



2013

**SEM Parameters for the Determination
of Required Credit Cover**

Document History

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1 Introduction

1.1 Purpose

Under Section 6.174 of the Trading & Settlement Code (referred to as 'the Code'), the Market Operator (MO) is required to propose parameters used in the calculations of Required Credit Cover at least 4 months before the start of a Trading Year. This document provides the MO's proposals for these parameters for the Trading Year 2013.

1.2 Audience

The target audience for this document is Market Participants and the Regulatory Authorities.

1.3 Scope

This document provides proposals for the following parameters for the determination of Required Credit Cover for Trading Year 2013.

- Historical Assessment Period for Billing Period
- Historical Assessment Period for Capacity Period
- Analysis Percentile Parameter
- Credit Cover Adjustment Trigger
- Fixed Credit Requirement

1.4 Background

The Trading & Settlement Code sets out the rules for the calculation of Required Credit Cover for Participants. The calculation recognises that the Required Credit Cover for each Participant is made up of known and unknown exposures. The known exposure is based on invoiced amounts and published settlement values. The unknown exposure, called the Undefined Exposure (UDE), is based on statistical analysis of known historical settlement values in the case of Standard Participants. For New or Adjusted Participants the Required Credit Cover is calculated using forecast volumes as historical settlement values are not available or are not reflective of current levels of settlement.

In each of these calculations, and in the day to day credit risk assessment process, a number of parameters are used. These parameters are as follows:

- *Historical Assessment Period for Billing Period (HAPB)* – this sets the number of historical days over which the analysis of Trading Payments and Trading Charges will be carried out for credit purposes.
- *Historical Assessment Period for Capacity Period (HAPC)* – this sets the number of historical days over which the analysis of Capacity Payments and Capacity Charges will be carried out for credit purposes.
- *Analysis Percentile Parameter* – this sets the percentile confidence value in the statistical analysis used for New, Adjusted and Standard Participants.
- *Credit Cover Adjustment Trigger* – a Participant will be classed as an Adjusted Participant under the Code if the Participant's trade volumes increase or decrease by a percentage greater than this value.
- *Fixed Credit Requirement* – this sets the value of Required Credit Cover that must be in place for each registered Supplier Unit or Generator Unit in the Single Electricity Market (SEM) in order to meet resettlement charges that may arise up to 13 months after the initial settlement.

Although these parameters are considered variable, under the Code, they will be set from year to year.

2 Recommendations

Based on the analysis performed the credit parameters shown in Table 1 are proposed by the MO for use in Trading Year 2013. These proposed values are considered the best combination to ensure appropriate levels of Credit Cover in SEM.

Credit Cover Parameter	2012 Approved Value	2013 Proposed Value
Historical Assessment Period for Billing Period	100 days	100 days
Historical Assessment Period for Capacity Period	90 days	90 days
Analysis Percentile Parameter	1.96	1.96
Credit Cover Adjustment Trigger	30%	30%
Fixed Credit Requirement for Supplier Units based on rate of 8.77€/MWh of average daily demand subject to a minimum value of €1,000 and a maximum of €15,000 ¹	Min. of €1,000 with max. of €15,000	Min. of €1,000 with max. of €15,000
Fixed Credit Requirement for all Generator Units	€5,000	€5,000
Fixed Credit Requirement for Netting Generator Units	€1,000	€1,000

Table 1 - Proposed 2013 Credit Cover Parameters

As noted by the Regulatory Authorities approval of Modification 26_08 “Definition of Adjusted Participant”, and made clear in the consultation on Suspension Delay Periods (26/07/2008), the market is not and cannot be fully collateralised. The parameters provided above attempt to provide a balance between maintaining a low level of risk of bad debt in the SEM while not over burdening Participants with credit cover requirements which could be seen as a barrier to entry or a barrier to continuation of trade.

It is the SEMO’s recommendation that the parameters for 2013 remain unchanged to those agreed for 2012.

This is based on the fact that, in 2012, when we review October 2011 to May 2012 the Market has remained fully collateralised in accordance with the Trading and Settlement Code, with over collateralised occurring 8.34% of the time and under collateralised 0.78% of the time by Q3 2012. Figure 1 (taken from the most recent Quarterly Report for June 2012) refers.

This indicated that the parameters are very efficient in the SEM. Figure 2 (taken from the most recent Quarterly Report for June 2012) displays this trend, in monetary terms, from the end of 2008 to date.

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Further to the above the SEMO feels it is prudent to keep the parameters the same, as, with the introduction of Intraday Trading on the 21st July 2012, it would allow for greater analysis of their impact on Market within these new trading conditions over the coming year.

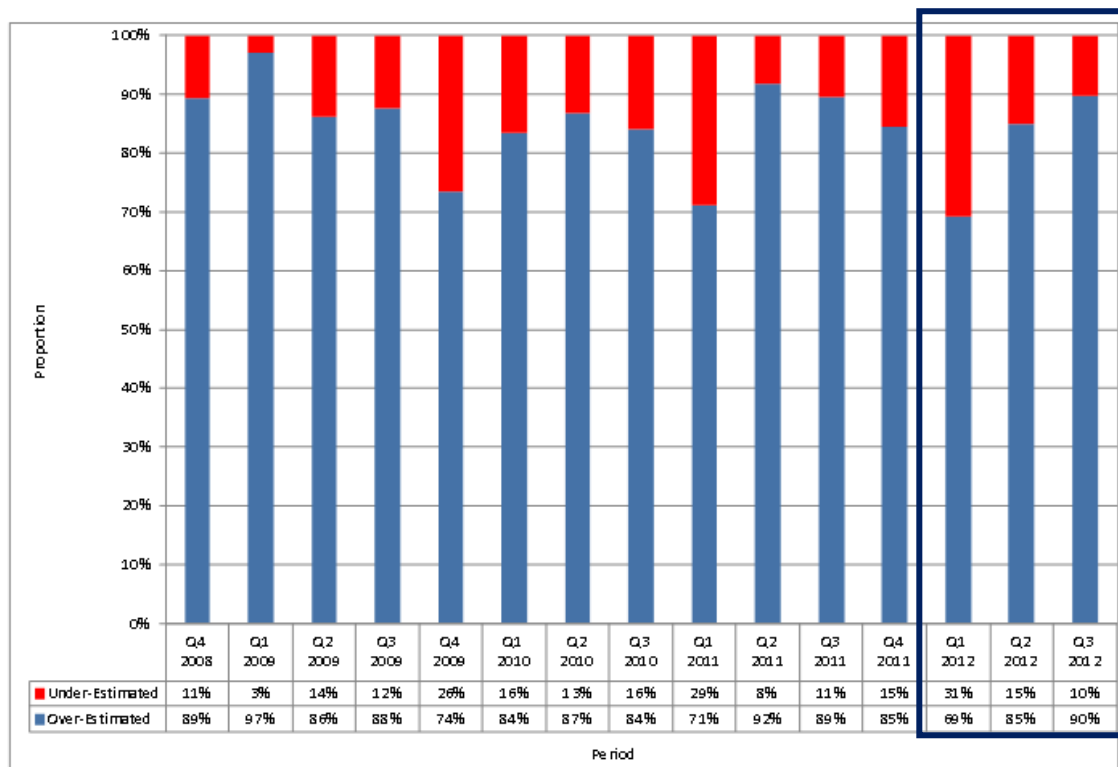


Figure 2- Occurrences of Under or Over Estimation

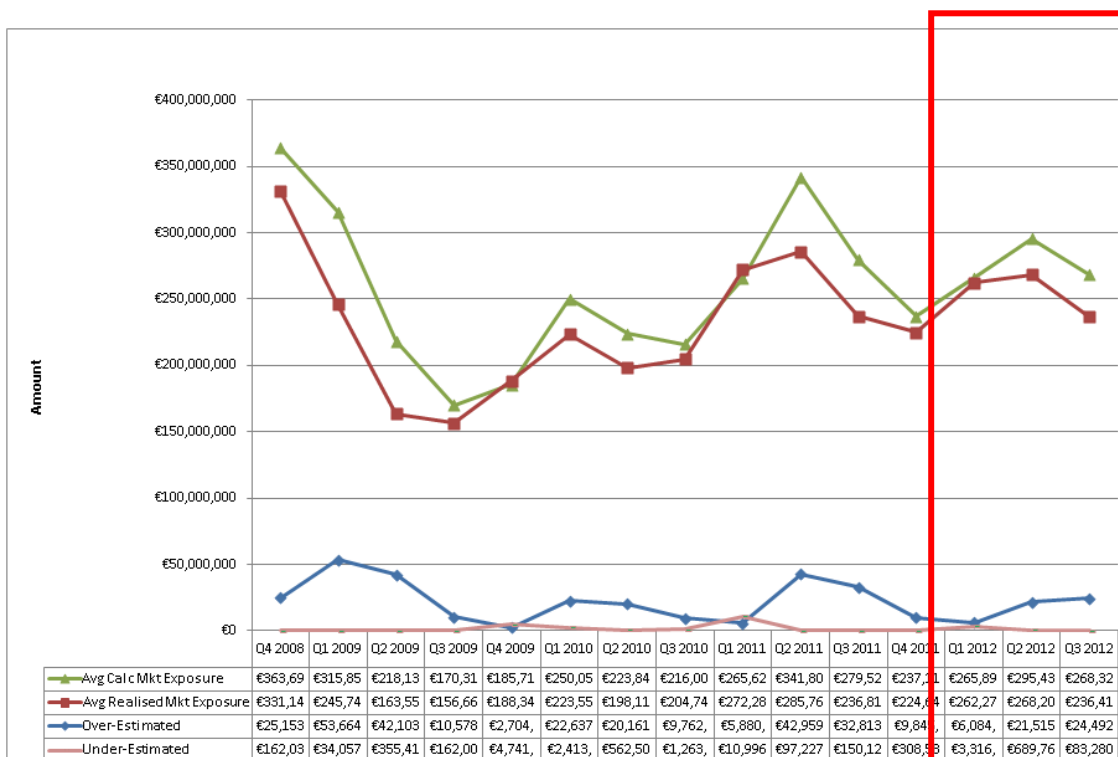


Figure 2 - Monetary Exposure due to Accuracy of Credit Cover Calculations