

SEM Consultation Paper SEM-16-075 Energy Trading Arrangements - Trading and Settlement Code

Vayu welcomes the opportunity to comment on the SEM Committee's ("SEMC") consultation paper – SEM-16-075 on the Trading and Settlement Code, which covers the completed draft of the TSC amendments covering the new I-SEM and transitional arrangements.

Vayu has participated throughout the process to develop and draft the TSC for I-SEM as part of the Market Rules Working Group. Vayu recognises that the issues discussed and agreed at these meetings have been incorporated into the draft and that many of our comments and concerns have been considered and incorporated into the TSC through this process. As such, most of our comments in this consultation cover more minor areas, although we would ask the RAs to consider a wider issues that became apparent to us during the review of the draft TSC.

The issue of concern is that of credit cover. Credit cover is costly for participants and I-SEM looks likely to increase the need for credit support for the Day-ahead and Intra-Day markets in addition to the Within-Day and Balancing markets. These credit costs are ultimately passed on to end-user customers and Vayu would encourage the RA's to seek every possible method to reduce them. This would include measures such as netting between NEMO and SEMO cash flows and common pools of credit cover across the NEMO and SEMO, given that these requirements will, on many occasions, relate to the same quantity of physical energy.

We have also highlighted another potential method in point 10 of our response covering section G.14 of the TSC. The level of credit support required from suppliers is heavily driven by the 'Supplier Suspension Delay Period' currently set at 14 days. If this can be revisited and reduced, the consequent savings to participants (and ultimately consumers) could be considerable. The Supplier Suspension Delay Period is based around the length of time it may take to transfer a defaulting Supplier's customers to a new Supplier. With advances in IT systems (and with those to come from smart metering) it should be able to undertake this transfer well within a two week transfer. The costs of amending or updating systems and processes to accommodate this faster transfer would be at least partially offset by the reduced cost of holding credit amongst participants.

Finally, we would ask that, as the rules for the I-SEM TSC and CRM Codes are considered in detail, that consideration is given to the overall integrated operation of the market. We believe that this has not occurred in the cases of De Minimis generators and Supplier Charging and we would urge the Regulatory Authorities to give further thought these issues as the industry progresses towards the introduction of I-SEM.

We are, as always, open to discussing our views in more detail and our comments on the specific consultation questions are as follows:

APPENDIX A RESPONSE TEMPLATE

SUMMARY INFORMATION

Respondent's Name	Vayu
Type of Stakeholder	Supplier
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ID	I-SEM TSC Reference	Short Title	Commentary / Explanation	Suggested Drafting Change to the TSC	Relevant Cross-Reference for any impacted section
1	Part A		No Comment		
2	B.12.1.2.c & d	Deregistration	Is it right and necessary that the T&SC should police compliance with the Metering and Grid Codes?	Remove these paragraphs.	

3	B.22.2.1.h	End of Force Majeure	The Force Majeure event may be very short-lived (e.g. explosion) but it will likely be the consequences of the event that prevent parties from complying with the code.	Change wording to 'resume full performance of its obligations under the Code on cessation of any Force Majeure <i>or its consequences</i> ' or similar for clarity.	Similar for B.22.3.1.c
4	D.4.2.7	Bid-Offer Pairs	Refers section 4.3.4 rather than 4.4?	Change reference to 4.4	
5	E.2.1.2 and E.2.1.3	Parameter Reporting	Do these clauses need to be in here? Could they be better handled in the Market Operator's Licence and/or through the Modifications process? In general, it would seem a worthwhile objective to keep the code as short and concise as possible to support future readers and new market entrants.	Delete these clauses from the T&SC and cover elsewhere.	
6	G.1.2.1.a and G.1.2.1.b	Settlement Items	Payments due/by Generators and Suppliers	Payments/Receipts for imbalance can flow both ways for Generators and Suppliers in I-SEM, therefore the wording here needs re-drafted to reflect this change from uni-directional SEM Pool cashflows.	

7	G.1	Introduction	Socialisation Fund	Should this section include more explicit detail on the operation of the CRM Socialisation Fund account?	
8	G.9.1.12.d	Credit Cover Obligation	This paragraph references itself as ‘without prejudice to’.	Change reference within paragraph to correct Termination clause?	
9	G.14 and AP9	Credit Cover	A key element in calculating the required credit cover for a participant is the ‘Undefined Exposure Period’, the length of time between a default being recognised and a participant being suspended. For Suppliers this is equal to the Supplier Suspension Delay Period (14 days), broadly the time it would take to transfer a Supplier’s customers to a Supplier of Last Resort or another Supplier. The Regulatory Authorities should revisit the basis for setting this period and investigate methods to minimise this period. The administration and IT costs of reducing the time taken to transfer customers could be directly compared with the benefits of reduced credit cover costs for all participants (and ultimately reduced costs to end consumers).		

10		G.13.1.1	Calculations for Required Credit Cover	At the last MRWG discussions took place on allowing pre-payment of TSC invoices to reduce the requirement for credit cover. This equation does not explicitly include a term to provide for this.	
11	G.14.11	Undefined Exposure for Assetless Participants	This section appears to add nothing more than a reference to Para G.14.12	Delete Clause?	Add a term to the equation in this clause to subtract any pre-paid amounts by a participant from their required credit cover.
12	G.17.3.1 & G.17.3.2	Registration of Settlement Reallocation Agreement	Clause states that participants 'may' lodge a copy of the agreement with the MO. Think this should be 'must' in this and the following clause as its difficult to see how it can be effected if the agreement is not lodged with the MO.	Change 'may' to 'must' in both clauses.	
13	Appendix D	List of Agreed Procedures	There are no Agreed Procedures numbered 2 and 8. For clarity and consistency of clause numbering, perhaps insert 'not used' clauses for these.	Insert 'Agreed Procedure 2 – Not Used' and 'Agreed Procedure 8 – Not used' clauses and renumber.	

14	Part C 3.1.3.c	Cutover Time	Refers to disputes that are 'on foot'. Would 'ongoing' be a better word?	Change 'on foot' to 'that have been raised or are ongoing'.	
15	Part C.4.2.3	Accession of New Applicants	While sympathetic to the aims of the Market Operator to not be swamped by new applicants during a period where other critical work is the focus of attention, a blanket ban seems excessive and may prejudice the interests of a potential applicant to an extreme degree.	Change 'will not accept or process new applications' to 'will only accept and process new applications in exceptional circumstances' or similar.	
16	C.9	Market Auditor	Should consideration be given to retaining the pre-Cutover date Market Auditor in its role as 'SEM Auditor' until all business under Part A of the Code (SEM) has rolled off? This would avoid the need for any Market Auditor appointed after the Cutover Date to deal with Part A/SEM related business.		

I-SEM TSC COMMENTS

NB please add extra rows as needed.