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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** | **06 February 2019** | | **Urgent** | | **MOD\_01\_19** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Patricia Brankin** | |  | | Patricia.Brankin@sem-o.com | |
| **Modification Proposal Title** | | | | | |
| **Introduction of Negative Interest on credit balances held with the SEM Bank in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators** | | | | | |
| **Documents affected**  *(delete as appropriate)* | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC Part A**  **T&SC Part A**  **T&SC Part B**  **T&SC Part B** | | **Section 6.16-6.19 & 6.35**  **AP-17 Banking and Participant Payments**  **Section G.1.4.3 to G.1.4.5 & G.1.5.1**  **AP-17 Banking and Participant Payments** | | **Part A (Version 20.0 )**  **Part B 07 April 2017**  **Part C June 2017** | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| **Negative interest rates have been a feature of the Irish Euro market since the ECB introduced negative interest in June 2014. Most banks are now charging negative interest rates in respect of Euro deposits. Danske, as the SEM Bank, has not charged negative interest to date on (i) market funds held by SEMO on behalf of the market and (ii) collateral accounts on behalf of market participants.**  **The TSC currently only allows for positive interest to be applied. This inability by the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.**  **As result it is proposed to allow for the application of negative interest to be applied to all credit balances held with the SEM in the name of EirGrid Plc and SONI Ltd t/a SEMO, EirGrid and SONI as System Operators which would be in line with the ECB practices who introduced negative interest since June 2014.**  **The SEM Bank services will be going out for tender in early 2019 and this matter will be specifically addressed within that tender scope.** | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| 6.16 The Market Operator shall establish and operate in accordance with the Code:  1. a euro SEM Trading Clearing Account at a branch of the SEM Bank in Ireland; and  2. a pounds sterling SEM Trading Clearing Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Trading Payments calculated in accordance with the Code are to be made.  Each SEM Trading Clearing Account shall be an interest bearing account. Interest can be Negative or Positive  6.17 The Market Operator shall establish and operate in accordance with the Code:  1. a euro SEM Capacity Clearing Account at a branch of the SEM Bank in Ireland; and  2. a pounds sterling SEM Capacity Clearing Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Capacity Payments calculated in accordance with the Code are to be made.  Each SEM Capacity Clearing Account shall be an interest bearing account. Interest can be Negative or Positive  6.18 Any Interest credited and / or debited on the SEM Trading Clearing Accounts and the SEM Capacity Clearing Accounts shall accrue to the Market Operator and shall not therefore be part of those accounts for the purposes the trusts established under this section 6. The Market Operator shall take such Interest into account in proposing to the Regulatory Authorities any Market Operator Charge or component thereof.  6.19 A Participant may at any time provide a cash deposit as part of its Required Credit Cover as permitted pursuant to paragraph 6.162. Where a Participant decides to provide such a cash deposit, then the Participant shall instruct the Market Operator to establish and maintain a SEM Collateral Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to whether the Participant has a registered Unit in either Ireland or Northern Ireland respectively and so that the relevant cash deposit shall be paid into such SEM Collateral Reserve Account. Each SEM Collateral Reserve Account shall be an interest bearing account. Interest can be negative or positive. If a Participant elects to provide a cash deposit as part of its Required Credit Cover, then the Participant shall fully comply with any applicable Account Security Requirements (including, for the avoidance of the doubt, the Deed of Charge and Account Security) in relation to the provision of cash collateral as set out in paragraphs 6.20 and 6.21 of this Code and in Agreed Procedure 1 "Participant and Unit Registration and Deregistration", Agreed Procedure 9 "Management of Credit Cover and Credit Default" and Agreed Procedure 17 "Banking and Participant Payments".  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 if credited to the relevant SEM Collateral Reserve Account unless the Participant requests otherwise.  2. However should interest be debited this shall be applied to the relevant SEM Collateral Reserve Account as appropriate  Part A Agreed Procedure  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   **Glossary Part A**   |  |  |  |  | | --- | --- | --- | --- | | Interest | | means interest debited and or credited on the deposits in the SEM Trading Clearing Accounts, SEM Capacity Clearing Accounts and SEM Collateral Reserve Accounts. | | | SEM Collateral Reserve Assets | | means the aggregate of: (1) amounts from time to time credited to the SEM Collateral Reserve Account(s); (2) amounts which any Participant, where applicable, is from time to time obliged to pay to the credit of their respective SEM Collateral Reserve Accounts; and (3) Interest receivable and or payable on the SEM Collateral Reserve Account(s). | |   Part B  G.1.4.3 The Market Operator shall establish and operate in accordance with the Code:  a) a euro SEM Account at a branch of the SEM Bank in Ireland; and  b)a pounds sterling SEM Account at a branch of the SEM Bank in the United Kingdom,  to and from which all Trading Payments, Trading Charges, Capacity Payments and Capacity Charges calculated in accordance with this Code are to be made. Each SEM Account shall be an interest bearing account. Interest can be negative or positive  G.1.4.4 The Market Operator shall establish and operate in accordance with the Code:  a) a euro SEM Deposit Account at a branch of the SEM Bank in Ireland; and  b) a pounds sterling SEM Deposit Account at a branch of the SEM Bank in the United Kingdom,  For the purposes of cash pooling arrangements across SEM Bank accounts. Each SEM Deposit Account shall be an interest bearing account. Interest can be negative or positive  G.1.4.5 Any interest credited and or debited on amounts held in the SEM Accounts and the SEM Deposit Accounts shall accrue and belong to the Market Operator and shall not therefore be part of the amounts held in those accounts for the purposes of the trusts established under section G.1.6. The Market Operator shall take such Interest into account in proposing to the Regulatory Authorities any Market Operator Charge or component thereof.G.1.5.1 A Participant may at any time provide a cash deposit as part of its Required Credit Cover as permitted pursuant to paragraph G.9.1.3. Where a Participant decides to provide such a cash deposit, then the Participant shall instruct the Market Operator to establish and maintain a SEM Collateral Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to whether the Participant has a registered Unit in either Ireland or Northern Ireland (respectively) and so that the relevant cash deposit shall be paid into such SEM Collateral Reserve Account. Each SEM Collateral Reserve Account shall be an interest bearing account; Interest can be negative or positive. If a Participant elects to provide a cash deposit as part of its Required Credit Cover, then the Participant shall fully comply with any applicable Account Security Requirements (including, for the avoidance of doubt, the Deed of Charge and Account Security) in relation to the provision of cash collateral as set out in paragraphs G.1.5.1 and G.1.5.3 of this Code and in accordance with Agreed Procedure 1 " Registration", Agreed Procedure 9 "Management of Credit Cover and Credit Default" and Agreed Procedure 17 "Banking and Participant Payments".  Part B Agreed Procedure 17  2.1 Elements of the Banking Arrangements  The banking arrangements for financial Settlement consist of seven key elements that impact or result from Participants’ activities:  (a) amounts to be paid by Participants under the Code;  (b) amounts to be paid to Participants under the Code;  (c)drawdown of cash collateral;  (d)calls on Letter of Credit collateral;  (e)deposits into SEM Collateral Reserve Accounts; and  (f) deposit Interest and charges / fees on SEM Collateral Reserve Accounts. Interest can be negative or positive.2.7.4 Interest  If interest is credited to a SEM Collateral Reserve Account, a Participant may request repayment from that account using collateral refund process outlined in Agreed Procedure 9 “Management of Credit Cover and Credit Default”.  Capacity Code  J.3.3.2 If a Participant elects to provide a cash deposit as, or as part of, its Performance Security, then the Participant shall:  a) instruct the System Operators to establish and maintain a Reserve Account with the SEM Bank in either Ireland or the United Kingdom according to where the relevant Capacity Market Unit is located;  b) the Reserve Account shall be in the sole name of the System Operators with the designation “Reserve Account relating to [Insert Participant Details]”;  c) the Participant and the System Operators shall irrevocably instruct the SEM Bank to make payment against the sole instruction of the System Operators in accordance with this Code and the Bank Mandate. This Code shall take precedence over the Bank Mandate;  d) a Reserve Account shall be an interest-bearing account (Interest can be negative or positive)  , The Market Operator shall transfer quarterly to the relevant Participant the interest if credited to the relevant Reserve Account unless the Participant requests otherwise. However should interest be debited this shall be applied to the relevant SEM Collateral Reserve Account as appropriate  Glossary Capacity Code   |  |  | | --- | --- | | **Reserve Assets** | means the aggregate of:   1. amounts from time to time credited to the Reserve Account; 2. amounts which any Participant, where applicable, is from time to time obliged to pay to the credit of their respective Reserve Account; and 3. interest receivable and / or payable on the Reserve Account(s). | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| **Deposits held by Danske accrue interest at ECB rates – these reference rates have been negative since June 2014 and at -0.4% since March 2016. Danske as the SEM bank has not applied these negative rates to SEM deposits to date.**  T**his change would reflect current banking practice for the SEM Bank.** | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
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| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| **The TSC currently only allows for positive interest to be applied. This inability of the SEM Bank to charge negative interest rates has had a significant financial impact on the SEM Bank in terms of its return on providing SEM Bank services.** | | | | | |
| **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.)* | | |
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| ***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 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.**