



**Single Electricity Market  
(SEM)**

**Consultation on Intermediary  
Arrangements in the SEM**

**SEM-20-033**

**26 May 2020**

## EXECUTIVE SUMMARY

An Intermediary Arrangement under the Trading and Settlement Code is an arrangement that allows a third party to take on the responsibilities of market participation on behalf of a generator. These arrangements were originally put in place in Version 1.0 of the Trading and Settlement Code in 2006 to facilitate the transfer over of a number of legacy power-purchase arrangements (PPAs) that existed prior to the introduction of the SEM, and its gross mandatory pool design.

The initial criteria for registration as an Intermediary were set out in the SEM Committee's Decision Paper on the 'Criteria for Approval of Intermediary Applications under the Trading and Settlement Code' in 2007 (SEM-07-029). The SEM Committee decision sought to achieve three goals – to facilitate the transfer of pre-existing arrangements to minimise the burden on very small generators; to create an accommodating environment for renewable generators in the new SEM; and to ensure that there were no inadvertent market power risks created by allowing a single entity to represent and participate on behalf of a significant portion of the market. These objectives were generally achieved, and the level of renewable penetration, and the diverse ownership profile of units in the SEM suggests that the Intermediary arrangements were not a significant barrier to entry and may indeed have been a useful support.

Before the revised SEM arrangements went live in October 2018, the SEM Committee consulted on modifications to these arrangements and in SEM-17-025 set out a number of decisions in relation to the transition of Intermediary arrangements to the new market and the eligibility criteria that would apply. This Consultation mainly focused on the mechanism for transitioning RA Intermediary consents to the new market and the eligibility criteria for any new Intermediary applications. The resulting decision (SEM-17-025) was explicitly limited to minimising the changes for market participants during the transition from SEM to the revised SEM arrangements. In that decision the SEM Committee noted the wide range of interesting and potentially important amendments that could be made to the criteria to support the future needs of the system and the market but that such changes couldn't be considered at that time. The SEM Committee committed to reviewing in a more wide-ranging way Intermediary arrangements at the time after Go Live and this Consultation gives effect to this commitment.

The Regulatory Authorities are of the view that there is potential for the eligibility criteria and the method for amending these criteria to be revised and that a broader application of these arrangements is worth consideration, particularly in light of new technologies coming onto the system, and potentially new business models in the retail and wholesale markets. Potential

changes to the Intermediary arrangements may also interact in a supportive way the requirements to facilitate aggregation in the market under the Clean Energy Package and the potential role of Intermediaries in this area.

This consultation asks a series of questions on changes to the Intermediary arrangements under the TSC, primarily around opening up the eligibility criteria for applicants. The Consultation proposes to allow a broader subset of market participants to apply to be represented by an Intermediary where they do not wish to accede to the Trading and Settlement and Capacity Market Codes. This could involve new renewable units which may be dispatchable and/or controllable and newer categories of market participants such as DSUs and Batteries. The Consultation also considers that there could be value to allowing suppliers, or a certain subset of suppliers, to have access to Intermediary arrangements.

The Consultation also raises a question on the significance of Intermediary arrangements in the context of the ex-ante markets. This looks at whether the concept of Intermediary arrangements should be extended to the day-ahead and intraday market timeframes in order to allow for aggregated trades from portfolios in the ex-ante markets to be associated with units in the balancing market timeframe, where a Participant wishes to have the same entity setup between these market timeframes and nominate an Intermediary to trade on their behalf in the ex-ante and Balancing markets.

Interested stakeholders are invited to respond to this Consultation via email to [afitzpatrick@cru.ie](mailto:afitzpatrick@cru.ie) and [Ian.McClelland@uregni.gov.uk](mailto:Ian.McClelland@uregni.gov.uk) by 7 July 2020.

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# 1. Introduction

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## 1.1 Background

In the SEM, the role of an Intermediary is to act on behalf of a Generator owner in relation to specific Generator Units under the Trading and Settlement Code (TSC), which involves taking on their rights and responsibilities under the Code.

Intermediary arrangements were put in place in Version 1.0 of the Trading and Settlement Code in 2006. The initial criteria for registration as an Intermediary were set out in the SEM Committee's Decision Paper on the 'Criteria for Approval of Intermediary Applications under the Trading and Settlement Code' in 2007 (SEM-07-029).

Before the revised market arrangements went live in October 2018, the SEM Committee consulted on Modifications to these arrangements and in SEM-17-025 set out a number of decisions in relation to the transition of Intermediary arrangements to the new market and the eligibility criteria that would apply. This Consultation mainly focused on the mechanism for transitioning RA Intermediary consents to the new market and the eligibility criteria for any new Intermediary applications.

It was noted in SEM-17-025 that the areas addressed in the Decision only dealt with the short-term issues associated with transitioning to a new market and that the wider approach to Intermediary arrangements might need to be reconsidered in future. This Consultation Paper considers the wider concept of Intermediaries in the SEM and the eligibility criteria for applications to act as Intermediaries. It also considers wider EU Legislation which has come into force since the last Decision on Intermediary Arrangements in the SEM and considers the issues raised by respondents to SEM-17-025 in a range of areas.

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## 1.2 Objectives of this Consultation Paper

This Consultation Paper aims to conduct a broad review of Intermediary arrangements in the SEM including the eligibility criteria and changes which could be made to broaden the application of these arrangements if beneficial to the market.

The Consultation also considers related requirements in relation to aggregation under the Clean Energy Package and the role intermediaries might have in this area, which will be

considered further in a separate Consultation due to be published in Q2 2020. The RAs are cognisant that this review should not impact on existing Intermediary arrangements in the SEM or existing contractual arrangements between Intermediaries and Generator Unit Owners.

The Consultation considers the following;

- Changes to the eligibility criteria for Intermediaries
- Application of Intermediary arrangements in ex-ante markets
- Intermediary arrangements for Suppliers
- The link between Intermediaries and aggregation
- Intermediary arrangements and Power Purchase Agreements

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## 2. Application of Intermediary Arrangements in the SEM

### 2.1 Implementation of Intermediary Arrangements

Intermediaries were originally proposed as a means of dealing with exceptional circumstances under which pre-existing bilateral arrangements could not be readily transitioned to the SEM gross mandatory pool market which was in place between 2007 and 2018.

This concept was maintained for the revised SEM arrangements which went live in October 2018. The role of Intermediaries is to act for Generator owners in relation to specific generator units under the TSC. This involves taking on, for example, their rights and responsibilities including bidding, settlement and provision of credit cover.

Under the Trading and Settlement Code, individual Units are represented by certain entities for the purpose of trading, settlement and credit cover calculations. A Party represents the company that has acceded to the Trading and Settlement Code while a Participant is designated in relation to units that have been registered under the TSC. A separate Participant is required where a Party has units registered in both Northern Ireland (NI) and Ireland (ROI). Under Parties and Participants sit Units, which may be for example generation, supply, or demand side units registered in order to allow trading and settlement of generation and consumption of electricity under the TSC.

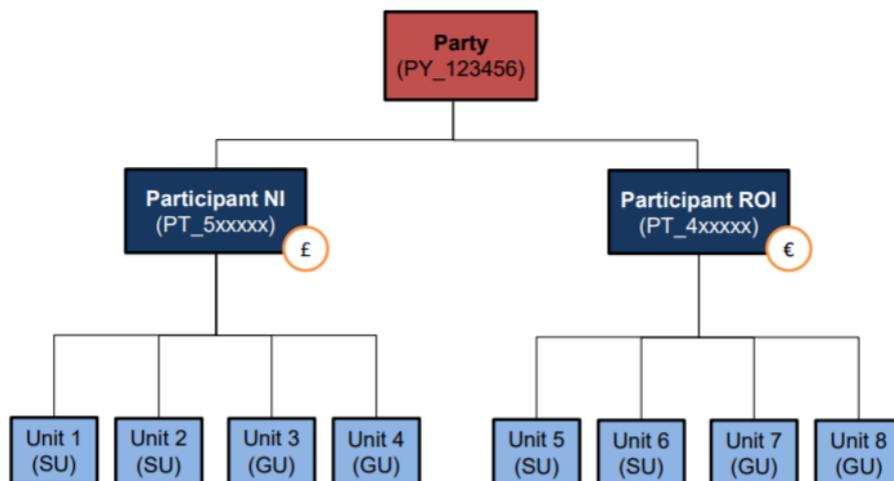


Figure 1

With Intermediary arrangements, rather than registering and participating under the TSC themselves, a Unit Owner can, based on specific criteria, nominate an Intermediary to become

a Party to the Code and a Participant in respect of its Unit. This enables the Unit to delegate responsibilities associated with participation in the SEM (in the balancing market timeframe) to another market participant.

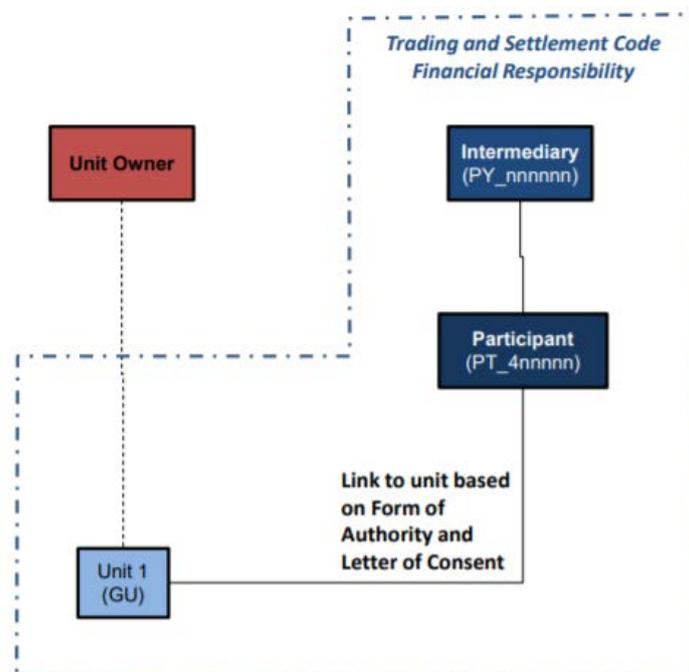
When entering into an Intermediary Arrangement, Units are required to submit a Form of Authority which is to be approved by the RAs, which then grants authority to the Intermediary to register with the TSC and participate on behalf of the generator unit.

For generation units below the de minimis threshold of 10 MW maximum export capacity (referred to as de minimis generation) participation in the SEM is voluntary and they are not required to register with the TSC. If they do not participate, they instead have options to either;

(a) set up an Intermediary arrangement with an outside party (through the same process outlined above), or

(b) contract with a supplier through a PPA arrangement, such that their generation is netted off the supplier's demand and their imbalances are covered under the supplier's consumption, or

(c) set up their own supply company which leads to generation being netted off of the supplier's demand.



**Figure 2**

These arrangements are used by a wide range of mainly renewable units to allow suppliers to interact with the market on their behalf. It is also a mechanism used by REFIT-supported

generators to avoid the need to interact with a supplier that is not part of the same company, allowing a supply company to act on behalf of a generator owned by the same parent company. A REFIT-supported wind farm is permitted to sell its output to an Intermediary under a power purchase agreement, so long as the Intermediary then sells its output into the SEM.

As set out in SEM-17-025, there are three main aspects to Intermediary arrangements in the SEM;

1. Private commercial arrangements between the Generator owner and Intermediary, with an agreement to govern their relationship. An example of such an arrangement might be a Power Purchase Agreement (PPA).
2. RA approval for Intermediaries is granted by the relevant Regulatory Authority based on the jurisdiction where the Intermediary is based. The generation licence also requires licensees to ensure that any Intermediary complies with the terms of the generator's licence in relation to compliance with the TSC.
3. The Form of Authority is completed by the Intermediary and the Generator Unit Owner. Following receipt of the completed Form of Authority accompanied by RA letter of consent, SEMO will facilitate the registration of the Unit under the Intermediary's Participant.

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## 2.2 Proposed Revisions to Intermediary Arrangements

This Consultation considers a number of issues raised in response to SEM-17-025 and the broader application of Intermediary Arrangements in the SEM. The RAs are of the view that Intermediary arrangements continue to play an important role in the SEM and provide an alternative route to market for stakeholders that may not wish to participate directly.

The RAs are of the view that there is potential for the eligibility criteria and the method for amending these to be revised and that a broader application of these arrangements is worth consideration, particularly in light of new requirements to facilitate aggregation in the market under the Clean Energy Package and the potential role of Intermediaries in this area.

The arrangements and mechanisms to decide on eligibility criteria for Intermediaries are discussed below along with the potential application of these arrangements across the ex-ante markets, for suppliers and for aggregators.

Interested stakeholder's comments are invited on these proposals along with suggestions for other changes to these arrangements in order to utilise the concept of Intermediaries in a more complex and dynamic market.

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## 2.3 Eligibility Criteria

The RAs' original 2007 decision on Intermediaries (SEM/07/029) provided for restrictions on the number of Intermediary arrangements in the SEM and the eligibility to partake in these arrangements, which were again considered in SEM-17-025. The current eligibility criteria for Intermediaries are based on consideration of the potential to create additional concentrations of market power and provision for appropriate regulatory oversight and monitoring of participants' compliance with their obligations in the SEM.

The RAs have reviewed these criteria and are of view that they should be broadened to allow a broader range of projects to take part in Intermediary arrangements once these are in line with the RAs' underlying objectives to promote market efficiency, non-discriminatory access, renewable energy, and broader policy objectives while also addressing their concerns noted above.

The current eligibility criteria for consideration of Intermediary applications are as follows (once any of these criteria is met a Unit is eligible);

- A. Where a party's participation in a bilateral agreement is under a PSO contract then the use of an Intermediary will be permitted for the duration of that contract;
- B. Where a Generator Unit has Priority Dispatch for the whole of its output and is contracted to a Supplier that is a Party to the TSC;
- C. Where a Generator Unit is non-controllable and non-dispatchable for the whole of its output and is contracted to a Supplier that is a Party to the TSC; or
- D. Where a Generator Unit is contracted to a Supplier that is a Party to the TSC and the following criteria are satisfied:
  - The Generator Unit has been allocated to a support-scheme, where the requirements of the scheme are such that in order to access payments an Intermediary must be appointed to receive the support-scheme payments and

where no alternative method of receiving support-scheme payments in the SEM exists;

- The generator's Maximum Export Capacity is less than 100MW; and
- Subject to applicable licence conditions, the Intermediary appointed will only act on behalf of a generator in the SEM with which it has a related undertaking or affiliate as set out in the relevant jurisdictional Generation Licences.

In GB's Balancing and Settlement Code (BSC), similar to Intermediary Arrangements, Units can register under a third party to trade on their behalf in the market. However, there is no restriction on what kind of Balancing Market units can be registered under this type of agreement.

The Regulatory Authorities are considering whether a broader subset of market participants should be allowed to apply to be represented by an Intermediary where they do not wish to accede to the Trading and Settlement and Capacity Market Codes. This would need to consider arrangements to ensure the transparency of Intermediary arrangements for the RAs, SEMO and market participants.

This could involve new renewable units which may be dispatchable and/or controllable, also accounting for the removal of priority dispatch for new units under the New Electricity Regulation (Regulation (EU) 2019/943). In addition, the RAs recognise that newer categories of market participants such as Demand Side Units or Batteries may benefit from these arrangements.

The Regulatory Authorities propose revising criterion C above, to allow for a broader range of market participant categories to apply to take part in such arrangements. The application of these arrangements based on a certain subset of Generator Units would provide for the following revised criteria which would not be limited by involvement in a support scheme;

- Where a Wind Power Unit, a Pumped Storage Unit, a Battery Storage Unit, a Demand Side Unit or a Solar Power Unit with a Maximum Export Capacity of less than 100MW is contracted to a Supplier that is Party to the TSC.

The Regulatory Authorities also consider that there could be value to allowing suppliers, or a certain subset of suppliers, to have access to Intermediary arrangements. This would allow a third party to act on their behalf in the wholesale market, given their participation in the ex-ante and balancing markets. The Regulatory Authorities also propose to add an additional criterion to allow Suppliers to contract with a Supplier Unit that is Party to the TSC to trade on their behalf. One consideration is whether this should be open to all suppliers or only to those below a certain market share threshold. There is no distinction within the TSC between

different Suppliers based on their customer numbers or consumption, but an appropriate basis could be 10% of market share overall in terms of customer numbers in all market segments.

The SEM Committee has consulted a number of times on the eligibility criteria and the RAs propose as part of this Consultation that a mechanism should be put in place to allow for RA approved changes to these criteria as new technologies or structures develop without the need for a Consultation process, as long as these do not impact on any of the RAs' key concerns.

The RAs propose that an additional criterion is added to the Trading and Settlement Code to allow for specific registrations to be approved once they meet the SEM Committee's objectives in this area. This could serve to remove barriers to the participation of new technologies in the electricity market. Following this Consultation, the RAs propose to raise a Modification to the Trading and Settlement Code to provide for changes to these eligibility criteria where evidence is provided by potential new applicant types that their eligibility will not lead to a market power issue and such Intermediaries will be compliant with their obligations in the SEM.

Given the range of Intermediary arrangements currently in place and the potential for any broadened criteria to increase this number, the RAs also propose to publish a quarterly report on the SEM Committee website with details of the current Intermediary arrangements in place, setting out a list of Intermediaries and the generator units they are acting on behalf of. Where there are any changes to these published arrangements participants will be required to notify the Regulatory Authorities and SEMO.

**Consultation Question 1:** The RAs propose to revise Part C of the eligibility criteria to allow for a broader range of market participant categories to apply and also to provide for renewable units which may be dispatchable and/or controllable to take part in such arrangements. The revised criterion would be; where a Wind Power Unit, a Pumped Storage Unit, a Battery Storage Unit, a Demand Side Unit or a Solar Power Unit with a Maximum Export Capacity of less than 100MW is contracted to a Supplier that is Party to the TSC.

**Consultation Question 2:** The RAs propose to allow Suppliers to take part in Intermediary arrangements. Do you agree with this proposal and do you have a view on whether this should be available to all suppliers or only to those below a certain threshold of market share?

**Consultation Question 3:** The RAs propose that an additional criterion is added to the Trading and Settlement Code to allow for specific registrations to be approved once they meet the SEM Committee's specific objectives in this area. A Modification to the TSC would

be raised following this Consultation to provide for this change. Do you agree with this proposal?

**Consultation Question 4:** The RAs propose to publish a quarterly report on the SEM Committee website setting out the details of the current Intermediary arrangements in place in the SEM. Participants involved in these arrangements would be required to notify the RAs and SEMO of any changes to these. Do you agree with this proposal?

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## 2.4 Application to Ex-ante Markets

In the SEM, the Party, Participant and Unit setup for the TSC is strongly related to the setup required for the Capacity Market and these must be the same in both the TSC and Capacity Market. This is to allow settlement of Capacity to occur as part of the TSC settlement processes. The implications from the relationship between Capacity and TSC Entity setup are:

- Settlement documents produced are designed to incorporate both TSC and Capacity market settlement.
- The bank account used for payments to Participants is the same for both balancing and capacity payments.
- Collateral requirements for capacity settlement are combined with the balancing and imbalance settlement.

The entity setup for Participants in the Day Ahead and Intraday Markets does not need to be the same as the TSC Entity Model. However, in order to trade in these markets, the unit must be represented and effective under the TSC to allow for imbalance settlement.

The RAs are considering whether the concept of Intermediary arrangements should be extended to the day-ahead and intraday market timeframes in order to allow for aggregated trades from portfolios in the ex-ante markets to be associated with units in the balancing market timeframe, where a Participant wishes to have the same entity setup between these market timeframes and nominate an Intermediary to trade on their behalf in the ex-ante and Balancing markets. This could better reflect the link between trades and participation in the different market timeframes.

This would involve any Intermediaries for such units taking on their roles and responsibilities under the SEMOpX Rules and Operating Procedures (or the applicable Rules for any NEMO operating in the SEM) and would involve a change to the process set out in Section 2.1

impacting on the Form of Authority and a new registration process between SEMO and SEMOpx.

**Consultation Question 5:** What is your view on the potential added value of the application of Intermediary Arrangements in the Ex-Ante Markets?

## 2.5 Other Considerations

Aggregation under the context of the Clean Energy Package (CEP) means ‘*a function performed by a natural or legal person who combines multiple customer loads or generated electricity for sale, purchase or auction in any electricity market,*’

Currently, there is no clear definition on the criteria to be considered an aggregator in the SEM. There are several variations of market participants and functions which provide services similar to those envisaged in the new Electricity Regulation. These include Intermediary arrangements, AGUs, Assetless Traders and the Agent of Last Resort (AoLR).

Intermediaries fulfil similar functions to aggregators, such that they have the ability to participate on behalf of units as a party to the TSC. Due to these similarities, the existing Intermediary arrangements in the SEM could potentially be adopted and revised to meet the criteria outlined in Articles 6 and 7 of the new Electricity Regulation (Regulation (EU) 2019/943). This concept will be considered further in a separate Consultation in Q2 2020.

Corporate PPAs generally involve a long-term contract between a business and a generator to purchase electricity with a fixed price for a certain period. The RAs are also considering the interaction between Intermediary arrangements and corporate power purchase agreements and whether any barriers exist under the current arrangements. This is particularly important in order to facilitate corporate PPAs in the renewables sector. In many cases, businesses see PPAs as a way to decarbonise their electricity supply and ensure cost certainty in the long term.

**Consultation Question 6:** Are there limitations to the current arrangements which could be revised to better facilitate corporate PPAs?

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## 2.6 Legal Text of Form of Authority

To enact changes to Intermediary Arrangements, the Form of Authority (FoA) for appointment of an Intermediary may need to be amended. This is an agreement where the Licensed Generator appoints and authorises the Intermediary to register the Units as Generator Units for the purposes of participation in the Balancing Market under the TSC and the Intermediary accepts such appointment. The purpose of the FoA is to provide evidence that both parties to the Intermediary arrangement understand and have agreed to the detail of the arrangement.

As part of this review, it is necessary to identify what changes are required to be made to the Intermediary FoA, currently set out in Part B of the TSC, and to consider the necessary changes to ensure that it is fit for purpose.

One way that the FoA could be modified is to facilitate aggregation in the ex-ante markets. There would need to be an aspect of the FoA which will permit aggregation of a Unit's trades within the market. Alternatively, this could be a separate Form of Authority for aggregation which would correspond to a contract for the provision of aggregated trades.

Currently, the FoA is applicable to both the capacity and energy market. A potential option would be to change the FoA so that units aggregating in the capacity market need not be registered under the same participant in the energy market.

**Consultation Question 7:** Are there further changes to the FoA that the Regulatory Authorities should consider?

## 3. Conclusions and Next Steps

Comments are invited on these proposals along with suggestions for other changes to the Intermediary arrangements in the SEM. Interested stakeholders are invited to respond to this Consultation via email to [afitzpatrick@cru.ie](mailto:afitzpatrick@cru.ie) and [Ian.McClelland@uregni.gov.uk](mailto:Ian.McClelland@uregni.gov.uk) by 7 July 2020.