

MODIFICATION PROPOSAL FORM			
Proposer <i>(Company)</i>	Date of receipt <i>(assigned by Secretariat)</i>	Type of Proposal <i>(delete as appropriate)</i>	Modification Proposal ID <i>(assigned by Secretariat)</i>
Eirgrid & SONI	4 th June 2026	Standard	Mod_03_26
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Rowan Tunncliffe		Rowan.tunncliffe@soni.ltd.uk	
Modification Proposal Title			
Compensation Arrangements for Net Transfer Capacity (NTC) Reductions			
Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of T&SC or AP used in Drafting	
T&SC/ Glossary/AP15	Amendments to F.12.2.1 & Glossary / Inclusion of new section F.23	V31	
Explanation of Proposed Change <i>(mandatory by originator)</i>			
<p>In March 2024, the SEMC published a paper on Compensation Arrangements for Net Transfer Capacity (NTC) Reductions (SEM-24-025). This clarified the circumstances under which interconnector owners are entitled to compensation when the System Operators reduce NTC.</p> <p>The SEMC issued a further update to this decision in response to a request seeking clarification on its legal status, specifically in relation to compensation payable by Transmission System Operators (TSOs) to interconnector owners for unallocated capacity. This update can be found here: Update to SEM Decision SEM – 24-025 “Compensation Arrangements for Net Transfer Capacity Reductions” dated 28 March 2024</p> <p>Subsequent to this update, the SEMC wrote to the TSOs on 21 January 2026, setting out that, at the December 2025 SEMC meeting, it was determined that compensation should be made on an all-island basis and that Imperfections Charges are the most appropriate vehicle for this process. As per the December 2025 SEMC meeting minutes, Agenda Item 5 - <i>“The Committee discussed key aspects of NTC reductions compensation issue. The Committee decided that NTC reductions compensation for relevant interconnectors should be recovered on an all-island basis through the imperfections charge”</i>. A copy of the meeting minutes can be found here for reference.</p> <p>Following the decision, the SEMC requested that the TSOs progress any potential Trading and Settlement Code modifications necessary in order to process the NTC compensation payments through the imperfections tariff for the 2026-27 tariff year.</p> <p>In the absence of an RA modification proposal to give effect to the SEMC decision, the System Operators have facilitated this modification proposal to ensure that the intended All-Island recovery of Interconnector NTC Reduction Compensation Amounts can be implemented in a timely and effective manner.</p> <p>In this context, this modification proposal seeks to facilitate the recovery of compensation payments arising from NTC reductions through the Imperfections Charge, to be administered by the Market Operator. As payments to any relevant Interconnector Owner are due under contracts between the relevant System Operator and any relevant Interconnector Owner, the</p>			

modification also creates a mechanism for collected money to be passed from the Market Operator (“the MO”) to the relevant System Operator for onward payment to any relevant Interconnector Owner.

To facilitate the SEMC determination, this proposal has been drafted so as to:

- Include “Interconnector NTC Reduction Compensation Amounts” in the calculation of Imperfections Charges under F.12.2.1 and in the definition of “Imperfections Charges”.
- At F.23.1 establish the mechanism by which the relevant System Operator will notify the Market Operator of an Interconnector NTC Reduction Compensation amount.
- At F.23.2 set out the responsibilities of the Market Operator following receipt of a notice from the TSOs to issue an NTC Manual Settlement Document and pay the Interconnector NTC Reduction Compensation Amount to the relevant System Operator. The inclusion of the requirement to issue a Manual Settlement Document is intended to provide an auditable and traceable mechanism for processing NTC compensation payments.
- At F.23.3, establish a safeguard to allow for the deferral of payments of any Interconnector NTC Reduction Compensation Amount(s) to a System Operator in the event that the payment of such amount(s) would result in a negative Available Working Capital position for a given Billing Period. Any such payment shall be deferred to a subsequent Billing Period, again subject to the Available Working Capital position. Further, in the event that multiple amounts have been deferred, F.23.3 includes a requirement for the Market Operator to pay any deferred amounts in chronological order, based on the date of receipt of notice of the relevant Interconnector NTC Reduction Compensation Amount from the relevant System Operator.

The drafting proposed in this modification is intended to establish a clear and transparent framework for the settlement and payment of Interconnector NTC Reduction Compensation Amounts in line with relevant SEMC decisions. It is aimed at ensuring alignment between regulatory requirements, including the recovery of costs via the Imperfections Charge, and the operation of the Trading and Settlement Code.

Legal Drafting Change

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

F.12.2 Calculation of Imperfections Charges

F.12.2.1 The purpose of the Imperfections Charge is to recover the anticipated Dispatch Balancing Costs (less Other System Charges), Fixed Cost Payments and Charges, any net imbalance between Trading Payments, Trading Charges, Capacity Payments, Capacity Charges **and any Interconnector NTC Reduction Compensation Amounts** over the Year, with adjustments for previous Years as appropriate.

Glossary

Imperfections Charge	means a charge to recover the anticipated Dispatch Balancing Costs (less other System Charges), Fixed Cost Payments and Charges and any net imbalance between Trading Payments, Trading Charges, Capacity Payment and Capacity Charges and
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	<u>any Interconnector NTC Reduction Compensation Amounts</u> over the Year, with adjustments for previous Years as appropriate. It is calculated in accordance with section F.12.
Interconnector NTC Reduction Compensation Amount	means an amount due from a System Operator to an Interconnector Owner, pursuant to any relevant contract between the relevant Interconnector Owner and the relevant System Operator, in respect of System Operator actions affecting Interconnector net transfer capacity.
NTC Manual Settlement Document	means a manual settlement document issued by the Market Operator to a System Operator in relation to an Interconnector NTC Reduction Compensation Amount in accordance with section F.23.

Inclusion of new section to include a Mechanism for Paying NTC Compensation Payments

F.23 Arrangements in Respect of Interconnector NTC Reduction Compensation Amounts

F.23.1 A System Operator may submit a notice to the Market Operator in respect of an Interconnector NTC Reduction Compensation Amount.

F.23.2 Five (5) Working Days after the receipt of a notice under paragraph F.23.1, the Market Operator shall:

(a) issue an NTC Manual Settlement Document to the relevant System Operator; and

(b) subject to paragraph F.23.3, pay the Interconnector NTC Reduction Compensation Amount to the System Operator.

F.23.3 Where an Interconnector NTC Reduction Compensation Amount is due to be paid to a System Operator in a Billing Period, and the Available Working Capital Amount for that Billing Period minus the relevant Interconnector NTC Reduction Compensation Amount is negative, then:

(a) the Market Operator shall not pay the Interconnector NTC Reduction Compensation Amount in accordance with paragraph F.23.2; and

(b) subject always to this paragraph F.23.3, payment of the Interconnector NTC Reduction Compensation Amount shall be deferred for five (5) Working Days. Where payment of Interconnector NTC Reduction Compensation Amounts has been deferred, such amounts shall be paid in the order of the date on which the Market Operator received notice of the amounts under paragraph F.23.1.

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

The justification for this modification proposal, as set out below, has been provided by the Regulatory Authorities:

This Modification Proposal is raised to give effect to a determination of the SEM Committee in respect of the treatment and recovery of compensation arising from Net Transfer Capacity (NTC) reductions.

In March 2024, the SEM Committee published its decision paper on compensation arrangements for NTC reductions (SEM 24 025), which clarified the circumstances under which interconnector owners may be entitled to compensation where System Operator actions reduce available transfer capacity.

Following this, the SEM Committee considered the appropriate funding and cost recovery approach for such compensation. As recorded in the SEM Committee meeting minutes of December 2025, the SEM Committee decided that compensation amounts arising from NTC reductions should be recovered on an all-island basis.

This position was subsequently confirmed in formal correspondence issued to the System Operators on 21 January 2026, in which the SEM Committee set out that the Imperfections Charge represents the most appropriate mechanism for the recovery of these costs and requested that the necessary Trading and Settlement Code (TSC) changes be progressed to enable implementation in the 2026/27 tariff year.

The rationale for this approach reflects the SEM Committee's view that actions taken by System Operators which give rise to NTC reductions are undertaken in the interests of maintaining the security and efficient operation of the all-island electricity system. As such, the associated costs should be socialised across market participants on an all-island basis, rather than being borne on a jurisdictional basis.

At present, the TSC does not explicitly provide for the recovery of Interconnector NTC Reduction Compensation Amounts through the Imperfections Charge. This creates a lack of clarity and transparency in relation to the treatment of such payments within the settlement framework and does not reflect the SEM Committee's determination.

The proposed modification addresses this gap by:

- explicitly including Interconnector NTC Reduction Compensation Amounts as recoverable costs within the Imperfections Charge; and
- introducing the necessary provisions to facilitate the processing, settlement and payment of these amounts to the relevant System Operators by the MO.

Implementing this modification will ensure that the TSC is aligned with SEM Committee policy, provides a clear and robust settlement mechanism, and enables the timely recovery of these costs through tariffs in accordance with regulatory expectations. It will also enhance transparency and regulatory certainty for market participants by codifying the treatment of such payments within the TSC.

Code Objectives Furthered

(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)

The aim of this modification is to further the following objectives of the Trading & Settlement Code –

- (a) to facilitate the efficient discharge by the Market Operator of the obligations imposed upon it by its Market Operator Licences

(e) to provide transparency in the operation of the Single Electricity Market;

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)

A failure to implement this modification could lead to:

- **Misalignment with SEMC's binding regulatory decision:** Non-implementation of this proposal would result in the TSC failing to reflect the SEMC decision, thus leading to the TSC being non-compliant with a regulatory direction.
- **Inability of System Operators to finance the activities which are the subject of obligations imposed on them:** System Operators may have a duty to make payments with no ability to recover the costs of actions taken to ensure system security.

Working Group

(State if Working Group considered necessary to develop proposal)

Impacts

(Indicate the impacts on systems, resources, processes and/or procedures)

No System Changes are required. New internal process between the M O and each System Operator to be put in place.

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 Appendix D "List of Agreed Procedures".
T&SC / Code:	means the Trading and Settlement Code for the Single Electricity Market
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 the Code (and 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:
 - 1.1 to the Market Operator and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;
 - 1.2 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;
 - 1.3 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.