

The Single Electricity Market (SEM)

Publication of SEM Trading and Settlement Code Version 2.0

Cover Note

31 May 2007

AIP/SEM/07/223

1. General

Today the Regulatory Authorities publish Version 2.0 of the Single Electricity Market (SEM) Trading and Settlement Code (the 'Code'). This document sets out the rules and procedures concerning the sale and purchase of wholesale electricity in Ireland and Northern Ireland commencing from the implementation of the SEM scheduled for 1 November 2007. This document incorporates changes arising from industry consultation on Trading and Settlement Code Version 1.3 along with minor drafting amendments.

2. Section 8: Transitional Arrangements

The published Code Version 2.0 does not include provision for the transitional arrangements required to be in place to facilitate the introduction of the SEM. These arrangements are expected to constitute Section 8 of the Code and are currently under consultation (AIP/SEM/07/146).

As part of these transitional arrangements, it is proposed that a modified version of the Modification Process will operate during the period between the commencement of the Code and the Market Start Date, limiting modifications to the Code that may be considered during this period to those deemed by the Regulatory Authorities to be "urgent" and necessary for Market Start.

3. Agreed Procedures

All Trading and Settlement Code Agreed Procedures are currently out to consultation and the full suite of these documents is due to be published at the end of June. The Agreed Procedures set out detailed procedural steps to be taken by market participants arising out of the main Code rules and will constitute part the Code to be designated by the both Regulatory Authorities.

4. Status and Designation of the SEM Trading and Settlement Code

This Version 2.0 of the Code is to be put forward for formal designation as the Trading and Settlement Code for the Single Electricity Market established pursuant in Northern Ireland to section 23 of the Northern Ireland (Miscellaneous Provisions) Act 2006 and the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 and in Ireland to section 9BA(1) of the Electricity Regulation Act 1999 (Ireland) and regulations made under Section 9BA(2)(a) of this Act.

The Code will be designated in its final form by the Commission for Energy Regulation in Ireland and by the Northern Ireland Authority for Utility Regulation, following conclusion of the consultation process and publication of the Agreed Procedures and Transitional Arrangements dealt with in Section 8 of the Code at the end of June. Notice of designation in both jurisdictions will be by publication on the AIP website and publication in specific newspapers, identifying where a copy of the SEM Trading and Settlement Code can be obtained.

It is currently proposed that the Code will commence and come into force through the execution of the Framework Agreement on 3 July 2007, and will bind each party from the date that it signs this document, or otherwise accedes.

5. Key Changes in Trading and Settlement Code Version 2.0

The following paragraphs set out the key elements which have been changed in Version 2.0 of the Code, in comparison with Version 1.3. Many other relatively minor changes have been made as a result of legal reviews and of checks with Agreed Procedures (APs).

a. Transitional Provisions: Trading and Settlement Code Section 8

The Transitional provisions for the initiation of the Single Electricity Market, are to be incorporated into a Transition Section of the TSC, Section 8, which is currently under consultation. In order to give effect to this, it is necessary to make some changes to the enduring provisions of the Code (in particular in relation to the initial Modifications Committee). Version 2.0 does not include Section 8, however it encompassed consequential changes to the enduring Code arising out this.

b. Substantial Reduction in Section 7 Derogations

A key change from Version 1.2 to Version 1.3 of the Code was the inclusion of Section 7 setting out Interim provisions of the TSC that will apply for the first twelve months of market operation largely resulting from the TSC/Systems alignment process. Since publication of Version 1.3, many of these issues have been resolved and the enduring provisions can now be met by the Market Operator. Accordingly, much of the interim provisions of Section 7 have now been removed.

c. Interconnectors

The RAs have made several drafting changes to the treatment of Interconnectors as part of the process of alignment with Agreed Procedure 2: “Interconnector Unit Capacity Right Calculation and Dispatch Notification” and in response to comments from industry.

d. Suspension

Version 2.0 provides significantly greater clarity on the Suspension process and relationship between the Suspension process and retail Supplier of Last Resort Processes the two jurisdictions.

e. Registration of charges

Changes have been made in Sections 2 and 6 to provide in more detail for the creation and registration of a charge over each SEM Collateral Reserve Account. This was provided for in Version 1.3 in less detail. The purpose of the charge is to reinforce the

security of the market further to the trust arrangements in Section 6 and ensure that a Party's Credit Cover remains valid. However, a charge against a company's assets is invalid unless registered. As such, the prudent course of action is to register a charge in respect of each SEM Collateral Reserve Account. How and where the charge is to be registered will depend on the place of registration of the relevant Party, the location of the bank account and the legal form of the Party.

f. Credit Call

In response to comments that the Code was inconsistent regarding the arrangements for the Market Operator making a Credit Call and did not provide the necessary information to Participants, Version 2.0 makes clear what actions the Market Operator shall take when making a call on a Participant's posted credit cover.

Changes have also been made to include the Variable Market Operator Charge in Credit Cover. Whilst this was previously provided for in the calculation of Required Credit Cover, there were no specific provisions for a Credit Call in respect of this element of Credit Cover. The Code now expressly provides that the Market Operator may make a Credit Call in respect of the Variable Market Charge but, importantly, the Market Operator must wait until any Shortfall has first been paid out of the Credit Cover.

g. Demand Side Units

Version 2.0 removes any ambiguity relating to Firm Access for Demand Side Units and clarifies that all Demand Side Units can not have non-Firm Access. Version 2.0 also makes clear the Demand Side Units do not qualify for Under Test status.

h. Debit Note

Version 2.0 clears up an inconsistency in the treatment of Debit Notes. The Code now clarifies that a Debit Note is issued to a SEM Creditor following and relating to an Unsecured Bad Debt and that it identifies the amount by which the Market Operator's payment to the SEM Creditor is to be reduced from that set out in the previously submitted Self Billing Invoice.

i. Bad Debt

In response to widely expressed Industry concerns around the issue of Bad Debt, Version 2.0 provides that the Market Operator should be obliged to consult the Modifications Committee about its plans in regard to the recovery of Unsecured Bad Debt. This gives participants a forum to express their views on such issues as whether a bad debt is worth pursuing or not.

j. Defaulting Participant Group

Participants have expressed strong views on the issue of the Market Operator being permitted under the Code to off-set any Unsecured Bad Debt against all members of the Defaulting Participant Group. The RAs have taken these comments on board and this has been removed for Version 2.0, which instead provides the Market Operator with the ability to off-set any payments to Participants against any Unsecured Bad Debt of that Participant only.

k. Pool Sales

Version 2.0 of the Code brings a general clarity to the issue of who sells energy to whom through the trading arrangements. The RAs have attempted to resolve this issue which is particularly important as a result of the VAT arrangements set out in the Code. The Code now clearly states who generators sell to and by asserting the separation of the Pool and the VAT arrangements.

l. VAT

Following extensive consultation with the Her Majesty's Revenue and Customs in the UK and the Revenue Commissioners in Ireland, the RAs have updated the Code on the treatment of VAT. The new provisions set out in paragraphs 6.260 to 6.268 provide that all Invoices and all Self Billing Invoices are to include VAT at a rate appropriate to relevant participant. VAT for the purposes of the pool shall be charged at the following rates:

1. For Supplier Units in the Northern Ireland Currency Zone – the relevant Northern Ireland VAT rate;
2. For Generator Units in the Ireland Currency Zone – the relevant Ireland VAT rate;
3. For Generator Units in the Northern Ireland Currency Zone – an appropriate blended VAT rate calculated as set out in Agreed Procedure 15; and
4. For Supplier Units in the Ireland Currency Zone – a second blended VAT rate calculated as set out in Agreed Procedure 15.

m. Credit Assessment Price

The calculation of Credit Assessment Price had not previously taken into account that there are two different Settlement Periods in the current provisions in the Code. Version 2.0 deals with this issue on both an enduring basis as set out in Section 6 and the interim solution, which has the same numerical effect, set out in section 7.

n. Letters of Credit - Validation

Version 2.0 now contains a requirement that the Market Operator validates all Letters of Credit that have been presented to it.

o. Clarification on Excessive Generation event

Version 2.0 makes clear the circumstances that result in an excessive generation event and includes the possibility that schedule demand will not necessarily be negative if this occurs.

p. Error Supplier Unit

The Regulatory Authorities Decision Paper: AIP/SEM/112/06 of 31 August 2006 “The Single Electricity Market: Treatment of Transmission Losses”, raised an issue with the allocation of losses in relation to the Error Supplier Unit. The RAs have updated the methodology resulting from this in Version 2.0