



Single Electricity Market

FINAL RECOMMENDATION REPORT

**MOD_03_20 TEMPORARY MODIFICATION TO SECTION B.18.3.2 TO
INTRODUCE AN RA APPROVAL PROCESS FOR ALL SUSPENSION
ORDERS**

23 APRIL 2020

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Document History

Version	Date	Author	Comment
1.0	23 April 2020	Modifications Committee Secretariat	Issued to Modifications Committee for review and approval
2.0	24 April 2020	Modifications Committee Secretariat	Issued to Regulatory Authorities for final decision

Reference Documents

Document Name
Trading and Settlement Code Proposal

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1. MODIFICATIONS COMMITTEE RECOMMENDATION

RECOMMENDED FOR REJECTION– MAJORITY VOTE

Recommended for Rejection by Majority Vote		
Paraic Higgins (Chair)	Generator Member	Reject
David Gascon	Generator Alternate	Reject
Andrew Burke	Supplier Member	Approve
Ian Mullins	Supplier Member	Approve
Mark Phelan	Supplier Alternate	Reject
Sinead O'Hare	Generator Member	Reject
Robert McCarthy	DSU Alternate	Reject
Rochelle Broderick	Supplier Alternate	Approve
Alan Mullane	Assetless Member	Approve
Kevin Hannafin	Generator Member	Reject

2. BACKGROUND

This Urgent Modification Proposal was raised by CRU & Uregni and was received by the Secretariat on 8th April 2020. The Proposal was raised and voted on at Meeting 97B on 16th April 2020.

The RAs propose to make a temporary amendment to Section B.18.3.2 of the Trading and Settlement Code (to be added via Section H 'Interim Arrangements'), in order to amend the process for the Market Operator to issue a Suspension Order during the COVID-19 crisis to require RA approval before any Suspension Orders are issued.

Currently, a Suspension Order may be issued by the Market Operator under Section B.18.3.1 of the Code with the prior written approval of the RAs for a number of reasons, including for example where a Party has committed 3 Defaults within a period of 20 Working Days or has failed to comply with a Default Notice.

Separately, a Suspension Order in relation to a Participant's Credit Cover requirements may be issued under Section B.18.3.2 without RA approval. SEMO regularly carries out Credit Assessments to determine the appropriate level of Credit Cover for a Participant. Where this needs to be increased, SEMO will issue a Credit Cover Increase Notice which a Participant has two working days to comply with. A Suspension Order may be issued in the event that;

- (a) a Credit Call is made and a Participant's Credit Cover Provider fails to meet the demand within the timeframe provided for under this Code; or
- (b) a Participant fails at any time to provide the Required Credit Cover as required under this Code.

When the Market Operator issues a Suspension Order, this is published on the SEMO website and takes effect following the 7-day Supplier or Generator Suspension Delay Period. During this time, the RAs may instruct SEMO to lift the Suspension Order or the Party in question may remedy the issue which led to the Suspension Order.

This Modification proposes to amend Section B.18.3.2 so that RA approval will also be required, on a temporary basis, before a Suspension Order is issued in relation to a Credit Call or Credit Cover requirements, in order to provide time for the RAs and SEMO to assess the Parties' situation and whether the issue can be addressed before a Suspension Order is issued and published on SEMO's website. The RAs consider that due to the current unusual circumstances, there may be delays in business processes and payments and issues may arise which can be addressed within relatively short timeframes before any Suspension Orders are issued.

If this Modification is implemented and RA approval is required to issue a Suspension Order under Section B.18.3.2, the RAs will engage with the affected Party and issue a decision to SEMO to either approve or reject the Suspension Order.

The RAs propose to implement this temporary Modification for an initial 3-month period from the date the Modification is approved, with a provision to extend the Modification for a further 3 months via a letter from the RAs to SEMO.

3. PURPOSE OF PROPOSED MODIFICATION

3A.) JUSTIFICATION OF MODIFICATION

This Modification aims to mitigate circumstances which may arise during the COVID-19 crisis where a Suspension Order is issued to a Party and published on SEMO's website, which may impact negatively on a Party, where an issue arises that may be resolved within a short time period.

This has been raised as an Urgent Modification in line with Section B.17.16.3 of the TSC as the circumstances which the Modification seeks to address could occur during the COVID-19 crisis which may unduly interfere with the operation of the SEM.

3B.) IMPACT OF NOT IMPLEMENTING A SOLUTION

If this Urgent Modification is not implemented, a Suspension Order may be issued to a Party automatically due to an issue which has arisen during these unusual market circumstances, which may be resolved relatively quickly. If a Suspension Order is issued without allowing a limited time period to resolve the issue, Participants may be negatively impacted.

3C.) IMPACT ON CODE OBJECTIVES

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

This Modification seeks to continue to ensure that the SEM operates in a financially secure manner and minimise risk on Participants for a limited time period during the current COVID-19 crisis.

- (g) *to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability, and security of supply of electricity.*

This Modification aims to minimise disruption to consumers and avoid Suspension Orders which may impact on Participants as much as possible during this time.

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

EXTRAORDINARY MEETING 97B – 16 APRIL 2020

The Proposer provided a brief introduction to this Modification Proposal noting that it was created as a result of looking at issues that may arise during this time of COVID-19. The Proposal deals with temporarily updating paragraph B.18.3.2 (to be added via Section H 'Interim Arrangements') to allow the RAs to approve a Suspension Order before it is issued. The Proposer explained that the act of issuing and publishing a Suspension Order may cause repercussions for some Participants during this period which could be avoided if the problems experienced by the Participant were not structural but caused by the extraordinary circumstances caused by the pandemic.

With an awareness of risk about Unsecured Bad Debt, the Proposer advised that the RAs will be looking at a case by case basis and have put in place procedures and checks in an internal process document. These includes steps such as the RAs contacting the Participant and getting data also from SEMO and the MMU to try to resolve the issue without arriving at a Suspension Order where this is appropriate. The Proposer also noted that the number of days for this assessment was not included as each case would be reviewed individually and a time constraint might be counterproductive in ad-hoc exceptional circumstances.

An RA Member discussed the process document further explaining that it would provide a process to prevent precipitous events from occurring. Assurance was given that there is collateral there to allow time for action beyond 7 days but it would be in the interest of all parties involved as well as the RAs to find a resolution as soon as possible.

An Assetless Member gave support to this Modification Proposal but also queried what the likelihood of these issues trending upwards was. The RA Member advised that they didn't expect issues coming up in a robust market with robust companies and this Modification was a precautionary measure. Assurance was also provided that the RAs are already in contact with SEMO 3 times a week to discuss any sign of issues that may arise.

A DSU Member suggested increasing time to respond to CCIN as another solution explaining this may give a more predictable view on risk. The Proposer advised that the extra time would not allow the RAs to have any visibility of the situation and also wouldn't give an opportunity to engage with the Participant until it's too late.

An RA Member also noted the value of the RAs getting involved promptly in this case explaining that SEMO under the Code are not empowered to make judgment calls. There was an agreement between both Members that a certain level of judgement was required and it would be preferable not to be left as an automatic decision. A Supplier Member advised that having consulted with other Suppliers there was broad support for this Proposal whilst understanding the concerns felt by Generator Participants.

A Generator Member expressed their concern for larger debt and Generators picking this up. Generator Members advised that they were speaking on behalf of Generator Participants who had conveyed their concerns in advance of the meeting. It was asked if Business Continuity Plans would not cover these issues. A discussion ensued around the capacity of the Business Continuity Plan to cover sick leave of senior staff members in the banking system with the RAs noting that they have a plan in place themselves for decision making with a detailed process that will allow a lot of contingency for decision making. It was explained that circumstances could occur where a Participant may not be able to draw down and RAs would be notified of that and able to act accordingly.

Another Generator Member supported the RAs role in making a judgement call but voiced concerns around the potential of an incorrect decision and how to recognise whether it was a proper temporary case. This could then begin a quantum of bad debt risk depending on how many days it would go out for the decision to be made. The RAs recognised that they would have the responsibility to make a decision but also noted that they are already part of the decision making process under Section B.18.3.1 and following a Suspension Order being issued during the Supplier/Generator Suspension Delay Period.

The Proposer noted that all issues under either paragraph B.18.3.1 or B.18.3.2 would go to the RAs for approval and would also require an RA decision. The RAs also noted that all Participants would have collateral in place to cover at least 7 days before the suspension period. The information collated will be reviewed and a call will be made whether this is a temporary issue or a more 'legitimate' credit issue.

A request was made for the internal RAs process document to be circulated. Although this was not agreed to, the Proposer provided a high level overview of what it entailed noting that this document has been shared with SEMO and SEMOpx:

- Check the trading activity in the Ex-Ante Market and if there has there been any default notices (SEMOpx)
- SEMO to check if their Settlement Invoices have been paid to date (SEMO)
- Check compliance with CCINs over a two month period (SEMO)
- Check size of the Credit Cover Increase Notice or Credit Call (SEMO)
- Imbalance prices up to date (MMU)

The RAs in the meantime would contact the Participant and look for evidence that this is a temporary issue due to the pandemic and not a more systemic problem. An internal advice document would be created and a decision would be made on whether the Suspension Order should be issued or not. If a decision was made to issue it, then the Participant would be contacted regularly to verify whether the Suspension order could be lifted at any point.

Another Generator Member agreed with the concerns raised and queried the consequence of a Suspension Order being issued and if there were any other mitigation solutions. The RAs explained that they looked at a range of other options but they considered it more appropriate to have the least amount of changes in what is a very well structured process. Without this process in place any Suspension Order would signal distress. The RAs noted that some situations would be recoverable and in the current environment it would be very difficult for a Participant to give reassurance that their issue causing a Suspension Order was just a temporary issue with potential serious consequences to their business. The main aim of this Modification is to prevent an avoidable situation which does not only affect Suppliers but also Generators particularly those heavily constrained.

A Generator Member asked if it could be possible for RAs to start the checking process at an even earlier stage such as when the Warning Limits are issued because this could help prevent Generators

from having any increased exposure to bad debt. The RA Member agreed that this comment would be taken on board and discussed with SEMO as part of their regular updates although they didn't see the benefit of adding it formally into the Modification.

It was also queried if a Suspension Order was not issued what happens if the issue was not remedied? The RAs explained that if rejected and not remedied a Credit Cover Increase Notice would be generated after that. It was noted that when these sorts of issue arise the Wholesale Market Team and SEMO will check in and make sure issue is resolved. There would be frequent interactions for a number of days afterwards to make sure it was indeed a temporary issue.

There was also a question on the effective date of the decision and whether the RAs would take on board further comments sent to them in writing. The Proposer confirmed they intend to make it effective as soon as possible and their decision letter will state the exact date likely to be the next available Settlement Day after the decision is issued. It was also confirmed that any comment sent would be taken on board as appropriate.

8. PROPOSED LEGAL DRAFTING

As set out in Appendix 1.

9. LEGAL REVIEW

N/A

10. IMPLEMENTATION TIMESCALE

N/A

1 APPENDIX 1: MOD_03_20 TEMPORARY MODIFICATION TO SECTION B.18.3.2 TO INTRODUCE AN RA APPROVAL PROCESS FOR ALL SUSPENSION ORDERS

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>
CRU & UR	8 th April 2020	Urgent	Mod_03_20

Contact Details for Modification Proposal Originator

Name	Telephone number	Email address
Gina Kelly		gkelly@cru.ie

Modification Proposal Title

Temporary Modification to Section B.18.3.2 to introduce an RA approval process for all Suspension Orders

Documents affected <i>(delete as appropriate)</i>	Section(s) Affected	Version number of T&SC or AP used in Drafting
T&SC Part B Agreed Procedures Part B	Section B.18.3.2 Agreed Procedure 18 'Suspension and Termination'	Version of 12 April 2019

Explanation of Proposed Change

(mandatory by originator)

The RAs propose to make a temporary amendment to Section B.18.3.2 of the Trading and Settlement Code (to be added via Section H 'Interim Arrangements'), in order to amend the process for the Market Operator to issue a Suspension Order during the COVID-19 crisis to require RA approval before any Suspension Orders are issued.

Currently, a Suspension Order may be issued by the Market Operator under Section B.18.3.1 of the Code with the prior written approval of the RAs for a number of reasons, including for example where a Party has committed 3 Defaults within a period of 20 Working Days or has failed to comply with a Default Notice.

Separately, a Suspension Order in relation to a Participant's Credit Cover requirements may be issued under Section

B.18.3.2 without RA approval. SEMO regularly carries out Credit Assessments to determine the appropriate level of Credit Cover for a Participant. Where this needs to be increased, SEMO will issue a Credit Cover Increase Notice which a Participant has two working days to comply with. A Suspension Order may be issued in the event that;

- (c) a Credit Call is made and a Participant's Credit Cover Provider fails to meet the demand within the timeframe provided for under this Code; or
- (d) a Participant fails at any time to provide the Required Credit Cover as required under this Code.

When the Market Operator issues a Suspension Order, this is published on the SEMO website and takes effect following the 7-day Supplier or Generator Suspension Delay Period. During this time, the RAs may instruct SEMO to lift the Suspension Order or the Party in question may remedy the issue which led to the Suspension Order.

This Modification proposes to amend Section B.18.3.2 so that RA approval will also be required, on a temporary basis, before a Suspension Order is issued in relation to a Credit Call or Credit Cover requirements, in order to provide time for the RAs and SEMO to assess the Parties' situation and whether the issue can be addressed before a Suspension Order is issued and published on SEMO's website. The RAs consider that due to the current unusual circumstances, there may be delays in business processes and payments and issues may arise which can be addressed within relatively short timeframes before any Suspension Orders are issued.

If this Modification is implemented and RA approval is required to issue a Suspension Order under Section B.18.3.2, the RAs will engage with the affected Party and issue a decision to SEMO to either approve or reject the Suspension Order.

The RAs propose to implement this temporary Modification for an initial 3-month period from the date the Modification is approved, with a provision to extend the Modification for a further 3 months via a letter from the RAs to SEMO.

Legal Drafting Change

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

These legal drafting changes will be added to Section H 'Interim Arrangements for an initial 3-month period from the date the Modification is approved.

B.18.3.2 In the event that:

- (a) a Credit Call is made and a Participant's Credit Cover Provider fails to meet the demand within the timeframe provided for under this Code; or
- (b) a Participant fails at any time to provide the Required Credit Cover as required under this Code, then,

~~notwithstanding paragraph B.18.3.1 and~~ subject to paragraphs B.18.3.3, B.18.4.3 and B.18.4.4, the Market Operator shall, ~~with the prior written approval of the Regulatory Authorities at the same time as or following the issue of the Default Notice to the Defaulting Party in respect of such Default,~~ issue a Suspension Order in respect of all of the relevant Participant's Units. ~~The Regulatory Authorities shall issue a decision to the Market Operator to either approve or reject the Suspension Order.~~

~~This approval process under Section B.18.3.2 shall have effect until XX 2020. The Regulatory authorities may write to SEMO before this date to extend the application of this temporary process for a further three-month period.~~

The table in Section 3.3. of Agreed Procedure 18 'Suspension and Termination' will be updated to reflect this temporary change.

Modification Proposal Justification

(Clearly state the reason for the Modification)

This Modification aims to mitigate circumstances which may arise during the COVID-19 crisis where a Suspension Order is issued to a Party and published on SEMO's website, which may impact negatively on a Party, where an issue arises that may be resolved within a short time period.

This has been raised as an Urgent Modification in line with Section B.17.16.3 of the TSC as the circumstances which the Modification seeks to address could occur during the COVID-19 crisis which may unduly interfere with the operation of the SEM.

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)

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

This Modification seeks to continue to ensure that the SEM operates in a financially secure manner and minimise risk on Participants for a limited time period during the current COVID-19 crisis.

(g) to promote the short-term and long-term interests of consumers of electricity on the island of Ireland with respect to price, quality, reliability, and security of supply of electricity.

This Modification aims to minimise disruption to consumers and avoid Suspension Orders which may impact on Participants as much as possible during this time.

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)	
<p>If this Urgent Modification is not implemented, a Suspension Order may be issued to a Party automatically due to an issue which has arisen during these unusual market circumstances, which may be resolved relatively quickly. If a Suspension Order is issued without allowing a limited time period to resolve the issue, Participants may be negatively impacted.</p>	
Working Group <i>(State if Working Group considered necessary to develop proposal)</i>	Impacts <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>Please return this form to Secretariat by email to balancingmodifications@sem-o.com</p>	