

# **The Single Electricity Market (SEM)**

## **Agreed Procedure 9 Management of Credit Cover and Credit Default**

Version 0.1

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## DOCUMENT HISTORY

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## RELATED DOCUMENTS

Document Title	Version	Date	By
Trading and Settlement code			
Agreed Procedure 1 "Registration"			
Agreed Procedure 10 "Settlement Reallocation".			
Agreed Procedure 15 "Settlement and Billing"			
Agreed Procedure 17 " Banking and Participant Payments"			

# **1. INTRODUCTION**

## **1.1 Background and Purpose**

This Agreed Procedure supplements the rules in relation to the management of Credit Risk to be administered by the Market Operator, as set out in the Trading and Settlement Code (hereinafter referred as the “**Code**”). It sets out procedures with which Parties to the Code must comply.

## **1.2 Scope of Agreed Procedure**

This Agreed Procedure sets out procedural steps in relation to:

- (a) management of Credit Cover requirements;
- (b) Credit Cover Provider changes;
- (c) monitoring of Credit Cover Providers;
- (d) changing Credit Cover;
- (e) New Participant and Adjusted Participant Credit Cover;
- (f) Excess Cash Collateral drawdown requests for specific Settlement Documents; and
- (g) Excess Cash Collateral Standing Requests.

This Agreed Procedure forms an annex to, and is governed by, the Code. This document is a statement of procedure to be followed having regard to the rights and obligations of Parties under the Code. In the event of any conflict between a Party’s obligations set out in the Code and this Agreed Procedure, the Code shall take precedence.

## **1.3 Definitions**

Words and expressions defined in the Code shall, unless the context otherwise requires or unless otherwise defined herein at Appendix 1 (Definitions and Abbreviations), have the same meanings when used in this Agreed Procedure.

References to particular paragraphs relate internally to this Agreed Procedure unless otherwise specified.

## **1.4 Compliance with Agreed Procedure**

Compliance with this Agreed Procedure is required under the terms of the Code.

## 2. OVERVIEW

It is not intended that there be any inconsistency or conflict between this section 2 “Overview” and section 3 “Procedural Steps”. However, in the event of any inconsistency or conflict, section 3 “Procedural Steps” shall take precedence.

### 2.1 Credit Risk

Credit Risk is the risk of a Default by a Participant in respect of their financial obligations in the SEM. Effective management of this risk is essential to ensuring the financial integrity of the SEM.

### 2.2 Elements of SEM Credit Risk

Credit Risk in the SEM consists of five major elements:

**TABLE 1 : SEM CREDIT RISK ELEMENTS**

<b>SEM Credit Risk Element</b>	<b>Description</b>
<b>Actual Exposures (amounts billed but not paid)</b>	Amounts of Settlement Documents which are currently owed for which the payment date has not passed.
<b>Actual Exposures (amounts calculated but not billed)</b>	Settlement amounts which have been calculated, but not yet included on a Settlement Document. These may include Indicative Settlement Statement and Initial Settlement Statement amounts (depending upon the latest information available).
<b>Exposure in respect of Volumes Traded Not Delivered</b>	The risk or benefit that exists as a result of a sale or purchase by a Participant in the ex-ante markets. For ex-ante sales, this risk is specifically on non-delivery in real time, whereas for ex-ante purchases, this may represent a benefit, as the default risk has been transferred from the Market Operator under the Code to the relevant SEM NEMO
<b>Undefined Potential Exposure</b>	This is the risk that arises as a result of future Settlement that will be incurred during the period of time in which the Market Operator seeks to remedy a payment Default by a Participant. This arises because in the event that a payment Default leads to suspension of a Supplier Unit, retail market processes must be carried out before the Supplier Unit can be deregistered and cease to incur further risk.
<b>Fixed Credit Requirement</b>	The Fixed Credit Requirement is the minimum Credit Cover requirement for any Participant. It is a value determined for each Generator Unit and Supplier Unit separately on an annual basis.

A Participant's Credit Risk is the aggregate Credit Risk for all potential payments in the SEM. It includes:

- (a) Trading Charges;
- (b) Trading Payments;
- (c) Capacity Charges;
- (d) Capacity Payments;
- (e) VAT (as applicable); and
- (f) Settlement Reallocation Agreements.

### **2.3 Inputs to the Calculation of Required Credit Cover**

The sets of data required to calculate Required Credit Cover are set out below.

- Metered Demand / Generation: used to determine forecast exposures for Participants based on analysis of gross historical metered volumes.
- Imbalance Settlement revenues: used to determine forecast values for a Participant in respect of their Generator Units based on analysis of net historical settlement volumes.
- Historical Assessment Period for Billing Period: a parameter set by the Regulatory Authorities from time to time under paragraph G.10.1.1 of the Code, and is the number of historical days over which the analysis of metered volumes / settlement values is carried out.
- Analysis Percentile Parameter: sets the percentile confidence value in the statistical analysis. It is the "z" score taken from the standard normal distribution that corresponds to the Analysis Percentile, which is set by the Regulatory Authorities from time to time under paragraph G.10.1.1 of the Code.
- Credit Cover Adjustment Trigger: a parameter set by the Regulatory Authorities from time to time under paragraph G.10.1.1 of the Code. A Participant is classed as an Adjusted Participant under the Code if the Participant's trade volumes increase by a percentage greater than this value
- Fixed Credit Requirement: a parameter set by the Regulatory Authorities from time to time under paragraph G.10.1.1 of the Code, and sets the value of Required Credit Cover that must be in place for each registered Supplier Unit or Generator Unit in the SEM. Credit Assessment Price: the price to be used for determining Required Credit Cover and is calculated based on statistical analysis of historical imbalance prices.
- Capacity Auction results: used in the determination of the exposures of Participants.

### **2.4 Provision of Credit Cover**

Posted Credit Cover is collateral required to be posted as a guarantee against a Participant's Credit Risk in the SEM. In the event of a payment default, this Posted Credit Cover can be utilised by the Market Operator to satisfy a Participant's outstanding financial obligations in the SEM. Given the requirement for Settlement Reruns, a Participant withdrawing or being suspended from the SEM will not have its Posted Credit Cover reimbursed until the last Timetabled Settlement Rerun has been completed.

Posted Credit Cover for use in the SEM must be posted in accordance with section G.9 of the Code.

In the event of a Shortfall, Posted Credit Cover will need to be accessible in a timely manner such that the Market Operator may meet all relevant payment obligations in respect of the SEM.

## **2.5 Monitoring of Credit Cover**

### *2.5.1 Warning Notice and Credit Cover Increase Notice*

The procedural steps in relation to management of Credit Cover requirements are set out at section 3.1 below.

The Market Operator shall calculate a Participant's Required Credit Cover at least once each Working Day. As part of the Credit Cover assessment, the ratio of a Participant's Required Credit Cover to its Posted Credit Cover is compared against the following defined values to determine whether the Market Operator shall issue a Warning Notice or Credit Cover Increase Notice to the Participant:

- (a) **Warning Limit:** If the calculated ratio exceeds the Warning Limit but does not exceed the Breach Limit, a Warning Notice shall be sent to the Participant by the Market Operator.
- (b) **Breach Limit:** If the calculated ratio exceeds the Breach Limit, a Credit Cover Increase Notice shall be sent to the Participant by the Market.

The Warning Limit and Breach Limit are parameters set by the Regulatory Authorities from time to time under paragraph G.10.1.1 of the Code.

### *2.5.2 Contract Refusal*

As part of the Credit Assessment process, the Market Operator shall assess all contract notifications submitted in respect of contracts cleared with any SEM NEMOs. All such contracts shall be assessed against the relevant Participant's Posted Credit Cover to ensure that sufficient collateral is in place with the Market Operator to cover events where the Participant fails to deliver the contracted volumes on the notified delivery day.

Where a Participant fails to deliver on a contracted position, this represents an imbalance volume. Where there is a risk that this imbalance volume will not be settled and this volume is not secured by collateral in the form of Posted Credit Cover, this represents an unsecured risk to the market. In this circumstance, the Market Operator may refuse the notification of any contracts submitted by any SEM NEMOs or their agents.

Any SEM NEMOs or their agents will be notified when a contract notification has been refused by the Market Operator. Any Participant whose contract notification has been refused will receive a Required Credit Cover report from the Market Operator advising the Participant of its status. A contract notification will not be accepted in respect of any Participant whose ratio of Required Credit Cover to Posted Credit Cover exceeds the Breach Limit.

## **2.6 Settlement Reallocation Agreements**

The Code permits Participants to lodge Settlement Reallocation Agreements, which enable the transfer of Settlement obligations in the SEM from one Participant known as the Secondary Participant to another Participant known as the Principal Participant. This serves to reduce the Credit Cover requirements of Secondary Participant, with a consequential increase in the Credit Risk of the Principal Participant. The Required Credit Cover calculations consider the impact of Settlement Reallocation Agreements on the two affected Participants.

The rules for Settlement Reallocation Agreements are set out in the Code and Agreed Procedure 10 "Settlement Reallocation".

## **2.7 Payment Default**

The procedure for when a Participant fails to pay any amount due is set out in Agreed Procedure 15 "Settlement and Billing". Where this draws down on a Participant's Posted Credit Cover, then the procedures in this Agreed Procedure shall be followed.

## **2.8 Eligibility of Credit Cover Providers**

It is the responsibility of each Participant to ensure that in obtaining a Letter of Credit, its Credit Cover Provider meets the Bank Eligibility Requirements as set out in the Code and continues to meet them throughout the entire period for which it is the Participant's Credit Cover Provider.

In order to assist Participants in obtaining appropriate Credit Cover, the Market Operator shall maintain a List of Eligible Banks setting out those Banks which meet the Bank Eligibility Requirements.

When presenting a Letter Of Credit as a part of or in respect of its entire Credit Cover, each Participant must comply with the requirements set out in Appendix A "Standard Letter of Credit" of the Code.

## **2.9 Monitoring Credit Cover Providers**

The Market Operator shall not accept a Letter of Credit unless a Participant supplies adequate proof that the associated Credit Cover Provider meets the Bank Eligibility Requirements.

The processes below shall be used to facilitate the provision and maintenance of the Market Operator List of Eligible Banks. Nevertheless, a Participant is obliged to ensure that its Credit Cover Provider meets the Bank Eligibility Requirements throughout the entire period within which its Credit Cover Provider is in place.

The procedural steps in relation to the ongoing monitoring of Credit Cover Providers are set out at section 3.3 below.



### *2.9.1 Eligibility of Credit Cover Providers*

Where a Participant intends to use a Credit Cover Provider which is not contained in the List of Eligible Banks, the Participant shall provide proof to the Market Operator that the potential Credit Cover Provider meets the Bank Eligibility Requirements. Such proof shall be provided by the Participant before instructing its Credit Cover Provider to register a Letter of Credit with the SEM Bank. On receipt of such proof, the Market Operator shall add the potential Credit Cover Provider to the List of Eligible Banks.

If a Participant uses a Credit Cover Provider that is on the List of Eligible Banks, it shall nevertheless request proof from the relevant Bank that it continues to meet the Bank Eligibility Requirements. In the event that the Participant fails to receive satisfactory proof from such Bank, the Participant shall inform the Market Operator that such Bank has not provided confirmation as required and the Market Operator shall remove the Bank from the List of Eligible Banks.

### *2.9.2 Ongoing Monitoring of Credit Cover Providers*

As the Market Operator requires, the Market Operator shall periodically conduct a review of the List of Eligible Banks to assess whether the Banks continue to meet the Bank Eligibility Requirements. Where the Market Operator assessment indicates that a particular Bank no longer meets the Bank Eligibility requirements, then the Market Operator shall remove the Bank from the List of Eligible Banks.

Where the Market Operator obtains information that a Bank on the List of Eligible Banks may no longer meet the Bank Eligibility Requirements, the Market Operator shall conduct a review to assess whether the Bank still meets the Bank Eligibility Requirements. If the Bank no longer meets the Bank Eligibility requirements, the Market Operator shall remove the Bank from List of Eligible Banks.

Where a Bank is removed from the List of Eligible Banks, the Market Operator shall review whether the Market Operator holds any Letters of Credit issued from that Bank and inform the affected Participants who shall post any additional Required Credit Cover with another Credit Cover Provider within 10 Working Days.

## **2.10 Changing Posted Credit Cover**

The procedural steps in relation to changing Posted Credit Cover are set out at section 3.4 below.

Where a Participant requires or is required to change its Posted Credit Cover, this can be achieved by:

- (a) Registering a new Letter of Credit;
- (b) Amending an existing Letter of Credit;
- (c) Cancelling a Letter of Credit;
- (d) Depositing cash in its SEM Collateral Account and providing the Market Operator with a Deed of Charge and Account Security; or
- (e) Withdrawing cash from its SEM Collateral Account.

### *2.10.1 Registering a new Letter of Credit*

The procedural steps in relation to submitting a Letter of Credit are set out at section 3.2 below.

Where a Participant is seeking to register a new Letter of Credit, the Participant shall ensure that the Credit Cover Provider meets the Bank Eligibility Requirements and either:

- (a) the Bank is on the Market Operator's List of Eligible Banks prior to submission via SWIFT; or
- (b) provide proof that the Bank meets the Bank Eligibility Requirements to the Market Operator.

If the Market Operator determines that the relevant Bank meets the Letter of Credit requirements and the Bank Eligibility Requirements, the Market Operator shall accept the Letter of Credit via SWIFT.

### *2.10.2 Cancelling a Letter of Credit*

Where a Participant wishes to cancel a Letter of Credit, it shall issue a request via SWIFT to the Market Operator. The Market Operator shall assess whether after cancellation the Participant's Posted Credit Cover would continue to exceed its Required Credit Cover.

Where the assessment by the Market Operator determines that Posted Credit Cover after the cancellation continues to meet the Required Credit Cover, the Market Operator shall within two Working Days of receipt of the request, accept the cancellation of the Letter of Credit via SWIFT and remove details of the Letter of Credit from the Market Operator's banking systems. Otherwise, the Market Operator shall reject the cancellation via SWIFT and shall notify the Participant via email.

### *2.10.3 Amending an existing Letter of Credit*

Where a Participant is seeking to amend an existing Letter of Credit, it shall submit the replacement Letter of Credit via SWIFT. Once received, the Market Operator shall determine whether the relevant Bank meets the Letter of Credit requirements. If such status checks are passed successfully, the Market Operator shall replace the Letter of Credit and shall cancel the previously lodged Letter of Credit. Otherwise, the Market Operator shall reject the cancellation / withdrawal and shall notify the Participant (via email) and, where appropriate, the affected Bank (via SWIFT).

### *2.10.4 Depositing Cash in a SEM Collateral Account*

Any Participant may deposit cash to their SEM Collateral Account without giving any prior notice to the Market Operator. Once recorded by the Market Operator as being deposited and cleared, the Market Operator shall take the updated balance into account when calculating the Posted Credit Cover for the next Working Day.

### *2.10.5 Withdrawing Cash from a SEM Collateral Account*

Any Participant may apply to withdraw cash from their SEM Collateral Account, via the Helpdesk. Once the Market Operator has verified the request with the Participant and the proposed withdrawal amount the Market Operator shall assess the resulting Posted Credit Cover (taking account of the proposed withdrawal amount) against the latest calculated Required Credit Cover, then:

- (a) if accepting the request will result in a Credit Cover Increase Notice, the Market Operator shall reject the request to withdraw cash from the SEM Collateral Account and shall notify the affected Participant; or
- (b) if accepting the request will not result in a Credit Cover Increase Notice, the Market Operator shall accept the request and shall initiate the withdrawal (in accordance with the provisions of Agreed Procedure 17 “Banking and Participant Payments”).

## **2.11 New Participants and Adjusted Participants**

### *2.11.1 New Participants*

New Participants do not have any historical Settlement data which can be used as the basis for a statistical analysis of historical exposures in order to calculate Undefined Potential Exposure. Each New Participant shall provide forecast quantity data (i.e. Generation and/or Demand) to the Market Operator as part of the registration process set out in the Code and Agreed Procedure 1 “Registration”. This forecast data will be used in conjunction with the Credit Assessment Price to determine the Undefined Potential Exposure, as part of the Required Credit Cover.

The forecast quantities provided by New Participants will be evaluated against the Meter Data received from the relevant Meter Data Provider. If there is a significant difference between the Meter Data and the forecast quantities provided (i.e. the difference exceeding the Credit Cover Adjustment Trigger), the Market Operator shall calculate the Undefined Potential Exposure based on the Analysis Percentile Parameter of the known Meter Data against the Credit Assessment Price extrapolated across the future risk period. This assessment methodology will be used until there is sufficient historical data for the statistical analysis.

### *2.11.2 Adjusted Participant*

An Adjusted Participant is a Participant whose Generation and/or Demand configuration has changed (i.e. increased or decreased) significantly from historical patterns (defined as the time-weighted average of metered quantities across all of the four most recent Billing Periods). This could be due to, for example, acquisition of new assets, winning significant new customers in the retail market or a significant Generator planned outage. In such cases, statistical analysis of historical exposures may not be a valid indicator of future performance and the process for New Participants described at paragraph 2.12.1 above will be applied.

Participants who are expecting the time-weighted average with respect to its Supplier and/or Generator Units of metered quantities across all of the four most recent Billing Periods compared with forecasted averaged metered quantities with respect to its Supplier and/or Generator Units, in any of the next four Billing Periods, to increase or decrease by more in absolute terms than the Credit Cover Adjustment Trigger, are required to notify the Market Operator. In these cases the Market Operator shall use a Participant’s Credit Assessment Adjustment Factor to calculate the Participant’s Undefined Potential Exposure.

## 2.12 Excess Cash Collateral

### 2.12.1 Using Excess Cash Collateral to Pay a Settlement Document

The procedural steps in relation to using Excess Cash Collateral to pay a Settlement Document are set out at section 3.6 below.

A Participant may request the Market Operator to use Excess Cash Collateral to make payment of outstanding invoice amounts.

This mechanism is provided to give additional flexibility in exceptional circumstances, which shall not apply for a Settlement Document in respect of a Market Operator Charge. This should not be considered a replacement for the normal payment processes, as outlined in Agreed Procedure 17 “Banking and Participant Payments”. Excess Cash Collateral can be used to pay:

- (a) Settlement Document amounts from Initial Settlement of less than €50 or Pounds sterling equivalent in the designated currency in respect of a Participant.
- (b) Settlement Document amounts from Settlement Rerun of less than €200 or Pounds sterling equivalent depending on the respective currency.

The Market Operator shall require the Participant to give written instruction to use Excess Cash Collateral to make payments by sending an email to the Market Helpdesk mailbox: [MarketHelpdesk@sem-o.com](mailto:MarketHelpdesk@sem-o.com). This email must be received before 15:00 one Working Day after Settlement Documents to which the payments relate have been published.

The email subject should be “REQUEST: PT\_X000YY - Payment using Excess Cash” Collateral and it must specify:

- (a) Participant’s SEM Collateral Reserve Account number;
- (b) Participant's Account ID (e.g. PT\_X000YY);
- (c) Settlement Document number to be paid; and
- (d) Amount to be paid.

On receipt of such email, the Market Operator shall check the credit position of the Participant based on the most recent Required Credit Cover report, as at the date and time of receipt of the email request. The Market Operator shall check using the data within the Required Credit Cover report whether payment of the requested Settlement Document will not cause the Participant’s Posted Credit Cover to fall below the Required Credit Cover, and that the full Settlement Document amount may be taken from the Participant's SEM Collateral Reserve Account:

- (a) If the Participant has sufficient Excess Cash Collateral, the Market Operator shall transfer money from the Participant SEM Collateral Reserve Account to make payment of the specified outstanding Settlement Document.
- (b) If the Participant has insufficient funds, then the emailed request shall be denied.

The Market Operator shall reply to the email request irrespective of the outcome of the check by 12:00 one Working Day before the relevant Payment Due Date to confirm whether the payment can be made using Excess Cash Collateral.

Should the request be denied, a Participant shall continue to have the obligation to make payment of Settlement Documents, by the Payment Due Date and time, as defined in the Code.

*Note: Given the response time defined, a Participant must have submitted their request to use Excess Cash Collateral before 15.00 one Working Day after the Settlement Documents to which the payment relates have been published, in order to ensure that a valid request will be processed in time to enable payment from Excess Cash Collateral.*

## 2.12.2 Excess Cash Collateral Standing Request

The procedural steps in relation to setting up a Standing Request to pay Settlement Documents using Excess Cash Collateral are set out at section 3.7 below.

A Participant may submit a Standing Request to pay Settlement Documents using their Excess Cash Collateral. This should be in the form of a written instruction sent to the Market Operator by letter or fax signed by an authorised signatory.

The letter/fax subject should read “REQUEST: PT\_X000YY – Standing request for payments using Excess Cash Collateral” and it must specify:

- (a) Participant’s SEM Collateral Reserve Account number;
- (b) Participant's Account ID (e.g. PT\_X000YY); and
- (c) Maximum Excess Cash Collateral drawdown amount.

The request will then be considered by the Market Operator taking into account the following conditions:

- (a) That the Participant fully understands the information given above, in particular their responsibility and maintenance of an appropriate level of Posted Credit Cover in the SEM Collateral Reserve Account.
- (b) That the Participant agrees that duplicate payments should be refunded to their SEM Collateral Reserve Account.
- (c) If a request is made for a refund of Excess Cash Collateral during the term of the Standing Request, the request will be reviewed and may be revoked.
- (d) If the Participant has insufficient Excess Cash Collateral then the drawdown will not take place and Participant will be notified by the Market Operator by 12:00 one Working Day before the relevant Payment Due Date. The Participant will have to make alternative arrangements to pay the Settlement Document.
- (e) The margin of additional Posted Credit Cover held in the SEM Collateral Reserve Account over the minimum required credit cover.

The arrangement will be effective for Settlement Documents with Payment Due Dates from two Working Days after approval of the request. Should the request be denied, the Participant is still under obligation to make payments, by the Payment Due Date and time, as defined in the Code.

### 3. PROCEDURAL STEPS

#### 3.1 Management of Credit Cover Requirements

Step	Procedural Step	Timing	Method	By/From	To
1	Calculate Required Credit Cover for each Participant	At least once each WD by 14:30		Market Operator	
2	Produce and issue a Required Credit Cover report to each Participant, which shall include any Warning Notices and Credit Cover Increase Notices. (a) If RCC/PCC > Warning Limit and less than the Breach Limit, a Warning Notice shall apply, continue from step 5; (b) If RCC/PCC > Breach Limit, a Credit Increase Notice shall apply, continue from step 5; or (c) If RCC > PCC continue from step 5, otherwise, <b>go to step 8.</b>	Each WD by 14:30	Type 2/3 Channels	Market Operator	Participant
3	Confirm issuance of a Credit Cover Increase Notice or Warning Notice to each Participant. In the case of a Warning Notice, <b>go to step 8.</b>	Each WD by 17:00	In relation to a Credit Cover Increase Notice, by Email and/or Telephone; or In relation to a Warning Notice, by Email.	Market Operator	Participant
4	Provide a valid response to Credit Cover Increase Notice, with completed actions, in accordance with	Within 2 WD of Credit Cover	As applicable	Participant	Market Operator

Step	Procedural Step	Timing	Method	By/From	To
	the Code.	Increase Notice			
5	Monitor receipt of Credit Cover Increase Notice responses. If a valid response with completed actions is received within defined timescales, <b>go to step 8</b> , otherwise continue from step 6.	Within 2 WD of receipt of Credit Cover Increase Notice	-	Market Operator	
6	Issue a Default Notice to the Participant and initiate steps in respect of Suspension, as defined in Agreed Procedure 1 "Registration".	After 17:00, 2 WD after the issue of the Credit Cover Increase Notice.	Fax	Market Operator	Participant
7	Perform actions to rectify remedy Default, as outlined in the Default Notice.	Within the timeframes as set out in the Default Notice	-	Participant / Market Operator	
8	SEM NEMOs submit notifications of ex-ante contracted positions to the Market Operator	After contracts cleared by the SEM NEMO	Type 3 Channel	SEM NEMOs	Market Operator
9	The Market Operator recalculates each Participants Required Credit Cover taking into account the notifications of ex-ante contracted positions at step 8	After submission of contracts by the SEM NEMO	-	Market Operator	
10	If the revised Required Credit Cover calculated at step 9 would result in a Credit Cover Increase Notice being issued to the Participant, the Market Operator refuses the notification of the ex-ante contract(s)		Type 3 Channel	Market Operator	SEM NEMO Participant
11	If the revised Required Credit Cover calculated at step 9 would not result in a Credit Cover Increase			Market Operator	SEM NEMO

<b>Step</b>	<b>Procedural Step</b>	<b>Timing</b>	<b>Method</b>	<b>By/From</b>	<b>To</b>
	Notice to the Participant, the Market Operator accepts the notification of the ex-ante contract(s)				Participant
<b>12</b>	The Market Operator will issue an updated Credit Cover Report taking into account the accepted ex-ante contracts			Market Operator	Participant



### 3.2 Submitting a Letter of Credit (Eligibility of Credit Cover Provider)

Step	Procedural Step	Timing	Method	By/From	To
1	Submit a Letter of Credit from a new or existing Credit Cover Provider.	At least 4 WD prior to the date from which the Letter of Credit needs to be accepted	SWIFT	Participant	Market Operator
2	Submit proof that the new Credit Cover Provider meets the Bank Eligibility Requirements.	At least 4 WD prior to the date from which the Letter of Credit needs to be accepted	Email / E-fax	Participant	Market Operator
3	Review the Letter of Credit and proof provided by the Participant to confirm that: (a) the Letter of Credit meets the requirements as set out in the Code (particularly Appendix A (Standard Letter of Credit) of the Code); and (b) the new Credit Cover Provider meets the Bank Eligibility Requirements.	Within 2 WD of receipt of Letter of Credit and proof	-	Market Operator	-
4	Inform the Participant of the results of status checks and compliance with the Letter of Credit requirements. (a) If a new Credit Cover Provider and Letter of Credit and proof have passed the checks, accept the Letter of Credit and continue from step 5; or (b) If an existing Credit Cover Provider and Letter of Credit and proof have passed the checks, accept the Letter of Credit and end process; or	Within 2 WD of receipt of Letter of Credit and proof	Email / SWIFT	Market Operator	Participant

Step	Procedural Step	Timing	Method	By/From	To
(c) Reject the Letter of Credit and <b>end process</b> .					
5	Add the Credit Cover Provider to the List of Eligible Banks and publish to Market Operator website.	Within 1 WD of completion of status and compliance checks	Market Operator website	Market Operator	Participant

### 3.3 Ongoing Monitoring of Credit Cover Providers

Step	Procedural Step	Timing	Method	By/From	To
1	If required by the Market Operator, go to step 3; or On receipt of relevant information relating to the potential status of a Credit Cover Provider published on the Market Operator website, continue to step 2.	-	-	Market Operator	-
2	Consider whether the identified Credit Cover Provider continues to meet the Bank Eligibility Requirements. If it is determined that the Credit Cover Provider still meets the Bank Eligibility Requirements, <b>end process</b> . Otherwise go to step 4.	Within 2 WD of receipt of information	-	Market Operator	-
3	Review the eligibility of each Credit Cover Provider published on the Market Operator website against the Bank Eligibility Requirements.  If the Market Operator determines that all Credit Cover Providers still meet the Bank Eligibility Requirements, <b>end process</b> . Otherwise continue to step 4.	As scheduled	-	Market Operator	-
4	Update List of Eligible Banks.	Within 1 WD of completion of the review	Market Operator Website	Market Operator	-
5	Identify any Participants which have invalid Letters of Credit as determined from the updated List of Eligible Banks. For each such Participant, compare its Required Credit Cover with its revised Posted Credit Cover (i.e. ignoring any Credit Cover provided from Banks not on the List of Eligible Banks) then, (a) if the Participant's Required Credit Cover is	Within 1 WD of completion of the review	-	Market Operator	-

Step	Procedural Step	Timing	Method	By/From	To
	greater than its revised Posted Credit Cover, continue to step 7; or. (b) if the Participant's Required Credit Cover is less than or equal to its revised Posted Credit Cover, continue to step.6.				
6	Inform each Participant of its revised Posted Credit Cover and return any Letters of Credit where the associated Bank is not on the List of Eligible Banks, <b>end process.</b>	Within 1 WD of completion of the review	SWIFT / Email	Market Operator	Participant
7	(a) Inform each Participant of its revised Posted Credit Cover. (b) Inform the Participant of its Letters of Credit for which the associated Banks have been determined by the Market Operator to no longer meet the Bank Eligibility Requirements. (c) Request the posting of additional Credit Cover to meet the Participant's Required Credit Cover.	Within 1 WD of completion of the review	E-fax	Market Operator	Participant
8	Use the procedure set out in section 3.4 below.	Within 10 WDs	-	Participant	-
9	Cancel any Letters of Credit where the associated Bank is not on the List of Eligible Banks.	Once PCC>RCC for the period to which affected Letters of Credit relate	-	Market Operator	-

### 3.4 Changes to Posted Credit Cover

Step	Procedural Step	Timing	Method	By/From	To
1	<p>If the proposed change to Posted Credit Cover:</p> <p>(a) is a new Letter of Credit, continue to step 2.</p> <p>(b) is an amendment to an existing Letter of Credit, go to step 3.</p> <p>(c) relates to the cancellation of a Letter of Credit, go to step 6.</p> <p>(d) is a deposit of cash to a SEM Collateral Account, go to step 5.</p> <p>(e) is a request for withdrawal of cash from a SEM Collateral Account, go to step 13.</p>	As required (by 12:00 on any WD in order for this procedure to commence on that WD)	-	Participant	-
2	Use the procedure set out in section 3.2, which obliges the Market Operator to assess the eligibility of the proposed Credit Cover Provider, <b>end process.</b>	-	-	Market Operator	-
3	<p>Retrieve and validate the Letter of Credit details from the SEM Bank, then confirm that the Credit Cover Provider is on the List of Eligible Banks and the Letter of Credit requirements have been met.</p> <p>(a) If validation is successful and the existing Letter of Credit is for a higher value than the new Letter of Credit, go to step 10.</p> <p>(b) If validation is successful and the existing Letter of Credit is for an equal or lower value than the new Letter of Credit, go to step 11.</p> <p>(c) Otherwise go to step 4.</p>	-	SWIFT	Market Operator	SEM Bank
4	Reject the amended Letter of Credit and inform the Participant of the validation failures, <b>end process.</b>	Within 2 WD of validation	SWIFT / Email	Market Operator	Participant

Step	Procedural Step	Timing	Method	By/From	To
5	Deposit Cash in the SEM Collateral Account and notify Market Operator of completion, <b>end process.</b>	As required	Bank Transfer / Email	Participant	Market Operator
6	Request cancellation of existing Letter of Credit.	As required	SWIFT	Participant	Market Operator
7	Check if the Posted Credit Cover (including the Letter of Credit requested to be cancelled) for the Participant is less than the latest calculated Required Credit Cover. If the resulting PCC $\geq$ RCC, continue to step 8. Otherwise, go to step 9.	-	-	Market Operator	
8	Accept the cancellation of the affected Letter of Credit, <b>end process.</b>	Within 2 WD of request	SWIFT	Market Operator	Participant
9	Notify the Participant of rejection of the replacement/cancellation of the relevant Letter of Credit, <b>end process.</b>	Within 2 WD of request	SWIFT / Email	Market Operator	Participant
10	If accepting the amended Letter of Credit will not result in the issuing of a Credit Cover Increase Notice, continue to step 11. Otherwise, go to step 12.	-	-	Market Operator	
11	Accept the amended Letter of Credit, <b>end process.</b>	Within 2 WD of request	SWIFT	Market Operator	Participant
12	Notify the Participant of the rejection of the amendment to the Letter of Credit, <b>end process.</b>	Within 2 WD of request	SWIFT	Market Operator	Participant
13	Check if the Posted Credit Cover (including the cash requested to be withdrawn) is less than the Required Credit Cover. If the resulting PCC $\geq$ RCC, continue to step 14. Otherwise, go to step 15.	Within 5 WD of request	-	Market Operator	
14	Transfer the cash to the Participant's Bank account	Within 5 WD of	EFT / Email	Market Operator	Participant

Step	Procedural Step	Timing	Method	By/From	To
	and notify Participant that this has been completed, <b>end process.</b>	request			
15	Notify the Participant of the rejection of the cash withdrawal.	Within 2 WD of request	Email	Market Operator	Participant

### 3.5 New / Adjusted Participant Credit Cover

Step	Procedural Step	Timing	Method	By/From	To
1	<p>Either:</p> <p>(a) on receipt of Application form for Unit Participation (in respect of Unit that is not an Interconnector Unit), in accordance with Agreed Procedure 1 "Registration";</p> <p>or</p> <p>(b) in the event that a Participant becomes an Adjusted Participant.</p>	As required	-	New Participant / Adjusted Participant / Market Operator	-
2	Submit forecast meter data for all Supplier Units and/or Generator Units registered to the Participant.	Within 1 WD	Type Channel	1 Participant	Market Operator
3	Calculate and notify the Required Credit Cover, utilising the forecast data supplied. If an Adjusted Participant, continue to step 4, otherwise <b>end process</b> .	Within 2 WD	Type Channel	1 Market Operator	New Participant / Adjusted Participant
4	Calculate and notify the current Posted Credit Cover, as part of the Required Credit Cover report.	Within 2 WD	Type Channel	1 Market Operator	New Participant / Adjusted Participant



### 3.6 Excess Cash Collateral Drawdown requests for Specific Settlement Documents

Step	Procedural Step	Timing	Method	By/From	To
1	Request to pay an outstanding Settlement Document using Excess Cash Collateral.	Before 15:00 1 Working Day after Settlement Documents to which the payment relates have been published	Email	Participant	Market Operator
2	<p>In relation to the relevant Settlement Document(s):</p> <p>(a) Check if the Settlement Document amounts are less than those set out in section 2.12.1 above. If not, continue to step 3.</p> <p>(b) Compare relevant Settlement Document value against the following values:</p> <p>i. Posted Credit Cover in the SEM Collateral Reserve Account (as at prior to the email request date and time, taking into account any other Settlement Documents associated with the request);</p> <p>ii. Posted Credit Cover (as at prior to the email request date and time, taking into account any other Settlement Documents associated with the request); and</p> <p>iii. Required Credit Cover (as included within the most recent Required Credit Cover report).</p> <p>(c) If the Posted Credit Cover less the Required Credit Cover is greater than or equal to the Settlement Document value and the Total Cash Collateral available is greater than or equal to the</p>	Before 12:00 the day before Payment Due Date of relevant Settlement Document(s)		Market Operator	

Step	Procedural Step	Timing	Method	By/From	To
	Settlement Document value, go to step 4. (d) If the Posted Credit Cover less the Required Cover is less than the Settlement Document value or the Posted Credit Cover in the SEM Collateral Reserve Account is less than the Settlement Document value, continue to step 3.				
3	Issue a confirmation stating that the request for payment of the relevant Settlement Document using Cash Collateral has been declined and that alternative method of payment must be arranged by the Participant, <b>end process.</b>	Before 12.00 one Working Day before Payment Due Date	Email	Market Operator	Participant
4	Issue a confirmation stating that the request for payment of the relevant Settlement Document using Cash Collateral has been approved.	Before 12.00 the day before Payment Due Date	Email	Market Operator	Participant
5	Perform transfer of cash from Participant's SEM Collateral Reserve Account to SEM Clearing Account.	Before Settlement Document payment deadline		Market Operator	
6	Reconcile payment to outstanding Settlement Document.	Before Settlement Document payment deadline		Market Operator	
7	Reply to Participant stating that drawdown has taken place	Before 17:00 on the Settlement Document Payment Due Date	Email	Market Operator	Participant

### 3.7 Excess Cash Collateral Standing Request

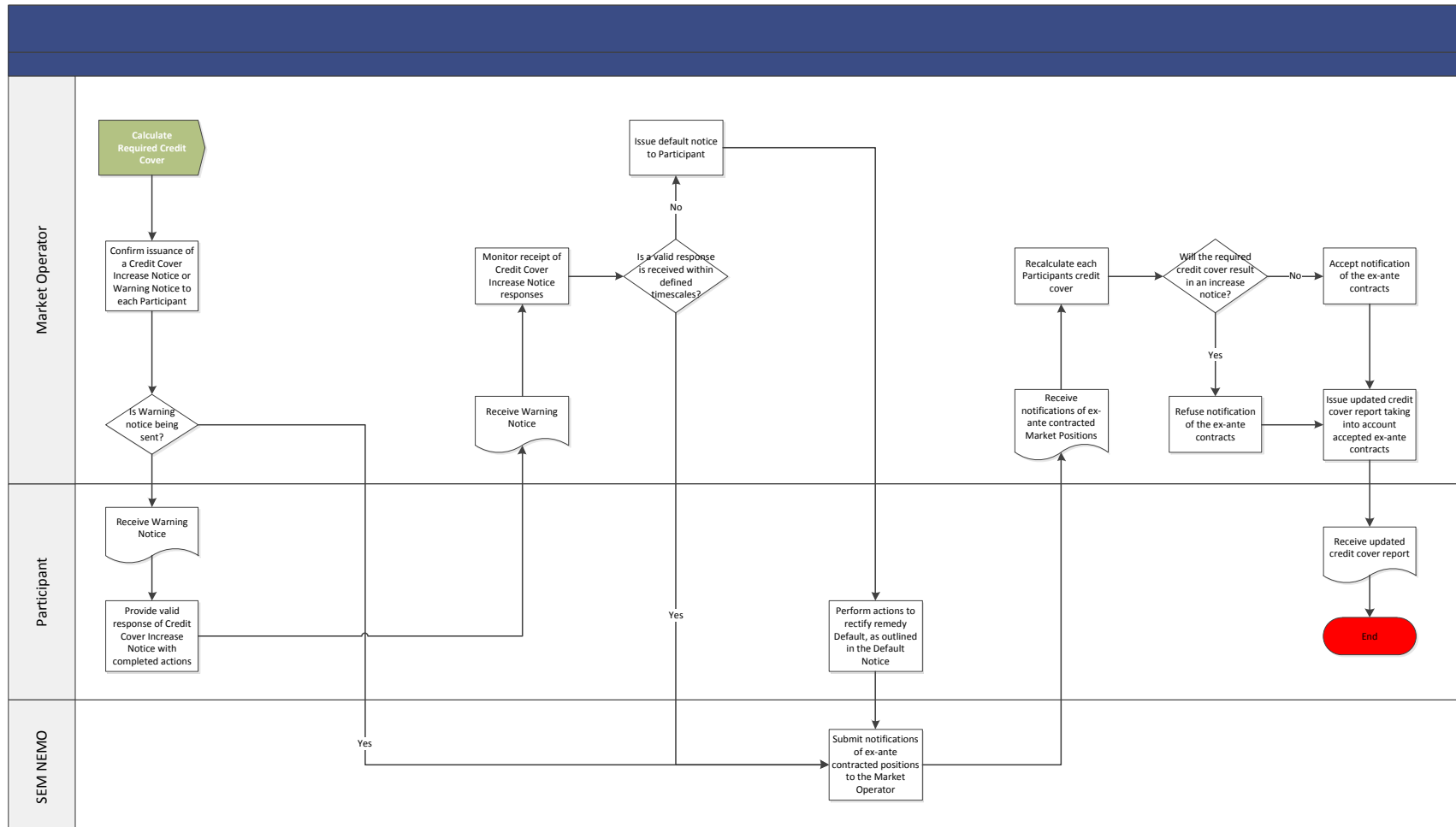
Step	Procedural Step	Timing	Method	By/From	To
1	Participant requests to set up a Standing Request to pay Settlement Documents using Excess Cash Collateral.		Registered Post / e-fax	Participant	Market Operator
2	Check if the Participant meets the conditions set out in section 2.12.2 above. If so, go to step 4, otherwise, continue to step 3			Market Operator	
3	Inform Participant that the Standing Request has been declined and that an alternative method of payments must be made. Go to step 6	2 WD after the Standing Request is submitted,	Email	Market Operator	Participant
4	Inform Participant that the request has been approved. Continue to step 5 after each publication of Settlement Documents.	2 WD after the Standing Request is submitted,	Email	Market Operator	Participant
5	In relation to each relevant Settlement Document: (a) Check if Settlement Document amounts are less than those set out in section 2.12.1 above. If not, continue to step 6. (b) Compare request against: i. Total Cash Collateral available for Participant prior to the email request date and time. ii. Posted Credit Cover from latest Credit Cover report available prior to email request date and time. (c) If available Cash Collateral is sufficient and the	By 12:00 1 WD before Payment Due Date		Market Operator	

Step	Procedural Step	Timing	Method	By/From	To
	transfer request will not result in the ratio of Required Credit Cover to Posted Credit Cover exceeding the Breach Limit, go to step 7 (d) If available Cash Collateral is insufficient or the transfer request will result in the ratio of Required Credit Cover to Posted Credit Cover exceeding the Breach Limit, continue to step 6				
6	Inform Participant that the request has been declined and that an alternative method of payment must be made, continue to step 8	Before 12:00 1 WD before Payment Due Date	Email	Market Operator	Participant
7	Perform transfer of cash from Participant's SEM Collateral Reserve Account to SEM Clearing Account.	By Settlement Document payment deadline		Market Operator	
8	Reconcile payment to outstanding Settlement Document.	By Settlement Document payment deadline		Market Operator	

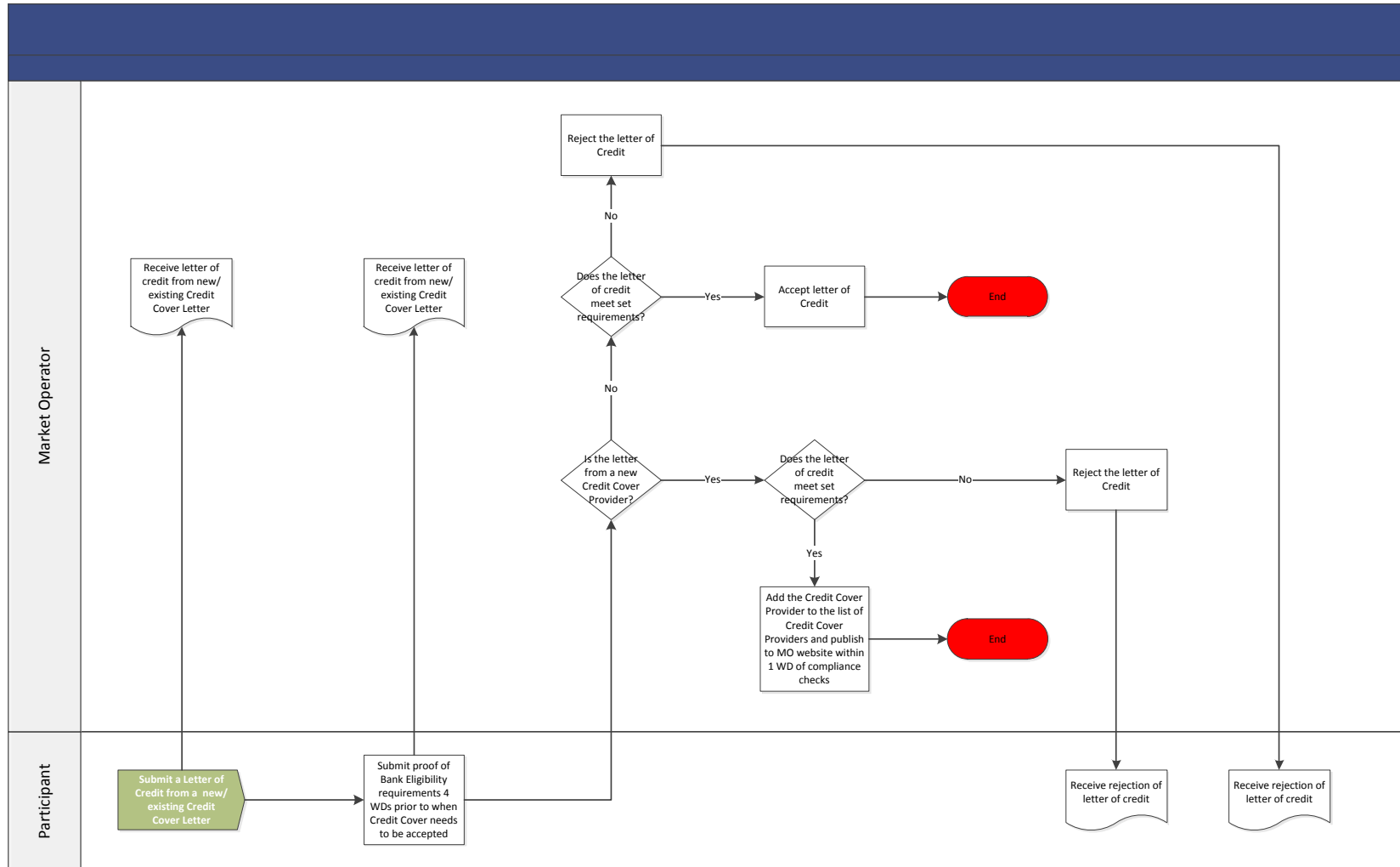
## 4. SWIMLANES

It is not intended that there be any inconsistency or conflict between this section 4 “Swimlanes” and section 3 “Procedural Steps”. However, in the event of any inconsistency or conflict, section 3 “Procedural Steps” shall take precedence.

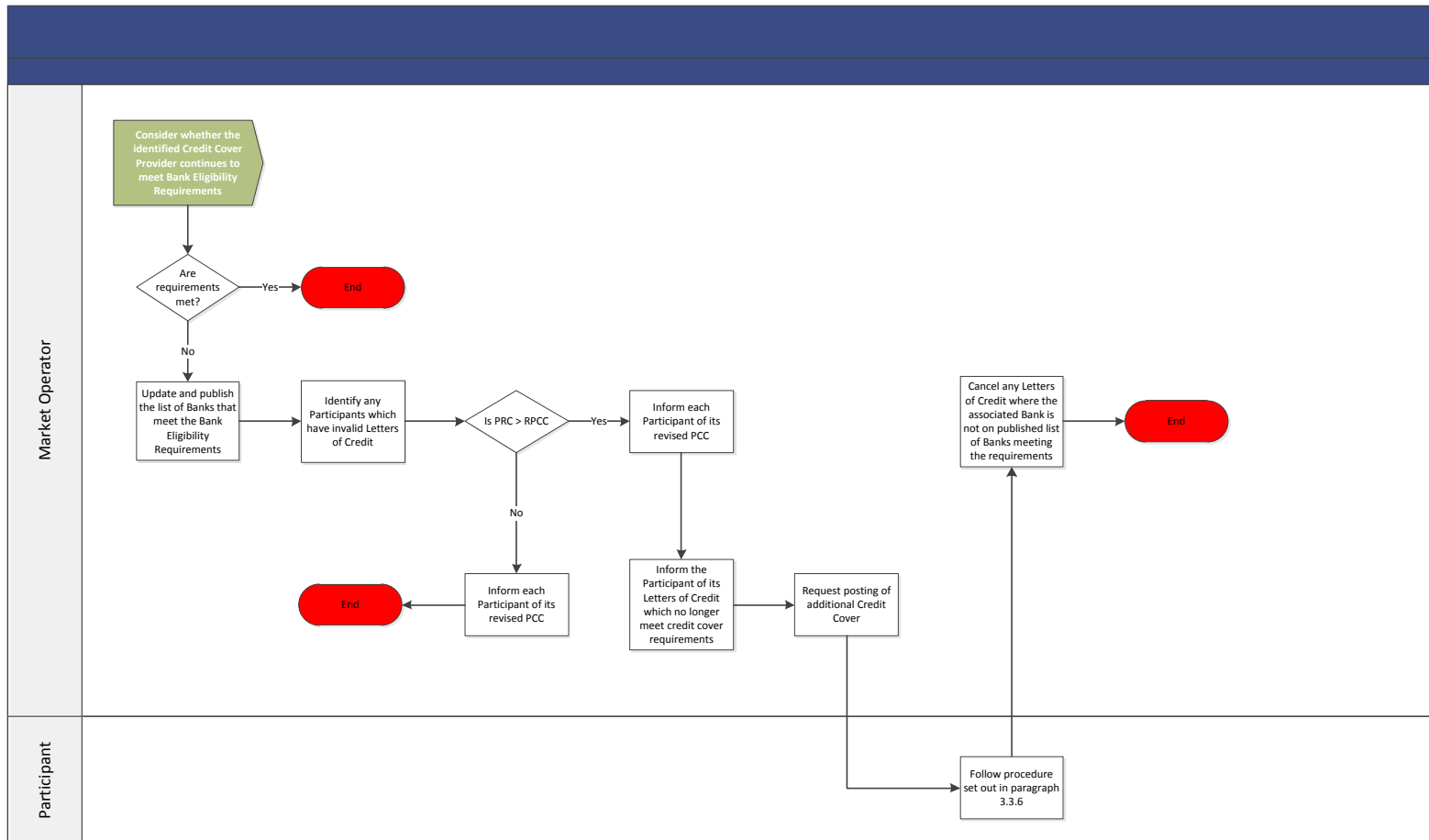
### 4.1 Management of Credit Cover Requirements



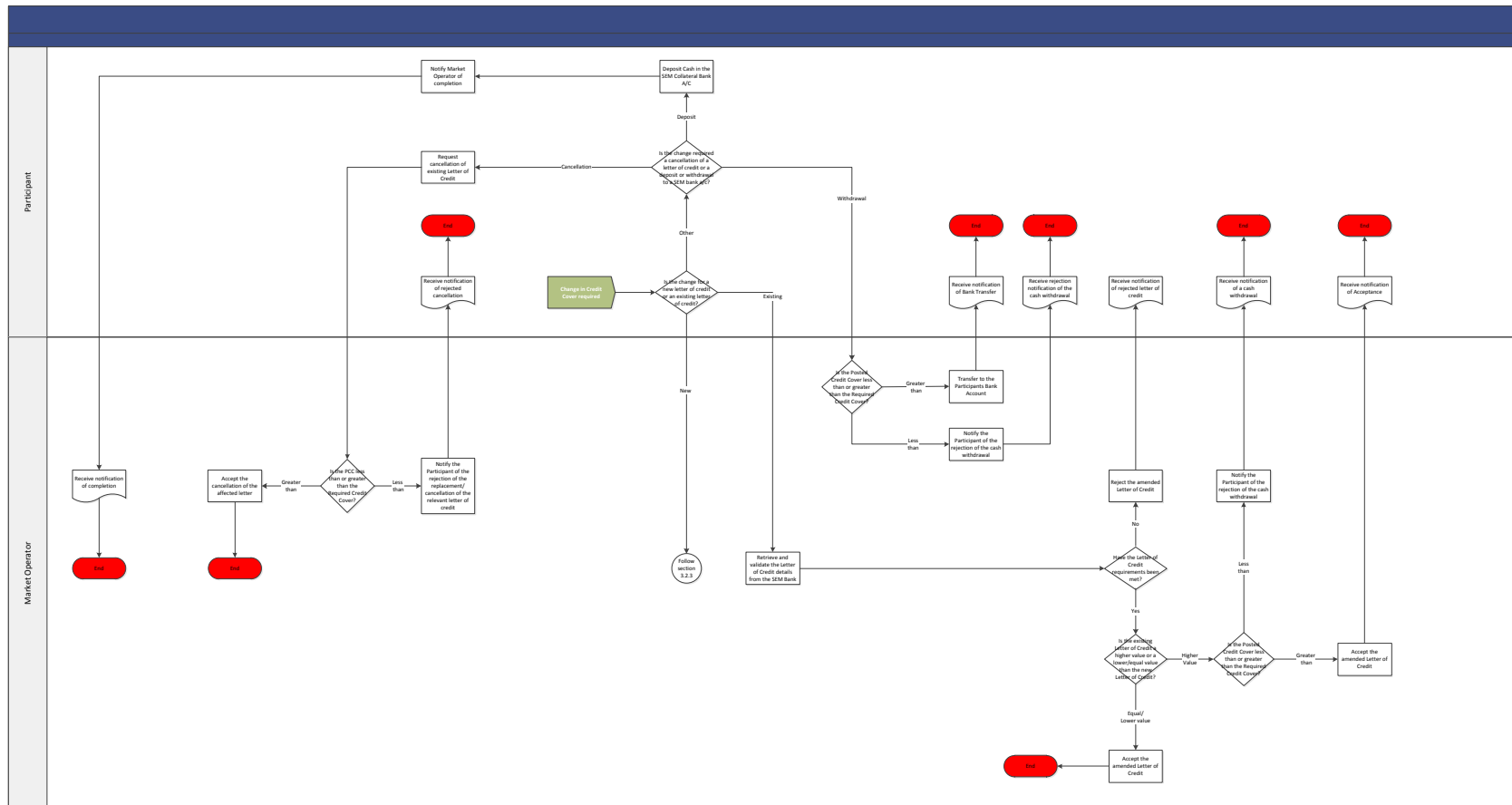
## 4.2 Submitting a Letter of Credit



### 4.3 Ongoing Monitor of Credit Cover Providers

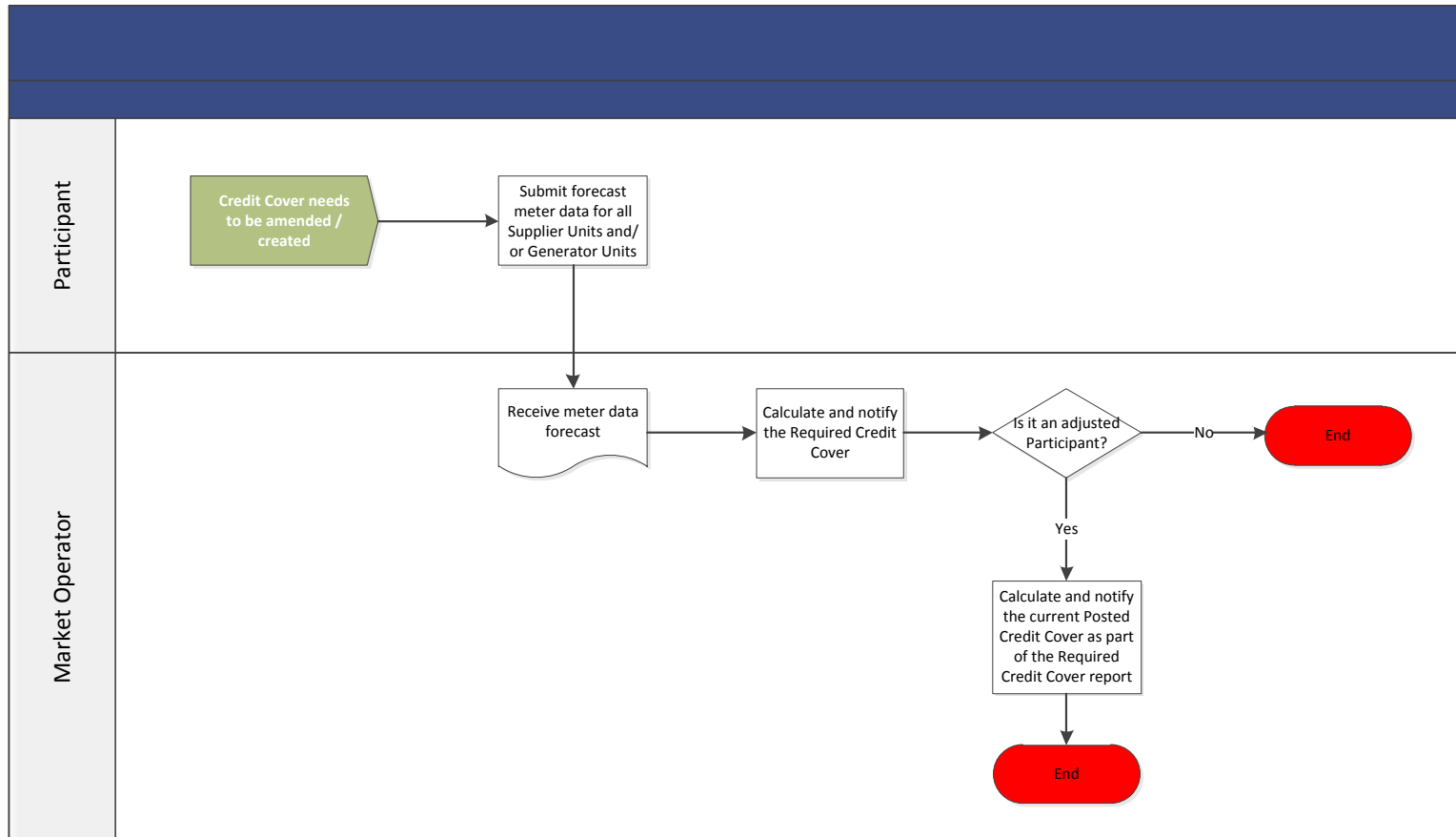


## 4.4 Changing Credit Cover

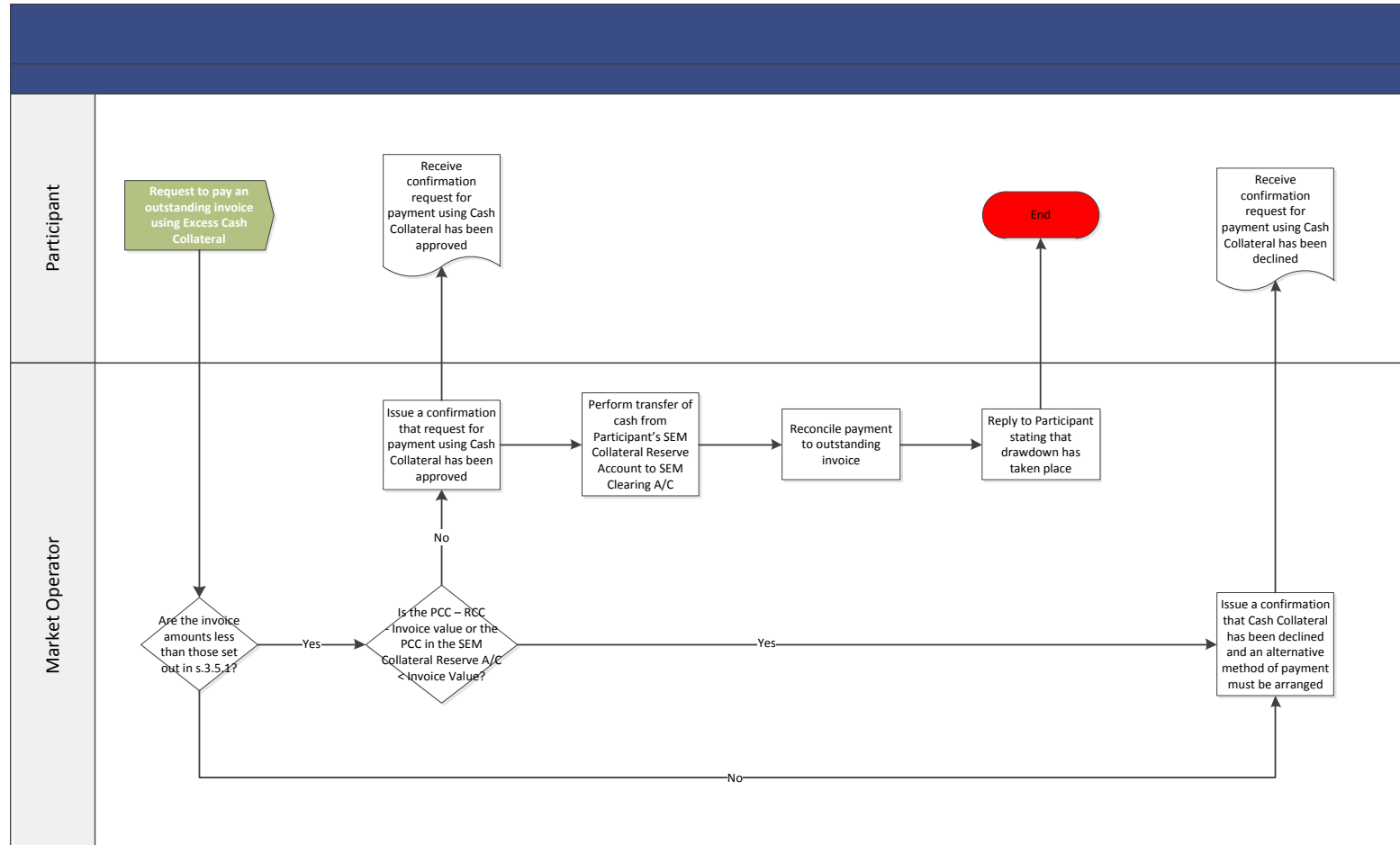




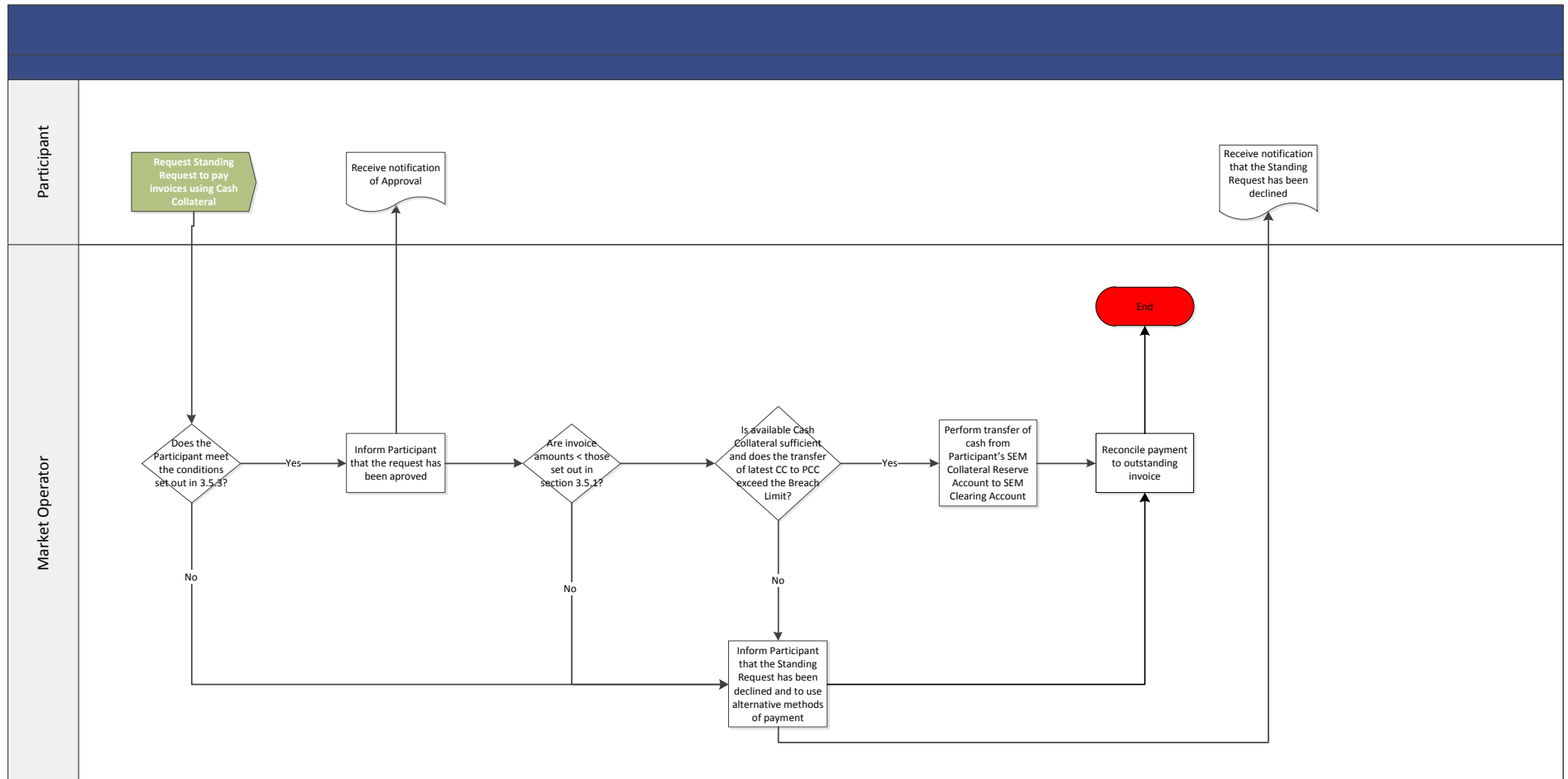
## 4.5 New Participant and Adjusted Participant Credit Cover



## 4.6 Excess Cash Collateral Drawdown requests for Specific Settlement Documents



## 4.7 Excess Cash Collateral Standing Request



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## APPENDIX 1: DEFINITIONS AND ABBREVIATIONS

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### DEFINITIONS

Words and expressions used herein shall have the same meaning given to them in the Code, unless otherwise specified here.

<b>Credit Risk</b>	means the potential amount of payment default by a Participant on their financial obligations in the SEM
<b>Excess Cash Collateral</b>	means cash in a Market Participant's SEM Collateral Reserve Account that is in excess of its Required Credit Cover.
<b>List of Eligible Banks</b>	means the list of Banks that meet the Bank Eligibility Requirements published on the website of the Market Operator and which may be updated from time to time.
<b>Standing Request</b>	means an instruction from a Market Participant to the Market Operator to drawdown Excess Cash Collateral to pay all qualifying Settlement Document amounts until such time as the Participant withdraws the instruction.
<b>SWIFT</b>	means the global communication network which facilitates secure international exchange of payment instructions.

### ABBREVIATIONS

<b>MO</b>	Market Operator
<b>WD</b>	Working Day(s)

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## **APPENDIX 2: CALCULATION OF VAT FOR REQUIRED CREDIT COVER (IF APPLICABLE)**

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In accordance with Section G (Financial and Settlement) of the Code, the Required Credit Cover for each Participant shall include an amount in respect of VAT. This amount shall be calculated as follows:

- (a) For published Settlement Documents that are included in the Actual Supplier Exposure and Actual Generator Exposure, the amount of VAT as calculated on the Invoice will be included in the VAT amount of the Required Credit Cover. This applies to Settlement Documents issued in respect of Trading Charges and Trading Payments, Capacity Charges and Capacity Payments and Variable Market Operator Charges.
- (b) For published Settlement Statements that have not been included in any Settlement Documents, an amount in respect of VAT will be calculated for all the payments and charges in accordance with the rules as set out in Agreed Procedure 15. This amount will be included in the VAT amount of the Required Credit Cover. This applies to Settlement Statements issued in respect of Trading Charges and Trading Payments, Capacity Charges and Capacity Payments and Variable Market Operator Charges.
- (c) For the amounts calculated in respect of Undefined Potential Exposure amounts, an amount in respect of VAT will be calculated. The VAT will be calculated in accordance with the rules as set out in the VAT Agreement. This amount will be included in the VAT amount of the Required Credit Cover.
- (d) For the amounts calculated in respect of Interconnector Unit Capacity Offered Exposure, Interconnector Unit Capacity Energy Exposure and Interconnector Unit Traded Exposure, amounts in respect of VAT will be calculated. The standard rate of VAT for each Participant will apply and shall be included in the VAT amount of the Required Credit Cover.