minimum level of Required Credit Cover. Where a Participant has posted cash collateral in a Collateral Reserve account they may wish to top this up from time to time. Likewise they may also be entitled to reduce the amount to: change the composition of cash to LOC, to use excess collateral to pay outstanding invoices, or to reduce their Posted Credit Cover as their Required Credit Cover has reduced.

The process for depositing or withdrawing cash from Collateral Reserve Accounts is described in Agreed Procedure 9 “Management of Credit Cover and Credit”.

### **2.7.4 Interest**

Interest on Collateral Reserve Accounts will be paid via standard payments and will therefore take 2-3 Working Days to process after the interest is posted depending on the jurisdiction that the account is held.

## **2.8 BUSINESS CONTINUITY**

In the event that access to the internet or the Business eBanking Application fails, there is a manual procedure to ensure that the MO will still meet its payment obligations. The following steps will be undertaken:

1. An authorised payment file report will be provided by fax to the Bank branch where the account is held. The same time scales apply and the Financial Application] can support this process.
2. If for any reason all telecommunication links are inaccessible, the authorised payment file report will be presented in person at one of the SEM Bank branches. Again the same deadline has to be met to ensure payment is made.

The SEM Bank will be required to have its own internal contingency provisions to ensure that in whatever circumstances they can still meet their own obligations once the payment file has been submitted to them.

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## APPENDIX 1: APPENDIX

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### BANK ACCOUNTS

The following table contains the details of the 6 bank accounts that will be used to receive payments from Participants and make payments to Participants:

Bank*	Bank Account	Currency	Jurisdiction	Sort Code	Account Number
NIB	SEM Trading Clearing Account	Euro	Ireland	<00-00-00>	<12344321>
NB	SEM Trading Clearing Account	Sterling	NI	<00-00-00>	<12344322>
NIB	SEM Capacity Clearing Account	Euro	Ireland	<00-00-00>	<12344323>
NB	SEM Capacity Clearing Account	Sterling	NI	<00-00-00>	<12344324>
NIB	Market Operator Charge Account	Euro	Ireland	<00-00-00>	<12344325>
NB	Market Operator Charge Account	Sterling	NI	<00-00-00>	<12344326>

\* NIB, National Irish Bank; NB, Northern Bank

### DEFINITIONS AND ABBREVIATIONS

#### Definitions

Term	Definition
Bank Automated Clearing System, or BACS	As defined in the Code
Clearing House Automated Payments System, or CHAPS	As defined in the Code
Clearing Account and Collateral Reserve Account	mean respectively the SEM Capacity Clearing Account and Trading Clearing Accounts, and the SEM Collateral Reserve Accounts as defined in the Code.
Electronic Funds Transfer, or EFT	As defined in the Code
Letter of Credit	means an unconditional and irrevocable standby letter of credit as more particularly described in the Code.
Market Operator Website	As defined in Agreed Procedure 1 "Participant and Unit Registration and

Term	Definition
	Deregistration"
Short Name	A unique identifier that identifies a Participant, provided by the Market Operator's Isolated Market System following the registration of that Participant

### Abbreviations

Term	Definition
BACS	Banks Automated Clearing System
CHAPS	Clearing House Automated Payments System
EFT	Electronic Funds Transfer
LOC	Letter of Credit
MO	Market Operator
SEM	Single Electricity Market