

## **SEMO's summary of actions and responses to issues raised at Meeting 72 on MOD\_02\_17 'Unsecured Bad Energy Debt & Unsecured Bad Capacity Debt Timelines'**

At Modification Committee Meeting 72, with regards to MOD\_02\_17 on the process of Unsecured Bad Debt, an action was recorded on SEMO to assess the following alternative options:

- 1) Improved System functionality to reduce processing timelines;
- 2) Change to external Banking approval cut off deadlines of 14:30;
- 3) Investigate SEMO Overdraft facility;
- 4) Investigate the possibility of a Debit Note being issued in advance of the 17:00 Self Billing Invoice deadline, to give Generators timely information about the amount due to them;
- 5) Suppliers to investigate and comment back on potentially reducing the available time to remedy;

Please find below the outcome of SEMO's analysis:

- 1) **Improved System functionality to reduce processing timelines:** SEMO IT carried out a review of the process involving the calculation of the Debit Note after a Shortfall event has occurred and it has not been remedied within the timelines allowed; no action has been identified that could make the process any quicker neither at DB level nor at processing level. It has also been highlighted that although the number of units has increased significantly since the original tests at SEM go live, this has not impacted in any significant way, and timelines remain largely consistent with original tests. Improvements were carried out in a 2013 system release which automated a number of steps previously carried out manually.
- 2) **Change to external Banking approval cut off deadlines of 14:30:** this is an external deadline imposed, in particular, by bank's requirements in NI, in order to carry out same day payments. It has been confirmed that this is not a deadline that can be changed.
- 3) **Investigate SEMO Overdraft facility:** this issue had previously been investigated; however, given the potential different terms requested for these specific events, the question was raised again on whether the MO could avail of short term overdraft facility. Similarly to the original investigation, it has been confirmed that the MO could not avail of such facility for the following reasons:
  - a. the Market is designed to achieve a balance between payments in and payments out;
  - b. the MO only holds Participants' funds in trust, but cannot provide outgoing payments if it has not received all expected incoming payments;
  - c. due to provisions in paragraph 6.58, the function could not be limited to only a week and/or a set maximum amount (this will be explained in more details further down in this document); it results that the bank's position on overdraft cannot be negotiated on those terms;

- 4) **Investigate the possibility of a Debit Note being issued in advance of the 17:00 Self Billing Invoice deadline, to give Generators timely information about the amount due to them:** the Debit Note cannot be issued before the timelines for payment approval on the day (14.30) due to the system's processing and approval required; however it can be issued as per 6.57 deadline, by 17:00 on the original Self Billing Invoice Due Date (typically falling on a Thursday). This would give Generator sufficient notice of their payments which can be processed the next day at the earliest; the MO will make every effort to publish documents as soon as they are available and approved.
- 5) **Suppliers to investigate and offer comments back to the Panel, on potentially reducing the available time to remedy:** MO has not received comments to date as Suppliers were expecting the outcome of MO review of points 1) to 4) in advance of that.

SEMO has carried out further analysis on questions raised during the last Committee meeting and the proposed approach for a modification to the Code.

Further support was given by a more complete legal review and SEMO has come to the conclusion that, although the T&SC already provides rules to deal with the timing of payments to Generators in case of Unsecured Bad Debt, these are not explicitly clear and would benefit from a Modification that either clarifies some of the provisions or, in specific cases, fills the gaps that have been encountered.

The Market Operator has also identified scenarios where the provisions of the Code could be adapted, in practice and within the limits of reasonable endeavours, to offer a more flexible approach which would reduce the impact on Generators where possible, should these circumstances arise.

At Meeting 72, a Generator Member asked whether a Generator could be put in a position of owing money to the Market after the Debit Note calculation, for example in the case of an SRA to a Supplier.

This scenario had not been considered by SEMO prior to the meeting, and the initial assumption, which needed to be confirmed, was that the calculation is carried out on the invoiced amount, therefore not affecting Participants with zero Invoice payments due to SRA amounts.

This has since been investigated and SEMO can now clarify that, contrary to the initial assumption, as per calculation in 6.153 and 6.155, the smearing of a Shortfall is based on the Daily Payments plus Make Whole Payments before the application of SRAs and the calculation of the invoiced amount.

The result is that Generator Participants, with Initial Self Billing Invoices, could receive a Debit Note Excess as a consequence of an Unsecured Bad Debt calculation and become debtors to the Market. This could only happen in case of Generators having reallocated their payments to Suppliers via SRAs.

Paragraph 6.58 details the provisions around Debit Note Excess and the payments timelines which applies to those billing documents: 2 WDs after the date of Debit Note Excess instead of 3 WDs as stated in paragraph 6.50 for normal Invoices.

A Debit Note decreases the amount due to Generators from their original Self Billing Invoice, while Debit Note Excess assigns Generator an invoiced amount owed to the Market.

The intent of the Code around management of Debit note/Debit Note Excess payment, must be considered to be the same as that of normal invoicing: all outstanding incoming payments have to be received before the MO can oblige payments out. This is a fundamental principle of the Market

Consequently, the last sentence of paragraph 6.57 stating that “the Market Operator shall make payments ... in accordance with paragraph 6.50”, must be interpreted as to re-start the timelines of payments without any changes to those allowed as per paragraph 6.50; while paragraph 6.58 changes such timelines and specifies new ones.

The new payment date will therefore be set at 17:00, 4 WDs after the date the Debit Note and Debit Note Excess are issued, in line with regular timelines for Self Billing Invoices and in order to allow payments in to be received or remedied.

This scenario could be further complicated, as stated in 6.58, in the event that the new Excess Participant (Participant that changed from being a creditor to being a debtor to the Market), in receipt of a Debit Note Excess, also defaults and thereby triggers a new Shortfall procedure from scratch, in accordance with paragraph 6.55. This will require further smearing and new timelines will therefore apply until all funds due to the Market are received.

The Market Operator has investigated options to reduce, where possible, the timelines for paying out funds to Generators in case of Unsecured Bad Debt and has identified the following possible scenarios:

- 1) Where no Debit Note Excess has been produced in the smearing process, the MO could reduce the payment date from the current allowed 4 WDs to 17:00, 1 WDs after the date of the Debit Note was issued; this will mean just one additional WD from the original Self Billing Invoice Due Date, in line with the current Modification proposal; the payment day would fall on a Friday in this case;

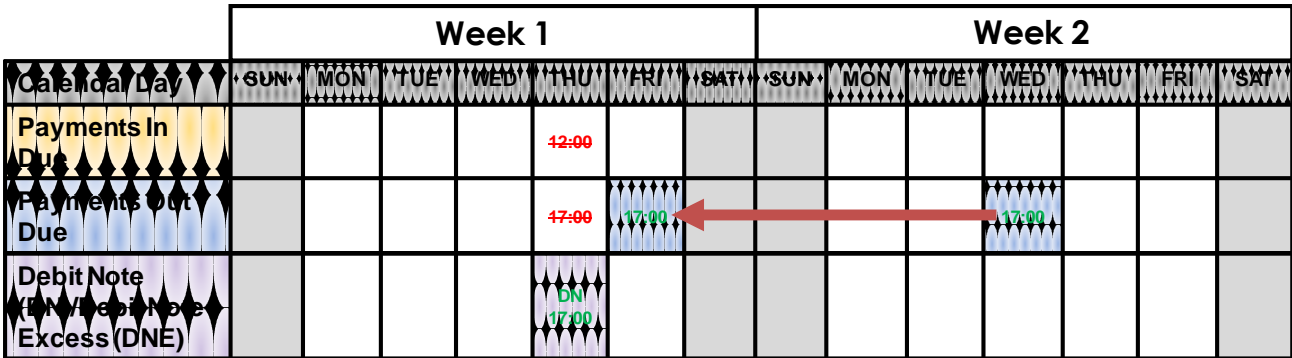


Figure 1: representation of potential revised payment date in case of Scenario 1

- 2) Where Debit Notes Excess have been created then the following scenarios can arise:
  - a. the new Excess Participants pay within the allowed 2 WDs: the MO could reduce the payment date from the current allowed 4 WDs to 17:00, 3 WDs after the date of the Debit Note; the payment day would fall on a Tuesday in this case; this is because Debit Notes and Debit Notes Excess are published by 17:00 on the original Self Billing Invoice Due Date (paragraph 6.57: “The Market Operator shall issue the appropriate adjustments to the Self Billing Invoices ... within the timeframe of making the payment”). In absence of specific

timelines, the 2 WDs allowing Excess Participants to pay their Debit Note Excess as per paragraph 6.58, must be interpreted as 2 full WDs ending at 17:00; therefore, the MO can only process payments out on the next available WD and not any earlier;

	Week 1							Week 2						
Calendar Day	SUN	MON	TUE	WED	THU	FRI	SAT	SUN	MON	TUE	WED	THU	FRI	SAT
Payments In Due					12:00				17:00					
Payments Out Due					17:00					17:00	17:00			
Debit Note (EN/Debit Note Excess (DNE))					12:00 DNE 17:00									

Figure 2: representation of potential revised payment date in case of Scenario 2a.

- b. the new Excess Participant does not pay within the allowed 2 WDs but pays within the time to remedy deadline of 12:00 on the next WD after the Invoice Due Date (paragraph 6.58 does not create new timelines for the time to remedy a Shortfall, but refers back to the standard timelines for any Shortfall as stated in paragraph 6.55): the MO could reduce the payment date from the current allowed 4 WDs to 17:00, 3 WDs after the date of the Debit Note; the payment day would fall on a Tuesday in this case;

	Week 1							Week 2						
Calendar Day	SUN	MON	TUE	WED	THU	FRI	SAT	SUN	MON	TUE	WED	THU	FRI	SAT
Payments In Due					12:00				17:00	12:00				
Payments Out Due					17:00					17:00	17:00			
Debit Note (EN/Debit Note Excess (DNE))					12:00 DNE 17:00									

Figure 3: representation of potential revised payment date in case of Scenario 2b.

- c. the new Excess Participant does not pay within the allowed 2 WDs nor within the deadline of the time to remedy of 12:00 on the next WD: the MO will trigger a new Unsecured Bad Debt Calculation and the process to establish timelines for payments out will start again from Scenario 1: the MO could reduce the payment date from the current allowed 4 WDs to 17:00, 1 WDs after the date of the Debit Note was issued; the payment day would fall on a Wednesday in this case; all other scenarios will also apply from the new date.

	Week 1						Week 2							
Calendar Day	SUN	MON	TUE	WED	THU	FRI	SAT	SUN	MON	TUE	WED	THU	FRI	SAT
Payments In Due					12:00				17:00	12:00				
Payments Out Due					17:00						17:00			
Debit Note Excess (DNE)					DN & DNE 17:00					DN 17:00				

Figure 4: representation of potential revised payment date in case of Scenario 2c. and re-start from Scenario 1

The MO has also considered whether Generator’s Credit Cover could be used to fund Debit Notes Excess payment or Shortfalls deriving from non-payment of Debit Note Excess in scenarios 2b. and 2c. above; this would not be a viable option due to the 50€ limit for using Cash Collateral to pay outstanding Invoices (section 3.5.1 of AP09) and because Generators Credit Cover may not be sufficient to cover all potential Shortfalls; the drawdown process itself would be an additional onerous step on top of the other critical processes that are triggered in an Unsecured Bad Debt event. The duration of the process and the relevant approvals required, would push out the timelines already identified in scenarios 2b. and 2c. above;

Should the time to remedy a Shortfall in 6.55 be changed, as proposed in the alternative solutions included in MOD\_02\_17, potentially the MO could slightly adjust some of the timelines indicated in the scenarios above; however, it should be taken into consideration that the MO to date has come close to such an event in 4 occasions; the process has never been triggered because in all cases the payments from the affected Suppliers was received overnight or on the Thursday morning before the 12:00 deadline.

A change to such deadline will increase the chance of these, normally very rare, events being triggered more often, increasing risks for both Suppliers and Generators.

The MO will seek to re-submit a new version of Mod\_02\_17 to take account of any feedback received.

In addition it has been noted that Agreed Procedure (AP) 15 is lacking references to Debit Note Excess which will need to be rectified; therefore the process steps in AP15 are not correct and should not be referenced for this process. AP15 also still refers to those manual steps which were automated following the system release on Unsecured Bad Debt in 2013; these will need to be amended.

The MO would also like to highlight that proposed modification to these provisions were also presented in the context of the I-SEM Market Rules Working Group in Meeting V and VI. As changes to these rules were not supported by an existing SEMC decision, and did not receive a strong endorsement within the Working Group, they were left unchanged from the current Market.

Please note that any adjustment to the payment dates proposed in the scenarios above, only refers to current systems and a separate assessment will be required for I-SEM.

**Katia Compagnoni**  
MO Member to Modification Panel