

**I-SEM Training**  
*SEMOpX (DAM & IDM)*  
*Invoicing and Funds Transfer*

September 2017



# Agenda

- Introduction to SEMOpx clearing house model
- Booking of trades for invoicing
- Daily process and payment cycle
- Course Summary
- SEMOpx (DAM & IDM) Invoicing and Funds Transfer Quiz

# Learning Objectives

After completing self-learning and instructor-led training for this course, you will have an understanding of:

- the timings and processes involved in invoicing and funds transfer
- the timings and processes involved in limit management
- VAT treatment and the invoice content

# Chapter 1: Introduction



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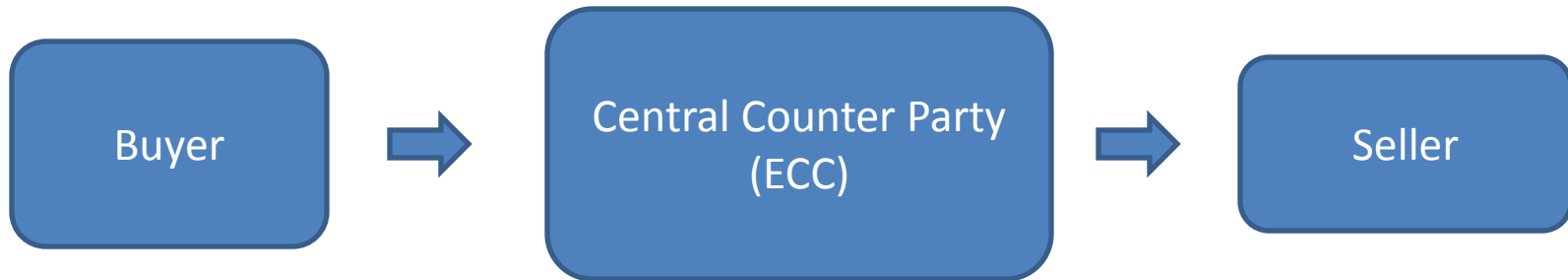
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# SEMOpX and Central Clearing

- SEMOpX is a NEMO for Ireland and Northern Ireland:
  - Responsible for trades, market coupling etc.
- NEMOs act as central counter party (CCP) for all trades:
  - Buy from the sellers and sell to the buyers
  - If any shortfall by participant, CCP guarantees payment
  - This ensures all trades on the exchange are low risk
- SEMOpX have procured ECC as service provider:
  - Act as CCP on behalf of SEMOpX
  - Perform clearing, credit risk and settlement services
  - Act as guarantor for all payments

# Central Counter Party Model - Basic



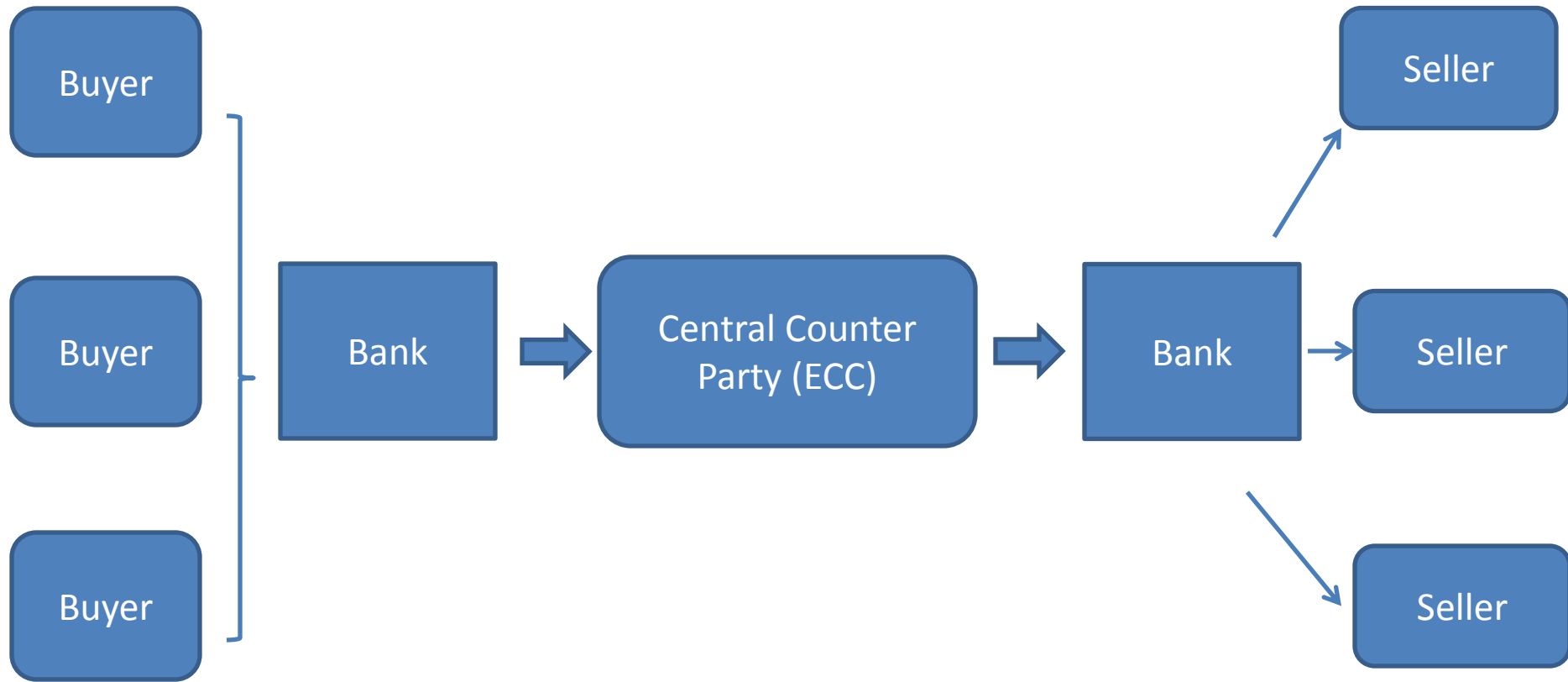
- CCP is in the middle of each transaction:
  - Buyer and seller interact with CCP and not each other for payment
- CCP guarantees the payment:
  - If the buyer does not pay, CCP still pays the seller
  - This provides strong protection to those selling energy
  - CCP will need to cover the risk of non-payment by buyers

# Central Counter Party – Risk Mitigation

- ECC are exposed to the risk of non-payment:
  - Have to pay sellers regardless
- ECC cover this risk in many ways:
  - Use of credit cover
  - Admission criteria to join the exchange
- Key measure is the use of banks as clearers for participants:
  - Each participant needs to sign up to an approved bank
  - ECC settles with the banks, the banks settle with participants
  - This reduces the risk to the market (i.e. risk of bank missing payment versus individual companies missing payments)
  - This is illustrated in the following slide



# Central Counter Party Model - Banks



# Chapter 2: Booking of trades for invoicing



# Trades in SEMOpx

- Trades may come from either:
  - SEMOpx auctions
  - SEMOpx continuous intraday trading
- Trades sent from SEMOpx to ECC:
  - Once an order is accepted it is sent to ECC for clearing
  - Once sent to ECC it becomes a contract
- All contracts are irrecoverable:
  - Payment is guaranteed and must be made
  - Volumes must be submitted to SEMO
  - SEMO will manage settlement of delivery of the energy

# Flow of a trade

## Order (Participant)

Bid to buy or offer to sell

Submitted by the participant SEMOpx



## Trade (SEMOPx)

Order which has been accepted by SEMOPx (i.e. will form a contract)

Has not yet been notified to ECC, not a binding contract



## Contract (ECC)

Trade which has been notified to ECC

Forms a binding contract for payment and delivery

# Timing of trades

- Auction trades will be sent at set times:
  - Will be sent following each auction
  - Approximately 30 minutes after publication of results
- Continuous trades will be sent every 15 minutes:
  - Continuous trades bundled every 15 minutes
  - After a trade is matched, it will be sent at the next available window
- Trades will be sent automatically:
  - Includes outside of working hours and non-working days
  - Trades will still become binding contracts automatically
  - Settlement of contracts will still only take place on working days

# Chapter 3: Daily process and payment cycle



# ECC Key Daily Processes

The key daily functions that ECC carries out are:

- Physical Settlement of contracts:
  - Automatic transfer of contract quantities to SEMO
- Financial Settlement:
  - Formation of binding contracts
  - Settlement of contracts into settlement amounts
  - Issuance of payment orders and invoices
  - Transfer of funds to and from the banks
- Credit risk management:
  - Calculation of credit risk exposures/margins
  - Management of trading limits

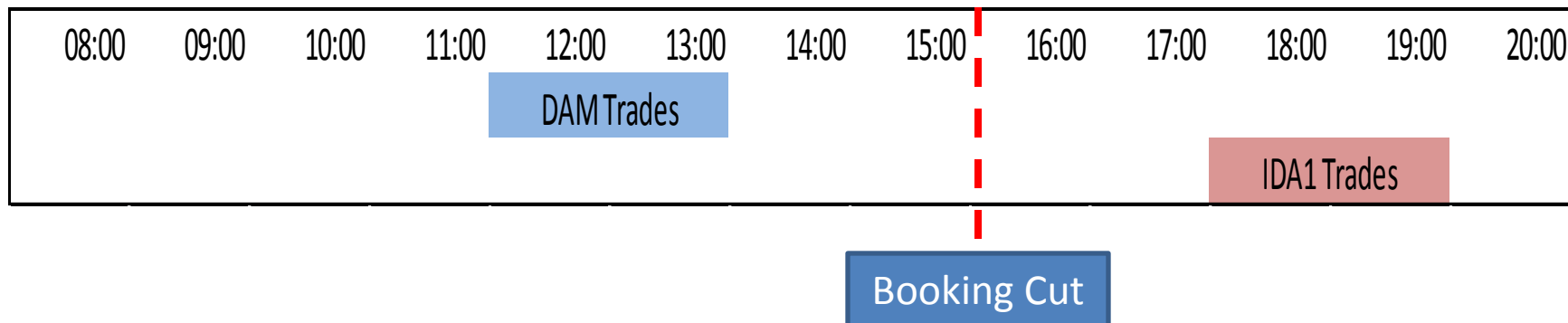
The focus of this course is the financial settlement function. The other two functions will be covered in more detail in the SEMOpx Settlements course.

# Daily Booking Cut

- Booking cut determines when trades are settled:
  - Trades before the booking cut are settled that day
  - Trades after the booking cut are settled the following working day
- Booking cut occurs at 15:00 each working day
  - All contracts prior to the cut are then entered into payment reports
  - Delivery date of the contract does not affect settlement
  - Multiple delivery dates may be covered by one cut (e.g. D and D+1)
- Payment reports issued following booking cut:
  - Outlines the payments for the following working day
  - Transfer of funds will occur each working morning



# Booking Cut Example



- The DAM trades are sent to ECC before the cut:
  - Included in that days payment report (D); settled on D+1
- IDA1 trades are sent to ECC after the cut:
  - Included in the next payment report (D+1); settled on D+2
- Trades included in different reports for the same delivery date:
  - DAM and IDA1 refer to the same delivery date
  - Due to timing the payments for DAM and IDA are settled on different days
  - Operational time of booking determines time of settlement

# Daily Payments

- Payments made each working day based on payment reports:
  - Data in each report determined by most recent booking cut
- Payments between ECC and banks:
  - No direct transfers between ECC and participants
  - Transfer of funds between participants and banks
- Payment occurs for EUR and GBP on same day:
  - EUR payments are made at 07:00
  - GBP payments are made at 08:00
  - Buy and sell contracts settled on the same day

# Payment Reports and Invoicing

- Payment reports create obligation to pay:
  - Issued on each working day by ECC
  - Used for energy payments/charges
  - Instruction to banks to transfer funds
  - Allow for working day settlement
  - Apply obligation before official invoice is issued
- Invoices form record of payments/balances:
  - Invoices are issued monthly by ECC
  - Give record of energy payments/charges in for the month
  - Outline the fees outstanding for the participant
  - Creates obligation to pay fee amounts

# Chapter 4: Course Summary



# Useful Links

For more information please visit the following links:

- ECC Clearing House Conditions:
  - <https://www.ecc.de/ecc-en/about-ecc/rules/clearing-conditions>
- SEMOpx rules and operating procedures:
  - <http://www.sem-o.com/ISEM/Pages/SEMOpXRULESANDPROCEDURES.aspx>
- ECC webpage for invoicing:
  - <https://www.ecc.de/ecc-en/operations/invoicing>

# Review of Learning Objectives

After completing self-learning and instructor-led training for this course, you should understand:

the timings and processes involved in invoicing and funds transfer



the timings and processes involved in limit management



VAT treatment and the invoice content

