

## **SEM Agreed Procedure**

<b>Title</b>	<b>Agreed Procedure 10: Settlement Reallocation</b>
<b>Version</b>	<b>2.2a</b>
<b>Date</b>	<b>26<sup>th</sup> March 2007</b>

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## DOCUMENT HISTORY

VERSION	DATE	AUTHOR	COMMENT
2.0	03/11/2006	SEM Implementation Team	Draft Submitted to the Regulatory Authorities
2.1	27/02/2007	Regulatory Authorities	Updated with comments from review of Terminology across all APs and TSC
2.2a	26/03/2007	Regulatory Authorities	Updated for consistency and governance

## RELATED DOCUMENTS

DOCUMENT TITLE	VERSION	DATE	BY
Trading and Settlement Code	V1.2a	31/01/2007	Regulatory Authorities
Agreed Procedure 1 “Participant and Unit Registration and Deregistration”	V2.0		
Agreed Procedure 3 “Communication Channel Qualification”	V2.0		
Agreed Procedure 11 “Market System Operation, Testing, Upgrading and Support”	V2.0		
Agreed Procedure 9 “Management of Credit Cover and Credit Default”	V2.0		
Agreed Procedure 15 “Invoicing”.	V2.0		

## **1. INTRODUCTION**

### **1.1. BACKGROUND AND PURPOSE**

This Agreed Procedure describes the specific procedures for the management of Settlement Reallocation 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 as set out in paragraph 1.10 of the Code.

Note: During the development of the Agreed Procedure, terms under discussion are highlighted in yellow and put in brackets.

## **2. DESCRIPTIVE OVERVIEW**

### **2.1. SETTLEMENT REALLOCATION**

The general rules for Settlement Reallocation are defined in the “Settlement Reallocation” section of the Code.

The purpose of this document is to detail the procedures that will apply for Settlement Reallocation with regard to requests, agreements and associated transactions.

The Settlement Reallocation process offers significant benefits to Participants in the Single Electricity Market (SEM), in terms of cash flow and credit risk management, allowing Participants to reduce credit cover requirements by offsetting debts and credits and also to reduce circular flows of money.

Settlement Reallocation can only be entered into between two Participants in the same Currency Zone.

Settlement Reallocation is a rules-supported financial arrangement between the Market Operator (MO) and a pair of Participants (which may be the same Participant). Where the Participants are linked by one or more off-market financial commitments, Settlement Reallocation can act to reduce Settlement amounts.

Settlement Reallocation in the SEM consists of four major elements:

1. Submission of a Settlement Reallocation Request
2. Assessment of the eligibility of a Settlement Reallocation Agreement for the invoicing process
3. Inclusion of eligible Settlement Reallocation Agreements in the invoices
4. Inclusion of Settlement Reallocation Agreements in the credit management process
5. Cancellation of a Settlement Reallocation Agreement (when applicable)

When two Participants have a Settlement Reallocation Agreement in place with the MO, one Participant (called Debited Participant) will effectively transfer a trading amount in respect of payments due to this Participant from the MO to another Participant (called Credited Participant) through their payments (Trading Payments or Capacity Payments).

This trading amount, called the Settlement Reallocation Amount is a monetary value based in the currency of the Debited Participant (either Euro, or Pounds Sterling) and defined for a nominated payment type (Trading Payments or Capacity Payments). A Participant may not request or enter into a Settlement Reallocation Agreement as a Debited Participant in respect of its Supplier Units.

Settlement Reallocation Agreements can be posted against an invoice relating to either the Energy or Capacity markets.

For each Settlement Reallocation Agreement, the Participants will nominate a Trading Period for reference purposes.

- The nominated Trading Period in conjunction with the type of payment (Trading Payments or Capacity Payments) will denote which Settlement Period the Settlement Reallocation Agreement is to be executed against, and

The Settlement Reallocation can be lodged,

- up to 28 days before the Trading Day of the nominated Trading Period, and
- up to one day before the issue of the Invoice on which the Settlement Reallocation Agreement is to be included (i.e. Settlement Period plus 4 Working Days).

### **2.2. SETTLEMENT REALLOCATION SUBMISSION**

A reallocation transaction is initiated by a Settlement Reallocation Request being lodged with the MO by the Debited Participant.

See Appendix 2 – Details for Submission, for details of the data items required on submission of a Settlement Reallocation Request.

The MO performs validity checks to ensure that the Settlement Allocation Request is complete and the Participants involved in the Settlement Reallocation Request are active and qualified to reallocate on the given Settlement Period and are in the same Jurisdiction.

The Settlement Allocation Request is then either accepted or rejected on a submission basis.

Only the Participant lodging the Settlement Reallocation Request is notified if it is rejected.

Once the Settlement Reallocation Request has been accepted by the MO, it becomes a Settlement Reallocation Agreement that could be used by the downstream process of credit risk management.

Participants will be able to review their pending Settlement Reallocation Agreements on the Settlement Reallocation Agreement report but they will not be included on the Settlement Statements.

### **2.3. INVOICING**

The first operation performed by the invoicing process against the Settlement Reallocation Agreement is to confirm that the Settlement Reallocation Amount is covered by the Debited Participant's invoice total and the reallocation will not result in the Debited Participant owing monies to the MO. Any Settlement Reallocation Agreements that cause a Debited Participant due payment to become a debtor to the MO will be cancelled.

In the event that a Participant has multiple Settlement Reallocation Agreements which in total cause a Participant, that was due payment, to become a debtor to the MO but individually will not have this result, the Settlement Reallocation Agreements will be cancelled in the reverse order of receipt (i.e. – the most recently received being the first) until the Debited Participant is no longer a debtor to the MO.

In the case where a Settlement Reallocation Agreement is cancelled, both Participants are informed by the MO by fax/email.

The process for cancellation of a Settlement Reallocation Agreement is set out in section 3.3.2.

### **2.4. CREDIT RISK MANAGEMENT PROCESS**

The Market Operator's Isolated Market System will assess a Participant's Required Credit Cover against a Participant's exposure in the SEM. This exposure is known as the Participant Exposure and is detailed in Agreed Procedure 9 "Management of Credit Cover and Credit Default".

When a Settlement Reallocation Request has been correctly submitted, and validated, the Settlement Reallocation Agreement can be considered in the credit management process.

In establishing the Participant Exposure, the credit management system shall take into account any Settlement Reallocation Agreement that falls within a Credit Risk Period.

Where a Credit Cover Increase Notice is made by the MO to a Participant, the Participant can respond by arranging for a Settlement Reallocation Request to be made by another Participant (the Debited Participant) in accordance with the rules set out in section 3.1.

The MO will assess the likely SEM transactions of the Debited Participant. Where there is a reasonable probability that the Settlement Reallocation will be ineligible (i.e. the Debited Participant would become a debtor to the MO due to the Settlement Reallocation Agreement), the MO will have the right to reject the Settlement Reallocation Agreement thereby excluding it in the calculation of Participant Exposure.

### **3. PROCEDURE DEFINITION**

#### **3.1. SUBMIT SETTLEMENT REALLOCATION REQUEST**

##### **3.1.1. Overview**

A Settlement Reallocation Request is submitted to the MO in accordance with the criteria and procedural steps set-out below.

The Settlement Reallocation Request will be submitted by the Debited Participant.

The acceptance of a Settlement Reallocation Request will be communicated to the Participant lodging the Settlement Reallocation Request via the same Communication Channel as that used to submit the request. The rejection of a Settlement Reallocation Request will be communicated to the Participant lodging the request via the same Communications Channel as that used to submit the Settlement Reallocation Request.

Once submitted, a Settlement Reallocation Agreement cannot be updated by the Participants. To update a Settlement Reallocation Agreement, the Participants must first request the cancellation of the Settlement Reallocation Agreement and then submit a new Settlement Reallocation Request.

##### **3.1.2. Submission Criteria**

Participants are qualified to submit a Settlement Reallocation Request where:

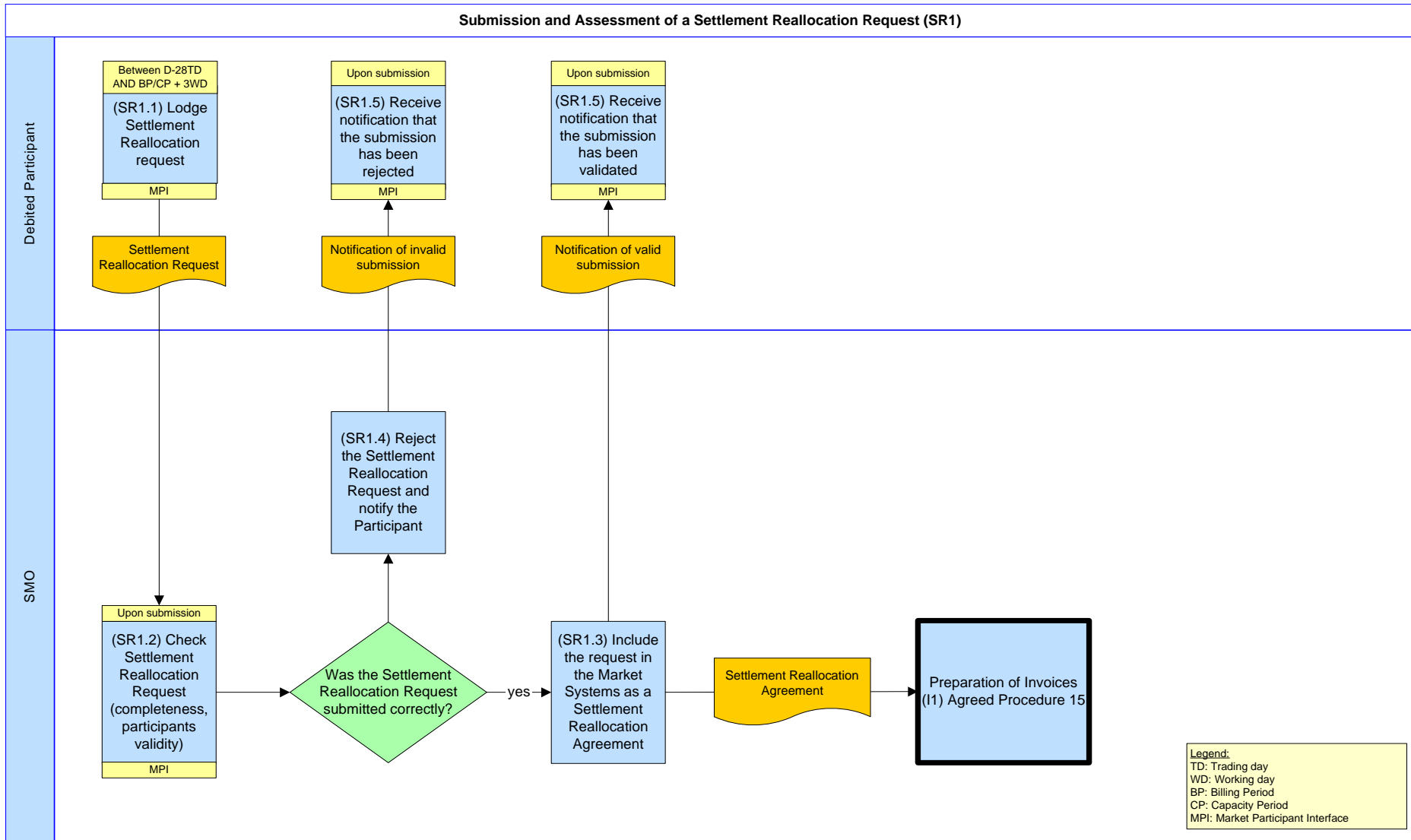
- Both Participants are, at the moment of the Settlement Reallocation Request submission, registered in accordance with Agreed Procedure 1 “Participant and Unit Registration and Deregistration”.
- Both Participants are not, at the moment of the Settlement Reallocation Request submission, subject to a Suspension Order or Termination Order.
- Both Participants, at the moment of the Settlement Reallocation Request submission, have designated and maintained a Communication Channel for the purpose of their participation in accordance with Agreed Procedure 1 “Participant and Unit Registration and Deregistration” and Agreed Procedure 3 “Communication Channel Qualification”
- The MO has effectively allowed both Participants to access the Market Participant Interface in accordance with the Code, Agreed Procedure 3 “Communication Channel Qualification” and Agreed Procedure 11 “Market System Operation, Testing, Upgrading and Support”

**3.1.3. Procedural Steps**

#	Procedural Step	Timing	Method	By/From	To	Linkage
SR1.1	The Settlement Reallocation Request is submitted.	Between 28 Trading Days before the Trading Day of the nominated Trading Period and 1 WD before the issue of the Invoice on which the Settlement Reallocation Agreement is to be included.	Type 2 Channel /Type 3 Channel	Debited Participant	Market Operator	
SR1.2	Assess the validity of the Settlement Reallocation Request. The MO will assess the Settlement Reallocation request against the submission criteria set out in 3.1.2 upon receipt of the request. If valid go to step SR1.3 and if invalid go to step SR1.4	On submission	-	Market Operator		
SR1.3	Record as a Settlement Reallocation Agreement and submit notification confirming the validity of the submission is issued to the Debited Participant. Go to step SR1.5	On submission	Type 2 Channel /Type 3 Channel	Market Operator	Debited Participant	
SR1.4	.A notification confirming the invalidity of the submission is issued to the Debited Participant	On submission	Type 2 Channel /Type 3 Channel	Market Operator	Debited Participant	
SR1.5	Receive notification of submission, detailing results of validity check	On submission	-	Participant		



3.1.4. Process Flow (‘Swim-Lane’) Diagram



## **3.2. ASSESS ELIGIBILITY OF A SETTLEMENT REALLOCATION AGREEMENT**

### **3.2.1. Overview**

When a Settlement Reallocation Request has been correctly submitted, and is accepted by the MO, the Settlement Reallocation Agreement will be included in the invoicing process if it meets the eligibility criteria.

Participants will be notified of the Settlement Reallocation Agreement eligibility via the publication of the Settlement Reallocation reports which can be viewed on the Market Website. This report will be published on completion of the Ex-Post Indicative Settlement Statement and Initial Settlement Statement for the final day of the Billing Period or Capacity Period.

The procedural steps for the testing of this eligibility are included in Agreed Procedure 15 “Invoicing”.

### **3.2.2. Eligibility Criteria**

The MO will assess the eligibility of a Settlement Reallocation Agreement for inclusion in an Invoice by assessing the agreement in accordance with the rules set out below.

Settlement Reallocation Agreements will be cancelled if:

1. The Settlement Reallocation Agreement causes the Debited Participant to cover more than the Trading Payments or Capacity Payments that it expects to receive under the Code in respect of its Generator Units for that Settlement Period;
2. The Settlement Reallocation Agreement causes the Debited Participant to be a credit risk to the market as calculated in the credit management process;
3. The Debited Participant has multiple Settlement Reallocation Agreements which in total causes the Debited Participant to exceed the Trading Payments or Capacity Payments, as applicable, due to that Participant in respect of its Generator Units for that Settlement Period. In this case, the Settlement Reallocation Agreements will be cancelled in the reverse order of receipt (i.e. – the most recently received being the first) until those remaining in total no longer exceed the Trading Payments or Capacity Payments due to that Participant in respect of its Generator Units for that Settlement Period;
4. The Settlement Reallocation causes the Credited Participant to cover more than the Trading Charges or Capacity Charges, as applicable, that it expects to pay under the Code in respect of its Supplier Units;
5. The Credited Participant has multiple Settlement Reallocation Agreements which in total causes the Credited Participant to exceed the Trading Charges or Capacity Charges, as applicable, due to that Participant in respect of its Supplier Units for that Settlement Period. In this case, the Settlement Reallocation Agreements will be cancelled in the reverse order of receipt (i.e. – the most recently received being the first) until those remaining in total no longer exceed the Trading Charges or Capacity Charges due to that Participant in respect of its Supplier Units for that Settlement Period;

### **3.3. CANCELLATION OF A SETTLEMENT REALLOCATION AGREEMENT**

#### **3.3.1. Overview**

A Settlement Reallocation Agreement can be cancelled by the MO or by the Participants.

#### **3.3.2. Cancellation by the Market Operator**

##### **3.3.2.1 Default**

If a Debited Participant associated with pending Settlement Reallocation Agreements is a Defaulting Participant, and that Debited Participant has Settlement Reallocation Agreements for which the submission was valid but have not yet been applied to an Invoice, the MO may cancel such Settlement Reallocation Agreements at any time.

If a Credited Participant associated with pending Settlement Reallocation Agreements is a Defaulting Participant, and that Credited Participant has Settlement Reallocation Agreements for which the submission was valid but have not yet been applied to an Invoice, such Settlement Reallocation Agreements will be applied as normal during the Invoicing process. The obligation of the Debited Participant to meet the amounts of the Settlement Reallocation Agreement is not affected by the Default of the Credited Participant.

When the MO cancels a Settlement Reallocation Agreement, both Participants are informed by fax or email.

##### **3.3.2.2 Breach of Credit Exposure Limits**

As set out in the Code, a Participant may not offer a Settlement Reallocation Agreement in respect of Units such that it exceeds the likely amount of settlement. The MO will monitor the likely settlement amounts of those Participants with Settlement Reallocation Agreements. Where a Participant has offered more Settlement Reallocation than their likely settlement, the MO will cancel agreements in the reverse order in which they are received. Participants affected by the cancellation will be notified of the cancellation by fax/email.

#### **3.3.3. Cancellation by the Participants**

If Participants wish to cancel a Settlement Reallocation Agreement,

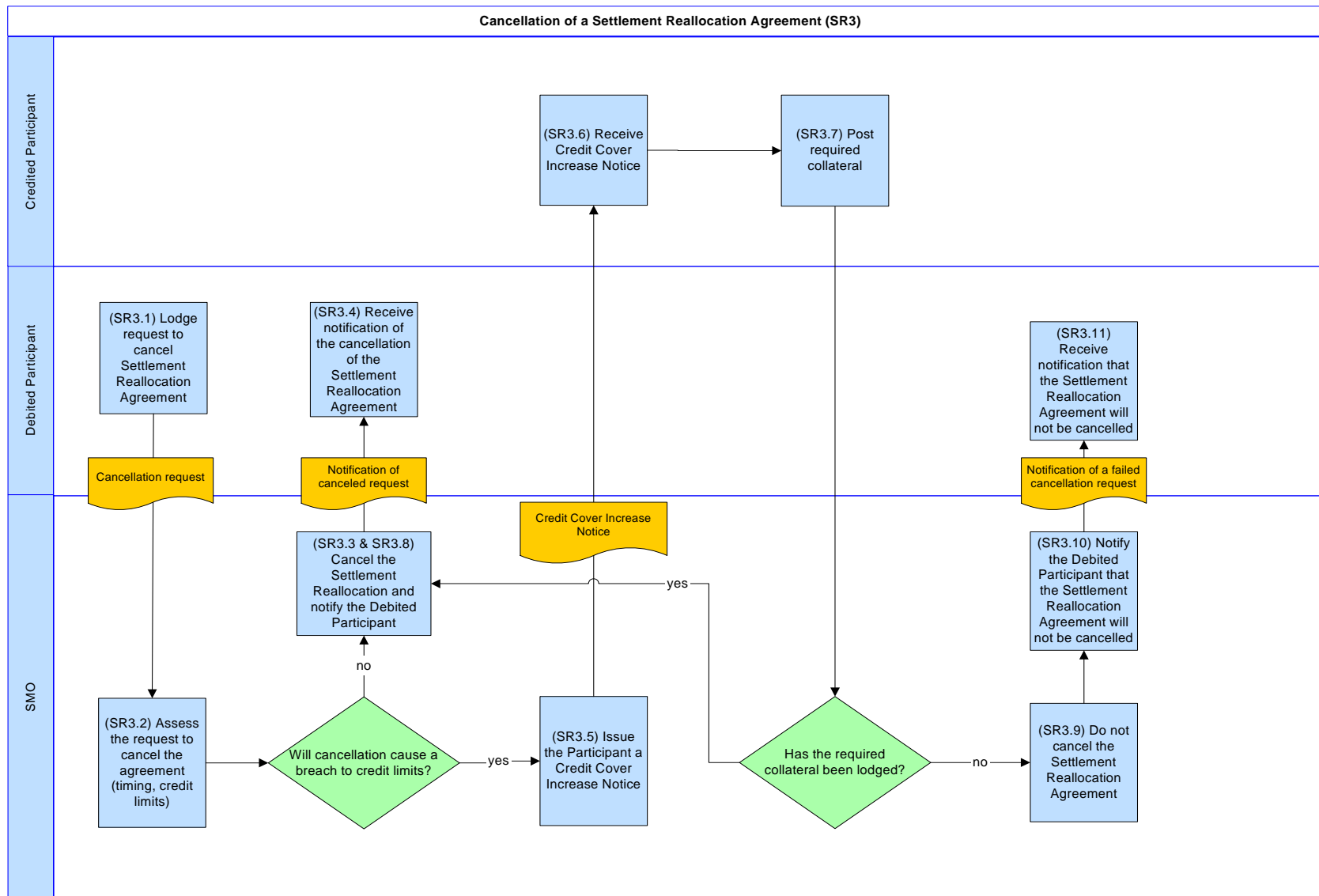
- Both Participants must lodge a request to cancel the Settlement Reallocation Agreement with the MO by email/fax.
- The cancellation request must be made prior to 17:00 on the second Working Day after the end of the first Billing Period or Capacity Period to which the Settlement Reallocation Agreement relates. It must be noted that Participants will be able to post new Settlement Reallocation Requests after this time. Settlement Reallocation Agreements entered after the cancellation cut-off date cannot therefore be cancelled other than as a result of the circumstances set out in sections 3.3.2.1 and 3.3.2.2
- The cancellation will be refused if:
  - the Credited Participant is, at the time of the proposed cancellation, in Default of any payment due under the Code; or
  - its cancellation would cause the Required Credit Cover of the Credited Participant to exceed its Posted Credit Cover.
- If the cancellation of a Settlement Reallocation Agreement causes the Required Credit Cover of the Credited Participant to exceed their Posted Credit Cover, then that request to cancel the Settlement Reallocation Agreement by the Participants will not be authorised. A Credit Cover Increase Notice will be issued to the Credited Participant requesting that extra collateral be posted.

- If the Credited Participant to this Settlement Reallocation Agreement is already subject to a Default as set out in section 3.3.2.1, then that request to cancel the Settlement Reallocation Agreement by the Participants will not be authorised.
- Authorisation of the request to cancel a Settlement Reallocation Agreement will only occur following the posting of sufficient Credit Cover such that removal of the Settlement Reallocation Agreement does not cause the Required Credit Cover of the Credited Participant to exceed their Posted Credit Cover.

**3.3.4. Procedural Steps**

#	Procedural Step	Timing	Method	By/From	To	Linkage
SR3.1	Request the cancellation of Settlement Reallocation Agreement	Before 2 WDs after the completion of the Settlement Period.	Type 1 Channel	Both Participants	Market Operator	
SR3.2	Assess the request to cancel the Settlement Reallocation Agreement. If request to cancel is approved go to SR3.3 otherwise go to SR3.5	On submission	-	Market Operator		
SR3.3	Execute the cancellation of the Settlement Reallocation Agreement and notify Participants that Settlement Reallocation Agreement has been cancelled.	Within 1 WD of submission	Type 1 Channel	Market Operator	Debited Participant, Credited Participant	
SR3.4	Receive notification of the cancellation of the Settlement Reallocation Agreement. End of Process.	Within 1 WD of submission	-	Debited Participant, Credited Participant		
SR3.5	If a cancellation of the Settlement Reallocation would cause the Participant Exposure of the Credited Participant to breach their Posted Credit Cover then issue the Credited Participant with a Credit Cover Increase Notice.	After submission (on the same WD)	Type 1 Channel	Market Operator	Credited Participant	
SR3.6	Lodge additional Collateral if required to do so under a Credit Cover Increase Notice.	Within 2 WDs of Credit Cover Increase Notice	Type 1 Channel	Credited Participant	Market Operator	
SR3.7	If the Credited Participant lodges additional Credit Cover within 2 Working Days of the Credit Cover Increase Notice then go to SR3.8 otherwise go to SR3.9	Within 2 WDs of Credit Cover Increase Notice		Market Operator		
SR3.8	Execute the cancellation of the Settlement Reallocation Agreement and notify Participants that Settlement Reallocation Agreement has been cancelled. End of Process	Within 1 WD of increase in Posted Credit Cover	Type 1 Channel	Market Operator	Debited Participant, Credited Participant	
SR3.9	Notify both Participants that the Settlement Reallocation Agreement will not be cancelled	After 2 WDs of Credit Cover Increase Notice	Type 1 Channel	Market Operator	Debited Participant, Credited Participant	

3.3.5. Process Flow ('Swim-Lane') Diagram



## 4. APPENDIX 1 – DEFINITIONS AND ABBREVIATIONS

### 4.1. DEFINITIONS

Agreed Procedure	As defined in the Code
Billing Period	As defined in the Code
Capacity Payment	As defined in the Code
Capacity Period	As defined in the Code
Code	As defined in the Code
Communication Channel	As defined in the Code
Credit Cover	As defined in the Code
Credit Cover Increase Notice	As defined in Agreed Procedure 9 “Management of Credit Cover and Credit Default”
Credit Risk Period	As defined in Agreed Procedure 9 “Management of Credit Cover and Credit Default”
Credited Participant	As defined in the Code
Currency Cost	As defined in the Code
Debited Participant	As defined in the Code
Default	As defined in the Code
Defaulting Participant	As defined in the Code
Energy Payment	As defined in the Code
Euro	As defined in the Code
Ex-Post Indicative Settlement Statement	As defined in the Code
Initial Settlement Statement	As defined in the Code
Generator Unit	As defined in the Code
Invoice	As defined in the Code
Market Operator	As defined in the Code
Market Participant Interface	As defined in Agreed Procedure 1 “Participant and Unit Registration and Deregistration”
Participant	As defined in the Code
Participant Exposure	As defined in Agreed Procedure 9 "Management of Credit Cover and Credit Default"
Posted Credit Cover	As defined in the Code
Regulatory Authorities	As defined in the Code

Required Credit Cover	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	A monetary value based in the currency of the Debited Participant (either Euro, or Pounds Sterling) and defined for either Trading Payments or Capacity Payments
Settlement Reallocation Request	As defined in the Code
Single Electricity Market	As defined in the Code
Suspension	As defined in the Code
Termination Order	As defined in the Code
Trading Day	As defined in the Code
Trading Day Exchange Rate	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
Type 2 Channel	As defined in the Code
Type 3 Channel	As defined in the Code
Unit	As defined in the Code
Value Added Tax	As defined in the Code
Working Day	As defined in the Code

## 4.2. ABBREVIATIONS

SEM	Single Electricity Market
MO	Market Operator
VAT	Value Added Tax
WD	Working Day



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## 5. APPENDIX 2 – DETAILS FOR SUBMISSION

<b>Settlement Reallocation Request</b>	
<b>DATA ITEM</b>	<b>DESCRIPTION</b>
Settlement Reallocation Agreement Name	Text description of the agreement
Debited Participant Name	The Name of the Participant to be debited who is a Party to the agreement.
Credited Participant Name	The Name of the Participant to be credited who is a Party to the agreement.
Settlement Reallocation Type	This indicates the type of Invoices to be debited and credited for the applicable Billing Period. Options are 'Energy Payments' or 'Capacity Payments'
Value (€or £)	This is the monetary value of the Settlement Reallocation, in the registered Currency of the Debited Participant.
Designated Date and Trading Period	It defines the Billing Period in which the debt is reallocated as the Billing Period in which the period falls.