29th November 2019

Agreed Procedure Notification
Mod_04_19 Running Indicative Settlement on all days

1 MODIFICATIONS COMMITTEE MEETING 89 MINUTES

Proposer IWEA

The Proposer summarised the rationale for this Modification Proposal stating that currently indicative settlement is not run on non-working days and this proposal seeks to have indicative settlement run on working and non–working days. The result of this is a large over collateralisation due to traded not delivered volumes being exaggerated for days for which indicative settlement has not been completed. The figures quoted in the Modification Proposal justification form were questioned by DSU representative with the Proposer accepting he could not provide further clarity.

An MDP member confirmed that the above was previously assessed and was not progressed due to costs that weren't viable. They also confirmed that it is only Saturdays and Sundays all year around (and not all holidays) when metering aggregations for indicative settlement are not run. TSO Member also advised that this would also impact on their working processes and whilst already operating on a 7 day working week there would indeed be an impact both in terms of data and resourcing. MO Member reiterated the TSO position and confirmed this would be the same for the MO.

A discussion began around the possibility of using contingency data to minimise the impact. It was noted by Participants that this might not actually reduce the issue and could actually exacerbate it, as indeed this happened during Market trials with contrasting results. A further alternative whereby indicative settlement runs were caught up on prior to the next credit report being determined was considered and deemed as having potentials. This option would need to have an impact assessment done and it was agree that this would be explored first rather than assessing the impact of carrying out indicative settlement runs on non-working days which would only be reconsidered if the alternative was not viable. The proposal was deferred.

2 MODIFICATIONS COMMITTEE MEETING 90 MINUTES

SEMO confirmed that this modification is being worked on and progressed with the proposers. The proposers were present and agreed that this would be discussed again in June.

3 MODIFICATIONS COMMITTEE MEETING 92 MINUTES

The proposer delivered a presentation on the progress of this modification and thanked SEMO for the work they have put in to provide options for the next step in the process. The aim of this modification was to reduce collateral burden on clients on five day period over the holidays. There was proof of a significant financial strain on businesses. Proposer went through the options that SEMO had proposed and advised that option 3 was the preferred option as it is feasible, simple and could be implemented quickly.

There were six options available in total with only option 3 and 6 considered feasible. The proposer confirmed that these two options could be reviewed in more detail with a decision being proposed at the next meeting in August.

A generator member discussed the implications of option 3 and not running a credit report on the Monday after a weekend or a bank holiday. It was advised that there should be an analysis of the amount of credit that would not be collected if there is a bad debt and the possibility that the exposure to single units could be large. Assessment need to show if the credit report run on the Friday would be better than the Monday report. SEMO noted as well that behaviour might change if it is known that a credit report will not be processed on the Monday, therefore any analysis would be limited by the nature of the trading as it happens in the current conditions.

A Supplier member asked if this fixes itself on Tuesday anyway. It was confirmed that yes that would be correct, except it doesn't deal with contract refusal which will have a significant impact once implemented. Also, although there is a time to remedy, there is an obligation to act on CCINs. SEMO noted if you still have the last report of the Monday, it is not guaranteed that the Indicative will be fully run in time and there would be no possibility to update Credit postings, however the time to remedy will be based on working hours therefore it would still allow for a full working day after publication to finish after cob Tuesday. If credit report and CCINs instead are issued on a Tuesday, data would likely be more accurate.

Another question was raised if settlement report was not published could you skip the credit report on the Friday? SEMO stated that option 6 parameter change could not come through and might have impact – it would be static. A generator alternate stated that they wouldn't be keen to have the same parameters for working day and non-working days. The proposer suggested a Working Group may be required to tease out all options and analysis would provide a great deal of value.

Secretariat explained the process for Working Group and the terms of reference initiate with a modification. Terms of reference can still be issued based on this modification, even though, as currently drafted, it refers to one of the unfeasible option. The WG final report would clarify whether the original Mod should be withdrawn and replaced by a new modification. Proposal has been deemed not feasible and a Working Group will be created to discuss the merits of all different solutions.

4 MODIFICATIONS COMMITTEE MEETING 93 MINUTES

A Working Group has been provisionally scheduled for Thursday, 19th September 2019. The Terms of Reference have been circulated to the committee with comments or tracked changes due by Monday, 26th August with an invitation to follow seeking expressions of interest.

This Proposal was deferred pending the outcome of the Working Group.

5 WORKING GROUP 1

The proposer of this modification made an introduction and delivered a reminder of the original presentation which was shown at Meeting 92 on 27th June 2019. He summarised that the aim of this proposal was to reduce the collateral requirement and come away with a recommendation to go to the Modifications Committee by 10th of October 2019.

When the modification was first discussed it was acknowledged that an unfair increase in exposure on the first Working Day after a weekend or a Bank Holiday was a problem. Six options were investigated and it was found that 2 options were not feasible, 2 very complex and lengthy, 1 simple feasible and one other feasible complex option not preferred and not feasible.

It was noted that the 2 complex options would require further investigation. The feasible complex one would involve system changes and the feasible simple is the preferred option which would mean cancel a report after a bank holiday or weekend.

SEMO delivered a presentation on the analysis that was carried out on Credit Cover Requirements data and how it changed from Fridays to Mondays. They looked at a sample of dates over weekends and bank holidays and went through percentages and individual values. The proposer compared the results on graphs with their own data confirming the trend.

The most relevant time period was Easter as there is a break from Thursday to Tuesday. The material example shows significant issues for 14 participants while the remaining majority are covered. The proposer noted that gas prices are low at Easter so this is a benign time so it could get worst in winter with high prices and around Christmas.

The RAs expressed their shock at the increase in values with some increasing as much as 12.5 times. The presenter explained that requirements could swing from negative to positive. Generators are always negative in the beginning and the figure for small to moderate windfarms seems correct.

A DSU member also explained that this is in line with selling into the ex-ante market.

The RAs stated that when they did credit parameters SEMO and Market Reform did analysis and set those parameters to avoid spikes like this. There shouldn't have been spikey credit increases whilst waiting for the settlement report. It was agreed that there was definitely an issue for longer bank holidays. Questions were raised on whether this is preventing ex-ante participants from entering ex-ante market or trading freely. SEMO also brought to the WG attention that there are obligations to communicate with ECC any time a suspension order is being issued. Should a breach occur on a Tuesday, either before a normal weekend or a bank holiday, the 3 days to resolve it would expire on Friday; if a Credit Cover Report is not run in the morning of the next available Working Day to check if the situation has been rectified, SEMO could either go ahead with the suspension order or could wait till the report is run in the afternoon, effectively given an additional day to the potential defaulter. SEMO will need to act with a degree of flexibility to run the early reports in such circumstances to avoid unnecessary suspension, if remedial action has been taken, and to contain the increased risk to the market.

It was summarised that option 3 was regarded as the most favourable option. An RA member expressed his great concerns about this option. RAs and SEMO had running agreement around putting in place contract refusal in the ex-ante markets, however cost provided from an Impact Assessment made it very difficult to implement. It is the RAs understanding that Contract Refusal would go some way towards limiting the issue with increased cover requirements. It was understood that credit reports cannot be run at the weekend and they understood that constraint. The concern is that a participant could trade way beyond their collateral position at the weekend and this could build over the bank holiday. Option 3 would give them more time just for the only purpose of reducing instance of high spikes in Credit Cover Requirements. The cancellation of the credit report makes a bad sub optimal position even worse.

A supplier member noted that contract refusal wouldn't reduce the level of collateral – still the same issue as the above. It would impact trade if not delivered. This would affect the undefined exposure period. It had the effect of reducing other areas of collateral requirement therefore would not necessarily address the issue discussed here.

A generator member stated that they were in the position of having a Settlement Reallocation Agreement and there could be participants who are not collateralised for a number of those days, however, they also felt uncomfortable with removing Credit Cover reports.

Option 4 and 5 on the list of options was reviewed and discussed. SEMO explained that these were more complex solutions and did not resolve the concerns about the build-up of risk over the weekend. A DSU member stated they would be in favour of option 4 as it seeks to get the calculations correct. One way of doing it would be to weigh up and assess energy delivery imbalance without doing whole settlement. Other options were explored including using Metered Data or Dispatch Quantities in credit reports before settlement is run. However these options were dismissed by Settlement representatives as not possible with the current system. Other options explored by the proposer, included calculating an average of previous day Traded Non Delivered Quantity instead of waiting for the Settlement run to complete or using contingency and estimated data. This was also considered unfeasible and non-desirable as it could cause unintended consequences or have the opposite impact in particular for units coming back after an outage. Also settlement runs cannot be completed without a full set of data.

It was also noted that systems are not designed for any of the above proposals to be implemented as manual processes. The Working Group was requested to consider the increased risks of rogue trades to be incurred versus over collateralisation if choosing option 3.

The possibility of not running credit reports for a particular participant such as Wind which is more impacted by this change. A SEMO settlement representative confirmed they could do this but could not publish partial reports. It was noted that it would be difficult to select which unit should avail of this option as it impacted more unit types than just Wind.

A DSU member stated that generally DSUs are not participating in ex-ante markets so the issue is low on priority. State aid changes will make them equal to any other standard Generators and therefore they will also be impacted. As it stands there is very little ex-ante trading from DSUs.

Option 4 was looked at again. The RAs stated that they would prefer to explore alternatives to option 3 if possible as a modification that increases the risk of market exposure will not be welcome. The proposer noted that exposure is there already. There will never be a perfect way to stop someone from doing this. Timing of NEMO is just too quick for meaningful intervention.

SEMO asked the proposers what the main concerns were in having CCINs that would be likely cancelled in subsequent reports within the time of remedy. It was reaffirmed that it is not efficient to have to increase collateral to continuously avoid CCINs. It was asked if it would not recalculate the following day but was refuted that you could take the risk that everything will be in order in settlement and stakeholders would not accept ignoring CCINs as practice. When the settlement period wasn't run, the credit reports were run which creates a risk for participants that their CCINs would not be cancelled in time. Breaches should be avoided as much as possible.

A discussion then ensued around settlement and reporting. If the settlement doesn't catch up on the settlement runs, SEMO should not create the credit reports. However it was reiterated that there is a Code obligation to run the report at least once a day.

RAs admitted that possibly their concern is such an extreme case and that there is no actual remedy at this point in time. SEMO then noted that the best option was still option 3 and it should be possible to ensure that the last credit run would be completed at 5pm on the working day after the bank holiday/weekend. It was discussed at previous meetings, that the last run can't guarantee all indicatives being included. Improvements on the settlement systems have been carried out and the situation has improved on running timelines with the likelihood of at least one or two runs being captured regularly.

DSU member noted that it is down to indicative settlement going through. Monday prior to the Working Group all 3 indicatives were run by the end of the day. The proposers agreed that this was a satisfactory outcome as if 2 indicatives are run before the credit report it turns a Bank Holiday into a normal weekend which is less onerous.

An MDP member noted that since ISEM there have been a lot of changes to timings especially at the request of Windfarms that want data sent to SEMO as late as possible to be more accurate. SEMO asked if there was a possibility of anticipating issuing of data on Working Days after weekends/Banks Holidays, on the understanding that it could prejudice accuracy, and MDPs confirmed that timings can be changed for those scenarios. The combination of earlier data sent to SEMO, a prioritisation of Indicative runs before the last Credit Cover Report, and the cancellation of the first 2 Credit Reports in the first Working Days after weekends/Banks Holidays, would significantly reduce the occurrences of breaches and CCINs, therefore delivering a solution that seems to address the concerns of the proposers. This does not increase market risk as the last report of the day would have the most accurate position and the time of remedy would remain unchanged. Questions were raised on whether that should only apply to Bank Holidays or all weekends. According to the proposer having this applied to the weekend does not introduce additional risks therefore it should be considered. It was agreed that the proposer would draft the changes for the Panel to discuss.

6 MODIFICATIONS COMMITTEE MEETING 94 MINUTES

The proposer gave a brief overview of the proposal stating the main aim was to reduce collateral requirements resulting from approximation of Traded Not Delivered exposure relating to Non-Working Days. The Modification Proposal was raised in February with a number of options available to discuss in a Working Group which took place on Thursday, 19th September 2019. Version 2 of the proposal was developed which aims to reduce credit assessments to one per day at 3.30pm, on days following Non-Working Days to reduce collateral requirements for generators.

The Chair looked for assurance that the mechanism of this was clear. The proposer confirmed that there were no changes to calculations with only the latest of the three reports run. This would not change any other obligations, timelines or remedies.

SEMO reiterated that the assumption from the Working Group is that this would be a collective effort between SEMO and data providers. Final Credit Assessments and reports on the first Working Day would be delayed as much as possible while still meeting publication timelines with Meter Data files submitted as early as possible on the first Working Day to facilitate the completion of Indicative Settlement runs ahead of Credit Assessment.

The RA Member raised a concern that the drafting seemed a bit unclear of what the solution was and which days it covered. The proposer confirmed that is was intended to cover both Bank holidays and Weekends by implementing the new timings for the first subsequent Working Day and agreed to amended wording in the legal drafting to address the clarity issue.. The RA Member cited reservations about removing 104 credit assessments and referenced the process whereby they can intervene in the approval of Agreed Procedure Modifications via veto provisions. The Committee agreed to move to a vote subject to legal drafting changes to be captured in the Agreed Procedure Notification clarifying the targeting of the changes to the first Working Day following a Non-Working Day. The committee agreed to move to a vote.

This proposal was Recommended for Approval subject to legal drafting changes.

7 NOTIFICATION

As per Section B.17.21.2 of the T&SC, the Modifications Committee wishes to notify the RAs of the effective date for Mod_04_19 'Running Indicative Settlement on all days' to be the third Working Day following publication of AP notifications unless a veto is received from the Regulatory Authority. This Notification was published on Friday 29th November 2019.

8 LEGAL DRAFTING

As set out in the legal drafting section of Mod_04_19 'Running Indicative Settlement' on all days with the agreed legal drafting changes below :

Agreed Procedure 9

2.5.1 Warning Notices and Credit Cover Increase Notices

The procedural steps in relation to management of Credit Cover requirements are set out at section 3.1 below.

The Market Operator will carry out one Credit Assessment on the first Working Day following a Non-Working Day which will be carried out at 15:30 and three Credit Assessments on all other ~~each~~ Working Days. These will be carried out at 09:00, 12:00 and 15:30.