

Single Electricity Market

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| Final REcommendation ReportMod\_09\_18 Interim Credit Treatment for Participants with Trading Site Supply units 10 May 2018  |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 1.0 | 10 May 2018 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 2.0 | 25 May 2018 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| **Document Name** |
| [Trading and Settlement Code](http://www.sem-o.com/MarketDevelopment/MarketRules/TSC.docx) |
| [Modification Proposal](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_09_18%20-%20Interim%20Credit%20Treatment%20for%20Participants%20with%20Trading%20Site%20Supply%20Units_V3.docx) |
| [Presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_09_18%20Interim%20Credit%20Treatment%20for%20Participants%20with%20Trading%20Site%20Supplier%20Units.pptx) |

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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for approval subject to legal drafting – unanimous vote

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| **Recommended for Approval by Unanimous Vote**  |
| Kevin Hannafin | Generator Member | Approved |
| Cormac Daly | Generator Member | Approved |
| Brian Mongan | Generator Member | Approved |
| William Steele | Supplier Member | Approved |
| Jim Wynne | Supplier Member | Approved |
| Julie-Anne Hannon (Chair) | Supplier Member | Approved |
| William Carr | Generator Member  | Approved |

# Background

This Modification Proposal was raised by SEMO and was received by the Secretariat on 14 February 2018.

Version 1 Explanation

Mod\_03\_18 ‘Autoproducer Credit Cover’ was raised By Aughinish Alumina Ltd with the aim of addressing an issue for their Autoproducer whereby their credit requirements in Part B were seen as potentially higher than expected as an unintended consequence of the removal of the Netting Generator Unit which applies under Part A.

The Netting Generator Unit in Part A was used to provide for netting between Generation and Demand, where a Trading Site Supplier Unit is registered for a Trading Site as is the case for Autoproducers, for both settlement and credit requirement calculation purposes.

This is no longer the approach in Part B since the netting is done directly; however, this has had the unintended consequence of resulting in demand and generation being treated gross for credit calculations so that the demand volume is given a higher credit posting obligation than that which is offset by the same volume of generation (due to imperfections, analysis percentile parameter application etc at the Supplier Unit).

This results in an potentially higher representation of credit exposure to the Balancing Market for such Participants for demand and generation volumes which are essentially netted behind the connection point and therefore treated on a net basis so that they result in no exposure in reality.

During discussions on Mod\_03\_18 at meeting 79 a number of points were raised, key among them are the following;

* At this stage in the I-SEM system build it is not possible to apply remedial action in the systems for go live
* Other Trading Sites with Trading Site Supplier Units (e.g. DSUs etc.) are also likely to be affected in a similar way
* The proposed modification may address issues for Aughinish Alumina Ltds’ Autoproducer but not for all affected Participants

As a result, the Modifications Committees conclusion was that the most appropriate way forward was to defer Mod\_03\_18 with a view to setting up a working group to arrive at a proposal which will address the issue for all Participants which can then be implemented in the systems as early as possible post go live.

In the interim, until a system driven change can be delivered, SEMO were tasked with raising a proposal to address the issue from I-SEM go live by treating affected Participants as Adjusted Participants with the associated forecast volumes treated in such a way as to arrive at the appropriate Required Credit Cover by accounting for the netting of generation and demand. This proposal aims to make such a provision within the interim section of Part B.

Version 2 Updates

When this proposal was presented at Meeting 81 two items were raised which require legal drafting changes. The key concern centred on how/if the approval requirement should be applied and who this mechanism should be available to.

There was also some discussion at the meeting on whether the duration for the interim proposal should be a fixed time period or based on a deployment date to be confirmed at a later date when we know when an enduring solution will be available similar to the approach for deferral proposals. The Regulatory Authorities and SEMO indicated that they would follow up on these items outside the meeting prior to SEMO circulating a second version of the proposal which aims to addresses them.

This second version seeks to make the mechanism available to Participants who have registered the two unit types known to be affected by the issue on request (Autoproducers and Demand Side Units) without the need for approval so that the legal drafting now states that Participants with Autoproducer or Demand Side Units may request this treatment and that SEMO will facilitate this where they do. This avoids the need for approval processes and associated criteria being defined.

On review we have also decided to follow the approach used for deferrals in terms of the duration applied for this interim provision. This is predominantly to have a consistent approach for interim provisions for deferrals and otherwise.

Note that the updated legal drafting means that this approach will not be available to Participants with Trading Site Supply Units on sites which do not contain a Demand Side Unit or an Auto producer Unit. This is intentional since the impact on such Participants is not confirmed and if the issue does affect such Participants it is expected to be minor since demand volumes there are small house loads. In addition, no Participant with this set up has raised any concern in contrast to those with Auto producer and Demand Side Units.

The proposal was discussed at Meeting 81 and voted on at Meeting 82 on 23 March 2018.

Version 3 Update

Version 3 adds the text ‘and that date shall be no later than Mod 03\_18 Deployment Date’ to the glossary definition of Mod\_09\_18 Deployment Date as agreed during the discussion at Meeting 82.

# PURPOSE OF PROPOSED MODIFICATION

**3A.) justification of Modification**

This proposal seeks to make an interim provision to apply an amended treatment to Credit Calculations for affected Participants so that the issue of gross treatment of net generation and demand volumes in credit calculations leading to over collateralization and overly burdensome credit requirements for those affected (discussed in more detail in the ‘explanation of proposed change’ section) does not arise from ISEM go live.

This will ensure that the appropriate level of Required Credit Cover will be calculated for those affected.

While the modification applies only for the first eighteen months after the Cutover Date, this can be revised through further modification when an enduring solution is developed through the separate working group process and the implementation timelines for this solution are finalised with market system vendors.

**3B.) Impact of not Implementing a Solution**

If this proposal is not implemented the SEM may be over collateralized and affected Participants may be exposed to higher credit requirements than would have originally been intended by the market design.

This could also potentially result in commercial issues for those affected and also have an adverse impact on trading and liquidity (see Mod\_03\_8 for specific implications for Aughinish Alumina Ltd.).

**3c.) Impact on Code Objectives**

1. to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

Facilitates efficient and economic operation of the SEM by removing inefficient and uneconomic overcollateralization.

1. to facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity in the trading arrangements under the Single Electricity Market;

Facilitates Participation by removing unnecessarily and inappropriately burdensome credit requirements.

1. to ensure no undue discrimination between persons who are parties to the Code; and o

Ensures no undue discrimination by ensuring that credit requirements are fair and reflective of actual exposures for those Participants affected by the issue.

1. **Assessment of Alternatives**

N/A

# Working Group and/or Consultation

N/A

# impact on systems and resources

Minimal impact on credit processes for SEMO and affected Participants since the Adjusted Participant approach proposed requires submission and treatment of forecast volumes (note that since all Participants are treated as New Participants for go live, forecast volumes will have to be submitted either way so that the Participant impact is negligible)

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting  **81 – 13 March 2018**

Proposer delivered a [presentation](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_09_18%20Interim%20Credit%20Treatment%20for%20Participants%20with%20Trading%20Site%20Supplier%20Units.pptx) summarising the requirement for this proposal explaining this is the interim measure in mitigation of the Mod\_03\_18 Auto producer Credit Cover issue, the latter which will be the enduring solution to the issue but is subject to further work including through a working group. Proposer advised that this modification was adopting a flexible and straightforward approach. Proposer also stressed that he was mindful of timelines and initial credit cover calculations.

Members discussed the various options and areas of concern such as eligibility criteria for availing of the interim approach and arbitration of any such process were addressed. Supplier Member was also keen to ensure that any such solution was effective for DSU participants also and that this needed to be considered. Proposer suggested a further proposal that could take all the comments expressed onboard that could result in the MO assessing criteria with RAs being the point of appeal. RA member re-iterated concern with regard to eligibility criteria (and related principles for determining eligibility) and a lack of clarity as to how an appeal process would work and suggested he and the MO Member followed up outside the meeting to determine an appropriate approach.

Due to timelines of credit requirements in relation to go-live it was agreed that Proposer will issue version 2.0 of this proposal to the committee for a week review period and an Extraordinary Meeting will be scheduled to progress this modification.

## Meeting  **82 – 23 March 2018**

Proposer discussed the changes made in version 2.0 of this proposal. Generator Member queried any lead time in such an application process. Proposer advised that it would be the same timelines as any request for a forwarded adjusted participant. It was also clarified that this would be built into go live processes. It was also advised that this would be captured under transition timescales.

Use of the wording ‘deployment date’ was questioned in detail with concerns that this was ambiguous. RA Member stressed the importance of consistency advising that similar drafting had been used elsewhere. Several members also shared this concern and alternative drafting was explored. Observer voiced serious reservations about possible clauses in the enduring code with no end date.

It was proposed that the FRR can explain the context that the deployment date is related to the expiration of the application of the interim solution under MOD\_09\_18 (as opposed to the commencement of the application of the interim solution under MOD\_09\_18). The aim is to clarify in the definition of “MOD\_09\_18 Deployment Date” that the application of the interim solution falls away once the enduring solution currently being addressed under MOD\_03\_18 comes into force. The definition of “MOD\_03\_18 Deployment Date” and how it is described should bear this in mind.

Supplier member proposed legal drafting that the committee agreed with – [version 3.0](http://www.sem-o.com/MarketDevelopment/ModificationDocuments/Mod_09_18%20-%20Interim%20Credit%20Treatment%20for%20Participants%20with%20Trading%20Site%20Supply%20Units_V3.docx) contains the agreed drafting.

Committee were in agreement to vote subject to the agreed legal drafting.

# Proposed Legal Drafting

As set out in Appendix 1.

# LEGAL REVIEW

N/A

# IMPLEMENTATION TIMESCALE

It is proposed that this Modification is implemented on a Trading Day basis with effect from one Working Day after an RA Decision.

# Appendix 1: Mod\_09\_18 Interim Credit Treatment for Participants with Trading Site Supply Units

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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** | **16 March 2018** | **Standard** | **Mod\_09\_18 version 3.0** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Christopher Goodman** |  | **Christopher.goodman@sem-o.com** |
| **Modification Proposal Title** |
| **Interim Credit Treatment for Participants with Trading Site Supply Units** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B****Glossary Part B** | **Section H****Glossary**  | **Version 20** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| Version 1 ExplanationMod\_03\_18 ‘Autoproducer Credit Cover’ was raised By Aughinish Alumina Ltd with the aim of addressing an issue for their Autoproducer whereby their credit requirements in Part B were seen as potentially higher than expected as an unintended consequence of the removal of the Netting Generator Unit which applies under Part A.The Netting Generator Unit in Part A was used to provide for netting between Generation and Demand, where a Trading Site Supplier Unit is registered for a Trading Site as is the case for Autoproducers, for both settlement and credit requirement calculation purposes. This is no longer the approach in Part B since the netting is done directly; however, this has had the unintended consequence of resulting in demand and generation being treated gross for credit calculations so that the demand volume is given a higher credit posting obligation than that which is offset by the same volume of generation (due to imperfections, analysis percentile parameter application etc at the Supplier Unit). This results in an potentially higher representation of credit exposure to the Balancing Market for such Participants for demand and generation volumes which are essentially netted behind the connection point and therefore treated on a net basis so that they result in no exposure in reality.During discussions on Mod\_03\_18 at meeting 79 a number of points were raised, key among them are the following;* At this stage in the I-SEM system build it is not possible to apply remedial action in the systems for go live
* Other Trading Sites with Trading Site Supplier Units (e.g. DSUs etc.) are also likely to be affected in a similar way
* The proposed modification may address issues for Aughinish Alumina Ltds’ Autoproducer but not for all affected Participants

As a result, the Modifications Committees conclusion was that the most appropriate way forward was to defer Mod\_03\_18 with a view to setting up a working group to arrive at a proposal which will address the issue for all Participants which can then be implemented in the systems as early as possible post go live. In the interim, until a system driven change can be delivered, SEMO were tasked with raising a proposal to address the issue from I-SEM go live by treating affected Participants as Adjusted Participants with the associated forecast volumes treated in such a way as to arrive at the appropriate Required Credit Cover by accounting for the netting of generation and demand. This proposal aims to make such a provision within the interim section of Part B.Version 2 UpdatesWhen this proposal was presented at Meeting 81 two items were raised which require legal drafting changes. The key concern centred on how/if the approval requirement should be applied and who this mechanism should be available to. There was also some discussion at the meeting on whether the duration for the interim proposal should be a fixed time period or based on a deployment date to be confirmed at a later date when we know when an enduring solution will be available similar to the approach for deferral proposals. The Regulatory Authorities and SEMO indicated that they would follow up on these items outside the meeting prior to SEMO circulating a second version of the proposal which aims to addresses them. This second version seeks to make the mechanism available to Participants who have registered the two unit types known to be affected by the issue on request (Autoproducers and Demand Side Units) without the need for approval so that the legal drafting now states that Participants with Autoproducer or Demand Side Units may request this treatment and that SEMO will facilitate this where they do. This avoids the need for approval processes and associated criteria being defined.On review we have also decided to follow the approach used for deferrals in terms of the duration applied for this interim provision. This is predominantly to have a consistent approach for interim provisions for deferrals and otherwise.Note that the updated legal drafting means that this approach will not be available to Participants with Trading Site Supply Units on sites which do not contain a Demand Side Unit or an Autoproducer Unit. This is intentional since the impact on such Participants is not confirmed and if the issue does affect such Participants it is expected to be minor since demand volumes there are small house loads. In addition, no Participant with this set up has raised any concern in contrast to those with Autoproducer and Demand Side Units. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| Version 1 Legal Drafting (no longer applies)H.10 Until the date that is eighteen months after the Cutover Time any Participant who has registered a Trading Site Supplier Unit may, with prior approval from the Regulatory Authorities, be treated as an Adjusted Participant. The Credit Assessment Volumes for such a Participant, submitted in accordance with G.14.3.1 and G.14.4.1 for Supplier and Generator Units respectively, may be amended by the Market Operator in order to represent within Required Credit Cover calculations the extent to which Generation and Demand are netted for Settlement calculations.Version 2 Legal Drafting (intended approach)H.10       Until the date that is the Mod\_09\_18 Deployment Date, any Participant who has registered an Autoproducer Unit or a Demand Side Unit may apply to the Market Operator to be treated as an Adjusted Participant and the Market Operator shall facilitate this request. The Credit Assessment Volumes for such a Participant, submitted in accordance with G.14.3.1 and G.14.4.1 for Supplier and Generator Units respectively, may be amended by the Market Operator in order to represent within Required Credit Cover calculations the extent to which Generation and Demand are netted for Settlement calculations.Version 2 Glossary Definition Added

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| **Mod\_09\_18 Deployment Date** | means the date proposed by the Market Operator following discussion with the Modifications Committee, and approved by the Regulatory Authorities for the purpose of H.10, such date to be published on the Market Operator web site at least three Working Days in advance of the date concerned, and that date shall be no later than Mod 03 Deployment Date. |

 |
| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| This proposal seeks to make an interim provision to apply an amended treatment to Credit Calculations for affected Participants so that the issue of gross treatment of net generation and demand volumes in credit calculations leading to over collateralization and overly burdensome credit requirements for those affected (discussed in more detail in the ‘explanation of proposed change’ section) does not arise from ISEM go live.This will ensure that the appropriate level of Required Credit Cover will be calculated for those affected.While the modification applies only for the first eighteen months after the Cutover Date, this can be revised through further modification when an enduring solution is developed through the separate working group process and the implementation timelines for this solution are finalised with market system vendors.Version 2 UpdateThe justification for this proposal is broadly unchanged but we would note that the second version proposes that this provision applies for an open ended period from ISEM go live with the end date for this to be determined at a later date. |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| 1. to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

Facilitates efficient and economic operation of the SEM by removing inefficient and uneconomic overcollateralization. 1. to facilitate the participation of electricity undertakings engaged in the generation, supply or sale of electricity in the trading arrangements under the Single Electricity Market;

Facilitates Participation by removing unnecessarily and inappropriately burdensome credit requirements.1. to ensure no undue discrimination between persons who are parties to the Code; and

Ensures no undue discrimination by ensuring that credit requirements are fair and reflective of actual exposures for those Participants affected by the issue. |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| If this proposal is not implemented the SEM may be over collateralized and affected Participants may be exposed to higher credit requirements than would have originally been intended by the market design. This could also potentially result in commercial issues for those affected and also have an adverse impact on trading and liquidity (see Mod\_03\_8 for specific implications for Aughinish Alumina Ltd.). |
| **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.)* |
| No | Minimal impact on credit processes for SEMO and affected Participants since the Adjusted Participant approach proposed requires submission and treatment of forecast volumes (note that since all Participants are treated as New Participants for go live, forecast volumes will have to be submitted either way so that the Participant impact is negligible) |
| ***Please return this form to Secretariat by email to*** ***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.**