

MODIFICATION PROPOSAL FORM			
Proposer (Company)	Date of receipt (assigned by System Operator)	Type of Proposal (delete as appropriate)	Modification Proposal ID (assigned by System Operator)
SEMO	4 th May 2022	Standard	CMC_04_22
Contact Details for Modification Proposal Originator			
Name	Telephone number	Email address	
Martin McCarthy		martin.mccarthy@eirgrid.com	
Modification Proposal Title			
New Reference Rates for Default Interest			
Documents affected (delete as appropriate)	Section(s) Affected	Version number of CMC used in Drafting	
Capacity Market Code	Glossary	Version 6	
Explanation of Proposed Change (mandatory by originator)			
<p>Section B.7.3.1 of the Capacity Market Code specifies, for any payment which is overdue, that 'Default Interest shall accrue from the relevant due date until the date of actual payment in full of the overdue amount by remittances for full value, such Default Interest to accrue daily and both before and after any judgement'.</p> <p>Default Interest is currently defined with reference to LIBOR – the London Interbank Offered Rate. LIBOR are benchmark interest rates used by a variety of financial markets and services. The relevant rates for the Code are the LIBOR overnight rates for euro and British pound sterling. These LIBOR overnight rates were discontinued from 31st December 2021.</p> <p>Should a default interest calculation be required at this time a current LIBOR overnight rate is not available. Effectively the applicable LIBOR overnight rates have frozen as of 31st December 2021. A code modification is required to replace these reference interest rates.</p>			
Legal Drafting Change (Clearly show proposed code change using tracked changes, if proposer fails to identify changes, please indicate best estimate of potential changes)			
<p>Red Strike-Through = Delete text from Capacity Market Code Version 6 Green = Add text to Capacity Market Code Version 6</p> <p>Delete from the Glossary:</p> <p>LIBOR means the rate published in the London Financial Times as the London Interbank Offered Rate (for the previous banking day) on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.</p> <p>Add to the Glossary:</p> <p>ESTER means the Euro Short-Term Rate (€STR) published by the European Central Bank on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.</p>			

SONIA means the Sterling Overnight Index Average published by the Bank of England on the banking day immediately following the due date for the payment of a sum due under this Code for overnight deposits in the Currency of such sum.

Amend in the Glossary:

Default Interest means a rate of interest being two percent (2%) above **SONIA** for British pound sterling or **ESTER** for euro **LIBOR**.

Modification Proposal Justification

(Clearly state the reason for the Modification)

The LIBOR interest rates (for euro and British pound sterling) referenced and defined in the Capacity Market Code are no longer available. SEMO propose to replace LIBOR with suitable alternatives.

For British pound sterling the suitable replacement is the [Sterling Overnight Index Average](#) (SONIA). SONIA is administered by the Bank of England.

For euro the suitable replacement is the [euro short-term rate](#) (€STR or ESTER for the purposes of the Capacity Market Code). ESTER is administered by the European Central Bank. ESTER replaced EONIA which was previously the euro equivalent to SONIA.

This proposed modification to the Capacity Market Code will ensure alignment with the Trading and Settlement Code, subject to SEM Committee approval. A modification ([Mod_04_22 Alternatives to LIBOR](#)) to amend the Trading and Settlement Code was approved.

Code Objectives Furthered

(State the Code Objectives the Proposal furthers, see Sub-Section A.1.2 of the CMC Code Objectives)

From A.1.2.1 on the Capacity Market Code Objectives:

- a) to facilitate the efficient discharge by EirGrid and SONI of the obligations imposed by their respective Transmission System Operator Licences in relation to the Capacity Market;
- b) to facilitate the efficient, economic and coordinated operation, administration and development of the Capacity Market and the provision of adequate future capacity in a financially secure manner;
- e) to provide transparency in the operation of the SEM;

Implication of not implementing the Modification Proposal

(State the possible outcomes should the Modification Proposal not be implemented)

In the event of the application of Default Interest, the now static reference interest rates as at 31st December 2021 would become decoupled from contemporaneous financial markets. This could potentially lead to the application of interest which is significantly higher or lower than more accurate reference rates.

Following SEM Committee approval of Balancing Market Mod_04_22 which replaces LIBOR in the Trading and Settlement Code, the Capacity Market Code would become mis-aligned.

Impacts

(Indicate the impacts on systems, resources, processes and/or procedures)

No impact. Updating two overnight rates (euro and British pound sterling) is standard, established procedure and the replacement reference rates will be inputted in the same way as the relevant LIBOR rates were inputted before 31st December 2021.

Please return this form to the System Operators by email to CapacityModifications@sem-o.com

Notes on completing Modification Proposal Form:

1. If a person submits a Modification Proposal on behalf of another person, that person who proposes the material of the change should be identified on the Modification Proposal Form as the Modification Proposal Originator.
2. Any person raising a Modification Proposal shall ensure that their proposal is clear and substantiated with the appropriate detail including the way in which it furthers the Code Objectives to enable it to be fully considered by the Regulatory Authorities.
3. Each Modification Proposal will include a draft text of the proposed Modification to the Code unless, if raising a Provisional Modification Proposal whereby legal drafting text is not imperative.
4. For the purposes of this Modification Proposal Form, the following terms shall have the following meanings:

CMC / Code:	means the Capacity Market Code for the Single Electricity Market
Modification Proposal:	means the proposal to modify the Code as set out in the attached form
Derivative Work:	means any text or work which incorporates or contains all or part of the Modification Proposal or any adaptation, abridgement, expansion or other modification of the Modification Proposal

The terms "System Operators" and "Regulatory Authorities" shall have the meanings assigned to those terms in the Code.

In consideration for the right to submit, and have the Modification Proposal assessed in accordance with the terms of Section B.12 of the Code, which I have read and understand, I agree as follows:

1. I hereby grant a worldwide, perpetual, royalty-free, non-exclusive licence:
 - 1.1 to the System Operators and the Regulatory Authorities to publish and/or distribute the Modification Proposal for free and unrestricted access;
 - 1.2 to the Regulatory Authorities to amend, adapt, combine, abridge, expand or otherwise modify the Modification Proposal at their sole discretion for the purpose of developing the Modification Proposal in accordance with the Code;
 - 1.3 to the System Operators and the Regulatory Authorities to incorporate the Modification Proposal into the Code;
 - 1.4 to all Parties to the Code and the Regulatory Authorities to use, reproduce and distribute the Modification Proposal, whether as part of the Code or otherwise, for any purpose arising out of or in connection with the Code.
2. The licences set out in clause 1 shall equally apply to any Derivative Works.
3. I hereby waive in favour of the Parties to the Code and the Regulatory Authorities any and all moral rights I may have arising out of or in connection with the Modification Proposal or any Derivative Works.
4. I hereby warrant that, except where expressly indicated otherwise, I am the owner of the copyright and any other intellectual property and proprietary rights in the Modification Proposal and, where not the owner, I have the requisite permissions to grant the rights set out in this form.
5. I hereby acknowledge that the Modification Proposal may be rejected by the Regulatory Authorities and that there is no guarantee that my Modification Proposal will be incorporated into the Code.