



TRADING AND SETTLEMENT CODE

Market Operator Monthly Report

CONSULTATION PAPER

30 August 2007

AIP/SEM/07/451

Background

The Trading and Settlement Code (TSC) was commenced on 3rd July 2007, when the Framework Agreement was signed by the original signatories.

Paragraph 2.144 of the TSC specifies that the Market Operator shall report to the Regulatory Authorities on a monthly basis. The same paragraph also outlines the scope of the report but also states that the manner and extent of the report shall be specified by the Regulatory Authorities. It also specifies that the Market Operator shall publish such reports.

Given the likely interest of market Participants in the operation of the market and the activities of the Market Operator, the Regulatory Authorities believe that it would be helpful to seek views on the proposed content of such reports.

Section 1 of this paper outlines the TSC provisions with respect to the Market Operator report. Section 2 sets out the Regulatory Authorities' approach to the development of the proposed content of the report. Section 3 describes the elements of the report that are intended to address the Market Operator's performance and section 4 describes the elements of the report which are intended to address the exercise of rights and the carrying out of functions of Parties under the TSC. Section 5 describes the next steps in this consultation process. Appendix 1 of this paper shows a summary of all the elements of the proposed report by the Market Operator.

The Regulatory Authorities welcome all comments on the proposals set out in this paper. The Regulatory Authorities plan to publish all comments received that are not stated to be confidential. If any respondent wishes any of its comments to be treated as confidential it should identify clearly which of its comments are confidential. Comments should be sent, preferably in electronic form, to:

Philip Newsome,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Dublin 24
pnewsome@cer.ie

The closing date for comments is Friday, 21st September 2007.

Note: capitalised terms in this paper are as defined in the Single Electricity Market Trading and Settlement Code.

1. Trading and Settlement Code

The Trading and Settlement Code (TSC) was commenced on 3rd July 2007, when the Framework Agreement was signed by the original signatories.

Paragraph 2.144 of version 2.0 of the TSC states:

“The Market Operator shall report to the Regulatory Authorities in writing on a monthly basis or at such other intervals as the Regulatory Authorities may reasonably request and in such manner and to such extent as reasonably specified by the Regulatory Authorities. The Market Operator shall publish such reports. The reports shall set out in reasonable detail information about:

1. the performance by the Market Operator of its rights, powers, functions and obligations under the Code;
2. factual information relating to the exercise of rights and the carrying out of functions by Parties under the Code.”

In order that the Market Operator can make plans to produce such reports from the Market Start Date, the Regulatory Authorities will have to specify the manner and extent of the reports as well as their frequency if they are to be other than monthly.

The purpose of this consultation is to put forward the Regulatory Authorities views on the content and timing of the Market Operator’s report and to seek the views of interested parties.

2. Approach

The Regulatory Authorities take the view that the regular reporting by the Market Operator should provide as much information about the performance of the market, market Participants and of the Market Operator as can reasonably be provided without having any significant impact upon the costs of the Market Operator. The proposals in this paper are therefore based upon including in the Market Operator’s regular reports mainly information which the Market Operator would need itself to support the management of its activities.

The TSC requires the production of a number of other reports; in particular:

1. paragraphs 2.138 to 2.141 set out the arrangements for the Audit Report;
2. paragraph 2.231 obliges the Modifications Committee to provide a quarterly report to the Regulatory Authorities on the progress of Modifications Proposals; and

3. paragraph 3.68 obliges the Market Operator to commission a report on any General Communication Failure, General System Failure or MSP failure which materially affects Participants.

The Regulatory Authorities would not wish the Market Operator's report to duplicate any part of these reports. However, where such reports are not produced in the case of every event (e.g. those in item 3 above which are only produced in the event of a failure which materially affects Participants), the Regulatory Authority would wish the Market Operator to provide information about events which do not result in the production of a separate report.

The Regulatory Authorities are also conscious that the SEM is a new market and that views of what information and statistics may be useful to Participants will develop over time. The form of the Market Operator report proposed in this paper should be seen therefore as a starting point that is certain to evolve over time through experience and debates among Participants and with the Market Operator.

The TSC states that the Market Operator's report shall be on a monthly basis or at such other intervals as the Regulatory Authorities may reasonably request. The Regulatory Authorities believe that monthly is a reasonable timescale for the majority of items concerned but is conscious that the Market Operator is administering processes both on a monthly (Capacity Payments and Charges) and a weekly (Trading Payments and Charges) basis. As a result, the Market Operator may determine that its report could be more readily produced on a 4/5 week basis than on a calendar month basis. The Regulatory Authorities take the view that whichever approach is more efficient for the Market Operator should be adopted. The Regulatory Authorities believe that some items of information should be reported on a quarterly (or 13 week) basis and have identified where this is the case.

The Regulatory Authorities take the view that the Market Operator's report should be issued as soon as possible after the end of the period concerned. The Regulatory Authorities propose that the Market Operator should issue its report 5 Working Days after the period end since this seems a reasonable and achievable period.

In the light of the form of the TSC obligation on the Market Operator, this consultation paper sets out the proposed content of the report in accordance with the two sub-paragraphs in paragraph 2.144 of the TSC.

3. Market Operator Performance

The Regulatory Authorities take the view that it is their responsibility, through the Market Operator licences to ensure the effective performance of the Single Market Operator Business. However, whether or not the performance criteria and the report on the performance criteria (as set out in the Market Operator licences) are published, the Regulatory Authorities believe that market Participants and other interested parties should receive information on the general level of the Market Operator's performance of its duties under the TSC. Measures of the performance of the Market Operator fall naturally into a number of discrete areas:

- (a) financial performance;
- (b) compliance with the TSC;
- (c) delivery of services; and
- (d) special events.

Each of these areas is described briefly below and the full list of the proposed components of the Market Operator report is set out in Appendix 1.

Financial Performance

The topic of financial performance itself falls into two areas: firstly, the financial performance of the Pool (that is, the financial flows and the balancing of income against outflow) and secondly the financial performance of the Market Operator in the delivery of its services under the Code (that is, the costs incurred by the Market Operator in providing different services). In relation to the first area, the Regulatory Authorities believe that statistics should be readily available on a monthly basis. However, the Regulatory Authorities take the view that it would be sufficient for details of the Market Operator's expenditure in service areas to be reported on a quarterly basis. In relation to the monthly financial statistics, the Regulatory Authorities believe that a key component should be a comparison between the actual imperfections costs and the budgeted costs so that Participants can gain early notice of the likelihood of changes for the following year that would result from over or under recovery in the current year.

In this area it is therefore proposed that the following items should be included in the Market Operator's report:

- I. Pool monthly financial statistics:
 - a. total receipts for each currency;
 - b. total payments for each currency;
 - c. total balancing costs;
 - d. total currency costs; and
 - e. cumulative imperfections costs compared to budget.
- II. Market Operator quarterly financial report:
 - a. income and expenditure for the year to date:
 - i. income:
 - 1. fixed MO charge;
 - 2. variable MO charge;
 - 3. accession & participation fees;
 - 4. balancing costs;
 - 5. generator under test tariff revenues; and
 - 6. other.
 - ii. expenditure (revenue)
 - 1. operation and maintenance of systems;
 - 2. development costs:
 - a. for code modifications; and
 - b. other developments;
 - 3. cost of working capital;
 - 4. Modifications Committee Secretariat costs;
 - 5. help desk costs;
 - 6. overhead costs;
 - 7. Market Audit costs (where relevant); and
 - 8. other costs.

Compliance

The area of compliance with the code should incorporate information on any breach of the code (whether material or not) and by any Party including the Market Operator. The Regulatory Authorities take the view that statistics on any breaches of the TSC are important to Participants in understanding whether there are areas where modifications might be proposed if (for example) all Participants have difficulty achieving a particular requirement. The TSC itself specifies the requirement for the Market Operator to issue a Default Notice to a Participant in the event of a material breach of the Code¹ but does not require such notices to be published. Such notices should be included in the Market Operator's report.

In addition, the Regulatory Authorities believe that it is important that the Market Operator's performance in dealing with Queries and Disputes under the TSC is recorded and made available to Participants. These are the processes by which Participants are enabled to check and correct settlement processes under the TSC and it is therefore important that there should be transparency in the operation of the processes.

In this area it is therefore proposed that the following items should be included in the Market Operator's report:

- (a) list of all breaches of the TSC (whether material or not) and including any Market Operator breach;
- (b) all Default Notices;
- (c) list of all Queries raised (grouped by topic);
- (d) list of all Disputes (grouped by topic)
- (e) report on progress of any unresolved Query or Dispute

Delivery of Services

Delivery of services should both cover elements which impact directly upon Participants; such as help desk call statistics and measures of web activity in respect of the Market Operator's website and those which impact primarily on the Market Operator; such as system errors and operational and timescale problems (whether or not they impact upon Participants).

In addition, as a special component of the analysis of the delivery of services under the TSC, the Regulatory Authorities believe that it is vital that the Market Operator undertakes a

¹ See TSC paragraphs 2.238 and 2.240

regular analysis of the accuracy of the Required Credit Cover calculated for each Participant. Such calculations have a historic component (Actual Exposure) which is known with certainty but also a forward looking, statistically based component (Undefined Exposure) which may over- or under-estimate the future liabilities of the Participant concerned. The Market Operator's analysis should compare the calculated Undefined Exposure for each Participant for each Working Day with that Participant's actual exposure over the Undefined Exposure Period, once that period had passed. Such an analysis would enable both the Regulatory Authorities and the Participants to have a view of the effectiveness of the TSC processes for the calculation of Required Credit Cover and the coverage (over the Undefined Exposure Period) that the process actually provided. Such information would be important for any future consideration of the need or otherwise for changes in the processes for calculating Required Credit Cover.

In this area it is therefore proposed that the following items should be included in the Market Operator's report:

- (a) help desk call statistics (including trends);
- (b) central systems performance:
 - a. list of system errors, failures and reruns; and
 - b. list of operational timing or timescale problems;
- (c) progress on the work to remove the need for Section 7 interim provisions; and
- (d) report on the coverage of Required Credit Cover.

Special Events

There are a number of abnormal events where a brief report by the Market Operator (included within the appropriate monthly report) would be helpful and an appropriate way for keeping Participants informed. The Regulatory Authorities take the view that, among other events of a similar nature, any of the following events should be the subject of a brief report within the Market Operator's report:

- (a) any disaster recovery or business continuity tests carried out in respect of the Market Operator's systems and processes;
- (b) any event of Administered Settlement;
- (c) any events of communications or systems failures that would not otherwise result in any report; and
- (d) planned and actual events of the submission of proposed parameters to the Regulatory Authorities for approval.

4. Parties carrying out of their functions

Clearly the question of compliance with the Code is an issue under this heading also, but is considered above. In addition, it is necessary to identify who are the Parties to the TSC, by listing both the new Parties and any leaving Parties.

The Regulatory Authorities take the view that there is a number of further statistics which could provide an indication of the quality of the operation of the market. These are:

- (a) the proportion of default data used in relation to each Trading Day and the trend in that statistic; and
- (b) the proportion of estimated meter data used in respect of each Initial Settlement Run and again the trend in that statistic

In relation to the parameters in (a) and (b), the Regulatory Authorities are of the view that the most helpful element of these statistics may be the trend over time rather than the absolute values for any particular day or period.

5. Next Steps

The Regulatory Authorities have provided an initial draft of the contents of the Market Operator's monthly report to the Market Operator and are awaiting its comments. In the meantime, this proposal is being published for consultation and the Market Operator's views will be considered, together with other parties' views in reaching the Regulatory Authorities conclusion. Any comments on this proposal are welcome and parties are requested to submit such comments by Friday 21 September 2007. The Regulatory Authorities plan to publish their conclusions during October and expect the first Market Operator monthly report to be submitted by five working days after the start of the second month after the Market Start Date. The Regulatory Authorities take the view that the Market Operator should be enabled to concentrate completely on the operation of the market for the first month after the Market Start Date and therefore propose to delay the submission of the first report until a month later.

Appendix 1

Market Operator Form of Regular Reporting²

For each calendar month (or 4/5 week period depending on whether weekly or calendar basis works better for it) the Market Operator should produce a report to the Regulatory Authorities having the content set out below. The report will be published by the Market Operator no later than 5 working days after the end of the period to which it relates.

1. Monthly statistics:
(note that numerical statistics should be provided but that where “list” is used, the individual events should be identified also in an appendix)
 - (a) list of all Code breaches (whether material or not) and including any MO breach;
 - (b) list of queries raised (by topic);
 - (c) list of disputes raised (by topic);
 - (d) list of joining and terminating Parties;
 - (e) list of suspensions of Participants’ communications;
 - (f) financial statistics:
 - (i) total receipts for each currency
 - (ii) total payments for each currency
 - (iii) total balancing costs
 - (iv) total currency costs
 - (v) cumulative imperfections costs vs. budget³
 - (g) help desk call statistics
 - (h) trends for such statistics
2. Disputes & Queries
report on progress on any unresolved query or dispute.
3. Central systems:
 - (a) proportion of default data used
 - (b) proportion of estimated meter data used
 - (c) list of system errors, failures and reruns
 - (d) list of operational timing or timescale problems
4. Future elements:
 - (a) progress on Section 7 items
5. Quarterly components:
 - (a) report on MO income and expenditure for the year to the end of the reporting period (month):
 - (i) income
 - (a) fixed MO charges
 - (b) variable MO charges
 - (c) accession and participation fees
 - (d) balancing costs
 - (e) Generator Under Test tariff revenues

² See TSC paragraph 2.144

³ The intention here is to indicate whether the Imperfections charge is over or under recovering to date.

- (f) other
- (ii) expenditure (revenue)
 - (a) operation and maintenance of systems
 - (b) development costs
 - o for code modifications
 - o other developments
 - (c) cost of working capital
 - (d) Modifications Committee Secretariat costs
 - (e) help desk costs
 - (f) overhead costs
 - (g) Market Audit costs (where relevant)
- (b) report on coverage of calculated Required Credit Cover: a report to show the extent to which the calculated RCC in respect of each Participant would have covered their actual liabilities up to the end of the Undefined Exposure Period.

6. Occasional components:

- (a) summary report of any disaster recovery/business continuity tests
- (b) summary report of any Administered Settlement
- (c) summary report of any Communications or Systems Failures
- (d) report of submission of parameters to RAs for approval