



**Integrated Single Electricity Market
(I-SEM)**

**Energy Trading Arrangements
Trading and Settlement Code**

Consultation Paper

SEM-16-075

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CONTENTS

CONTENTS.....	2
1. THE PROCESS TO DATE	3
1.1 BACKGROUND AND DECISION PAPERS	3
1.2 THE I-SEM MARKET RULES WORKING GROUP	4
2. OBJECTIVES AND SCOPE OF THIS CONSULTATION.....	6
2.1 OBJECTIVES OF THIS CONSULTATION.....	6
2.2 SCOPE OF THIS CONSULTATION	6
3. CHAPTERS OF THE TRADING AND SETTLEMENT CODE	7
3.1 CHAPTER A – INTRODUCTION AND INTERPRETATION	7
3.2 CHAPTER B – LEGAL AND GOVERNANCE.....	7
3.3 CHAPTER C – DATA AND INFORMATION SYSTEMS	8
3.4 CHAPTER D – BALANCING MARKET DATA SUBMISSION	8
3.5 CHAPTER E – IMBALANCE PRICE.....	9
3.6 CHAPTER F – CALCULATION OF PAYMENTS AND CHARGES.....	9
3.7 CHAPTER G – FINANCIAL AND SETTLEMENT	11
3.8 CHAPTER H – INTERIM ARRANGEMENTS	11
3.9 PART C – TRANSITIONARY ARRANGEMENTS.....	11
4. SUBMISSION OF RESPONSES	12
5. NEXT STEPS.....	13
APPENDIX A RESPONSE TEMPLATE.....	14

1. THE PROCESS TO DATE

1.1 BACKGROUND AND DECISION PAPERS

The European Union (EU) is building an internal market for electricity and gas to help deliver energy supplies that are affordable, secure and sustainable. This internal market for electricity is underpinned by the implementation of the European Electricity Target Model (EU Target Model) arising from the EU's Third Energy Package. Specifically, the EU Target Model is a set of harmonised arrangements for the cross-border trading of wholesale energy and balancing services across EU Member States. The various European network codes and guidelines are the basis on which these harmonised arrangements in electricity are being built. In line with the requirements of the Third Energy Package, electricity network codes and guidelines are developed by ENTSO-E, based on ACER's framework guidelines, and eventually pass through the comitology process to become legally binding EU law.

It is within this context that the SEM Committee (SEMC) committed to implementing the Integrated Single Electricity Market (I-SEM) in order to meet the requirements of the EU Target Model. In particular, at its July 2011 meeting the SEMC asked that the Regulatory Authorities (RAs)¹ lead a team for the market integration project involving the TSOs and the SEMO. The I-SEM is scheduled to Go Live in Q4 2017, replacing the current Single Electricity Market (SEM) arrangements when it does so.

Following extensive public consultation from 2011 to 2014, the SEMC published its Decision Paper on the High Level Design (HLD) for the I-SEM (SEM-14-085a) in September 2014, in keeping with its statutory objectives. Namely, the SEMC HLD Decision seeks to maximise benefits for consumers in both the short and the long term, while also ensuring security of supply and meeting relevant environmental requirements.

Subsequent to the publication of the HLD, the final phases of the I-SEM project commenced, namely the formulation of the detailed market design and the project to develop the market rules and systems needed to go-live with the new market in Q4 2017. The detailed design and implementation phase includes various detailed design work-streams led by the RAs, implementation of central systems and services by the Transmission System Operators (EirGrid and SONI), and a range of further activities to ensure market readiness.

One of the RA-led work-streams mentioned above is the Energy Trading Arrangements (ETA) work-stream. Following public consultation, three decision papers on the detailed design of the Energy Trading Arrangements were published in September 2015. These three papers were as follows:

- I-SEM ETA Markets Building Blocks Decision Paper (SEM-15-064);

¹ The Regulatory Authorities refers to the Utility Regulator in Northern Ireland, and the Commission for Energy Regulation (CER) in Ireland

- I-SEM ETA Markets Decision Paper (SEM-15-065); and
- I-SEM Aggregator of Last Resort Decision Paper (SEM-15-063).

These decision papers set out the detailed design of many key aspects of the I-SEM, particularly in relation to the operation of the Balancing Market and the power system, as well as the detailed design for imbalance settlement.

The policy decisions outlined in these decision papers, together with the payment and charges rules for the Capacity Remuneration Mechanism (CRM), then had to be transitioned into a set of detailed legal market rules for the I-SEM. The payment and charges rules for the CRM are outlined in the following decision papers:

- Capacity Remuneration Mechanism Detailed Design Decision 1 (SEM-15-103);
- Capacity Remuneration Mechanism Detailed Design Decision 2 (SEM-16-022); and
- Capacity Remuneration Mechanism Detailed Design Decision 3 (SEM-16-039).

These detailed design decisions formed the basis of the work undertaken during this year in developing the draft market rules on which the SEMC is now consulting. The I-SEM Market Rules Working Group was established in order to develop this set of detailed legal market rules.

1.2 THE I-SEM MARKET RULES WORKING GROUP

The I-SEM Market Rules Working Group was established to allow industry participants, the RAs, SEMO and TSOs to collaborate on the drafting of I-SEM Balancing Market rules required to implement the market design. The Working Group did not have the power to change policy decisions already taken by the SEMC but part of its remit was to identify any areas of inconsistency or uncertainty within or across these policy decisions and, where required, to formulate possible solutions.

The first meeting of the I-SEM Market Rules Working Group was held in October 2015. Subsequent meetings were held every four to five weeks thereafter, with the location of the meetings alternating between Belfast and Dublin. A total of eleven Working Group meetings (some spanning two days) were held in order to support the SEMO and the TSOs in the development of draft text for the key amendments to the Trading and Settlement Code required to implement the I-SEM arrangements (“TSC Amendments”).

The development of the TSC Amendments went through a multi-stage process in which topics were developed, issues were identified, discussed and resolved, and legal drafting of the draft TSC Amendments was completed. While some sections of the TSC Amendments went straight to proposed legal drafting stage, the majority of areas were progressed through the following stages:

- The development of design proposal/position papers in relation to the detailed implementation of the SEMC decisions;
- The drafting of rules sections in initial Plain-English versions;
- The drafting of updated Plain-English versions;

- The full initial legal drafting of rules sections; and
- The finalised legal drafting of rules sections.

The initial design proposal/position papers were developed within the Project Team (the joint implementation team for the I-SEM project comprising SEMO, the TSOs and the RAs). These design proposal/position papers were circulated to Working Group members two weeks prior to the relevant Working Group meeting for their review and to aid their preparation for the meeting. After discussion and consideration at the relevant Working Group meeting, members had one week following the meeting to provide formal feedback. Feedback from participants at the meeting itself and subsequent formal feedback informed the subsequent drafting of the Plain-English version of the relevant section of the market rules by the Project Team.

While some of the more administrative sections of the rules proceeded directly to legal drafting the Project Team generally developed the rules through a progressive development of the “Plain-English” explanatory papers, eliciting feedback on the principles and concepts, prior to developing and discussing legal drafts of the rules. These Plain-English versions were circulated to Working Group members two weeks before the relevant meeting for their review and to aid their preparation. After discussion at the relevant Working group meeting, Working Group members had another week to submit any comments and feedback on the Plain-English versions. The Project Team then developed a revised Plain-English draft, incorporating, as appropriate, comments and feedback, and the same process was followed for circulation, discussion and feedback.

When the Plain-English version for a specified rules section was finalised it was then used as the basis for the development of the initial legal drafting of the rules for the relevant section of the amended Trading and Settlement Code. This initial legal drafting was circulated to Working Group members two weeks prior to the Working Group meeting for their review and to aid their preparation. After discussion at the meeting, members again had another week to submit formal comments and feedback. The Project Team then developed a final legal draft, incorporating comments and feedback, and the same process was followed for circulation, discussion and feedback.

As finalised legal drafts of individual rules sections were completed they were incorporated into a consolidated version of the TSC Amendments which was updated and circulated to the Working Group for discussion in its later meetings.

During the Working Group process an Issues Log capturing observations, comments and queries from Working Group Members, covering both the Trading and Settlement Code and the Capacity Market Code, was maintained by the Project Team. The Issues Log was updated and circulated to the Market Rules Working Group periodically, with issues closed after resolution. Consequently, all issues raised by participants have been considered prior to finalising the TSC Amendments that are the subject of this consultation.

The consolidated TSC Amendments were delivered to the SEMC in late October 2016.

2. OBJECTIVES AND SCOPE OF THIS CONSULTATION

2.1 OBJECTIVES OF THIS CONSULTATION

This consultation on the TSC Amendments allows all market participants and other interested parties to carry out their own detailed review of the provisions of the TSC Amendments and the SEMC welcomes feedback on the proposed drafting in the form indicated in Appendix A.

The RAs will consult separately on the terms of modifications to the SEMO licence. Those modifications will include provisions allowing the RAs to direct that the SEMO makes certain amendments to the Trading and Settlement Code in order to implement the I-SEM arrangements.

The RAs, in reaching their decision on the terms of the TSC Amendments, will be cognisant of the consultative and collaborative process that has occurred through the I-SEM Market Rules Working Group over the last 13 months.

2.2 SCOPE OF THIS CONSULTATION

The TSC Amendments have been the subject of extensive consultative and collaborative development as outlined above. The SEM Committee anticipate that comments in response to this consultation will likely focus on the detail of the legal drafting for the TSC Amendments. In this context respondents should note:

- the I-SEM HLD and Detailed Design decisions were extensively consulted on in 2014 and 2015 and the Amendments have been developed to be in line with the market design decisions (see previous section of this paper on background, and the process to date);
- as the TSC Amendments are now presented as full legal drafting the SEM Committee is particularly interested in detailed comment, for example identifying potential drafting errors and suggesting specific revisions;
- some sections of the TSC Amendments are entirely new compared to the existing TSC reflecting major changes in the market design between SEM and I-SEM. Some other sections required significant consequential changes to the existing code to reflect the change to I-SEM. The SEM Committee anticipates that responses will focus on these sections.

Part A of the TSC Amendments will comprise the existing TSC. Some minor consequential changes may be required and these changes will be progressed through the Modifications Committee. The Project Team will be considering the necessary changes to ensure the continued operation of the current market within Part A of the amended TSC during the consultation period. A detailed

review of the referencing throughout the TSC to the relevant Parts, Glossaries, etc. will also occur in parallel to this consultation to ensure that the mechanics of the parallel operation of the SEM and I-SEM work as intended.

3. CHAPTERS OF THE TRADING AND SETTLEMENT CODE

For the purpose of this consultation, the TSC Amendments are structured as follows:

- (i) a new Part B to the TSC with Chapters A to H, Glossary, Appendices and Agreed Procedures – this sets out a version of the rules included in the current TSC amended to take account of the decisions of the SEMC and the requirements of the I-SEM market; and
- (ii) a new Part C to the TSC – this deals with transitional arrangements i.e. it sets out that the contents of the current published TSC will become Part A of the amended TSC and will continue to apply to the settlement of all trading days prior to the cutover date. It provides that the Part B TSC rules will apply to the settlement of all trading days from and after the cutover date. Both rules will therefore operate in parallel until such time as all matters relating to the period prior to the cutover date have been finally settled.

The following section provides a short summary of the high-level content of each chapter of the draft Part B and Part C of the Trading and Settlement Code.

3.1 PART B CHAPTER A – INTRODUCTION AND INTERPRETATION

Chapter A specifies the scope, objectives and interpretation of Part B of the Trading and Settlement Code. This Chapter is very similar to the equivalent language in the current TSC but has been updated to reflect the requirements of the EU Target Model.

3.2 PART B CHAPTER B – LEGAL AND GOVERNANCE

Chapter B sets out provisions relating to the governance and administration of the Code, specifying various provisions including:

- Liability limitation, force majeure, governing law, jurisdiction, priority of documents;
- Becoming a party to the TSC;

- Registration of participants, units, interconnectors, intermediaries and various trading sites;
- Transmission loss adjustment factors;
- Participation/membership of any NEMO;
- Role of the SEMO and obligations of parties;
- Balancing Market operations timetable;
- Market audit, consultation and information sharing;
- Modifications and the governance of change;
- Default, suspension and termination; and
- Dispute resolution.

The drafting in Chapter B broadly reflects the drafting in the current Trading and Settlement Code Chapter 2. However, there are some new areas added, such as the obligation on participation in ex-ante markets being through a NEMO, and the obligations on NEMOs operating in imbalance settlement. There are also other material changes including, for example, the classification of unit types and changes to dispute timescales.

3.3 PART B CHAPTER C – DATA AND INFORMATION SYSTEMS

Chapter C sets out the rules relating to the systems and procedures for the communication of Data Transactions and REMIT Data Transactions by each Party to the Market Operator, and by the Market Operator to one or more Parties. It sets out the technical processes by which data is submitted, validated and accepted or rejected by the Market Operator. This Chapter describes the IT communications channels to be used, parties' IT security obligations, procedures that apply in the event of a communications or system failure, and certain meter data requirements on the Meter Data Providers and Parties.

Chapter C also sets out the rules and principles for the publication by the Market Operator of data and other information relating to the trading arrangements under the Code.

The provisions in Chapter C are similar to provisions in the current TSC, and the proposed changes are largely to adopt I-SEM terminology and updated cross-referencing to align this Chapter with other Chapters of Part B of the TSC.

3.4 PART B CHAPTER D – BALANCING MARKET DATA SUBMISSION

Chapter D specifies how participants shall submit data for the Balancing Market to the Market Operator.

This Chapter sets out the form, content and timelines for the submission of Balancing Market data to the Market Operator. At a high level, the data concerned includes Commercial Offer Data (COD), Technical Offer Data (TOD), and Physical Notifications (PNs). The provision of certain forecast data by the System Operators is also covered. This Chapter contains significant new drafting.

3.5 PART B CHAPTER E – IMBALANCE PRICING

Chapter E sets out the basis on which the Market Operator shall determine the Imbalance Price for each Imbalance Pricing Period (IPP) and subsequently the Imbalance Settlement Price for each Imbalance Settlement Period (ISP).

Chapter E sets out the steps of the I-SEM imbalance pricing approach, including:

- the determination of Accepted Bids and Offers;
- the ranking of Accepted Bids and Offers;
- the flagging of Accepted Bids and Offers;
- classification and replacement pricing;
- the tagging of Accepted Bids and Offers;
- the determination of the Imbalance Price; and
- the determination of the Imbalance Settlement Price.

Chapter E also sets out the Administered Scarcity Pricing rules and the processes for calculating both the Market Back-Up Price and the Curtailment Price.

This Chapter was the subject of significant discussion at the Market Rules Working Group meetings, and is a key component of the new market design. The contents of this Chapter should be read in conjunction with Appendix N, in which the detailed flagging and tagging rules are set out.

The drafting of Chapter E is entirely new.

3.6 PART B CHAPTER F – CALCULATION OF PAYMENTS AND CHARGES

Chapter F covers two main areas – the first relating to trading Payments and Charges, and the second relating to capacity Payments and Charges.

The first part of Chapter F specifies how the Market Operator shall calculate the payments and charges for settlement of the Balancing Market. This covers the payments and charges resulting from

TSO actions in the Balancing Market and payments and charges resulting from 'long' or 'short' participant positions. This part of the chapter sets out the data, and each of the calculations, required to derive a range of factors, including *inter alia*:

- The imbalance component payment payments and charges;
- The premium and discount component quantities and payments;
- Curtailment quantities, prices, payments and charges;
- Uninstructed imbalance quantities and charges; and
- Fixed cost payments and charges.

This part of the Chapter also covers the treatment of losses and various charges such as imperfections charges, testing charges, residual error volume charges and currency adjustment charges.

The SEMC has recently consulted on the appropriate charging basis for the recovery of certain suppliers charges (SEM-16-060). The outcome of this separate consultation process will form part of the SEMC's decision on the TSC Amendment.

The second part of Chapter F then specifies how the Market Operator shall calculate the charges and payments for settlement of the Capacity Market. This part of the Chapter sets out each of the calculations needed to derive a range of factors, including:

- The capacity payment due to capacity providing units;
- The total difference charge payable by capacity providing units;
- The capacity charge payable by supplier units (in order to meet the costs of the above);
- The socialised charge payable by supplier units to make up any shortfall in the amount of the total difference charge; and
- The difference payment due to each supplier unit.

The drafting in this Chapter is significantly new.

The drafting in section F.2.2 relates to the process of ex-ante contract refusal in the event that a participant has insufficient collateral with the Market Operator to manage imbalance risk. As noted at Market Rules Working Group 11, this process is being further considered by the Project Team. However, the SEMC would particularly welcome comment on the appropriate approach and the implementation of this proposed process.

It should be noted that at the time of publication of this Consultation paper, an escalation in relation to reserve holding by the TSOs and its interaction with CRM settlement is being progressed through the Market Rules Working Group. The intention is that this issue will flow through the agreed-upon process, and the result of that process will subsequently be reflected in the SEM Committee's final decision.

3.7 PART B CHAPTER G – FINANCIAL AND SETTLEMENT

Chapter G specifies the arrangements and processes for settlement of the payments and charges calculated under Chapter F (Calculation of Payments and Charges). This Chapter sets out the settlement-related duties of the Market Operator and participants and covers issues such as:

- Set up of required bank accounts for receipt of all trading and capacity payments and charges;
- Settlement timelines and settlement documents;
- Queries relating to settlement data and credit cover arrangements;
- Calculation of energy and capacity amounts;
- Credit cover obligations;
- Settlement reallocation agreements;
- Calculation and settlement of the Market Operator Charges; and
- Administered imbalance settlement.

Chapter G comprises both existing and new drafting.

3.8 PART B CHAPTER H – INTERIM ARRANGEMENTS

Chapter H specifies certain interim arrangements that will apply following the Cutover Date from the SEM market to the I-SEM market. It also provides for the Market Operator to apply to the RAs to direct a Modification to the TSC or any Agreed Procedure to address any material errors or inconsistencies that emerge within a limited 6 month period from the cutover date.

This is an entirely new Chapter of the Code.

The RAs have received considerable feedback on the issue of amendments to the Code under Chapter H. The RAs invite comment in particular on this issue and whether there is an overlap between this drafting and the provisions of the Urgent Modifications process set out in Section B.17.16.

3.9 PART C – TRANSITIONAL ARRANGEMENTS

This Chapter sets out the transition from the existing rules in the current Trading and Settlement Code to the new rules set out in Parts B & C of the Code. As noted above, it sets out that the current published TSC will become Part A of the amended TSC, and will continue to apply to the settlement of all trading days prior to the cutover date. It provides that the Part B TSC rules will apply to the

settlement of all trading days from and after the cutover date. Both Part A and Part B of the TSC will therefore operate in parallel until such time as all matters relating to the period prior to the cutover date have been finally concluded.

The Chapter also deals with transitional operational requirements that will need to span the transition time and date. One aspect of the proposed transition arrangements is that all members of the Modifications Committee and Disputes Panels would resign one year after Go Live. The RAs are conscious that the simultaneous departure of all members of the Committee and Dispute Panel may be administratively onerous for participants and may lead to a loss of institutional knowledge. On this basis, the RAs would particularly welcome comment on this proposal, including on whether alternative approaches might reduce the impact on participants.

This is an entirely new Part of the Code.

3.10 APPENDICES AND AGREED PROCEDURES

Along with the Chapters referred to above, the full suite of Appendices and Agreed Procedures are included as part of this Consultation process for industry consideration.

The numbering convention of the existing Agreed Procedures has been retained following feedback from members of the Market Rules Working Group.

4. SUBMISSION OF RESPONSES

It is considered likely that the SEMC may receive a significant number of detailed responses to this consultation. In order to facilitate these being considered and addressed within the timescales for the publication of the SEMC decision, a response template is being provided in Appendix A of this paper and the SEMC request that all specific comments on sections of the TSC are contained within this template form.

The response template includes the following columns:

- I-SEM TSC reference;
- Title of the comment;
- Detailed commentary / explanation;
- Suggested drafting / proposed amendment for the I-SEM TSC; and
- Consequential impacts on other sections of the TSC (with cross referencing of changes in the participant response).

As part of the review and response process, it is likely that responses will be shared with the TSOs for comment. However, respondents can make their responses confidential to the RAs if they so wish.

5. NEXT STEPS

Interested parties are invited to respond to the consultation, presenting their views in the response template provided. The RAs will consider all responses received.

The SEM Committee intends to make a decision in March 2017 on Parts B and C of the Trading and Settlement Code as covered in this consultation paper.

Responses to this consultation paper should be sent to **both** TSCconsultation@cer.ie and TSCconsultation@uregni.gov.uk by 17:00 on 10 January 2017.

Please note that we intend to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities are subject to Freedom of Information legislation.

APPENDIX A RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	e.g. XYZ Power Inc.
Type of Stakeholder	Generator
Contact name (for any queries)	John Doe
Contact Email Address	<u>JD@XYZ.COM</u>
Contact Telephone Number	123 456 789

I-SEM TSC COMMENTS

ID	I-SEM TSC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the TSC	Relevant Cross-Reference for any impacted section
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					

NB please add extra rows as needed.