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| **MODIFICATION PROPOSAL FORM** | | | | | |
| **Proposer** | **Date of receipt** | | **Type of Proposal** | | **Modification Proposal ID** |
| **SEMO** | **22 November 2011** | | **Standard** | | **Mod\_32\_11\_v2** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Stephen Gannon** | | **01 23 70164** | | **Stephen.gannon@sem-o.com** | |
| **Modification Proposal Title** | | | | | |
| Excess Cash Collateral Drawdown Requirements | | | | | |
| **Documents affected** | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **AP** | | 3.5 | | T&SC V10, AP 9 v10 | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| It is proposed to have a Standing Request for Participants to draw down from their excess cash collateral to pay outstanding invoices amounts. The Standing Request means that a Participant can request SEMO to draw down from their Excess Cash Collateral for Invoices due. It is also proposed that the Participants can use their Excess Cash Collateral to draw down for FMOC and Blended VAT Invoices, which they can not do at the moment. As Excess Cash Collateral is used, it does not affect their Required Credit Cover. | | | | | |
| **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 Version 10**  6.35 Notwithstanding paragraphs 6.33 and 6.34, if a Participant is not in default in respect of any amount owed to a SEM Creditor, then:   1. the Market Operator shall transfer quarterly to the relevant Participant the interest credited to the relevant SEM Collateral Reserve Account unless the Participant requests otherwise; 2. the Market Operator shall transfer to such Participant within 2 Working Days after a written request from such Participant (exclusive of the day of request) any amount of the balance which exceeds the amount which such Participant has agreed to maintain in the relevant SEM Collateral Reserve Account from time to time in accordance with this Section 6, the Code and the Bank Mandate, provided that the Participant at all times maintains its Required Credit Cover. The Code shall take precedence over the Bank Mandate; 3. the Participant shall be entitled to change the composition of its Posted Credit Cover in satisfying the Required Credit Cover provided any reduction in any amount standing to the credit of the relevant SEM Collateral Reserve Account does not result in a breach of the Required Credit Cover. 4. the Market Operator shall transfer from the relevant Collateral Reserve Account an amount specified by the Participant, in order to make payment on any outstanding Invoice for such Participant, on the Payment Due Date after a written request from such Participant in accordance with Agreed Procedure 9 and providing that such Participant at all times maintains its Required Credit Cover.   **Agreed Procedure 9**  **3.5 USING EXCESS CASH COLLATERAL TO PAY OUTSTANDING INVOICES**  3.5.1 Overview  A Participant may request the Market Operator (MO) to use Excess Cash Collateral to make payment of outstanding Invoice amounts.  This mechanism is provided to give additional flexibility and it should not be considered a replacement for the normal payment processes mechanisms outlined in section 2.5 of Agreed Procedure 17. Excess Cash Collateral can be used to pay::  (a) Invoice amounts from Initial Settlement of less than €50 or Pounds sterling equivalent depending on the respective currency.  (b) Invoice amounts from Resettlement of less than €200 or Pounds sterling equivalent depending on the respective currency.  **3.5.2 Excess Cash Collateral Drawdown requests for specific Invoices**  The Market Operator will require the Participant to give written instruction to use the funds from their Excess Cash Collateral to make payment by sending an email to the MO Market Helpdesk mailbox [MarketHelpdesk@sem-o.com](mailto:MarketHelpdesk@sem-o.com). This email must be received before 15:00 one Working Day after Invoices to which the payments relate have been published.  The email subject should read: REQUEST: PT\_X000YY - Payment using Excess Cash Collateral  The email must specify:   * Participant’s SEM Collateral Reserve Account number * Participant's Account ID (e.g. PT\_X000YY) * Invoice Number to be Paid * Amount to be Paid   The Market Operator will check the credit position of the Participant based on the most recent Credit Cover Report, as at the date and time of receipt of the email request. The Market Operator will check from the Credit Cover Report that making payment on the outstanding Invoice will not cause the Participant’s Posted Credit Cover to drop below their Required Credit Cover, and that the full amount to be paid can be taken from the Participant's SEM Collateral Reserve Account.   * If the Participant has sufficient Excess Cash Collateral the Market Operator will transfer money from the Participant’s SEM Collateral Reserve Account to make payment of the specified outstanding Invoice. * Otherwise, the request will be denied.   The Market Operator will reply to the email request irrespective of the outcome of the check by 12:00 one Working Day before the relevant Payment Due Day to confirm whether the payment can be made or not using Excess Cash Collateral.  Should the request be denied, the Participant is still under obligation to make payment, by the due date and time, as defined in the Code.  Note: Given the response time defined above, the Participant must have submitted their request to use Excess Cash Collateral before 15:00 one Working Day after the Invoices to which the payment relates have been published, in order to ensure a valid request will be processed in time.  **3.5.3 Excess Cash Collateral Standing Request**  A Participant may submit a Standing Request to pay Invoices using their Excess Cash Collateral. This should be in the form of a written instruction sent to the Market Operator by letter or fax signed by an authorised signatory.  The letter/fax subject should read: REQUEST: PT\_X000YY – Standing request for Payments using Excess Cash Collateral  The letter/fax must specify:   * Participant’s SEM Collateral Reserve Account number * Participant's Account ID (e.g. PT\_X000YY) * Maximum Excess Cash Collateral drawdown amount   The request will then be considered by the Market Operator taking into account the following conditions.  1. That the Participant fully understands the information given above, in particular their responsibility and maintenance of an appropriate level of Posted Credit Cover in the SEM Collateral Reserve Account.  2. That the Participant agrees that duplicate payments should be refunded to their SEM Collateral Reserve Account.  3. If a request is made for a refund of Excess Cash Collateral during the term of the Standing Request, the request will be reviewed and may be revoked.  4. If the Participant has insufficient Excess Cash Collateral then the drawdown will not take place and Participant will be notified by the Market Operator by 12:00 one Working Day before the relevant Payment Due Day. The Participant will have to make alternative arrangements to pay the Invoice.  5. The margin of additional posted Cash Collateral held in the SEM Collateral Reserve Account over the minimum required credit cover.  The arrangement will be effective for Invoices with Payment Due Dates from 2 Working Days after approval of the request. Should the request be denied, the Participant is still under obligation to make payments, by the due date and time, as defined in the Code.  **3.5.4 Procedural Steps - Excess Cash Collateral Drawdown requests for Specific Invoices**   | **#** | **Procedural Step** | **Timing** | **Method** | **By/From** | **To** | **Linkage** | | --- | --- | --- | --- | --- | --- | --- | | C7.1 | Participant emails Market Operator with request to pay outstanding Invoice using Excess Cash Collateral | Before 15:00 one Working Day after Invoices to which the payment relates have been published | Email | Participant | Market Operator |  | | C7.2 | a) Check if Invoice amounts are less than those set out in section 3.5.1. If not, continue from step C7.3.  b) Compare request against:  a) Total Cash Collateral Available for Participant prior to the email request date and time.  b) Posted Credit Cover from latest Credit Cover Report available prior to email request date and time.  c) If available Excess Cash Collateral is sufficient and the transfer request will not result in Credit Cover Breach. Then continue from step C7.4  d) If available Excess Cash Collateral is insufficient or the transfer request will result in a Credit Cover Breach then continue with C7.3 | By 12:00 the day before Payment Due Date |  | Market Operator |  |  | | C7.3 | Issue a reply email to Participant stating that request has been declined and that alternative method of payment must be made. Continue from C7.8. | 1. By 12:00 one Working Day before Payment Due Date | Email | Market Operator | Participant |  | | C7.4 | Issue a reply email to Participant stating that request has been approved. | By 12:00 the day before Payment Due Date | Email | Market Operator | Participant |  | | C7.5 | Perform transfer of cash from Participant's SEM Collateral Reserve Account to required Market Account | By Invoice payment deadline |  | Market Operator |  |  | | C7.6 | Reconcile payment to outstanding Invoice. | By Invoice payment deadline |  | Market Operator |  |  | | C7.7 | Reply to Participant stating that drawdown has taken place | By 17:00 on the Invoice Payment Due Date | Email | Market Operator | Participant |  | | C7.8 | End Process |  |  |  |  |  |   **3.5.5 Swim Lane - Excess Cash Collateral Drawdown requests for Specific Invoices.**  These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.  **3.5.6 Procedural Steps: Excess Cash Collateral Standing Request**   | **#** | **Procedural Step** | **Timing** | | **Method** | | **By/From** | **To** | **Linkage** | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 1. C8.1 | Participant sends a letter or fax to the Market Operator with a request to setup a Standing Request to pay Invoices using Excess Cash Collateral. |  | | Letter or fax | | Participant | Market Operator |  | | C8.2 | Check if the Participant meets the conditions set out in section 3.5.3. If not, continue to C8.3  If the Participant meets the conditions. Continue to C8.4 | |  |  | | Market Operator |  |  | | C8.3 | Issue a reply email to Participant stating that the Standing Request has been declined and that an alternative method of payments must be made. Continue to C8.6 | Two Working days after the Standing Request is submitted, | | Email | | Market Operator | Participant |  | | C8.4 | Issue a reply email to Participant stating that the request has been approved. Continue onto C8.5 after each publication of Invoices. | Two Working days after the Standing Request is submitted, | | Email | | Market Operator | Participant |  | | C8.5 | For the Specific invoice  a) Check if Invoice amounts are less than those set out in section 3.5.1. If not, jump to step C8.6.  b) Compare request against:   1. Total Cash Collateral Available for Participant prior to the email request date and time. 2. Posted Credit Cover from latest Credit Cover Report available prior to email request date and time.   c) If available Cash Collateral is sufficient and the transfer request will not result in Credit Cover Breach. Then continue from C8.7  d) If available Cash Collateral is insufficient or the transfer request will result in a Credit Cover Breach then continue with C8.6 | By 12:00 one Working Day before Payment Due Date | |  | | Market Operator |  |  | | C8.6 | Issue an email to Participant stating that request has been declined and that alternative method of payment must be made. Continue to C8.9 | By 12:00 one Working Day before Payment Due Date | | Email | Market Operator | | Participant |  | | 1. C8.7 | Perform transfer of cash from Participant's SEM Collateral Reserve Account to required Market Account | By Invoice payment deadline | |  | Market Operator | |  |  | | C8.8 | Reconcile payment to outstanding Invoice. | By Invoice payment deadline | |  | Market Operator | |  |  | | 1. C8.9 | End Process |  | |  |  | |  |  |   **3.5.7 Swim Lane - Excess Cash Collateral Standing Requests.**  These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.   1. Definitions and Abbreviations  |  |  | | --- | --- | | **Excess Cash Collateral** | means cash in a Market Participant’s SEM Collateral Reserve Account that is in excess of its Required Credit Cover | | **Standing Request** | means an instruction from a Market Participant to the Market Operator to drawdown Excess Cash Collateral to pay all qualifying Invoices amounts until such time as the Participant withdraws the instruction. | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| The new process will not be considered as a replacement for the normal payment process, which will continue to operate as the preferred method of payment, as outlined in section 2.5 of Agreed Procedure 17.  There are 2 main objectives of this modification.   * To decrease the amount of Participant Defaults. * To decrease Participant Banking charges that are incurred on small payments.   The proposal would further the Code objective (1.3.2) of facilitating efficient and economic operation and administration of the SEM.   * At the time of writing, 54% of Defaults in the previous six months were for small Invoices (amounts less than EUR 50). * This amounts to approximately 28 Defaults per six month period. * Additional cost to the SEM in processing default notices on Defaults arising from delayed small payments. * Transaction costs are sometimes higher than the Invoice value. * It takes 15 minutes for SEMO Finance to process an Excess Cash Collateral drawdown following a Default. * This Modification proposed is expected to significantly reduce defaults and the unnecessary cost to the SEM.   The Standing Request process has been trialled with Participants. To date, in this trial,   * There have been no Defaults from these Participants. * The Participants have remained adequately collateralised. * The Default processing time has reduced as there are fewer Defaults. * Communication regarding acceptance of Excess Cash Collateral Drawdown have been made on time. * It reduced the possibility of Suspension due to very small amounts of money.   These benefits are expected to increase as additional Participants use this process.  **Benefits of this Modification**  The key benefits of this Modification are:   * Reduction in the cost of transactions * Reduction in the number of Defaults * Reduction in time spent dealing with small Invoice amounts   As the proposal incorporates the use of SEM Collateral Reserve Accounts the following benefits are also achieved:   * The funds can be used to offset credit cover requirements if credit requirements increase. * there are no account setup or maintenance costs for the Participant   This modification proposed also presents benefits to SEM creditors. If this modification is not in place and a Participant defaults on their payment, cash or letter of credit will be drawn on to meet the shortfall to SEM creditors. In doing so the Defaulting Participant will probably need to top up their credit cover, but as they will have 2 working days to comply with the credit cover increase notice the market will be less collateralised for these 2 working days. By having this modification in place Participants will have the option to post additional funds that they can draw on for outstanding payment. In doing so the likelihood of them Defaulting, and therefore their credit cover falling below the required level is reduced. | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
| It aims to satisfy the following code objectives:  1.3. 5:  “to provide transparency in the operation of the Single Electricity Market;”  and  1.3.6 :  "to ensure no undue discrimination between persons who are parties to the Code;" | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| There will be   1. Continued cost to the SEM in processing default notices on Defaults arising from delayed small payments 2. More defaults will occur and will incur unnecessary cost to the SEM. 3. Possibility of Suspension due to very small amounts of money 4. Time and costs will be incurred by Participants making payments that could otherwise be avoided. | | | | | |
| **Working Group**  *(State if Working Group considered necessary to develop proposal)* | | | **Impacts**  *(Indicate the impacts on systems, resources, processes and/or procedures)* | | |
| Not required | | | This will result in more efficient use of SEMO and Market Participants resources.  Positive impact on operational processes from trials | | |
| ***Please return this form to Secretariat by email to [modifications@sem-o.com](mailto: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 Appendix D “List of Agreed Procedures”.**

**T&SC / Code: means the Trading and Settlement Code for the Single Electricity Market**

**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 the Code (and 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.**