



# Single Electricity Market

**FINAL RECOMMENDATION REPORT**

**MOD\_04\_22 ALTERNATIVES TO LIBOR**

**28 FEBRUARY 2022**

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## Document History

Version	Date	Author	Comment
1.0	28 Feb 2022	Modifications Committee Secretariat	Issued to Modifications Committee for review and approval
2.0	7 Mar 2022	Modifications Committee Secretariat	Issued to Regulatory Authorities for final decision

## Reference Documents

Document Name
<a href="#">Trading and Settlement Code Proposal</a>

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## 1. MODIFICATIONS COMMITTEE RECOMMENDATION

### RECOMMENDED FOR APPROVAL– UNANIMOUS VOTE

Recommended for Approval by Unanimous Vote		
Andrew Burke	Renewable Generator Member	Approve
David Gascon	Generator Alternate	Approve
Robert McCarthy	DSU Member	Approve
David Caldwell	Supplier Alternate	Approve
Ian Mullins	Supplier Alternate	Approve
Sean McParland	Generator Alternate	Approve
Paraic Higgins (Chair)	Generator Member	Approve
Nick Heyward	Flexible Participant Alternate	Approve
Rochelle Broderick	Supplier Member	Approve
Brigid Reilly	Supplier Alternate	Approve
Bryan Hennessy	Supplier Member	Approve
Patrick Larkin	Assetless Alternate	Approve
Stacy Feldmann	Generator Member	Approve

## 2. BACKGROUND

This Urgent Modification Proposal was raised by SEMO and received by the Secretariat on the 4<sup>th</sup> February 2022. The Proposal was raised and voted on at Meeting 109 on the 10<sup>th</sup> February 2022.

Daily LIBOR rates (both € and £) have ceased, since 31/12/2021, and SEMO would like to propose alternative interest rates. SEMO would like to replace LIBOR with the below overnight rates:

1. SONIA for £  
(<https://www.bankofengland.co.uk/markets/sonia-benchmark>)
2. €ster (ESTER) for €  
([https://www.ecb.europa.eu/stats/financial\\_markets\\_and\\_interest\\_rates/euro\\_short-term\\_rate/html/index.en.html](https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/index.en.html))

The Bank of England Base rate (BoEBR) is not being used for the following reasons:

- It is the rate that the BoE will pay commercial banks for funds on deposit with them. As such it is quite different to LIBOR – rate at which banks will lend to each other.
- Also given its nature it tends to be static for very long periods of time.

€ster (ESTER) for € is being selected as:

- It is the replacement for EONIA, a € equivalent to SONIA for £
- EURIBOR is not being selected as it is more used as a term rate (e.g. 1month, 3month, 6month etc) whereas SEMO require an overnight rate.

### 3. PURPOSE OF PROPOSED MODIFICATION

#### 3A.) JUSTIFICATION OF MODIFICATION

The modification is to replace a ceased metric used in the market. We feel the alternatives chosen to LIBOR are the natural replacements.

#### 3B.) IMPACT OF NOT IMPLEMENTING A SOLUTION

As daily LIBOR has now ceased an alternative is being sought so accurate interest rates can be used.

#### 3C.) IMPACT ON CODE OBJECTIVES

The modification furthers the following code objective:

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

This Modification would enable a seamless transition from LIBOR to the alternatives chosen.

### 4. WORKING GROUP AND/OR CONSULTATION

N/A

### 5. IMPACT ON SYSTEMS AND RESOURCES

n/a

### 6. IMPACT ON OTHER CODES/DOCUMENTS

N/A

### 7. MODIFICATION COMMITTEE VIEWS

#### MODIFICATIONS MEETING 109 – 10 FEBRUARY 2022

The Proposer delivered the Modification Proposal noting that LIBOR had ceased, and SEMO were offering two alternative rates, SONIA for Sterling and Ester for Euro. It was advised these would be the better replacements as advised by the treasury advisor; other alternative rates were explored but they were not available with the same frequency as LIBOR or they would not change as dynamically as the ones proposed. The Proposer went through the legal drafting noting that SEMO would require an overnight rate.

It was advised that this Modification was submitted as Urgent due to the latest LIBOR rate being used since the 31<sup>st</sup> December and not being update since. The use of more relevant rates would be needed going forward.

A Generator Member asked how quickly this would be implemented and assurance was given by the Proposer that as it was a straightforward process amendment it would be actioned quickly as soon as approved by the SEMC, as no system changes are required.

A Supplier Member questioned the LIBOR static rate at present, the differential between SONIA, Ester and LIBOR and if Participants should expect a steep change in their Settlement Documents. The proposer explained that with LIBOR static since the 31<sup>st</sup> of December, there were minor differences with the SONIA rates of approximately 3%, while the Ester rate was still very similar. It was expected that Participant could notice some changes at first due to the rate applied so far not having been updated since the 31<sup>st</sup> December but those difference would smooth out once more accurate rates are used going forward. There was a request for more clarity in the language used in Section 2.6.1 of the Modification around the use of SONIA for sterling and Ester for Euro. The Proposer agreed that this could be taken away and re-worded for the FRR.

MO Member added that there would be similar changes for the Capacity Market Code but with LIBOR only used for default in Capacity, the change would not be as urgent as for the Balancing Market.

**8. PROPOSED LEGAL DRAFTING**

Due to comments at Meeting 109, clarifications of the use of SONIA for Sterling and ESTER for Euro had been requested and the Proposer resubmitted the legal drafting to take the request into account; the legal drafting was resubmitted as follows and it is replacing the originally submitted Modification in its entirety.

<b>Amendments to Glossary Part B:</b>	
Default Interest	means interest paid at a rate of interest being two percent (2%) above <b>SONIA for Sterling or ESTER for Euro</b> .
<b>LIBOR</b>	<b>means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) on the banking day immediately following the due date for the payment of a sum due under the Code for overnight deposits in the Currency of such sum.</b>
<b>SONIA</b>	<b>means the Sterling Overnight Index Average and is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. This rate is published by the Bank of England.</b>

ESTER	means euro short-term rate (€STR) and reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area and is published on each business day based on transactions conducted and settled on the previous business day. This rate is published by the European Central Bank.
Resettlement <del>LIBOR</del> SONIA	means the rate published <del>in the London Financial Times as the London Interbank Offered Rate (for the previous banking day)</del> by the Bank of England (for the previous day). Resettlement <del>LIBOR</del> SONIA is then used for each day in the <i>period between Initial Payment due date of the original Settlement Document +1 day until the date of issue of the latest Settlement Document</i> in Sterling.
Resettlement ESTER	means the rate published by the European Central Bank (for the previous day). Resettlement ESTER is then used for each day in the <i>period between Initial Payment due date of the original Settlement Document +1 day until the date of issue of the latest Settlement Document</i> in Euro.
<b>Amendments to Agreed Procedure 15 Part B</b>	
<b>2.6.1 Settlement Rerun</b>	
Interest is applicable whenever the Settlement Rerun increases or decreases the total amount payable for a Billing Period or Capacity Period. Interest in this case shall be charged at <del>LIBOR</del> SONIA for Sterling or ESTER for Euro plus 1%.	
Amendments to Agreed Procedure 15 Part B Appendix 1:	
4. <b>Daily Interest Rate</b> is calculated as the interest rate, on a particular day which is charged at <del>LIBOR</del> SONIA for Sterling or ESTER for Euro + 1%, divided by the number of days in the year configured in the system.	

## 9. LEGAL REVIEW

N/A

## 10. IMPLEMENTATION TIMESCALE

It is recommended that this Modification is implemented on a Settlement Day basis on the first Settlement Day following publication of RAs decision.

## 1 APPENDIX 1: MOD\_04\_22 ALTERNATIVES TO LIBOR

### MODIFICATION PROPOSAL FORM

<b>Proposer</b> <i>(Company)</i>	<b>Date of receipt</b> <i>(assigned by Secretariat)</i>	<b>Type of Proposal</b> <i>(delete as appropriate)</i>	<b>Modification Proposal ID</b> <i>(assigned by Secretariat)</i>
SEMO	4 <sup>th</sup> February 2022	Urgent	Mod_04_22

#### Contact Details for Modification Proposal Originator

<b>Name</b>	<b>Telephone number</b>	<b>Email address</b>
John Tracey / Brian Sherwin		<a href="mailto:John.tracey@Eirgrid.com">John.tracey@Eirgrid.com</a>

#### Modification Proposal Title

#### Alternatives to LIBOR

<b>Documents affected</b> <i>(delete as appropriate)</i>	<b>Section(s) Affected</b>	<b>Version number of T&amp;SC or AP used in Drafting</b>
Glossary Part B	AP 15 2.6.1	Part B Glossary V25.0
Part B Agreed Procedure 15	AP 15 Appendix 1	Part B Agreed Procedure 15 V25.0

#### Explanation of Proposed Change

*(mandatory by originator)*

Daily LIBOR rates (both € and £) have ceased, since 31/12/2021, and SEMO would like to propose alternative interest rates. SEMO would like to replace LIBOR with the below overnight rates:

3. SONIA for £  
(<https://www.bankofengland.co.uk/markets/sonia-benchmark>)
4. €ster (ESTER) for €  
([https://www.ecb.europa.eu/stats/financial\\_markets\\_and\\_interest\\_rates/euro\\_short-term\\_rate/html/index.en.html](https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/index.en.html))

The Bank of England Base rate (BoEBR) is not being used for the following reasons:

- It is the rate that the BoE will pay commercial banks for funds on deposit with them. As such it is quite different to LIBOR – rate at which banks will lend to each other.
- Also given its nature it tends to be static for very long periods of time.

€ster (ESTER) for € is being selected as:

- It is the replacement for EONIA, a € equivalent to SONIA for £
- EURIBOR is not being selected as it is more used as a term rate (e.g. 1month, 3month, 6month etc) whereas SEMO require an overnight rate.

#### Legal Drafting Change

(Clearly show proposed code change using **tracked** changes, if proposer fails to identify changes, please indicate best estimate of potential changes)

#### Amendments to Glossary Part B:

Default Interest	means interest paid at a rate of interest being two percent (2%) above <b>SONIA or ESTER</b> .
<b>LIBOR</b>	<b>means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) on the banking day immediately following the due date for the payment of a sum due under the Code for overnight deposits in the Currency of such sum.</b>
<b>SONIA</b>	<b>means the Sterling Overnight Index Average and is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. This rate is published by the Bank of England.</b>
<b>ESTER</b>	<b>means euro short-term rate (€STR) and reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area and is published on each business day based on transactions conducted and settled on the previous business day. This rate is published by the European Central Bank.</b>
Resettlement <b>LIBOR SONIA</b>	means the rate published <b>in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) by the Bank of England (for the previous day).</b>

	Resettlement <b>LIBOR SONIA</b> is then used for each day in the <i>period between Initial Payment due date of the original Settlement Document +1 day until the date of issue of the latest Settlement Document in Sterling.</i>
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<b>Resettlement ESTER</b>	<p>means the rate published by the European Central Bank (for the previous day).</p> <p>Resettlement ESTER is then used for each day in the <i>period between Initial Payment due date of the original Settlement Document +1 day until the date of issue of the latest Settlement Document in Euro.</i></p>
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**Amendments to Agreed Procedure 15 Part B**

**2.6.1 Settlement Rerun**

Interest is applicable whenever the Settlement Rerun increases or decreases the total amount payable for a Billing Period or Capacity Period. Interest in this case shall be charged at **LIBOR SONIA or ESTER** plus 1%.

Amendments to Agreed Procedure 15 Part B Appendix 1:

- 5. Daily Interest Rate** is calculated as the interest rate, on a particular day which is charged at **LIBOR SONIA or ESTER** + 1%, divided by the number of days in the year configured in the system.

**Modification Proposal Justification**  
*(Clearly state the reason for the Modification)*

1. The modification is to replace a ceased metric used in the market. We feel the alternatives chosen to LIBOR are the natural replacements.

**Code Objectives Furthered**  
*(State the Code Objectives the Proposal furthers, see Section 1.3 of Part A and/or Section A.2.1.4 of Part B of the T&SC for Code Objectives)*

The modification furthers the following code objective:

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

<p>2. This Modification would enable a seamless transition from LIBOR to the alternatives chosen.</p>	
<p><b>Implication of not implementing the Modification Proposal</b>  <i>(State the possible outcomes should the Modification Proposal not be implemented)</i></p>	
<p>As daily LIBOR has now ceased an alternative is being sought so accurate interest rates can be used.</p>	
<p><b>Working Group</b>  <i>(State if Working Group considered necessary to develop proposal)</i></p>	<p><b>Impacts</b>  <i>(Indicate the impacts on systems, resources, processes and/or procedures; also indicate impacts on any other Market Code such as Capacity Market Code, Grid Code, Exchange Rules etc.)</i></p>
<p>N/A</p>	
<p><b>Please return this form to Secretariat by email to <a href="mailto:balancingmodifications@sem-o.com">balancingmodifications@sem-o.com</a></b></p>	