

Single Electricity Market

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| Final REcommendation Report*Mod\_05\_12: cross border settlement reallocation calculations*24 February 2012 |

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Document History

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| **Version** | **Date** | **Author** | **Comment** |
| 0.2 | 17 February 2012 | Modifications Committee Secretariat | Issued to Modifications Committee for review and approval |
| 1.0 | 24 February 2012 | Modifications Committee Secretariat | Issued to Regulatory Authorities for final decision |

Reference Documents

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| **Document Name** |
| [Trading and Settlement Code](http://semopub/MarketDevelopment/MarketRules/TSC.doc)  |
| [Agreed Procedure 10](http://semopub/MarketDevelopment/MarketRules/AP10.doc) |
| [Mod\_05\_12:](http://semopub/MarketDevelopment/ModificationDocuments/Mod_05_12%20Cross%20Border%20Settlement%20Reallocation%20Calculations.docx) Cross Border Settlement Reallocation Agreement |

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# MODIFICATIONS COMMITTEE RECOMMENDATION

## Recommended for Approval – Unanimous Vote

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| **Mod\_05\_12 Recommended for Approval (Unanimous Vote)** |
| Iain Wright | Supplier Alternate | Approve |
| Ian Luney | Generator Member | Approve |
| Jill Murray | Supplier Member | Approve |
| Kevin Hannafin | Generator Member | Approve |
| Mary Doorly | Generator Alternate | Approve |
| Niamh Quinn | Generator Member | Approve |
| Sean Doolin | Supplier Alternate | Approve |
| William Steele | Supplier Member | Approve |

# Background

This Modification Proposal was raised by SEMO and presented at Meeting 40 on 31 January 2012. It proposes changes to Section 6 and Agreed Procedure 10. The proposal was raised by the MO in order to provide clarification of what is currently in practice in relation to the appropriate exchange rates applied to cross border settlement reallocations as part of Settlement calculations and Credit Risk Cover calculations. The Modification was voted on at the Meeting.

# PURPOSE OF PROPOSED MODIFICATION

## 3A.) Justification for Modification

The Modification is being raised to provide clarity around the application of appropriate exchange rates for the conversion of cross border settlement reallocations as part of Settlement and Credit Risk Management calculations. This is especially important in relation to Credit Risk calculations as cross border Settlement Reallocations submitted for dates in the future and used in the provision of Credit Cover can only use the most recent Trading Day Exchange Rate available, but this is not explicit in the Code.

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

If this Modification is not implemented, ambiguity will continue for the Market in relation to the application of cross border settlement reallocations for Settlement and Credit Risk calculations.

## 3c.) Impact on Code Objectives

The Modification furthers Code Objective 1.3.2

"to facilitate the efficient operation and administration of the Single Electricity Market."

# Assessment of Alternatives

N/A

# Working Group and/or Consultation

N/A

# impact on systems and resources

N/A

# Impact on other Codes/Documents

N/A

# MODIFICATION COMMITTEE VIEWS

## Meeting 40 – 31 January 2012

SEMO Alternate advised that the Modification Proposal had been raised in order to provide clarification of what is currently in practice in relation to the appropriate exchange rates applied to cross border settlement reallocations as part of Settlement calculations and Credit Risk Cover calculations. This is especially important in relation to Credit Risk calculations as cross border Settlement Reallocations submitted for dates in the future and used in the provision of Credit Cover can only use the most recent Trading Day Exchange Rate available, but this is not explicit in the Code.

# Proposed Legal Drafting

As set out in Appendix 1.

#  LEGAL REVIEW

Complete

# IMPLEMENTATION TIMESCALE

The proposed implementation date is one working day after the day on which the Regulatory Authority decision is made. It is proposed that this Modification is made on a Settlement Day basis.

# Appendix 1: Mod\_05\_12

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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** | **17 January 2012** | **Standard** | **Mod\_05\_12** |
| **Contact Details for Modification Proposal Originator** |
| **Name** | **Telephone number** | **Email address** |
| **Mary Doyle** | **01 – 23 70297** | Mary.Doyle@sem-o.com |
| **Modification Proposal Title** |
| **Cross Border Settlement Reallocation Calculations** |
| **Documents affected***(delete as appropriate)* | **Section(s) Affected** | **Version number of T&SC or AP used in Drafting** |
| **T&SC****AP** | **Section 6** | **V10.0** |
| **Explanation of Proposed Change***(mandatory by originator)* |
| To provide clarification in relation to the exchange rates applied to cross border settlement reallocations as part of Settlement calculations and Credit Risk Cover calculations. |
| **Legal Drafting Change***(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* |
| TRADING AND SETTLEMENT CODE v10* 1. Where the two Participants that are parties to a Settlement Reallocation Agreement have different Currency Zones, and the Market Operator is therefore required pursuant to paragraph 6.6 to convert into another currency any amount that is the subject of such agreement, such conversion will be done

1. for Settlement calculations, using the Trading Day Exchange Rate applicable to the Trading Period to which a Settlement Reallocation Energy Amount applies and the Annual Capacity Exchange Rate for the Trading Period to which a Settlement Reallocation Capacity Amount applies pursuant to paragraph 6.235; and2. for Credit Cover calculations, using the Trading Day Exchange Rate applicable to the day on which Credit Cover is being calculated for Settlement Reallocation Energy Amounts and the Annual Capacity Exchange Rate for Settlement Reallocation Capacity Amounts. AGREED PROCEDURE v10.02.1 Settlement ReallocationThe general rules for Settlement Reallocation are defined in the “Settlement Reallocation” section of the Code.The purpose of this document is to detail the procedures that will apply for Settlement Reallocation with regard to requests, agreements and associated transactions.The Settlement Reallocation process offers significant benefits to Participants in the Single Electricity Market (SEM), in terms of cash flow and credit risk management, allowing Participants to reduce credit cover requirements by offsetting debts and credits and also to reduce circular flows of money.Settlement Reallocation is a rules-supported financial arrangement between the Market Operator (MO) and a pair of Participants (which may be the same Participant). Where the Participants are linked by one or more off-market financial commitments, Settlement Reallocation can act to reduce Settlement amounts.Settlement Reallocation in the SEM consists of five major elements:Submission of a Settlement Reallocation RequestAssessment of the eligibility of a Settlement Reallocation Agreement for the invoicing processInclusion of eligible Settlement Reallocation Agreements in the Invoices/Self Billing InvoicesInclusion of Settlement Reallocation Agreements in the credit management processCancellation of a Settlement Reallocation Agreement (when applicable)When two Participants have a Settlement Reallocation Agreement in place with the MO, one Participant (called Debited Participant) will effectively transfer an amount in respect of payments due to this Participant from the MO to another Participant (called Credited Participant) through their payments (Trading Payments or Capacity Payments). This amount shall also have an effect on the credit cover calculation of the two Participants.The Settlement Reallocation Amount is a monetary value based in the currency of the Debited Participant (either Euro, or Pounds Sterling) and defined for a nominated payment type (Trading Payments or Capacity Payments). A Participant may not request or enter into a Settlement Reallocation Agreement as a Debited Participant in respect of its Supplier Units.Settlement Reallocation Agreements can be posted against an Invoice/Self Billing Invoice relating to either the Energy or Capacity markets. For each Settlement Reallocation Agreement, the Participants will nominate a Trading Period for reference purposes. The nominated Trading Period in conjunction with the type of payment (Trading Payments or Capacity Payments) will denote which Settlement Period the Settlement Reallocation Agreement is to be executed against, In the event that the Credited and Debited Participants are in different Currency Zones: the nominated Trading Period will denote the Trading Day Exchange Rate for use in Settlement calculations pertaining to Settlement Reallocations for Trading Payments; the ACER (Annual Capacity Exchange Rate) will be used in Settlement Calculations pertaining to Settlement Reallocations for Capacity Payments.The Settlement Reallocation can be lodged, up to 29 days before the Trading Day of the nominated Trading Period;up to one day to 12:00 before the issue of the Invoice/Self Billing Invoice on which the Settlement Reallocation Agreement is to be included (i.e. Settlement Period plus 4 Working Days); and,a maximum of 6 Settlement Reallocation Agreements can be lodged per Participant Account ID per Trading Day in a Billing or Capacity Period. * 1. Credit Risk Management Process

The Market Operator’s Isolated Market System will assess a Participant’s Required Credit Cover against a Participant’s exposure in the SEM. When a Settlement Reallocation Request has been correctly submitted, and validated, the Settlement Reallocation Agreement can be considered in the credit management process.In establishing the Required Credit Cover, the credit management system shall take into account any Settlement Reallocation Agreements.Where the Credited and Debited Participants are in different Currency Zones, Settlement Reallocations for Trading Payments will be converted using the Trading Day Exchange Rate for the day on which Credit Cover is being calculated. Settlement Reallocations for Capacity Payments will be converted using the ACER (Annual Capacity Exchange Rate) Where a Credit Cover Increase Notice is made by the MO to a Participant, the Participant can respond by arranging for a Settlement Reallocation Request to be made by another Participant (the Debited Participant) in accordance with the rules set out in section . |
| **Modification Proposal Justification***(Clearly state the reason for the Modification)* |
| The Modification is being raised to provide clarity around the application of appropriate exchange rates for the conversion of cross border settlement reallocations as part of Settlement and Credit Risk Management calculations. This is especially important in relation to Credit Risk calculations as cross border Settlement Reallocations submitted for dates in the future and used in the provision of Credit Cover can only use the most recent Trading Day Exchange Rate available, but this is not explicit in the Code. |
| **Code Objectives Furthered***(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* |
| The Modification furthers Code Objective 1.3.2 "to facilitate the efficient operation and administration of the Single Electricity Market." |
| **Implication of not implementing the Modification Proposal***(State the possible outcomes should the Modification Proposal not be implemented)* |
| If this Modification is not implemented, ambiguity will continue for the Market in relation to the application of cross border settlement reallocations for Settlement and Credit Risk calculations.  |
| **Working Group***(State if Working Group considered necessary to develop proposal)* | **Impacts***(Indicate the impacts on systems, resources, processes and/or procedures)* |
|  | There would be no impact on the Central Market System as no changes would be required. |
| ***Please return this form to Secretariat by email to*** *modifications@sem-o.com* |