

The Single Electricity Market (SEM)

Publication of Trading and Settlement Code Version 1.3 – Final Consultation Document

Cover Note

30 March 2007

AIP/SEM/07/67

1. Introduction

1.1. General

On 15 February 2006, the Regulatory Authorities (“RAs”) published Version 1.0 of the Trading and Settlement Code (“TSC”) that will underpin trading in the Single Electricity Market (“SEM”) between Ireland and Northern Ireland. Version 1.0 of the Code comprised the market design for the SEM, and (subject to the completion of a formal change control procedure) formed the basis for the development of the technical specification of the central market systems, as well as the basis for a number of detailed procedures under the TSC – the Agreed Procedures (“APs”).

On 31 January, the RAs published a legally reviewed draft of the TSC for public consultation, Version 1.2. Significant comment was received on this document.¹

Today, the RAs publish the final consultation on the Trading and Settlement Code, Version 1.3. Subject to any final changes arising out of the consultation process, this document will become the key industry contract to which all generation and supply licence holders (above a de minimis threshold of 10MW) will be required to accede.

Also published for consultation today are a series of Draft Agreed Procedures under the TSC. These documents set out detailed procedural steps to be taken by market participants arising out of the main TSC rules. (See discussion on status below). A final consultation on baselined versions of these documents will follow in May 2007.

The following note sets out the status of the TSC Version 1.3, and of the Draft Agreed Procedures. It also describes at a high level the changes made to this version of the TSC since Version 1.2 of the TSC was last published.

1.2. Request for Comments

The RAs request comment from interested parties in relation to the provisions of the draft TSC. The RAs note that the design elements of the Version 1.3 are NOT subject to review, and that there is a ‘design freeze’ in place that prevents any amendments to central market systems. Nonetheless the RAs invite comment on drafting and legal aspects of the TSC Version 1.3.

The Regulatory Authorities intend and prefer to publish all comments received, but are prepared to facilitate those respondents that wish that certain sections of their submission remain confidential. Accordingly, respondents that so wish should submit these sections in an appendix that is clearly marked “confidential”.

Comments on this paper should be forwarded, preferably in electronic form, to Peter McLay at:

pmclay@cer.ie

¹ The RAs will publish responses to these comments in April.

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Belgard Square North,
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The deadline for the receipt of comments is 26 April 2007.

2. Document Status

2.1. Version 1.3

This is the final consultation on the TSC. Considerable effort has been made by the Regulatory Authorities, System Operators and SEM Implementation Team over the last number of weeks to ensure full alignment between the TSC and systems. Consequently, Version 1.3 is now the 'baseline' document for systems, as well as being the final legal text of the contract, subject to consultation. This document supersedes all previous versions of the TSC.

2.2. Agreed Procedures

The Agreed Procedures are undergoing two distinct alignment exercises with the TSC. These alignment exercises are:

- A terminology alignment against the TSC glossary
- A rules consistency review against a version of Section 7 which was baselined one week prior to the TSC's publication against Sections 2 to 6 of the TSC (with Section 7 taking precedence)

These two alignment processes are described in greater detail below.

All efforts have been made to ensure that the APs as published reflect the final TSC, Version 1.3. However, as the TSC was finalised today on the date of publication, there has been limited opportunity to review the parallel Agreed Procedure alignment exercises against the published TSC. The published TSC does contain changes over the last week with potential procedural impacts affecting the Agreed Procedures.

Areas of note which have been baselined in the last week are, for example the responsibility for performing certain Interconnector Trading functions, and much of the Data Appendices (Appendices B to K inclusive, Appendix Q). The degree of clarification around these areas will have procedural impacts which will be incorporated into the final set of Agreed Procedures to be consulted upon in May. In all cases, the Agreed Procedures will change to align with the baselined TSC.

Outstanding issues with the Agreed Procedures have been collated. These issues are listed in a document which also summarises the progress on the Agreed Procedures to date. The issues include:

- Those identified by Market Participants through the PRC;
- Those alignment and process gaps identified by the alignment exercises which require SEM Implementation Team and SMO Establishment input to resolve; and
- Those arising from the later legal and systems clarifications to the main body of the TSC.

The Regulatory Authorities' review of the Agreed Procedures will continue over the coming months. In particular, each of the changes to the APs brought about by the review process will undergo formal change control with the SEM Implementation Team and SMO Establishment Programs, in order to 'baseline' the documents.

Terminology Alignment

All Agreed Procedures have been reviewed for consistency of terminology against the TSC that was published today on 30 March. The changes that have been made have been logged in the accompanying spreadsheet. Each Agreed Procedure contains a complete glossary. Capitalised terms within the Agreed Procedures have been referred to the TSC glossary where the TSC glossary contains those definitions. Where the Agreed Procedures introduce new capitalised Terms, these have been explicitly set out in the Agreed Procedure glossary, or cross-referenced to another Agreed Procedure where it is defined.

Therefore, within the suite of market documentation, i.e. the TSC and the Agreed Procedures, terms have a consistent meaning and are defined in a single location.

Please note that as that substantial alterations to the TSC have been agreed up to and including the date of publication, it has not been possible to confirm that late changes to the TSC have not altered the consistent use of terminology. In the event of inconsistency between the APs and the TSC, the TSC should take precedence.

Rules Consistency Review

Certain processes and rules have changed in the TSC arising from the TSC-Systems alignment review conducted in early March, others due to finalisation of certain elements of the design, and the ongoing legal review. The TSC reached a final state today on the date of publication. Within the context of a "moving" TSC, all efforts have been made to align the Agreed Procedures with the TSC. All Agreed Procedures have undergone at least one consistency review.

An issues list has been completed and provided for these Agreed Procedures where there are alignment issues which require the input of the SEM Implementation Team and SMO Establishment Programmes to appropriately resolve.

3. Key Changes in Version 1.3

3.1 Section 7 Derogations

The key change in this document is the addition of Section 7 setting out Interim provisions of the TSC that will apply for the first twelve months of market operation. These interim provisions have largely resulted from the TSC/Systems alignment process, and reflect issues that are incapable of rectification in advance of Market Go Live.

The provisions of Section 7 include:

1. Transitional Changes to Interconnector Roles and Responsibilities
2. No payments are made to (or charges levied on) the IRCU or to the IEU
3. Rolling forecasts of ex-ante LOLP will not be published by the Market Operator
4. Transitional Changes to the form of the Resettlement Statement
5. Transitional Changes around cancellation of Settlement Reallocation Agreements

3.2 Appendices N and P

Appendices N and P do not, as yet, form part of the baselined TSC. The documents published today have been prepared by the SMO's SEM Implementation Team. These documents do therefore reflect the capabilities of central market systems. Further work is intended on these appendices to ensure alignment with the main body of the TSC. In the event of any inconsistency between Appendix N or P and the TSC, the TSC shall take precedence.

It is anticipated that Appendices N and P will be incorporated through the TSC through the change control process. It should be noted that the provisions concerning SMP Uplift that appear in the principal TSC document have been baselined at this point. In the event of inconsistency, these take precedence over the SEM Programme document.

3.3. Appendix M

On foot of the publication of the RAs' Decision on Capacity Payment Factors – Ex Ante Margin on 26 March 2007, the TSC now provides in Appendix M for the determination of Capacity Payment Factors. The provisions of M1-M27 have been baselined for systems with the MO. The remaining provisions will undergo a change control process over the coming weeks.

3.4 Appendices

As part of the review process around TSC/Systems Alignment, and Alignment as between the TSC and the Agreed Procedures, substantial changes have been made to the format of the Appendices concerning Data Flows. This is driven by the requirement to remove duplication of TSC provisions.

3.5 Intermediaries

In line with the recent RA Decision on Criteria for Approval of Intermediary Applications (AIP/SEM/07/29), Intermediary provisions within the TSC have been updated. Key changes include the addition of the Form of Authority in Appendix R, and the removal of the stipulation of joint and several liability as between the Intermediary and the Unit Owner.

3.6 Amendments to Trust Provisions

Section 6 of the TSC deals with the financial, billing and settlement arrangements. These contain trust arrangements in relation to the SEM clearing accounts and, where applicable, any SEM Collateral Reserve Account which Participants opt to use as part of Credit Cover. Additional wording has been included to deal with the precise nature of these arrangements.

A new related paragraph 2.20A has also been introduced to facilitate these trust arrangements so that the financial arrangements continue to be effective practically for the SEM, particularly in an insolvency situation. This required making provision for the registration of charges over these accounts in favour of the Market Operator as agent and trustee for relevant Participants. The Regulatory Authorities particularly seek participants' views in this regard.

3.7 Miscellaneous Drafting Arrangements

Finally, further changes were made to the TSC arising both from the TSC/Systems Alignment Review and from responses to the consultation on Version 1.2.