

SEM Agreed Procedure

Title	Agreed Procedure 9: Management of Credit Cover and Credit Default
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DOCUMENT HISTORY

VERSION	DATE	AUTHOR	COMMENT
2.0	3/11/06	SEM Implementation Team	Released to Regulatory Authorities
3.0	21/05/2007	Regulatory Authorities	Consultation Version
3.2	25/06/2007	Regulatory Authorities	Approved for Go-Active by Regulatory Authorities and TSO/SEM Programme

RELATED DOCUMENTS

DOCUMENT TITLE	VERSION	DATE	BY
Trading and Settlement code (Code)	V2.0	30/05/2007	Regulatory Authorities
Agreed Procedure 1 "Participant and Unit Registration and Deregistration"			
Agreed Procedure 10 "Settlement Reallocation".			
Agreed Procedure 15 "Invoicing"			
Agreed Procedure 17 "Banking and Participant Payments"			

1. INTRODUCTION

1.1. BACKGROUND AND PURPOSE

This Agreed Procedure describes the specific procedures for the management of Credit Risk to be administered by the Market Operator (MO), and with which Parties to the Trading and Settlement Code (the Code) must comply.

1.2. SCOPE OF AGREED PROCEDURE

This Agreed Procedure is a definition of procedural steps to be followed by the MO and Participants. It forms an annexe to, and is governed by, the Code. This document is a statement of process and procedure. Parties' rights and obligations are set out in the Code.

1.3. DEFINITIONS

Save as expressly defined, words and expressions defined in the Code shall have the same meanings when used in this Agreed Procedure.

References to particular sections relate internally to this Agreed Procedure unless specifically noted.

1.4. COMPLIANCE WITH AGREED PROCEDURE

Compliance with this Agreed Procedure is required under the terms of the Code.

2. DESCRIPTIVE OVERVIEW

This section 2 provides an overview of the procedure provided for in the main Sections of the Code, for explanatory purposes and to set the context for this Agreed Procedure only. The overview contained in this section is not legally binding and is not intended to create rights or impose obligations on any Party.

2.1. CREDIT RISK

Credit Risk is the risk of a payment default by a Participant on their financial obligations in the SEM. Effective management of this risk is essential to ensuring the financial integrity of the SEM.

2.2. ELEMENTS OF SEM CREDIT RISK

Credit Risk in the SEM consists of six major elements:

1. *Amounts invoiced but not paid*: Amounts presently owed – basically, the SEM’s receivables.
2. *Amounts calculated but not invoiced*: Settlement amounts which have been calculated, but not yet included on an invoice. These may include Ex-Post Indicative Settlement Statement and Initial Settlement Statement amounts (depending upon the latest information available).
3. *Exposure incurred but not calculated*: Exposures related to a period that has passed (and electricity has been consumed), but the Ex-Post Indicative Settlement Statement amount has not yet been determined (generally due to time lag in receiving metering data and/or determining price).
4. *Potential exposures during ‘Time-to-Remedy’*: If a Participant defaults on their financial obligations in the SEM then the MO will draw down on their Credit Cover and may issue the Participant with a Suspension Order. The Participant will be granted a defined amount of time to comply with a Suspension Order before a Suspension takes effect. Additional exposures may be incurred in the SEM in this period.
5. *Potential exposures during ‘time to remove’*: The Code requires a Supplier Suspension Delay Period before a Participant in respect of their Supplier Units can be removed. This allows Participants to continue to purchase electricity in the market until and if their retail customers are moved across to a Supplier of Last Resort. Additional exposures may be incurred in the SEM during this transition period.
6. *Resettlement exposures*: Additional exposures that may result from Resettlement of an already settled period.

It is important to remember that a Participant’s Credit Risk is the aggregate Credit Risk for all potential payments in the SEM. It includes Trading Charges, Trading Payments, Capacity Charges, Capacity Payments and Market Operator Charges, VAT and Settlement Reallocation Agreements. This is because the risk posed by the Participant is an aggregate risk – a company goes bankrupt everywhere at the same time.

2.3. CALCULATION OF REQUIRED CREDIT COVER

Item 1 and 2 of the Credit Risk elements above are referred to as Actual Exposures, as they are known amounts (although Ex-Post Indicative Settlement Statement amounts are still subject to further revision). The latter four items are Undefined Potential Exposures – not known with certainty at the time of assessment, but can be estimated to a given degree of statistical confidence, i.e. there is x% statistical confidence that actual exposures, once determined, will fall below the estimated potential exposure amount. This confidence factor, known as the Analysis Percentile Parameter, is proposed by the Market Operator and approved by the Regulatory Authorities.

The total Participant’s Credit Risk at any given point in time is calculated as the sum of:

1. Actual Exposure: is the sum of outstanding invoices and ‘amounts calculated but not invoiced’. This encompasses elements 1-2 in section 2.2.

2. Undefined Potential Exposure: is the potential exposure for the time period from the last settled trading period through to when a Participant could be removed from incurring further liability (this time period is the Undefined Exposure Period). This encompasses elements 3-5 in section 2.2. As the time periods are contiguous, this exposure is more appropriately calculated as a single risk amount, rather than three separate amounts. Determination of this amount will be based on a statistical analysis of historical exposures, where available and where not available is based on forecast quantities and estimated prices.
3. Re-Settlement Exposure: is the potential exposure from Resettlement. For SEM this is not calculated explicitly. This exposure is managed by the Fixed Credit Cover Requirement.

Settlement Reallocation Agreements are also considered in the calculation of a Participant's Required Credit Cover. See section 2.7 for information regarding Settlement Reallocation Agreements.

2.4. PROVISION OF CREDIT COVER

Credit Cover is collateral required to be posted as a guarantee against a Participant's Credit Risk in the SEM. In the event of a payment default, this Credit Cover can be utilised by the MO to satisfy the Participant's outstanding financial obligations in the SEM. Because of the potential for Resettlement, a Participant withdrawing from the market will not receive full return of its Posted Credit Cover until the Resettlement period has passed (currently 14 months).

Credit Cover for use in the SEM must be posted in the form of either

- Cash (in the designated Currency of the Participant) in a SEM Collateral Reserve Account; or
- Letter of Credit (LC) from a Bank that meets the Banking Eligibility Requirements and in the form set out in the Code.

A Participant may meet its Credit Cover requirements by posting a combination of these types of Credit Cover. In the event of a Shortfall, the failure of a Participant to pay an Invoice in full, Posted Credit Cover will need to be accessible in a timely manner such that the MO can meet all payment obligations of the SEM.

Participant must maintain its Credit Cover with a Credit Cover Provider who meets the Bank Eligibility Requirements.

The MO shall perform periodic reviews of Credit Cover Providers on its published list to check if they continue to meet the Banking Eligibility Requirements. The Market Operator shall update the published list as necessary.

2.5. MONITORING OF CREDIT COVER

In the monitoring of Credit Cover, the following value is used:

- Warning Limit – This is the ratio of Participant's Required Credit Cover to Posted Credit Cover that, if exceeded, results in a Warning Notice being sent to the Participant.

Posted Credit Cover is compared against Participant Required Credit Cover:

- If the ratio of Participant Required Credit Cover to Posted Credit Cover exceeds the Warning Limit, then the MO shall issue a Warning Notice to the Participant. This warning is informational only and the Participant is not obliged to act on this. The Participant can set an individual Warning Limit below the default value as set in the Code.
- If the Participant's Required Credit Cover exceeds the Posted Credit Cover, then the MO shall issue a Credit Cover Increase Notice to the Participant. The Participant will then be required to increase their Credit Cover so that they no longer breach this limit.

The MO shall calculate the Required Credit Cover each Working Day and subsequently issue the necessary Warning Notices and Credit Cover Increase Notices.

2.6. FAILURE TO PROVIDE REQUIRED CREDIT COVER

If a Participant fails to comply with a Credit Cover Increase Notice within two Working Days then the MO will issue a Default Notice. The MO will then initiate proceedings to suspend the Participant from the SEM by issuing a Suspension Notice in accordance with Agreed Procedure 1 "Participant and Unit Registration and Deregistration".

2.7. SETTLEMENT REALLOCATION AGREEMENTS

The Code allows Participants to lodge Settlement Reallocation Agreements, for the transference of Settlement obligation in the market from one Participant to the other. This also serves to reduce the Credit Risk, and hence Credit Cover requirements, of one Participant, and increase the Credit Risk of the other. Participant Required Credit Cover calculations consider the impact of Settlement Reallocation Agreements.

The detailed rules for Settlement Reallocation Agreements are set out in Agreed Procedure 10 "Settlement Reallocation".

2.8. NEW/ADJUSTED PARTICIPANTS

New Participants do not have any historical Settlement data which can be used as the basis for a statistical analysis of historical exposures, in order to calculate Undefined Potential Exposure. In this instance, the Participant will be required to provide forecast quantity data to the MO as part of the registration process. This will be used, in conjunction with a Credit Assessment Price to determine the Undefined Potential Exposure amount, and hence the Required Credit Cover.

The Credit Assessment Price used in the process will be made up of the Estimated Energy Price, the Variable Market Operator Price, the Imperfections Price and an Estimated Capacity Price.

The forecast quantities provided by new Participants will be evaluated against the Meter Data received from the relevant Meter Data Provider. If there is a significant difference between the Meter Data and the forecast quantities provided, the MO will calculate the Undefined Potential Exposure based on the Analysis Percentile Parameter of the known Meter Data against the Credit Assessment Price extrapolated across the future risk period. This assessment methodology will be used until there is sufficient historical data for the statistical analysis.

An Adjusted Participant is a Participant whose load and/or generation configuration has changed significantly from historical patterns. This could be due to acquisition of new assets, winning significant new customers in the retail market, etc. In such cases, statistical analysis of historical exposures may not be a valid indicator of future performance, and the same processes will be used as for new Participants. Participants who are expecting an increase in their volumes by more than the Credit Cover Adjustment Trigger are required to notify the MO. In these cases, in accordance with the Code, the MO will use forecast quantities to calculate the Participant's Undefined Potential Exposure.

2.9. PAYMENT DEFAULT

The procedure for when a Participant fails to pay an amount due is set out in Agreed Procedure 15 "Invoicing". Where this draws down on a Participant's Posted Credit Cover, then the procedures in this Agreed Procedure shall be followed based on the Participant's Posted Credit Cover after the draw down.

2.10. CREDIT COVER PROVIDERS

It is the responsibility of each Participant to ensure that its Credit Cover Provider meets the Banking Eligibility Requirements as set out in the Code and continues to meet them whilst being its Credit Cover Provider.

When presenting a Letter Of Credit as part of their Credit Cover, the Participant must supply proof to the Market Operator that the Bank selected as the Credit Cover Provider meets the Banking Eligibility Requirements.

In order to assist Participants in obtaining appropriate Credit Cover, the Market Operator will record and list on the Market Operator Website Banks which have been proven by Participants to meet the Banking Eligibility Requirements and therefore meet the requirements of being a Credit Cover Provider. The Market Operator shall add additional Banks who meet the Banking Eligibility Requirements when such proof is received from Participants. The Market Operator may from time to time review the Banks on the list to confirm that they still meet the Banking Eligibility Requirements. The maintenance of the list should not be taken of itself by a Participant, and the Market Operator makes no warranty or representation, that the Banks listed at any given time continue to meet the Banking Eligibility Requirements.

3. PROCEDURE DEFINITION

3.1. MANAGEMENT OF CREDIT COVER REQUIREMENTS

3.1.1. Overview

Required Credit Cover is calculated as set out in the Code.

Required Credit Cover is monitored against Posted Credit Cover every Working Day. Depending on this assessment, various warnings may be generated, or adjustments to Required Credit Cover:

- If the ratio of Required Credit Cover to Posted Credit Cover is greater than the Warning Limit, a formal Warning Notice will be issued to the Participant. The Participant may elect to post more Credit Cover, but is not obliged to.
- If the Required Credit Cover is greater than the Posted Credit Cover, a Credit Cover Increase Notice is issued. This requires the Participant to post additional Credit Cover.

If a valid response to the Credit Cover Increase Notice is not completed by 17:00 hours two Working Days after issue of notice, a Participant will be in breach of its obligations and a Default Notice and a Suspension Order shall be issued by the Market Operator. A valid response shall be one of the following:

1. Increase Posted Credit Cover.
2. Reducing Required Credit Cover by
 - Payment of an outstanding Invoice
 - Arrange the posting of appropriate Settlement Reallocation Agreements for which the Participant is a Credited Participant.

Settlement Reallocation Agreements which serve to increase the Participant's Required Credit Cover will be cancelled from the next Trading Day forward to such extent that the Required Credit Cover is greater or equal to the Posted Credit Cover.

If the Participant later re-establishes appropriate Credit Cover and the Suspension Order have only be issued in respect of the insufficient Posted Credit Cover, the Market Operator shall remove the Suspension Order.

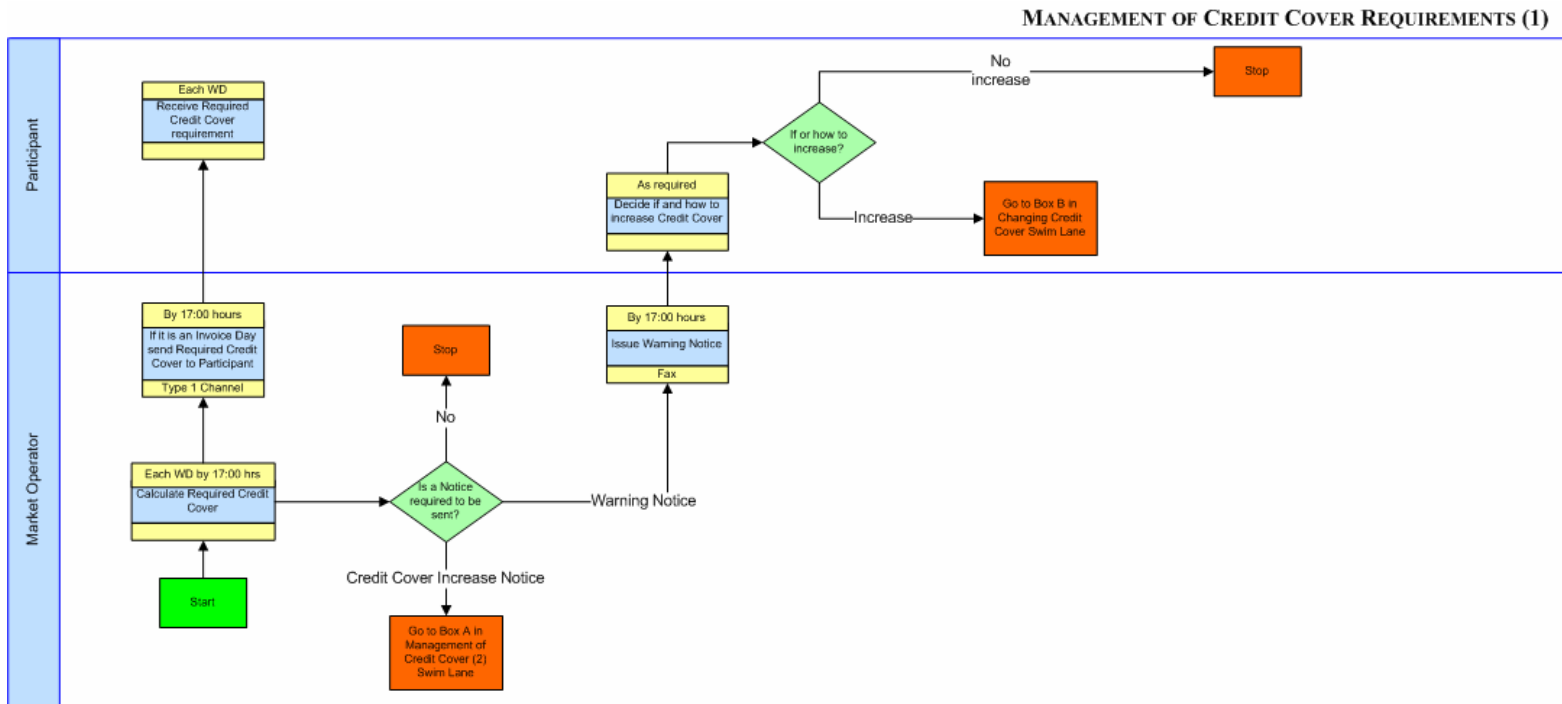
3.1.2. Procedural Steps - Management of Credit Cover Requirements

#	Procedural Step	Timing	Method	By/From	To	Linkage
C2.1	Calculate Required Credit Cover.	Each WD	-	Market Operator		
C2.2	If it is an Invoice Day, submit Required Credit Cover and Posted Credit Cover and Warning Limit to each Participant	Each Invoice Day by 17:00 hours	Type 1 Channel	Market Operator	Participant	
C2.3	Compare against Posted Credit Cover. <ul style="list-style-type: none"> • If Required Credit Cover/Posted Credit Cover ratio is below the Warning Limit then end of process. • If Required Credit Cover/Posted Credit Cover ratio is greater than the Warning Limit and the Required Credit Cover is less than or equal to the Posted Credit Cover then continue from C2.4 • If Required Credit Cover is greater than the Posted Credit Cover then continue from C2.6 	Each WD by 17:00	-	Market Operator		
C2.4	Issue a formal Warning Notice to the Participant.	Each WD by 17:00	Fax	Market Operator	Participant	
C2.5	If, the Participant elects to post additional Credit Cover Then follow process in 3.3.1 Procedural Steps – Changing Credit Cover Otherwise end of process	Whenever required.	-	Participant		
C2.6	Issue a Credit Cover Increase Notice.	Each WD by 17:00	Fax	Market Operator	Participant	
C2.7	Provide a valid response with completed actions. If this requires a an increase in Posted Credit Cover then follow the process in section 3.3.1 “Procedural Steps – Changing Credit Cover”	Within 2 WD of Credit Cover Increase Notice	Fax	Participant	Market Operator	
C2.8	If a valid response with completed actions received within 2 WD then end of process Otherwise continue from step C2.9	Within 2 WD of Credit Cover Increase Notice	-	Market Operator		

#	Procedural Step	Timing	Method	By/From	To	Linkage
C2.9	Issue a Default Notice to the Participant and initiate steps under Suspension in Agreed Procedure 1 "Participant and Unit Registration and Deregistration"	After 17:00, 2 WD after the issue of the Credit Cover Increase Notice.	Fax	Market Operator	Participant	
C2.10	Where the Participant has Settlement Reallocation Agreements where it is the Debited Participant then the Market Operator shall cancel sufficient number of these Settlement Reallocation Agreements such that its Posted Credit Cover is greater than its Required Credit Cover.	1 WD after the issue of the Default Notice	-	Market Operator		
C2.11	Perform actions to rectify Default. Where this requires the posting of additional Credit Cover then follow the process in section 3.3.1 "Procedural Steps – Changing Credit Cover"	Within the timeframe set out in the Suspension Order	-	Participant		

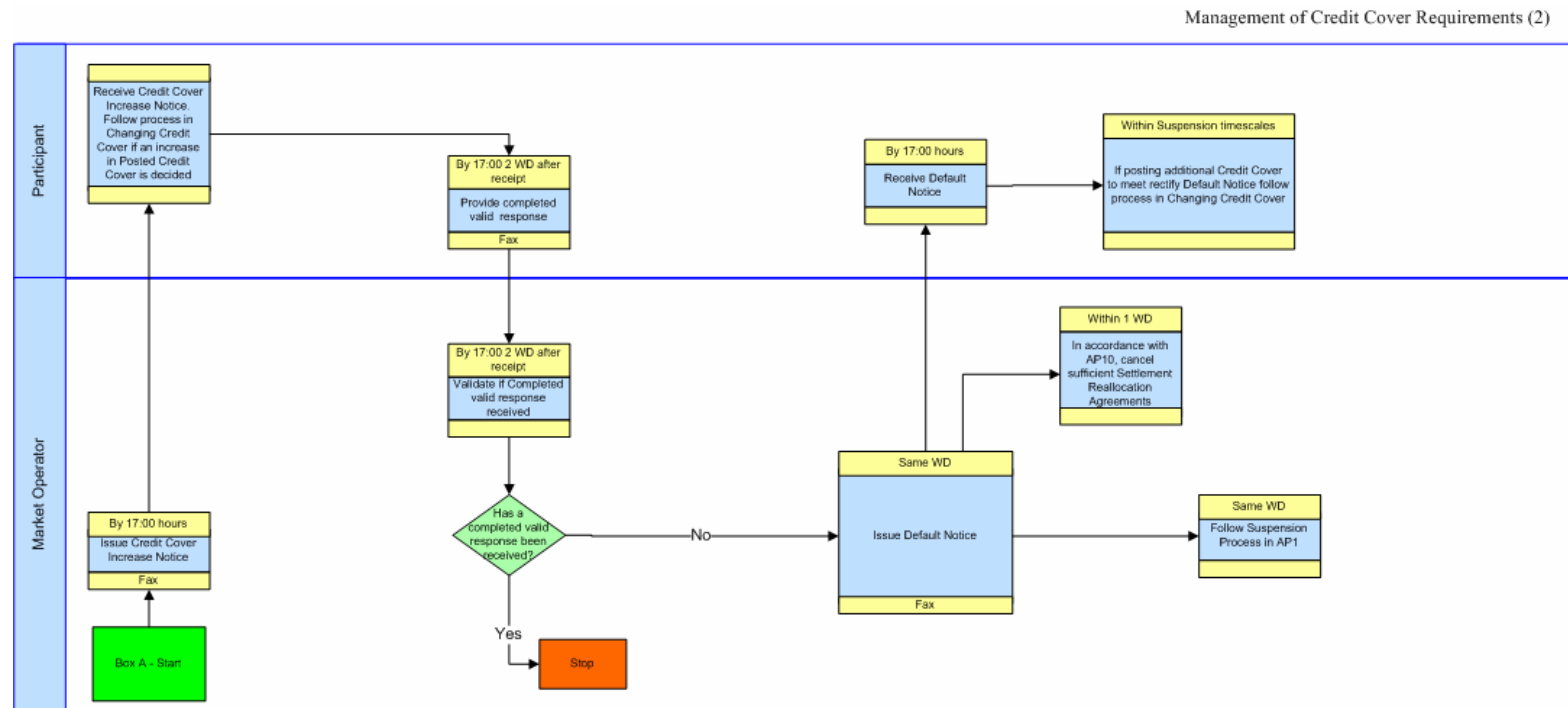
3.1.3. Swim Lane - Management of Credit Cover Requirements (1)

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.



3.1.4. Swim Lane - Management of Credit Cover Requirements (2)

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.



3.2. MONITORING CREDIT COVER PROVIDER

In order to facilitate the processing of Letters of Credit, the Market Operator shall maintain a published list of Banks on the Market Operator Website which Participants have proven meet the Banking Eligibility Requirements. The Market Operator may not accept Letters of Credit unless the Participant supplies adequate proof that the Credit Cover Provider meets the Banking Eligibility Requirements using the process in section 3.2.1.

The processes below shall be used to facilitate the provision and maintenance of the published list of Banks which the Market Operator assessment indicates meet the Banking Eligibility Requirements. A Participant shall retain the obligation to ensure that its Credit Cover Provider meets the Banking Eligibility Requirements.

3.2.1. New Credit Cover Provider

Where a Participant intends to use a Credit Cover Provider which is not published on the Market Operator Website, the Participant shall prove to the Market Operator that the potential Credit Cover Provider meets the Banking Eligibility Requirements before instructing its Credit Cover Provider to register a Letter of Credit with the SEM Bank. If a Participant uses a Credit Cover Provider that is published on the list on the Market Operator's Website, it shall nevertheless request confirmation of the Bank that it continues to meet the Banking Eligibility Requirements and the Market Operator shall rely on the Participant having sought such confirmation in place of the Participant having to provide such proof provided always that if the Participant fails to get satisfactory confirmation from such Bank, it shall not have met its Credit Cover Requirements and should seek an alternative Bank. In this event, the participant should inform the Market Operator that such Bank has not provided such confirmation and the Market Operator shall remove the Bank from its list.

On receipt of such proof that the potential Credit Cover Provider satisfies the Banking Eligibility Requirements, the Market Operator shall add the potential Credit Cover Provider to its published list of Banks.

3.2.2. Monitoring Credit Cover Providers

As the Market Operator requires, the Market Operator shall conduct a review of the Banks on its published list to assess whether the Banks still meet the Banking Eligibility Requirements. Where the Market Operator assessment indicates that a Bank no longer meets the Banking Eligibility requirements then the Market Operator shall remove the Bank from its published list.

In addition, where the Market Operator obtains information that a Bank on its published list may no longer meet the Banking Eligibility Requirements, the Market Operator shall conduct a review to assess whether the Bank still meet the Banking Eligibility Requirements. Where the Market Operator assessment considers that the Bank no longer meets the Banking Eligibility requirements then the Market Operator shall remove the Bank from its published list.

Where the Market Operator removes a Bank from its published list, the Market Operator shall review whether the Market Operator holds any Letters of Credit issued from that Bank and inform the relevant Participants. Within 10 Working Days after been given this notice, each affected Participant shall re-post any additional Credit Cover with another Credit Cover Provider to ensure it meets its Required Credit Cover.

3.2.3. Procedural Steps - New Credit Cover Provider

#	Procedural Step	Timing	Method	By/From	To	Linkage
C3.1	Submit to the Market Operator Letter of Credit from potential new Credit Cover Provider along with proof that the Credit Cover Provider meets the Banking Eligibility Requirements.	At least 4 WD prior to lodging of Letter of Credit from the new Credit Cover Provider	Type 1 Channel	Participant	Market Operator	
C3.2	Review the proof supplied by the Participant to confirm that the potential Credit Cover Provider meets the Banking Eligibility Requirements	Within 2 WD of notification	-	Market Operator		
C3.3	Inform Participant of the results of status checks and if the complies with the Banking Eligibility Requirements add to the published list	Within 2 WD of notification	Type 1 Channel Market Operator Website	Market Operator Market Operator	Participant -	
C3.4	Use the process set out in section 3.3.1, “Changing Credit Cover” to update the Posted Credit Cover	Within 2 WD of notification		Market Operator	Participant -	

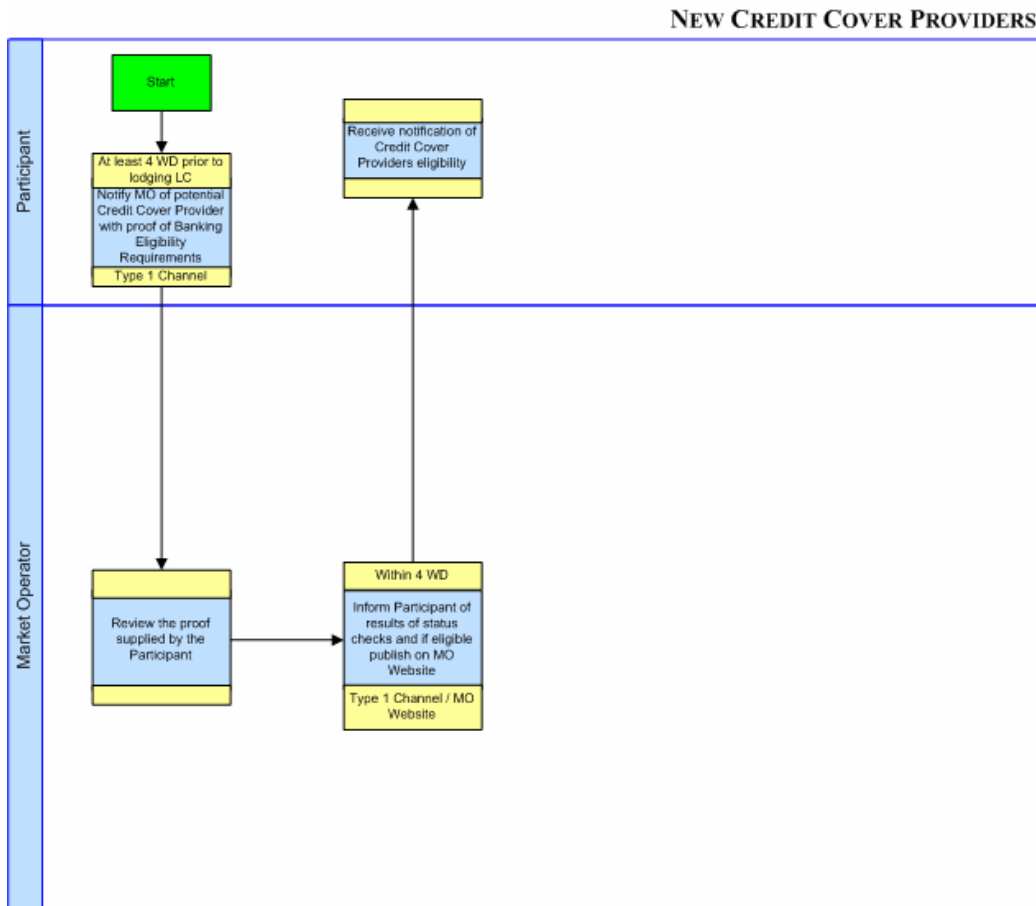
3.2.4. Procedural Steps - Monitor Credit Cover Providers

#	Procedural Step	Timing	Method	By/From	To	Linkage
C4.1	Start: Either As required by the Market Operator Or On receipt of relevant information relating to the potential status of a Credit Cover Provider published on the Market Operator Website go to step C4.2					
C4.2	Review whether the identified Credit Cover Provider still meets the Banking Eligibility Requirements If the Credit Cover still meets the Banking Eligibility Requirements in the opinion of the Market Operator end of process Otherwise proceed to step C4.4	Within 2 WD of receipt of information	-	Market Operator		
C4.3	Review the status of each Credit Cover Provider published on the Market Operator Website against the Banking Eligibility Requirements. If all the Credit Cover still meets the Banking Eligibility Requirements in the opinion of the Market Operator end of process Otherwise proceed to step C4.4	As scheduled	-	Market Operator		
C4.4	Update the published list of Banks that meet the Banking Eligibility Requirements.	Within 1 WD of completion of the review	Market Operator Website	Market Operator		

#	Procedural Step	Timing	Method	By/From	To	Linkage
C4.5	<p>Identify any Participants who have invalid Letters of Credit as a consequence of the updated list of Banks meeting the Banking Eligibility Requirements. For each such Participant, compare its Required Credit Cover with its revised Posted Credit Cover (i.e. ignoring any Credit Cover provided from Banks on the published list.)</p> <p>If a Participant’s Required Credit Cover is greater than its revised Posted Credit Cover then go to step C4.7</p> <p>If a Participant’s Required Credit Cover is less than or equal to its revised Posted Credit Cover then go to step C4.6</p>	Within 1 WD of completion of the review	-	Market Operator		
C4.6	<p>Inform each such Participant of its revised Posted Credit Cover and return any Letters of Credit not issued by a Bank on the published list.</p> <p>End of process</p>	Within 1 WD of completion of the review	Fax	Market Operator	Participant	
C4.7	<p>Inform each such Participant of its revised Posted Credit Cover, the Banks that the Market Operator deems do not meet the Banking Eligibility Requirements and request the posting of additional Credit Cover to meet its Required Credit Cover.</p>	Within 1 WD of completion of the review	Fax	Market Operator	Participant	
C4.8	<p>Use the process in section 3.3.1 “Procedural Steps – Changing Credit Cover” and if required in 3.2.3 “Procedural Steps - New Credit Cover Provider”</p>	Within 10 WD	-	Participant		

3.2.5. Swim Lane - New Credit Cover Provider

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.

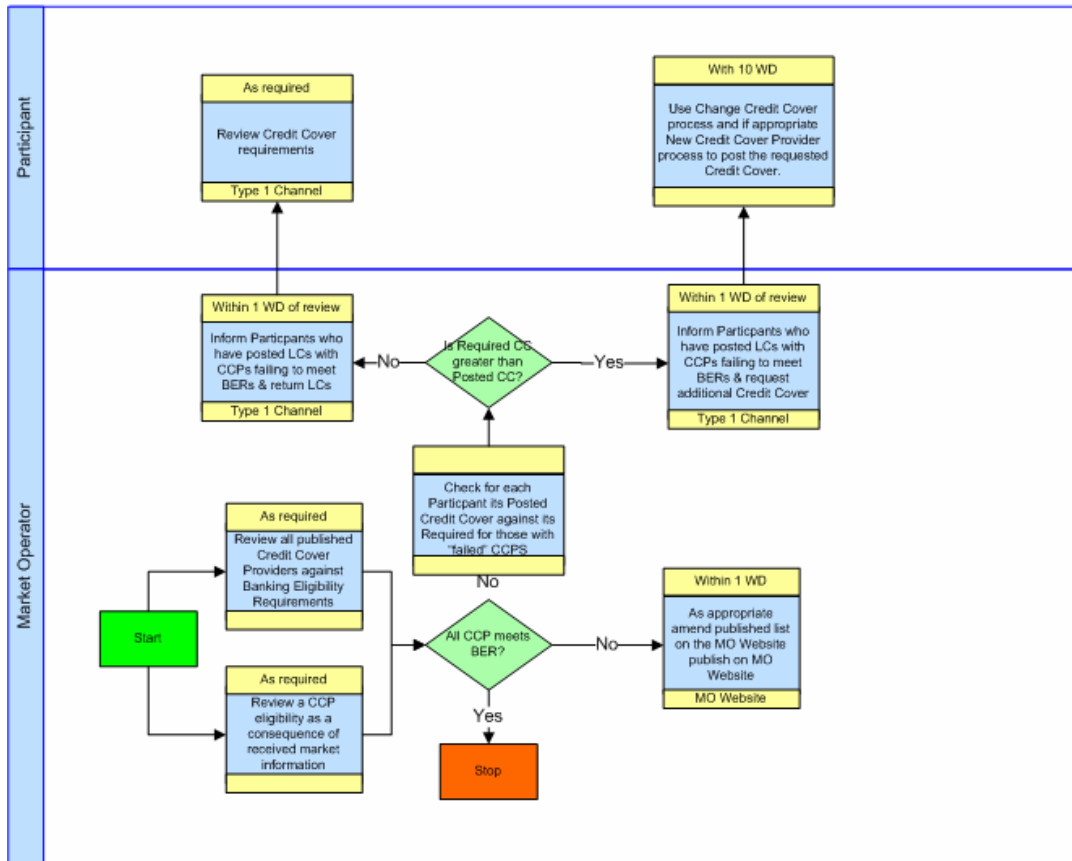


Comment [BOS1]: NEED TO UPDATE THE TIMELINES TO At least 4WD prior to lodging the LC

3.2.6. Swim Lane - Monitor Credit Cover Provider

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.

MONITOR CREDIT COVER PROVIDERS



3.3. CHANGING CREDIT COVER

Where a Participant requires or is required to change its Posted Credit Cover, then this can be achieved by registering a new Letter of Credit, cancelling a Letter of Credit, replacing a Letter of Credit (a new letter of Credit replacing an existing Letter of Credit from the same Credit Cover Provider), depositing cash in its SEM Collateral Account or withdrawing cash from its SEM Collateral Account.

Where a Participant is seeking to register a new Letter of Credit, the Participant should ensure that the Credit Cover Provider meets the Banking Eligibility Requirements and the Bank is on the Market Operator's published list of Banks. Where the Bank meets the Banking Eligibility Requirements but is not on the Market Operator's published list of Banks then the Participant shall follow the process in 3.2.1 to allow the Market Operator to assess if the Bank meets the Banking Eligibility Requirements. Where the Bank meets the Banking Eligibility Requirements and is on the Market Operator's published list of Banks then the Participant shall instruct its Credit Cover Provider to register the Letter of Credit with the SEM Bank, as required.

Where a Participant requires to cancel a Letter of Credit or to withdraw cash from its SEM Collateral Account, it shall issue such request to the Market Operator. The Market Operator shall check that the Participant's Posted Credit Cover after the cancellation/withdrawal meets the Required Credit Cover. Within 2 Working Days of receipt of the request, the Market Operator shall allow the Participant to instruct its Credit Cover Provider to cancel the Letter of Credit. On receipt of notification from the Participant's Credit Cover Provider to the SEM Bank, details of the Letter of Credit will be removed from the Market Operator's banking systems or release the cash from the Participant's SEM Collateral Account into the Participant's bank account.

Where a Participant instructs its Credit Cover Provider to register a replacement Letter of Credit from the same Credit Cover Provider, the Market Operator shall allow the Participant to instruct its Credit Cover Provider to cancel the Letter of Credit. On receipt of notification from the Participant's Credit Cover Provider to the SEM Bank, details of the Letter of Credit will be removed from the Market Operator's banking systems.

3.3.1. Procedural Steps – Changing Credit Cover

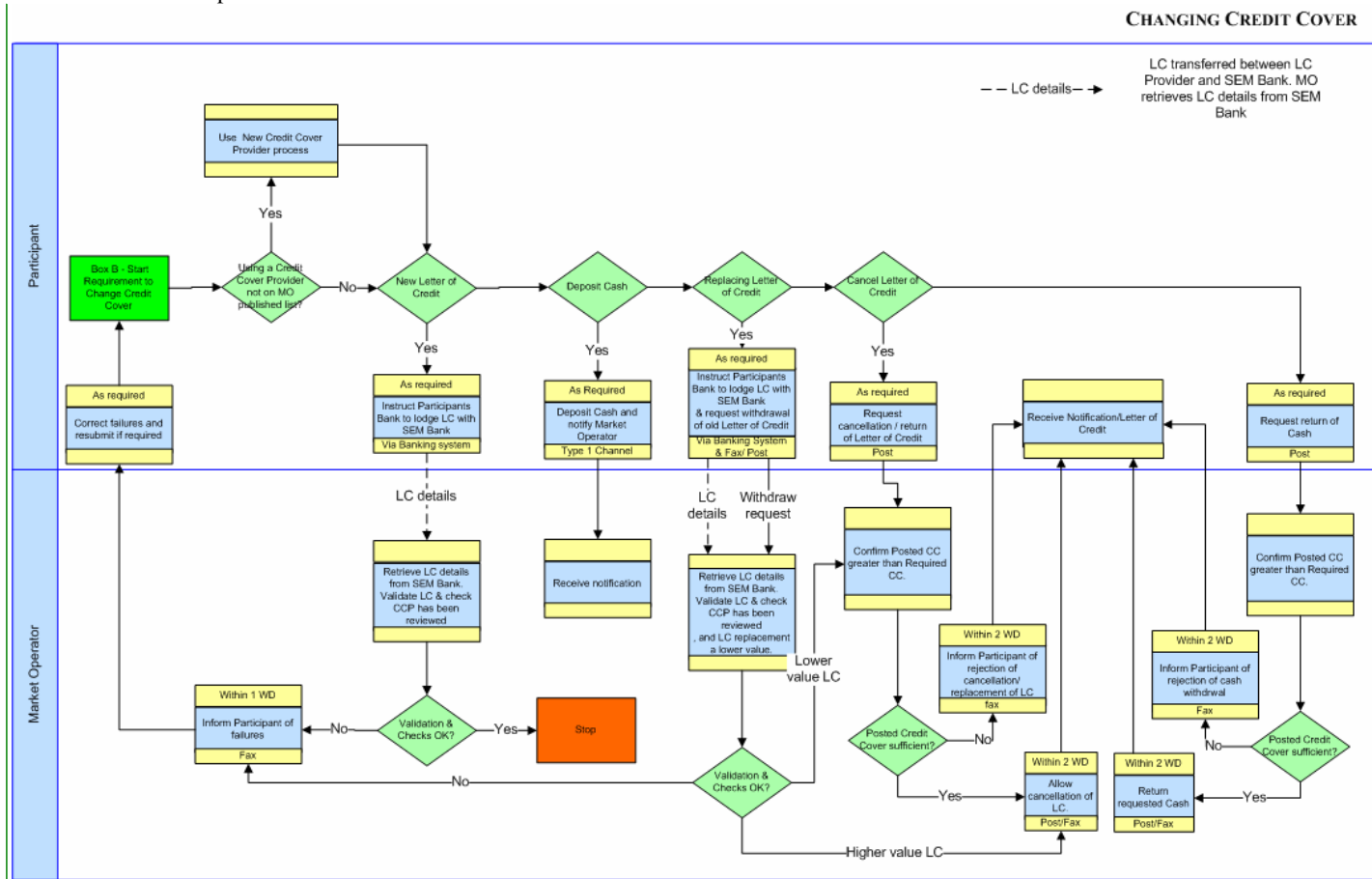
#	Procedural Step	Timing	Method	By/From	To	Linkage
C5.1	<p>If a the required change in Credit Cover</p> <ol style="list-style-type: none"> 1. is a Letter of Credit from a Bank not on the published list on the Market Operator Website go to step C5.2 2. is a new Letter of Credit (i.e. not replacing one from the same Credit Cover Provider) from a Credit Cover Provider on the published list on the Market Operator Website go to step C5.4 3. is a deposit of cash in the SEM Collateral Account go to step C5.8 4. is a revised Letter of Credit (i.e. replacing one from the same Credit Cover Provider) go to step C5.9 5. is the cancellation of a Letter of Credit go to C5.11 6. is a request for withdrawal of cash from the SEM Collateral Account go to step C5.15 	As required	-	Participant		
C5.2	Use the process set out in section 3.2.3 “Procedural Steps - New Credit Cover Provider” to allow the Market Operator to assess the validity of the proposed Credit Cover Provider.	-	-	Participant		
C5.3	On completion of the process in 3.2.3 “Procedural Steps - New Credit Cover Provider” and if the Bank has been added to the Market Operator published list go to step C5.1 and instruct the Credit Cover Provider to register the Letter of Credit with the SEM Bank.	-	-	Participant		
C5.4	Register Letter of Credit with the SEM Bank	As required	Electronic SWIFT msg	Participant’s Credit Cover Provider	SEM Bank	
C5.5	Retrieve LC details from the SEM Bank. Validate the Letter of Credit details and check that the Credit Cover Provider is on the Market Operator published list If validation is OK end of process Otherwise go to step C5.6	-	-	Market Operator		
C5.6	Inform Participant of the validation failures	Within 1 WD	Fax	Market Operator	Participant	

#	Procedural Step	Timing	Method	By/From	To	Linkage
C5.7	Correct failures and if required resubmit – go to step C5.1 Otherwise end of process	As required	-			
C5.8	Deposit Cash in SEM Collateral Account and notify Market Operator End of Process	As required	Type 1 Channel	Participant	Market Operator	
C5.9	Participant instructs Letter of Credit Provider to register replacement Letter of Credit with the SEM Bank	As required	Electronic SWIFT msg	Participant's Credit Cover Provider	SEM Bank	
C5.10	Request cancellation of old Letter of Credit.	As required	Fax/Post	Participant	Market Operator	
C5.11	Validate the Letter of Credit and check that the Credit Cover Provider is on the Market Operator published list If validation is OK and old Letter of Credit is for a lower value than the new Letter of Credit go to step C5.13 If validation is OK and old Letter of Credit is not for a lower than new Letter of Credit go to step C5.12 Otherwise go to step C5.6	-	-	Market Operator		
C5.12	Check if Posted Credit Cover (not including the Letter of Credit requested to be returned) is less than the Required Credit Cover. If sufficient Posted Credit Cover go to C5.13 Otherwise go to C5.14	-	-	Market Operator		
C5.13	Allow the Participant instruct its Credit Cover Provider to cancel requested Letter of Credit and remove from the Market Operator's systems. End of Process	Within 2 WD	Post	Market Operator	Participant	
C5.14	Notify Participant of rejection of the replacement/ cancellation of Letter of Credit. End of Process	Within 2 WD	Fax	Market Operator	Participant	

#	Procedural Step	Timing	Method	By/From	To	Linkage
C5.15	Check if Posted Credit Cover (not including the cash requested to be returned) is less than the Required Credit Cover. If sufficient Posted Credit Cover go to C5.16 Otherwise go to C5.17	-	-	Market Operator		
C5.16	Transfer cash to Participant's bank account and notify Participant End of Process	Within 2 WD	Fax	Market Operator	Participant	
C5.17	Notify Participant of rejection of the cash request End of Process	Within 2 WD	Fax	Market Operator	Participant	

3.3.2. Swim Lane – Changing Credit Cover

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.



Comment [BOS2]: How detailed does the updated Swimlane need to be? Does this require inclusion of lanes for the Participant's Credit Cover Provider and the MO Bank?

3.4. NEW / ADJUSTED PARTICIPANTS CREDIT COVER

Where a New Participant registers its first Unit it is required to provide forecast meter data for its Unit during the registration process in Agreed Procedure 1 "Participant and Unit Registration and Deregistration". The process under this section shall be followed by the Market Operator and the Participant to ensure that Participant satisfies its Credit Cover requirements.

Under the Code, each time a Participant becomes an Adjusted Participant, the Participant is required to submit forecast meter data for its Units.

The Market Operator shall use the received forecast data (either from the Adjusted Participant or from the New Participant) to calculate the Required Credit Cover for the Participant and if necessary, issue a Credit Cover Increase Notice.

The Participant shall use the process in section 3.3.1 "Procedural Steps – Changing Credit Cover" to provide the Required Credit Cover. This may also require the use of the process in section 3.2.3 "Procedural Steps - New Credit Cover Provider" or the use of Agreed Procedure 17 "Banking and Participant Payments" to set up an SEM Collateral Account.

At the request of the Participant, the Market Operator shall inform the Participant whether sufficient Credit Cover has been posted.

The Participant's forecast shall be used by the Market Operator in determining the Required Credit Cover.

This forecast shall be submitted by the Participants in the following formats:

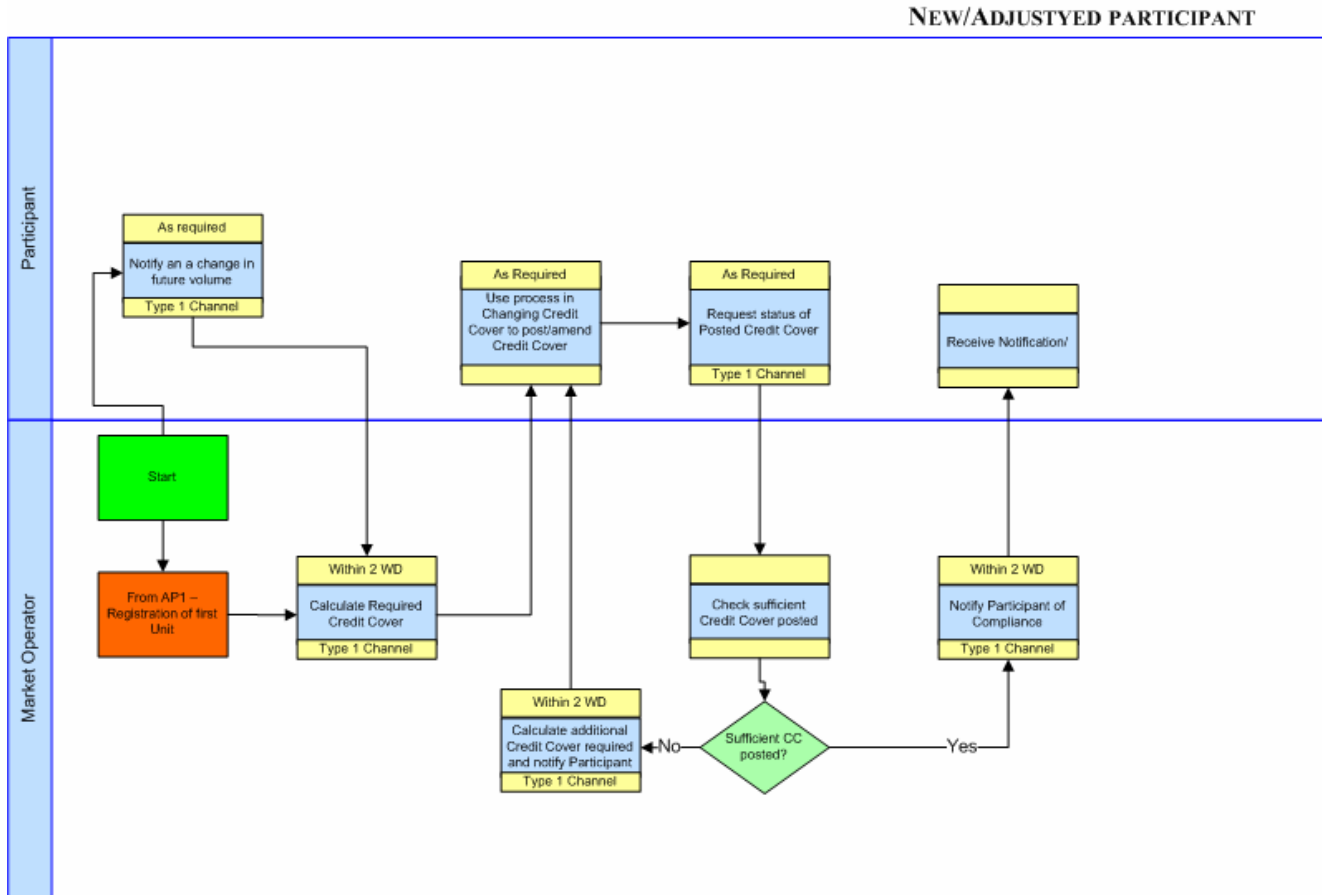
- One single forecast volume (at Trading Period resolution) to be applied for all Trading Periods of the relevant Undefined Exposure Period
 - An increase expressed as either a percentage or an incremental volume value to be applied to historical data present in the Historical Assessment Periods (only valid for Adjusted Participants)
 - A series of forecast volumes per Trading Period for all Trading Periods within all Undefined Exposure Periods until the Participant is no longer a New Participant or an Adjusted Participant.
 - Other detailed forecast as agreed with the Market Operator
-

3.4.1. Procedural Steps - New / Adjusted Participants Credit Cover

#	Procedural Step	Timing	Method	By/From	To	Linkage
C6.1	Start: From Either Receipt of Application form for First Participation in accordance with Agreed Procedure 1 "Participant and Unit Registration and Deregistration". Go to step C6.3 Or A Participant becoming an Adjusted Participant	As required	-	New Participant / Adjusted Participant		
C6.2	Submit forecast data for all its Supplier Units	Within 1 WD	Type 1 Channel	Participant	Market Operator	
C6.3	Calculate and notify Required Credit Cover and if Adjusted Participant its current Posted Credit Cover	Within 2 WD	Type 1 Channel	Market Operator	New Participant / Adjusted Participant	
C6.4	Follow the process in section 3.3.1 "Procedural Steps – Changing Credit Cover" to provide the Required Credit Cover and if required, in section 3.2.3 "Procedural Steps - New Credit Cover Provider".	Within 10 WD for Adjusted Participant As required for New Participant	-	-		
C6.5	Request review of Posted Credit Cover to see if sufficient	As required	Type 1 Channel	Participant	Market Operator	
C6.6	Review Posted Credit Cover against Required Credit Cover (as calculated in step C6.3) If sufficient Posted Credit Cover go to step C6.8 Otherwise go to step C6.7	-	Market Operator			
C6.7	Advise Participant that further Credit Cover is required Go to step C6.4	Within 2 WD	Type 1 Channel	Market Operator	New Participant / Adjusted Participant	
C6.8	Confirm sufficient Posted Credit Cover in place End of process	Within 2 WD	Type 1 Channel	Market Operator	New Participant / Adjusted Participant	

3.4.2. Swim Lane - New / Adjusted Participants Credit Cover

These swimlanes are provided as an illustration of the Procedural Steps. The Procedural Steps take precedence, in the event of conflict between the swimlanes and the Procedural Steps.



4. APPENDIX 1 – DEFINITIONS AND ABBREVIATIONS

4.1. DEFINITIONS

Actual Exposure	As defined in the Code
Adjusted Participant	As defined in the Code
Agreed Procedure	As defined in the Code
Analysis Percentile Parameter	As defined in the Code
Bank Eligibility Requirements	As defined in the Code
Billing Period	As defined in the Code
Billing Period 1	The first Billing Period to which a Settlement Risk Period applies
Billing Period 2	The second Billing Period to which a Settlement Risk Period applies
Billing Period 3	The third Billing Period to which a Settlement Risk Period applies
Capacity Charge	As defined in the Code
Capacity Payment	As defined in the Code
Code	As defined in the Code
Credit Assessment Price	As defined in the Code
Credit Call	As defined in the Code
Credit Cover	As defined in the Code
Credit Cover Adjustment Trigger	As defined in the Code
Credit Cover Increase Notice	As defined in the Code
Credit Cover Provider	As defined in the Code
Credit Risk	The potential amount of payment default by a Participant on their financial obligations in the SEM
Currency	As defined in the Code
Default Notice	As defined in the Code.
Deregistration	As defined in the Code
Estimated Capacity Price	As defined in the Code
Estimated Energy Price	As defined in the Code
Euro	As defined in the Code
Ex-Post Indicative Settlement Statement	As defined in the Code
Generation Participant	As defined in the Code
Generator	As defined in the Code
Historical Assessment Period	As defined in the Code
Imperfections Price	As defined in the Code
Initial Settlement Statement	As defined in the Code
Interest	As defined in the Code
Invoice	As defined in the Code
Invoice Day	The day that an Invoice and or Self Billing Invoice is prepared and sent to Participants.
Letter of Credit	As defined in the Code
Market Operator	As defined in the Code
Meter Data	As defined in the Code
Meter Data Provider	As defined in the Code
Minimum Collateral Level	The minimum level of Posted Collateral which is €50,000 or £35,000
New Participant	As defined in the Code

Participant	As defined in the Code
Party	As defined in the Code
Payment Due Date	As defined in the Code
Posted Credit Cover	As defined in the Code
Pounds Sterling	As defined in the Code
Regulatory Authorities	As defined in the Code
Required Collateral	Total Collateral posting required by the MO to cover a Participant's exposures.
Required Credit Cover	As defined in the Code
Resettlement	As defined in the Code
Re-Settlement Exposure	The potential exposure from Resettlement for a Participant
Retail Market Operator	As defined in Agreed Procedure 1 "Participant and Unit Registration and Deregistration"
Secured Credit	See Credit Cover
SEM Collateral Reserve Account	As defined in the Code
Settlement	As defined in the Code
Settlement Period	As defined in the Code
Settlement Reallocation	As defined in the Code
Settlement Reallocation Agreement	As defined in the Code
Settlement Reallocation Amount	As defined in Agreed Procedure 10 "Settlement Reallocation"
Settlement Risk Period	As defined in the Code
Shortfall	As defined in the Code
Single Electricity Market	As defined in the Code
Supplier of Last Resort	As defined in the Code
Supplier Suspension Delay Period	As defined in the Code
Supplier Unit	As defined in the Code
Suspension	As defined in the Code
Suspension Order	As defined in the Code
Termination	As defined in the Code
Termination Order	As defined in the Code
Time-to-Remedy	Grace period granted to a Participant to remedy a non-payment of financial obligations to the market before Suspension Orders come into affect.
Trading Charges	As defined in the Code
Trading Day	As defined in the Code
Trading Payments	As defined in the Code
Trading Period	As defined in the Code
Type 1 Channel	As defined in the Code
Undefined Exposure Period	As defined in the Code
Undefined Potential Exposure	As defined in the Code
Unit	As defined in the Code
Unit Registration	As defined in the Code
Unsecured Credit	Credit extended to a Participant on the basis of its deemed financial standing, without the requirement to post security (i.e. Collateral).
Variable Market Operator Price	As defined in the Code
VAT	As defined in the Code
Warning Limit	As defined in the Code

Warning Notice	As defined in the Code
Working Day	As defined in the Code

4.2. ABBREVIATIONS

AnPP	Analysis Percentile Parameter
LC	Letter of Credit
LC Provider	Letters of Credit Provider
MO	Market Operator
SEM	Single Electricity Market
WD	Working Day

5. APPENDIX 2 – CALCULATION OF VAT FOR REQUIRED CREDIT COVER

As per section 6 of the Code, the Required Credit Cover for each Participant shall include an amount in respect of VAT. This amount shall be calculated as follows.

- 1) For published Invoices and Self Billing Invoices that are included in the Actual Supplier Exposure and Actual Generator Exposure, the amount of VAT as calculated on the Invoice will be included in the VAT amount of the Required Credit Cover. This applies to Invoices and Self Billing Invoices issued in respect of Trading Charges and Payments, Capacity Charges and Payments and Variable Market Operator Charges.
- 2) For published Settlement Statements that have not been included in any Invoices or Self Billing Invoices, an amount in respect of VAT will be calculated for all the payments and charges in accordance with the rules as set out in Agreed Procedure 15. This amount will be included in the VAT amount of the Required Credit Cover. This applies to Settlement Statements issued in respect of Trading Charges and Payments, Capacity Charges and Payments and Variable Market Operator Charges.
- 3) For the amounts calculated in respect of Undefined Potential Exposure amounts, an amount in respect of VAT will be calculated. The VAT will be calculated in accordance with the rules as set out in Agreed Procedure 15 except where the VAT is in relation to amounts calculated in respect of Trading Charges and Variable Market Operator Charges in a Currency Zone where different VAT rates apply to these charges. In this circumstance a future VAT rate which will be based on an average of the VAT rates applicable in the relevant Currency Zone will be applied.

The future VAT rate will be published on the Market Operator Website.