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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** | **V2 02/08/18** | | **Urgent** | | **Mod\_02\_17\_V2** |
| **Contact Details for Modification Proposal Originator** | | | | | |
| **Name** | | **Telephone number** | | **Email address** | |
| **Christopher Goodman** | |  | |  | |
| **Modification Proposal Title** | | | | | |
| **Unsecured Bad Energy Debt and Unsecured Bad Capacity Debt timelines Version 2** | | | | | |
| **Documents affected**  *(delete as appropriate)* | | **Section(s) Affected** | | **Version number of T&SC or AP used in Drafting** | |
| **T&SC**  **AP** | | **T&SC –Section 6.50**  **AP15 3.4.1, 3.4.2 and 3.4.3** | | **V.18.0** | |
| **Explanation of Proposed Change**  *(mandatory by originator)* | | | | | |
| **Version 1 Explanation;**  Under the current Trading and Settlement Code, a Defaulting Participant, wh applicable Debit Note to any pether for the full value or a shortfall on an Energy or Capacity Invoice amount, has up to 12:00 on the next Working Day after the Invoice Due Date to remedy the default. If the full Invoice or shortfall amount is not paid in full by this time, the amount shall become Unsecured Bad Debt.  After this deadline the Market Operator shall, where practicable, 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, begin the process of issuing Debit Notes to any Participant who is a SEM Creditor. In effect implementing the Bad Debt smearing process.  In the event of Unsecured Bad Energy Debt and, or Unsecured Bad Capacity Debt, the Market Operator shall issue Debit Notes to the value of the Unsecured Bad Debt and pay each Self Billing Invoice less any applicable Debit Note to any Participant who is a SEM Creditor by paying the amount due from the SEM Trading Clearing Account and, or SEM Capacity Clearing Account as applicable to the SEM Creditors designated bank account or bank accounts for full value by the Self Billing Invoice Due Date. The Self Billing Invoice Due Date is 17:00, 4 Working Days after the date of the Self Billing Invoice. ( Section 6.50.5)  The Market Operator is proposing an amendment to the Trading and Settlement Code timeline. In the event of Unsecured Bad Debt the new timelines detailed within T&SC Section 6.50.5 and Agreed Procedure 15 3.4.1 would allow for the following:   * Issuing of Debit Notes to 17:00 5WD after the date of the Self Billing Invoice. * Payment of the net Self Billing Invoices and Debit Notes by 17:00 5WD after the date of the Self Billing Invoice.   Alternative solutions have been considered and are summarised within the ‘Implications of not implementing the Modification Proposal’ section below.  **Version 2 Explanation Update;**  Version 1 of this proposal was recommended for rejection by the modifications committee and the subsequent RA decision was to send it back to the committee for further work noting that the same issue would exist for I-SEM/Part B also. This resulted in discussions at meetings 83 and 84 with a view to agreeing a way forward. At meeting 84 SEMO presented updated information on banking timelines and further discussion in this area in the context of the I-SEM arrangements occurred.  Agreement in principle was arrived at that a second version of this Part A proposal should be raised to propose a change which amends the requirement on SEMO from **payment being made** on invoice day plus four working days (which would require the payments to be instructed by early afternoon) to **payment being instructed** by the end of the Day (i.e. before midnight) on invoice day plus four working days where an Unsecured Bad Debt has occurred. This so that payments would be in Participants accounts as early as possible on the fifth working day and the obligation on SEMO is relaxed to the point where it can reasonably be met, albeit potentially requiring working outside of normal business hours in the rare event where an Unsecured Bad Debt occurs.  This version 2 proposal seeks to make this change in Part A noting that agreement in principle was also arrived at to make a similar change to the equivalent Part B provisions along with certain other corrections which will be raised separately.  We also note that the original proposal amended the timings for initial Billing Period processes for Energy in Agreed Procedure 15 section 3.4.1 but not for Initial Capacity Period processes for Capacity in section 3.4.2 or for settlement reruns in 3.4.3 so this Version 2 seeks to make those changes too. | | | | | |
| **Legal Drafting Change**  *(Clearly show proposed code change using* ***tracked*** *changes, if proposer fails to identify changes, please indicate best estimate of potential changes)* | | | | | |
| * 1. Payment shall be in accordance with the following:  1. each Ex-Post Indicative Settlement Statement, Initial Settlement Statement, Invoice and Self Billing Invoice shall be based on the data then available to the Market Operator at the time of its production; 2. each Invoice and Self Billing Invoice shall include the amount of all applicable charges and payments and shall include any applicable VAT charges; 3. each Debit Note (where applicable) shall include the amount of the Unsecured Bad Debt as set out in paragraph 6.56 and 6.57 as applicable and shall include any applicable VAT charges; 4. any invoiced Participant shall pay each Invoice in full without deduction, set-off or counterclaim (except as otherwise expressly provided for in the Code) by paying the amount due into the relevant SEM Trading Clearing Account or relevant SEM Capacity Clearing Account as applicable for full value by the Invoice Due Date; the Invoice Due Date is 12:00, 3 Working Days after the date of the Invoice; 5. the Market Operator shall, subject to the provisions of the Code, pay each Self Billing Invoice, to any Participant who is a SEM Creditor by paying the amount due from the SEM Trading Clearing Account or SEM Capacity Clearing Account as applicable to the SEM Creditor’s designated bank account or bank accounts, for full value by the Self Billing Invoice Due Date which is 17:00, 4 Working Days after the date of the Self Billing Invoice except where an Unsecured Bad Debt has occurred; and 6. where and Unsecured Bad Debt has occurred, the Market Operator shall, subject to the provisions of the Code, only in the event of Unsecured Bad Debt, pay each Self Billing Invoice less any applicable Debit Note to any Participant who is a SEM Creditor by instructing payment of the amount due from the SEM Trading Clearing Account or SEM Capacity Clearing Account as applicable to the SEM Creditor’s designated bank account or bank accounts for full value by 00:00, 4 Working Days after the date of the Self Billing Invoice. The Market Operator shall implement Unsecured Bad Debt as per provisions set out in Paragraph 6.56 – 6.61   Agreed Procedure 15 – Invoicing. Section 3.4.1 - Procedural Steps for Invoices and Self Billing Invoices in respect of Billing Period Initial Settlement Statements   |  |  |  | | --- | --- | --- | | I1.9 | Calculate and Issue Debit Note for Participants in respect of their Generator Units. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt. | | I1.10 | Instruct payment of the net of the Self Billing Invoice and the Debit Note to each Participant with a Self Billing Invoice. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt. |   **Agreed Procedure 15 – Invoicing. Section 3.4.2 - Procedural Steps for Invoices and Self Billing Invoices in respect of Capacity Period Initial Settlement Statements**   |  |  |  | | --- | --- | --- | | I2.9 | Calculate and Issue Debit Note for Participants in respect of Generator Units. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt. | | I2.10 | Instruct payment of the net of the Debit Note and Self Billing Invoice to each Participant with a Self Billing Invoice. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt |   **Agreed Procedure 15 – Invoicing. Section 3.4.3 - Procedural Steps for Invoices and Self Billing Invoices in respect of Settlement Rerun Statements**   |  |  |  | | --- | --- | --- | | I3.7 | Calculate and Issue Debit Note for Participants in respect of Generator Units. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt. | | I3.8 | Instruct payment of the net of the Debit Note and Self Billing Invoice to each Participant with a Self Billing Invoice. | By 00:00 4 WD after the issue of the Self Billing Invoice in the event of Unsecured Bad Debt | | | | | | |
| **Modification Proposal Justification**  *(Clearly state the reason for the Modification)* | | | | | |
| **Version 1 Justification;**  The Market Operator has recently reviewed its internal processes including Unsecured Bad Debt. This review highlighted that under the current T&SC timelines ( Section 6.50 & Agreed Procedure 15) , System Functionality and external timelines, the Market Operator would be unable to complete the Bad Debt smearing process within the timelines set out in the Trading and Settlement Code and thereby in breach. The current timeline is to deliver the issuing of Debit Notes and net payment of Self Billing Invoices by 17:00 4 Working Days after the date of the Self Billing Invoice.  Justification for this modification is due to the below points:   * Bad Debt smearing, once implemented within the SEM Central Market System cannot be interrupted or cancelled. * System Functionality – Under the current timelines, the functionality of the Central Market System, the Market Operator would be unable to deliver the Bad Debt smearing process given the current 14:30 cut off for Banking Payment Approvals. * Potentially, all Settlement Runs relating to Energy and Capacity Markets may be processed as Unsecured Bad Debt due to Participant Defaults * Large volume of Banking Payments requiring Senior Management Approval under current tight timeframes. * Meticulous Internal checks and approvals. * Complex process within the Market Operator. * Potential disruption of Participants internal processes under stressed timeframes.   Given the financial implications and the processing of Unsecured Bad Debt under tight timelines, the Market Operator feels that this Modification if passed would release the pressures of implementing this protracted process whereby the all necessary diligence, approvals and banking cut off timelines could be met.  If passed, this modification would be implemented within the current T&SC for the current SEM market.  The Market Operator will review the Technical specifications and requirements regarding Unsecured Bad Debt within the I-SEM Market.  **Version 2 Justification Update;**  Noting that version 1 was recommended for rejection and subsequently sent back to the committee for further work by the RAs, this proposal reflects the compromise position agreed in principle at meeting 85 based on updated information on banking timelines and the I-SEM Unsecured Bad Debt mechanism. | | | | | |
| **Code Objectives Furthered**  *(State the Code Objectives the Proposal furthers, see Section 1.3 of T&SC for Code Objectives)* | | | | | |
| **Unchanged from version 1;**  Section 1.3:  2. to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner | | | | | |
| **Implication of not implementing the Modification Proposal**  *(State the possible outcomes should the Modification Proposal not be implemented)* | | | | | |
| **Unchanged from version 1;**  Under the current timelines and the financial implications, the Market Operator has explored alternative options regarding this modification, though we feel that the recommendation detailed above would provide an efficient end to end process of the Bad Debt smearing process, a direct result of implementing Unsecured Bad Debt within the SEM.  Alternative options are:   1. Adjust the current timelines of time to remedy of the default from 12:00 next working day after the Invoice Due Date **to** 17:00 same Working Day of the Invoice Due Date 2. Adjust the current timelines of time to remedy of the default from 12:00 next working day after the Invoice Due Date **to** 07:00 next working day after the Invoice Due Date.   The Market Operator believes that the above alternative options would carry an unnecessary risk for Market Participants operating within the current SEM as this may increase the chances of Unsecured Bad Debt along with decreasing the time in which is given to a defaulting participant to remedy the full Invoice or shortfall amount.  The irreversibility of the Bad Debt smearing process within the Central Market Systems and the strict deadlines for banking payments approvals would still remain and carry an unnecessary business risk to both the Market Operator and Market Participants. | | | | | |
| **Working Group**  *(State if Working Group considered necessary to develop proposal)* | | | **Impacts**  *(Indicate the impacts on systems, resources, processes and/or procedures)* | | |
| No | | | **Version 1 Impacts;**  System Impacts:   * There are no system impacts as a result of the Modification.   Resource Impacts:   * There are no resource impacts as a result of the Modification on the Market Operator, though there may be potential resourcing impacts on Participants.   SEM Impacts   * Participant’s financial position to be accessed on an Individual basis. * SEM Creditors, payment of Self Billing Invoices less Debit Note would be by 17:00 5WD after the date of the Invoice. * Reduce potential instances in where by Unsecured Bad Debt may be implemented.     All processes and procedures Unsecured Bad Debt as detailed above  **Version 2 Impact update;**  An additional impact for SEMO is that processes may need to be carried out outside business hours to achieve the payment timelines where Unsecured Bad Debt occurs. This is accepted by SEMO as the proposer of this modification in order to reach a workable solution to this issue. | | |
| ***Please return this form to Secretariat by email to*** [***modifications@sem-o.com***](mailto: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. **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.**