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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** | **28 November 2019** | **Standard** | **Mod\_24\_19** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Christopher Goodman** |  | **Christopher.Goodman@sem-o.com** |
| **Modification Proposal Title** |
| **Amendments to Unsecured Bad Debt and Suspension Provisions Related to Supplier of Last Resort** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC Part B****Agreed Procedures Part B** | **G.2.7****Agreed Procedure 15** | **Version 21** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| This proposal puts forward what Trading and Settlement Code changes may be necessary to address the consequences of the time taken to transfer metered volumes where a Supplier of Last Resort (SoLR) event occurs. The issue under consideration is that, at the time of invoking a Supplier of Last Resort event, the metered volumes associated with the defaulting Supplier may not be instantaneously transferred to the SoLR. As a result, there is a timing lag, whereby these volumes will remain against the original defaulting Supplier while the retail market operators apply their respective SoLR / Change of Supplier processes. As these volumes remain against the original defaulting supplier and an uncollateralised default occurs, the current rules require that this be treated as an Unsecured Bad Debt which would be socialised among Generator Units based on their Metered Quantity. However, where a SoLR event has been triggered by the RAs, the Change of Supplier process is applied from a set date which may be the date of the SoLR event rather than a later point. This means that in the immediate settlement runs, neither the defaulting Supplier Unit pays nor does the SoLR, which may have taken over the obligations from a set date, as a result of the Change of Supplier processes not yet being completed and the relevant consumption not being included in the initial settlement for the SoLR. While the T&SC defines this short payment by the defaulting Supplier Unit as an Unsecured Bad Debt, the money due to the market is not strictly a bad debt by financial or accounting definitions; however, the Code definition is clear that an Unsecured Bad Debt definition is for the purposes of the Code and is as defined in G.2.7 only.Such monies will be paid in due course by the SoLR when they are billed on completion of the Change of Supplier (COS) in the retail arrangements. This proposal seeks to explore an approach which does not treat this cash shortfall in the same way as any other Unsecured Bad Debt. Rather, we propose retaining the existing Unsecured Bad Debt socialisation mechanism and making additional provisions specific to any scenario where the SoLR process has been invoked so that standard resettlement interest, as opposed to the more onerous Unsecured Bad Debt interest applies, clarify that the Market Operator will not pursue such an Unsecured Bad Debt via offset of other payments or otherwise and that once the SoLR process is invoked that these are monies owed by the SoLR. From a solution point of view, it is proposed that the cash shortfalls that arise in these circumstances are treated in the same manner as an Unsecured Bad Debt is under the current provisions meaning the shortfall is socialised among a subset of participants according to the rules currently defined in Chapter G. This proposal also considers redistribution of monies later recovered from the SoLR when they are billed after the retail COS processes have been completed. This could be as part of the M+4 or M+13 settlement re-runs or via additional settlement reruns where there is a high materiality item impact determined as part of a Formal Query or where recovery is not complete by the final timetabled Settlement Rerun. The current provisions of the TSC allow for “recovered bad debt” to be redistributed to participants pro-rated according to how they bore the socialisation of the Unsecured Bad Debt. This proposal seeks to replicate this approach and clarify that for SoLR monies this is no longer considered a Shortfall, since they are not monies related to a failure by the SoLR to pay (as they are not due from the SoLR until reflected in resettlement) but rather become an Unsecured Bad Debt (by Code but not financial/accounting definitions) owing by the SoLR. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| G.2.6.3 Default Interest shall accrue from the Payment Due Date on the amount of any Shortfall and Unsecured Bad Debt in accordance with the Code, excepting where such a Shortfall or Unsecured Bad Debt relates monies which are subject to transfer to, and are therefore a debt owing by, the Supplier of Last Resort, as set out in paragraph G.2.7.2A, in which case Settlement Rerun Interest shall apply as set out in Agreed Procedure 15 section 2.6.1.* + 1. Shortfalls and Unsecured Bad Debt
			1. If the Shortfall is not paid in full by 12:00 on the next Working Day after the Payment Due Date, then, subject to the De Minimis Level for Letter of Credit Draw Down provisions in paragraph 3.3 of Agreed Procedure 15 “Settlement and Billing”:
				1. the amount of the Shortfall that remains unpaid shall become an Unsecured Bad Debt for the purposes of this Code;
				2. the Market Operator shall, where practicable, and as applicable, withhold, deduct or set off payment of any amount due pursuant to the Code to the Defaulting Participant until the amount of the Unsecured Bad Debt and any applicable Default Interest has been recovered in full; and
				3. paragraphs G.2.7.2 to G.2.7.10 shall apply as appropriate.
			2. Unless G.2.7.2 A applies, the amount of the Shortfall or the Unsecured Bad Debt as applicable shall be a debt owing by the Defaulting Participant to the Market Operator as trustee and agent for all Participants beneficially interested therein as provided for in the Code, pro-rated according to their individual respective proportionate entitlements in the Shortfall or the Unsecured Bad Debt concerned and on the trusts provided for in paragraph G.1.6.1. The Market Operator shall be entitled, as trustee and agent for all Participants beneficially interested therein as aforesaid, to exercise any security then held by the Market Operator in respect of the Defaulting Participant in order to recover the amount of the Shortfall or the Unsecured Bad Debt (as applicable).

G.2.7.2A Where an Unsecured Bad Debt relates to monies due which are subject to transfer to the Supplier of Last Resort it shall no longer be a Shortfall but shall become an Unsecured Bad Debt which is a debt owing by the Supplier of Last Resort to the Market Operator as trustee and agent for all Participants beneficially interested therein as provided for in the Code, pro-rated according to their individual respective proportionate entitlements in the Unsecured Bad Debt concerned and on the trusts provided for in paragraph G.1.6.1. The Market Operator shall be entitled, as trustee and agent for all Participants beneficially interested therein as aforesaid, to carry out a Settlement Rerun in order to recover the amount of the Unsecured Bad Debt (as applicable). G.2.7.2B The Market Operator shall procure that additional Settlement Reruns for the relevant period shall be performed if required to recover monies relating to an Unsecured Bad Debt which is subject to transfer to the Supplier of Last Resort where these have not been recovered by the final Timetabled Settlement Rerun. * + - 1. Where a Participant has an Unsecured Bad Debt then, without prejudice to the Market Operator’s rights or obligations under the Code and notwithstanding any other provisions of the Code, the Market Operator shall procure that each Settlement Document relating to the period affected by such Unsecured Bad Debt shall be adjusted by a reduction in the amount payable to each affected SEM Creditor or an increase in the amount due from each affected SEM Debtor determined in accordance with paragraphs G.2.7.4 to G.2.7.6 (excepting any Defaulting Participant(s), which would otherwise be a SEM Creditor, and subject to paragraph G.2.7.1(b) until the Unsecured Bad Debt and any applicable Default Interest has been recovered in full and any Settlement Documents issued to it shall, until such event, be subject to the calculation of an adjustment by such amount or amounts up to the amount of the Unsecured Bad Debt and any applicable Default Interest) for payment of the relevant Unsecured Bad Debt, in accordance with the Code. The Market Operator shall issue the appropriate adjustments to the Settlement Documents in the form of a Debit Note to each of the affected SEM Creditors (“**Reduced Participants**”) and the affected SEM Debtors (“**Increased Participants”)** within the timeframe of making the payment due to the Reduced Participant. The Market Operator shall make payments to each Reduced Participant for the amount indicated in the applicable Settlement Document less the amount in the applicable Debit Note(s) in accordance with paragraph G.2.5.4. Payment due from Increased Participants for debit notes issued are as set out for Excess Participants in G.2.7.7 for a Debit Note Excess.
			2. The Market Operator shall determine the amount of the Unsecured Bad Debt which is:
				1. attributable to Trading Payments and Trading Charges as the Unsecured Bad Energy Debt; and
				2. attributable to Capacity Payments and Capacity Charges as the Unsecured Bad Capacity Debt,

by pro-rating the amount of the relevant Unsecured Bad Debt according to the ratio that Trading Payments and Trading Charges and Capacity Payments and Capacity Charges (as applicable) bear to the Aggregate Settlement Document amount in the relevant Settlement Document. * + - 1. The Market Operator shall procure that any reduction in the amount payable or increase in the amount due with respect of the Unsecured Bad Energy Debt Reduction (CCBDUEpb) to or from Participant p for Billing Period b for its registered Generator Units shall be calculated as follows:

$$CCBDUE\_{pb}=CBDUE\_{pb} × \frac{\sum\_{γ in b}^{}(\sum\_{u in p}^{}Max(QM\_{uγ},0))}{\sum\_{p}^{}(\sum\_{γ in b}^{}(\sum\_{u in p}^{}Max(QM\_{uγ}, 0)))}$$where:* + - * 1. CBDUEpb is the Unsecured Bad Energy Debt for Defaulting Participant, or the Supplier of Last Resort where paragraph G.2.7.2A applies, p in Billing Period b determined in accordance with G.2.7.4(a);
				2. QMuγ is the Metered Quantity for each Generator Unit u in Imbalance Settlement Period, γ;
				3. $\sum\_{u in p}^{} $ is the summation across all Generator Units u registered in respect of Participant p other than those whose Default has given rise to the relevant Unsecured Bad Debt;
				4. $\sum\_{γ in b}^{} $ is the summation across all Imbalance Settlement Periods γ in Billing Period b; and
				5. $\sum\_{p}^{} $ is the summation across all Participants p other than those whose Default has given rise to the relevant Unsecured Bad Debt.
			1. The Unsecured Bad Capacity Debt Reduction (CCBDUCpc) to Participant p in Capacity Period c for that Participant’s Capacity Market Units shall be calculated by the Market Operator as follows:

$$CCBDUC\_{pc}=CBDUC\_{pc} × \frac{\sum\_{γ in c}^{}(\sum\_{Ω in p}^{}QCNET\_{Ωγ})}{\sum\_{p}^{}(\sum\_{γ in c}^{}(\sum\_{Ω in p}^{}QCNET\_{Ωγ}))}$$where:* + - * 1. CBDUCpc is the Unsecured Bad Capacity Debt for Defaulting Participant, or the Supplier of Last Resort where paragraph G.2.7.2A applies, p in Capacity Period c determined in accordance with G.2.7.4(b);
				2. QCNETΩγ is the Net Capacity Quantity for each Capacity Market Unit Ω in Imbalance Settlement Period γ;
				3. $\sum\_{Ω in p}^{} $ is the summation across all Capacity Market Units Ω registered in respect of Participant p other than those whose Default has given rise to the relevant Unsecured Bad Debt;
				4. $\sum\_{γ in c}^{} $ is the summation across all Imbalance Settlement Periods γ in Capacity Period c; and
				5. $\sum\_{p}^{} $ is the summation across all Participants p other than those whose Default has given rise to the relevant Unsecured Bad Debt.
			1. In the event that, for any Reduced Participant (an “**Excess Participant**”), the amount of the Debit Note would exceed the amount payable to the Reduced Participant in the applicable Settlement Document (a “**Debit Note Excess**”), the Market Operator will make no payment to the Excess Participant in respect of that Settlement Document. In addition, the Excess Participant shall, within 2 Working Days of the receipt of the relevant Debit Note, make a payment to the relevant SEM Account for the amount of the Debit Note Excess. The Market Operator shall calculate further reductions in the payments to each SEM Creditor (other than the Excess Participant and the Increased Participant) by the amount(s) of the Debit Note Excess and Debit Notes issued to Increased Participants applied in accordance with their Metered Quantity or Net Capacity Quantity for Unsecured Bad Energy Debts or Unsecured Bad Capacity Debts respectively. The Market Operator shall issue an additional Debit Note to each affected SEM Creditor other than the Excess Participant, for the relevant proportion of the Debit Note Excess and Increased Participant Debit Note(s). In the event that upon receipt of the additional Debit Note, a further Participant or Participants become Excess Participants, then the Market Operator shall repeat the process of calculation of reduction, and the resultant Debit Notes shall show the resultant reductions for each relevant SEM Creditor, until the amount due in respect of each Settlement Document net of a Debit Note or Excess Debit Note is positive or zero. Any Debit Note or Debit Note Excess which remains unpaid by 12:00 on the WD+2 following the date of issue of the Settlement Document shall be treated as a Shortfall in accordance with paragraph G.2.7.1.
			2. All Parties agree that the Market Operator as trustee and agent shall be entitled and irrevocably authorise the Market Operator, subject to paragraph G.2.7.9 to take all necessary action against a Participant (or its Party where legally necessary) with an Unsecured Bad Debt to recover any Unsecured Bad Debt on behalf of SEM Creditors or SEM Debtors who have incurred a loss relating to such Unsecured Bad Debt and to deal with any recovered monies relating to such Unsecured Bad Debt in accordance with the Code. Any such action of the Market Operator to recover the Unsecured Bad Debt shall not be subject to the Dispute Resolution Process.
			3. The Market Operator shall consult the Modifications Committee in relation to any plans for the pursuit of any Unsecured Bad Debt. The Market Operator shall take into account the views of the Modifications Committee as to the most appropriate action to take against a Party in respect of the Unsecured Bad Debt of any of its Participants.
			4. Where the Market Operator partially or fully recovers any Unsecured Bad Debt, the Market Operator shall procure the payment of any such monies into the relevant SEM Account. Then the Market Operator shall issue an appropriate Settlement Document to each Reduced Participant or Increased Participant for an amount pro-rated to the individual respective proportionate entitlement of each Reduced Participant or Increased Participant in the amount of the relevant Unsecured Bad Debt recovered with the issue of the Settlement Documents for the then next immediate Billing Period or Capacity Period (excepting, where the Unsecured Bad Debt and any applicable Default Interest has not been fully recovered, the Defaulting Participant, which would otherwise be a SEM Creditor, subject to paragraph G.2.7.1(a) until the Unsecured Bad Debt and any applicable Default Interest has been recovered in full). The Market Operator shall pay each such Settlement Document in accordance with the Code.

**Agreed Procedure 15*** + 1. *Shortfall and Unsecured Bad Debt*

Interest is applicable on any Shortfall or Unsecured Bad Debt amount from the time the payment is due at the Default Interest rate (as defined in the Code), excepting where such a Shortfall or Unsecured Bad Debt relates to monies which are subject to transfer to, and are therefore a debt owing by, the Supplier of Last Resort, as set out in paragraph G.2.7.2A, in which case Settlement Rerun Interest shall apply as set out in Agreed Procedure 15 section 2.6.1.*2.11.3 Unsecured Bad Debt Amount*The rules applicable to Unsecured Bad Debt are set out at paragraph G.2.7 of the Code.Where the amount due under a Settlement Document is not fully paid and a drawdown of Posted Credit Cover does not cover the Shortfall by the Settlement Document Payment Due Date, the unpaid amount is referred to as Unsecured Bad Debt. In the event of Unsecured Bad Debt, the Market Operator shall adjust the Settlement amounts of other Participants in order to balance Settlement for that Settlement Period. The amount of the adjustment will be the Unsecured Bad Debt amount. Each Settlement Document affected by an Unsecured Bad Debt amount shall be subject to an adjustment to the amount payable to or paid by each affected Participant in respect of their Generator Units. These Participants are known as the Reduced Participants (in accordance with paragraph G.2.7.3 of the Code) or the increased Participants and the Participant who has incurred the Shortfall and subsequently the Unsecured Bad Debt is known as the Defaulting Participant, save as provided for in paragraph G.2.7.2A of the Code. The Market Operator will issue a Debit Note to each Reduced or Increased Participant via Type 2 Channel or Type 3 Channel. The amount included on this Debit Note will represent the amount by which the original Settlement Document will be adjusted.Where the Unsecured Bad Debt is an Unsecured Bad Energy Debt or an Unsecured Bad Capacity Debt, the payments to Participants will be reduced in accordance with the methodology set out in chapter G of the Code.*2.11.4 Recovery of Unsecured Bad Debt Charge*Where Unsecured Bad Debt is later partially or fully recovered from the Defaulting Participant or the Supplier of Last Resort, the Reduced Participants will be paid their share of the recovered Unsecured Bad Debt. The Market Operator shall calculate and issue a Settlement Document to the Reduced Participants in accordance with the methodology set out in section G of the Code. The Settlement Document can be downloaded from the Balancing Market Interface and it shall be paid together with the Settlement Document for the next Billing Period or Capacity Period, as appropriate. * + 1. *Unpaid Market Operator Charge*

The Market Operator shall bear the cost of any unpaid Market Operator Charges and these costs shall be included in the calculation of the Market Operator Charge for subsequent years. For the avoidance of doubt, unpaid Market Operator Charges are not included in the calculation of Unsecured Bad Debt. The unpaid Market Operator Charges are a debt of the relevant Participant that ranks pari passu with other Shortfall and Unsecured Bad Debt. |
| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| This proposal aims to facilitate a robust SoLR process and one which takes account of the interim period associated with the time taken to transfer metered volumes to the SoLR once invoked. It is therefore intended to add certainty and reduce the risk associated with this process while ensuring that the process is also practically implementable and logical in its design.Currently this process does not reflect a treatment for some Unsecured Bad Debt, which is not strictly a Default and is related to a timing issue for the SoLR process relating to monies due from the SoLR being treated as a payment due from the SoLR that requires shortpay, rather than a true shortfall due to a debt owing by the Defaulting Participant. |
| **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)* |
| * + - * 1. to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner;

This proposal aims to further the efficient operation of the SEM in a financially secure manner by ensuring that appropriate provisions are in place to cater for any lag between a SoLR event being called and the metered volumes being transferred. This in turn should mean that any disruption to other payments is minimised by providing for the timing of the process more effectively. |
| **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 time lag for meters to be transferred described may result in an Unsecured Bad Debt related to this lag being incorrectly treated as an Unsecured Bad Debt owing by the Defaulting Participant as opposed to a debt owing by the SoLR resulting in inaccurate accounting for the debt in the Code and retaining inappropriate obligations on multiple parties so that the intended SoLR process is not facilitated under the Code. |
| **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 | No impact on systems. Impact on SoLR processes |
| ***Please return this form to Secretariat by email to*** balancingmodifications@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.**