

An Coimisiún  
um Rialáil Fóntas  
**Commission for  
Regulation of Utilities**



**Utility Regulator**  
ELECTRICITY GAS WATER

Trading and Settlement Code Modifications Committee

C/O Esther Touhey

SEMO Modifications Committee Secretariat

The Oval

160 Shelbourne Rd

Dublin 4

28 February 2018

**Our Ref: D/18/3349**

**SEM Committee Decision for the Regulatory Authorities in relation to Mod\_02\_17 (Final Recommendation Report FRR\_02\_17)**

Dear Esther

On 25 August 2017, the Modifications Committee submitted its Modification Recommendation Report with regard to Modification Proposal, Mod\_02\_17: "Unsecured Bad Energy Debt and Unsecured Bad Capacity Debt Timelines" in accordance with paragraph 2.213 of the SEM Trading and Settlement Code (the Code).

The Modification Proposal Mod\_02\_17 was submitted to the Modifications Committee by the Single Electricity Market Operator (SEMO) on 24 January 2017. SEMO sought to amend the Code timelines in the event of an Unsecured Bad Debt event. This entails extending by 1 Working Day the current timeline of calculating and issuing Debit Notes and Self Billing Invoices to Participants.

The Regulatory Authorities note that this Modification was raised as a result of a recent internal process review which highlighted a risk that SEMO would be unable to complete the Bad Debt smearing process within the timelines set out in the Code (Section 6.50 and Agreed Procedure 15) and thereby run the risk of breaching the Code and potentially make payments later than expected. The fact that the Code states the timescale for such payments will not avoid the possibility of late payment under the circumstances of Unsecured Bad Debt.

The Regulatory Authorities note that a presentation was made to the Modifications Committee meeting on 7 February 2017 where the reasoning for the proposal was explained and proposed changes to the Code were set out. Alternative suggestions were made by the Modification Committee and an action was recorded on SEMO to assess these alternative options. A second presentation was made to the Modifications Committee by the Modification Proposer on 6 April 2017 where analysis of the alternative options was discussed.

The Regulatory Authorities note that Modification\_02\_17 was recommended for rejection by the majority of Members of the Modifications Committee. The Regulatory Authorities also note that the majority of Members were of the view that Modification\_02\_17 would not further the achievement of the Code Objective Section 1.3, to facilitate the efficient, economic and coordinated operation, administration and development of the Single Electricity Market in a financially secure manner. During the discussion of the Modification over the course of three meetings, Generator Members were strongly of the view that such a Modification would create significant difficulties in the event of a late payment, and that their internal processes are such that they expect some payment (notwithstanding the risk of short-payment from unsecured bad debt) in line with the timelines set out in the TSC.

The Regulatory Authorities note that in the 'Summary of additional Actions and responses from MO on Unsecured Bad-Debt Mod\_02\_17' (published on the SEMO website dated 05/06/17) states that the 'extra day proposed in this modification will apply to the current SEM only and there is currently no intention to apply this to ISEM'.

To confirm this position, the Regulatory Authorities wrote to SEMO to confirm the status of this issue in relation to the processes and systems being put in place for the revised SEM arrangements. In response, SEMO confirmed that while some of the system limitations that arise in Part A have been overcome, the external timeline constraints with regard to the SEM Bank result in essentially the same issue arising in Part B also.


The Regulatory Authorities are of the view that there is a need to revisit this issue, including the options raised during the discussions at Meetings 72 and 73. The Regulatory Authorities are not convinced that all the options raised as part of the discussion on the Modification were thoroughly investigated, although recognise that at the time of these discussions, the issue was thought to be an issue only until the close-out of the current market.

The Regulatory Authorities note that SEMO are currently in a position of having a Code obligation which they are unable to fulfill if an Unsecured Bad Debt scenario arises. The Regulatory Authorities consider this a material issue, particularly since it will continue after the Go-Live of the revised SEM arrangements, and are of the view that it should be brought back to the Modifications Committee for their consideration, and should be treated as a priority.

The Regulatory Authorities are of the view that additional analysis conducted by the Modifications Committee, followed potentially by consultation with wider industry (as provided for in Paragraph 2.200) would be fruitful in establishing an amended or alternative proposal.

Considering the above, and in accordance with Paragraph 2.218 of the Code, the SEM Committee direct the Modifications Committee that further work is required in respect of Mod\_02\_17.

Yours sincerely,

  
**Barry Hussey,**  
**Manager**  
**Wholesale Electricity Markets**

