European Federation of Energy Traders

EFET eSM Faster Settlement

Implementation Group – Initiation Session

May 2023

Contributors

EFET:

Anca Bossons

Gavin Ferguson

eSM - Faster Settlements

EFET

AGENDA

- **Quick Introductions –** 5 min round the room
- **Legal Introduction –** 5 min Michaela
- **Introductory Context –** 5 min Gavin
- **eSM Faster Settlement –** 30 min Anca
- **Q&A –** 15 min All

Introduction & Context

- **Current Settlement Context**
- **eSM – What is it ?**
- **eSM - Live Status**
- **Benefits & PWC study**
- **What is the Ops Committee progressing now ?**
- **Next steps – Creation of the eSM Annex**

eSM - Faster Settlements - WG

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Approach

Planning to initiate two WGs in Q3/Q4-2023 and to continue in 2024 :

1.Legal WG

- Organised and progressed by EFET Legal team
- Led by Michaela Duve
- Awaiting approval to kick off on 1st – 2nd Jun EFET Legal Committee

Purpose: To create the Faster Settlement Annex

2.Implementation WG

- Organised and progressed by EFET Operations
- To initiate the first FS WG, in Essen on 25-May
- The work itself will start Q3/Q4-2023 and will continue in 2024.
- WG frequency to be established by the group. (bi-monthly or as required)
- The areas covered will be mainly Settlements, Credit & Accounting, and other parties to be involved as required.

Purpose: To work through impact assessment and cutover for FS.

[provisional list of companies – TBC]

How we keep in touch

The two groups to share:

- Outcomes of analysis and supporting documentation.
- Progress updates and if required to be able to attend each other's sessions

Faster Settlement			
Legal WG- Annex	Members	Implementation Group	Members
CEZ	Eva Eisenreichova Pavel Kovalčík Iveta Niemiec	CEZ	Zdenka Balkova Alena Zemanova Miroslav Rehor
ENBW	Evelyn Hager	ENBW	Jorg Reichelt
RWE	Thomas Bergmann	RWE	Graeme Bannon Leon Bussmann Dominik Stein
Uniper	Oliver Froemmel Tina Hinz	Uniper	Tobias Mueller
Mercuria	Rebecca Jones R Enodeyn R VanHaesendonck	Mercuria	Rebecca Jones Viktoria Reiser Siva Allirajah-Martin
EDFT	Doug Gessell Fiona howells Peggy Morrison	EDFT	Barrie McCloskey Richard Mansfield Becky Watson
		EWE	David Hornidge Solmaz Ahmadi
		RWE - Credit	Michael Jost
EFET Legal	Michaela Duve	EFET Operations	Anca Bossons

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Faster Settlements Working Group Objectives

1

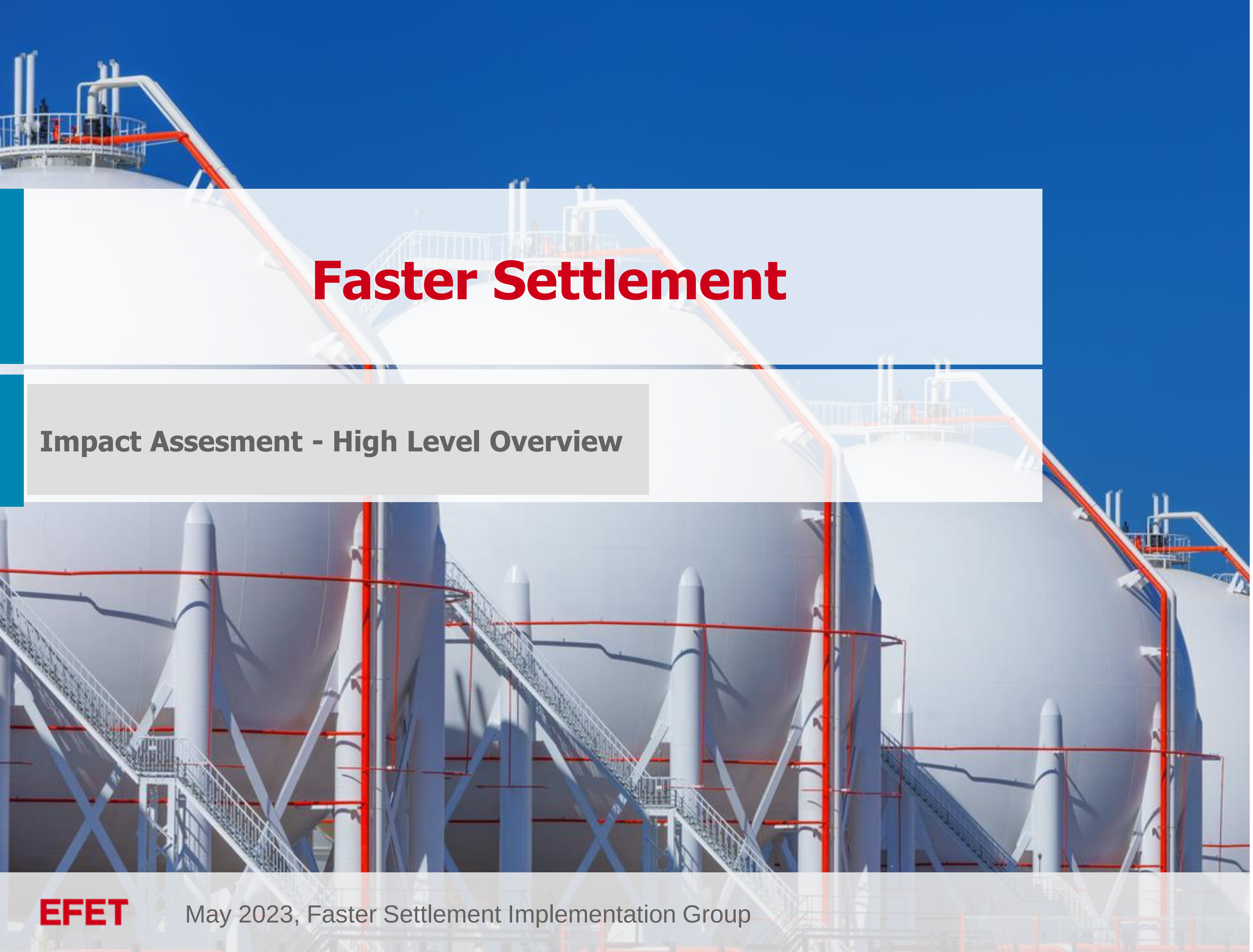
- **Propose Cutover Approach :** how will companies cutover from M+20 to FS

2

- **Create a High Level Impact Assessment:** recommendations via a multi-disciplinary analysis, impacted areas to be disseminated and expanded internally by member companies

3

- **Collectively explore, share issues and seek resolutions to any findings** arisen from the High Level Approach Assessment and Cutover Approach



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Faster Settlement

Impact Assesment - High Level Overview

eSM - Faster Settlements

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Scope & Coverage

In Scope for Faster Settlement	Descriptions
Coverage & Pre-requisites Gas, Power, Emissions , Coal *) <u>Physical</u> plus associated fees **Pre-requisites:** Both parties use eSM at Line Item level. Preferred that both parties use the eSM rounding rules as per eSM Standard.	Description: **Coverage** All commodities and products (Physical & associated fees) that fall under eSM, to be included in faster settlement. Deals with pricing that does not allow for daily settlement, e.g., deals whose final price is calculated based on a monthly average of daily closing prices will be invoiced as soon as the pricing is available.

Coal *) – To be decided IN/OUT of scope after Legal review is completed

eSM - Faster Settlements

High Level Overview – Impact on end-2-end Process

Invoicing

Possible Owners
Back Office
Operations

Possible Systems
- ETRM, eg Endur
- Accounting system, e.g SAP
- Invoicing system
- Other systems(s)

Accounting

Possible Owners
Accounting
Back Office
Operations

Possible Systems
- Accounting system, e.g SAP
- Other systems(s)

Payment

Possible Owners
Treasury
Accounting
Back Office
Operations

Possible Systems
- Accounting system, e.g SAP
- Other systems(s)

Credit

Possible Owners
Credit Risk
Middle Office

Possible Systems
- ETRM, e.g Endur
- MO system(s) e.g CubeLogic
- Other systems(s)

Cash Forecasting

Possible Owners :
Accounting
Back Office
Operations

Possible Systems
- ETRM, eg Endur
- Accounting system, e.g SAP
- Invoicing system
- Other systems(s)

Invoicing

1.Amend invoicing system to recognise counterparty on FS and type of FS (daily , M+10 etc)

2.Amend invoicing system to generate according to FS : invoices/shadow invoices netting /shadow netting statements

3.Establish settlement administration process for FS to cater for variation in invoice dates invoice & netting to cater for multiple settlements Daily and M+20

4.Introduce FS Dispute resolution process

Accounting

1.Amend the update of the Accounting system/invoicing system to capture invoices as they are matched in eSM within the accounts (Volumes & Values related to the invoices)

2.Accruals. If FS is Daily, then amend the accrual process to only report the remaining un-matched flows and un-paid values at month end.

Payment

1.Payment is netted.

2.If FS is Daily then **establish optimal Payment process** to allow for multiple payments per month

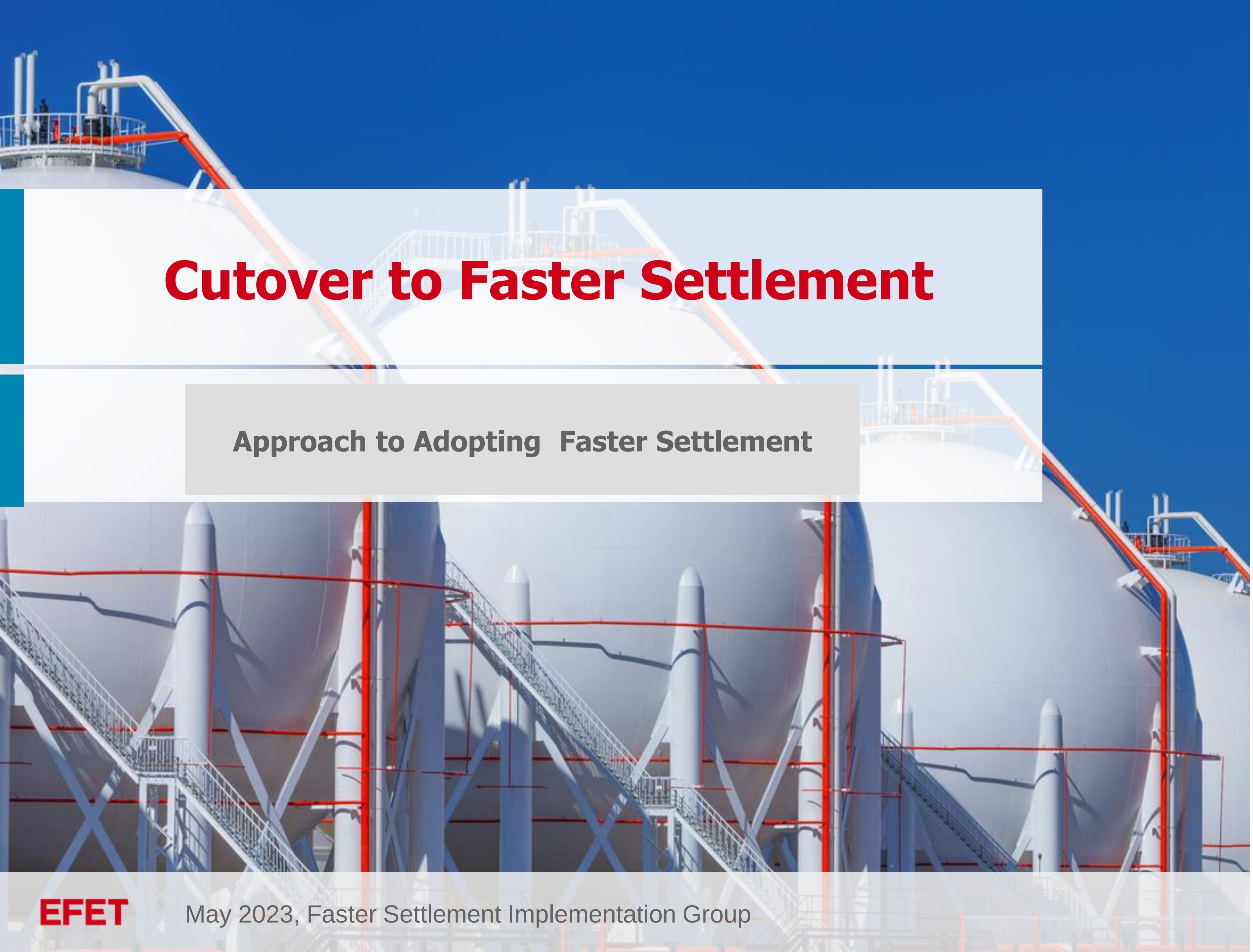
Credit

1.Amend credit reporting, including Credit Annex Agreement to reflect cash flows from FS

2. Methodology to change or same methodology applied at different frequencies ? - TBC

Cash Forecasting

1.Amend Cash Forecasting processes to account for the change in cash flow resulting from the move to D or M+10



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Cutover to Faster Settlement

Approach to Adopting Faster Settlement

eSM - Faster Settlements - Cutover

EFET

How will companies migrate from M+20 to FS

Approach

- Gradual cutover , counterparty by counterparty
- Do not envisage a "big bang" adoption approach
- At anyone time there will be a mixture of FS and M+20 settlements
- It may be that a company will have Daily , M+10 and M+20 in the same time
- Likely that companies operating the CSA between them will be part of early cutovers

(due to the resultant small effect on the cashflow)

- Likely that a company undertaking FS will only want to move to either M+10 or Daily

eSM - Faster Settlements – Cutover

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How will companies cutover from M+20 to FS

Prerequisites for both parties

Legal

Have signed :

- Faster Settlement Annex
- eSM Annex

Use eSM – both parties are live on eSM , <u>at line item level</u>

eSM rounding rules

- Preferred that both parties use the eSM rounding rules as per eSM Standard OR an appropriate tolerance.

Payment

- Have a smooth payment process

Accounting Updates

- Have a robust and efficient account update into Accounting system

Credit Process

- Have an updated Credit process to be able to cope with both the M+20 and FS credit parties

Settlement Process

- Have an updated Settlement process to be able to cope with both the M+20 and FS settled parties

eSM - Faster Settlements - Cutover

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An Example of how companies could cutover from M+20 to Daily FS

Coverage

Any delivery from 1st of the month to the 21st of the month

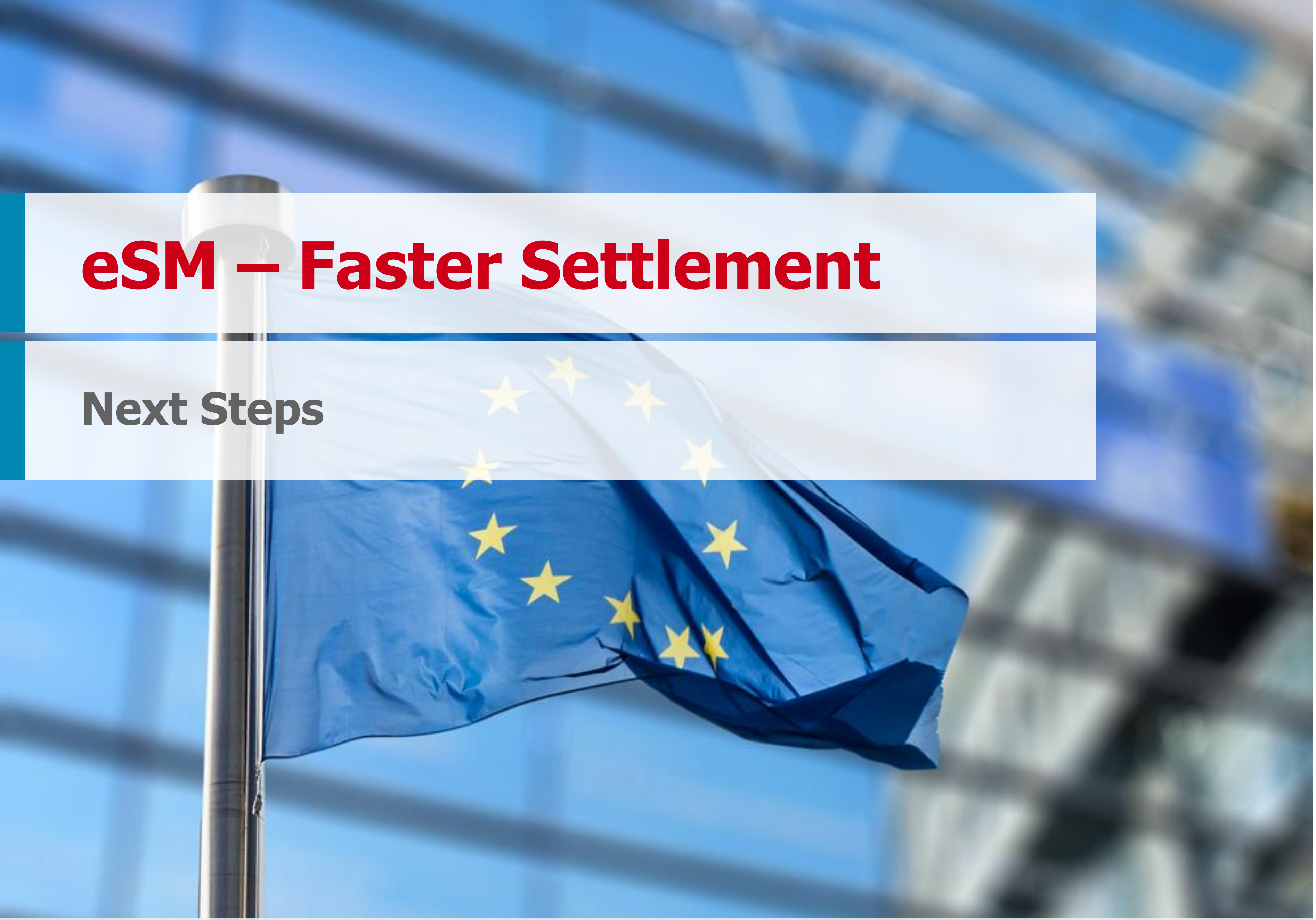
To be invoiced on the 23rd as one-off as the first “new daily” invoice

Timeline

When cutover to Daily- the change should happen from commodity flow 21st of the month.

1st	2nd	18th	19th	20th	21st	22nd	23rd	24th	25th	26th	27th	28th	29th	30th
Mon	Tues	Thu	Fri	Sat	Sun	Mon	Tues	Wed	Thu	Fri	Sat	Sun	Mon	Tues
….Delivery….					Cutover		Settlement	Netting	Payment					
					1-Delivery		1-Settlement	1-Netting	1-Payment					
						2-Delivery		2-Settlement	2-Netting	3-Payment				
							3-Delivery		3-Settlement	3-Netting			3-Payment	

NOTE : There are no extra actions to Cutover to M+10



eSM – Faster Settlement

Next Steps

eSM Faster Settlement – Next Steps

Next IGs to progress the activities below:

	Next Steps for 2023	Status	Due Date	Who- EFET
A	**Faster Settlement Workshop** to be set up to drill down into detail. Participants to include this group, possibly extended to Accounting & Treasury Workshop to take place in Brussels, 19/20 Sep, dates TBC, to have 2 sessions: 1. Wider Impact Assessment – 1 day • Drill down into each of the areas impacted as per slide 7 • Walkthrough examples • Identify Challenges 2. Cutover itself – 0.5 day	Open	19/20-Sep TBC	Anca & Implementation Group
B	**What should the IG do till Sep ?** • Become a focal point for FS in your organisation • Set up an initial internal session with BO , Credit, Treasury, Accounting to prepare for this Brussels workshop • EFET Ops can assist with these internal sessions.	Open	Jun-Sep23	Implementation Group

Supporting Slides – Daily Settlement

Daily Settlement Timetable & PH Example

New Related Definitions

Disputes & Mismatches

Tax & VAT

eSM - Daily Settlement – Timetable Example

Reviewed by WG X 2 on 22.11.22 and 19.01.23 – feedback amendments in blue

Coverage : FIXED prices and INDEX -> payment BD+4

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday
(1)delivery		(1)Settlement	(1)netting statement	(1)Payment			(8)delivery		(8)Settlement	(8)netting statement	(8)Payment			
	(2)delivery		(2)Settlement	(2)netting statement			(2)Payment	(9)delivery		(9)Settlement	(9)netting statement			
		(3)delivery		(3)Settlement			(3)netting statement	(3)Payment	(10)delivery		(10)Settlement			(10) netting statement
			(4)delivery				(4)Settlement	(4)netting statement	(4)Payment	(11)delivery				
				(5)delivery				(5)Settlement	(5) + (6) +(7) netting statement	(5) + (6) +(7)Payment	(12)delivery			
					(6)delivery			(6)Settlement				(13)delivery		
						(7)delivery		(7)Settlement					(14)delivery	

Example : If Thursday was a holiday in **<u>either</u>** of the parties jurisdiction

Monday	Tuesday	Wednesday	TH HOLIDAY	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
(1)delivery		(1)Settlement		(1)netting statement			(1)Payment						
	(2)delivery			(2)Settlement			(2)netting statement	(2)Payment					
		(3)delivery					(3)Settlement	(3) + (4) netting statement	(3) + (4) Payment				
			(4)delivery				(4)Settlement						
				(5)delivery				(5)Settlement	5) + (6) +(7) netting statement	(5) + (6) +(7)Payment			
					(6)delivery			(6)Settlement					
						(7)delivery		(7)Settlement					

ONE invoice per single Flow Day
(per aggregation keys)

Invoice to be **sent** by midday of the second BD, BD+2 , i.e **2 BD** after the delivery flow

Payment - to be **paid** the <u>later</u> of **4 BD** after the flow
or **2 BD** after the invoice is issued

OpenQ1:How weekend should be invoiced?
a)Invoice Friday–Sunday deliveries in <u>one invoice with one payment date</u>.
b)Invoice Friday, Saturday, Sunday deliveries in <u>three separate invoices with the same payment date</u>.
Answer : **b)** <u>Separate daily</u> invoices to be <u>generated and matched</u>, having the <u>same payment date</u>.
Combined, single Netting Statement generated& matched.
Single Payment made on the payment date.

OpenQ2: Would it be possible in your company to generate the invoice on the BD following the flow. Our assumption is that this extra day is required to obtain the index prices do it.

Answer : Added clarification in Slide 9 for "**no later than**" midday of the second BD for invoice to be generated, which allows for any earlier invoice/shadow invoice sending and matching.

Key

Settlement	=generation of invoice and shadow invoice matching via eSM and resolution of mismatches
Netting statement	= generation of netting statement & shadow netting statement matching via eSM and resolution of mismatches

eSM - Daily Settlement – Definitions & Rules

Reviewed by WG X 2 on 22.11.22 and 19.01.23 – feedback amendments in blue

Definitions & Rules	Descriptions
0. Coverage & Pre-requisites Gas, Power, Emissions , Coal Physical plus associated fees **Pre-requisites:** Both parties use eSM at Line Item level. Preferred that both parties use the eSM rounding rules as per eSM Standard.	Description: **Coverage** All commodities and products (Physical & associated fees) that fall under eSM, to be included in faster settlement, except deals with pricing that does not allow for daily settlement, e.g., deals whose final price is calculated based on a monthly average of daily closing prices.
1.Business Day (BD) It is a date on which both parties to the invoice are working.	Description: **Business Day(BD)** It is not a public holiday or a weekend in either of the jurisdictions.
2.**Invoicing Period** It refers to all commodity deliveries physical and relevant fees between start and end delivery dates. This definition applies to both invoices and shadow invoices.	Description: **Invoicing Period** covers a)what we are invoicing: Commodity deliveries and relevant Fees b)which invoicing period : between Start and End Dates(which for daily settlement will always be the same, reflecting a single delivery date) c)which trades are included: Physical
3.Settlement DateTime Invoice to be generated and sent for matching **no later than** *midday on the second business day after the delivery flow date*, BD+2 ; *[the invoice/shadow invoice could be generated and matched on an earlier date than the timescales requires.]*	Description: **Settlement DateTime** (also called Invoice Date) a)the date and time by which an invoice needs to be generated and sent
4. Matching DateTime Invoice to be matched by the end of the second BD, BD+2 , i.e 2 BD after the delivery flow, matching via eSM and resolution of mismatches.	Description: **Matching DateTime** (also called Matching Date) a) the date and time by which mismatch resolution is reached AND b) the date and time by which an invoice is matched
5.Payment Date Date when the payment arrives in the receivers account, on BD+4	Description: **Payment Date** a) the date by which the payment is due into the payee account
6.Netting Statement Generated **no later than** *midday* on BD+3 after delivery [t*he netting/shadow netting statement could be generated and matched on an earlier date that the timescales requires.]*	Description: **Netting DateTime** a)the date and time by which the netting/ shadow statement needs to be generated and sent.
7. **Netting Matching DateTime** Netting Statements matching via eSM (and resolution of mismatches of netting statements) takes place no later than end of BD + 3 after delivery	Description: **Netting Matching DateTime** a) the date and time by which mismatch resolution is reached AND b) the date and time by which an netting statement is matched

eSM - Daily Settlement – Disputes & Mismatches

Below Proposed reviewed by WG X 2 22.11.22 & 19.01.23 - Generally Accepted Approach

Agreement Options

Extract from EFET agreement, Para 13 point 6 – DISPUTES

- Only Option B works under the proposed Faster Settlement rules

- Option A - not to be used

6. Disputed Amounts: If a Party, in good faith, disputes the accuracy of an invoice, it shall on or before the Due Date provide a written explanation of the basis for the dispute and shall pay:

(a) if this § 13.6(a) is specified as applying in the Election Sheet,

***the full amount invoiced no later than the Due Date.** If any amount paid under dispute is finally determined to have not been due, such overpayment shall, at the election of the owed Party, be credited or returned to it within ten (10) days of such determination, along with interest accrued at the Interest Rate from, and including, the date such amount was paid, to the other Party, but excluding, the date returned or credited; or*

(b) if this § 13.6 (b) is specified as applying in the Election Sheet,

***the undisputed amount invoiced no later than the Due Date**. If any amount withheld under dispute is finally determined to have been due, such withheld amount shall, at the election of the owed Party, be credited or returned to it within ten (10) days of such determination, along with interest accrued at the Interest Rate from, and including, the date such amount was due, to the other Party, but excluding, the date paid or credited.*

Manual Intervention to the eSM process

Disputes & Mismatched Invoice:

- tend to be rare
- are not subject to daily settlement and should be subject to a manual intervention to the eSM process.

Manual Adjustment:

1. Cancel disputed invoice/shadow invoice
2. Create new invoice/shadow invoice with undisputed portion based on the sub-set of matchable trades
3. Remaining un-invoiced amount is to be included on an invoice/shadow invoice with a later payment date. This will be part of the automated process to ensure matching, subject to the mismatch being resolved.

eSM - Daily Settlement – Mismatching - Example

Example – Manual Intervention to resolve mismatches – Reviewed by WG X 2 on 22.11.22 and 19.01.23 Generally accepted based on members feedback

Invoice	Shadow Invoice
LI 1	LI1
LI 2	LI 2
LI 3	LI 3
LI 4	LI 4
LI 5	LI 5

Mismatched

→

Invoice	Shadow Invoice
LI1	LI1
LI 2	LI 2
LI 3	LI 3
LI 4	LI 4
LI 5	LI 5

Cancelled

→

Invoice	Shadow Invoice
LI1	LI1
LI 2	LI 2
LI 3	LI 3
LI 4	LI 4
LI 5	LI 5

Matched on sub-set

→

Invoice	Shadow Invoice
LI 2	LI 2

Invoice	Shadow Invoice
LI 5	LI 5

Line Item Mismatches Resolved

New Invoices Generated & Matched

Or

Invoice	Shadow Invoice
LI 2	LI 2
LI 5	LI 5

Line Item Mismatches Resolved

New Single Invoice Generated & Matched

Or

Invoice	Shadow Invoice
LI (i)	LI (i)
LI (ii)	LI (ii)
……	……
LI 2	LI 2
LI 5	LI 5

Line Item Mismatches Resolved

Appended to next Invoice Generated & Matched part of normal eSM process

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Invoice/Shadow Invoice mismatching at Total level

Identification of mismatching invoice/shadow invoice(s) at Invoice Line Level

This is part of the eSM automated process

Cancel

Original mismatching Invoice/ Shadow Invoice are cancelled

Cancel the invoice/shadow invoice(s).

This is a process specific to each counterparty

Generate & Match

New Invoice/Shadow Invoice are generated for the sub-set of matching invoicing lines

Identify matching subset .

Regenerate & match the invoice/shadow

Resolve Mismatches

Individual corrected line item invoices

New, additional Invoice/Shadow Invoices are created for the sub-set of invoicing lines that match as **individual invoices.**

(After the original invoice has been matched, so the same aggregation key can be re-used)

Or

Combined corrected line items, onto a single invoice

New, additional Invoice/Shadow Invoices are created for the sub-set of invoicing lines that match.

(After the original invoice has been matched, so the same aggregation key can be re-used)

Or

Corrected line items appended to next BAU invoice

Remaining un-invoiced amounts are to be included on the next generated Invoice/Shadow Invoices part of the BAU invoicing process

eSM - Daily Settlement – TAX

Reviewed by WG X 2   on 22.11.22 and 19.01.23 – No amendments – Agreed to leave As IS

Extract from Agreement

Extract from EFET agreement

p15 - § 14 VAT and Taxes - Tax (b)

if such agreement is not reached, the Non-Taxed Party shall have the right, but not the obligation, upon written notice to the Taxed Party within the Negotiation Period, to pay the New Tax for any continuous period it so elects **on a calendar month to calendar month basis**, and in such case the Taxed Party shall not have the right during such continuous period to terminate the Individual Contract on the basis of the New Tax;

Recommendation (Peter McIntyre EDFTrading 17/11/2023)

- I am unaware of this clause ever having been invoked - but with the recent introduction of several windfall taxes the clause remains very relevant today.
- The clause concerns individual contracts where the parties have elected for it to apply.
- It is only relevant to individual deals that have more than two years left to run after the new tax comes into force.
- It is intended to allow one party (the Taxed party) to opt to terminate the deal where a new tax impacts them in such a way that it costs them at least 5% of the value of the commodity to be delivered.

- **If a party opts to invoke this clause either;**
  - The parties can agree to share the cost of the new tax (i.e. the Non-Taxed Party would agree to pay some or all of the cost of the new tax to the Taxed Party); or
  - Agree to have the deal terminated with one party (who is out of the money) compensating the other. The compensation is MTM based. This calculation can be contentious; I have seen different parties re-writing the calculation in the election sheet on how this should be achieved (i.e. the market price will be distorted by the risk of the tax a long time before it comes into force).

- **Impact on / from Faster Settlement**
  - **If the parties agree to terminate** I would see this as a one-off settlement that should be invoiced as a fee - I don't see this being an issue under Faster Settlement.

  - **If the parties agree on ongoing compensation** it would not (I believe) be possible to adjust the price of the commodity so we would have to revert to settle by fees; to me it is reasonable to do this on a monthly basis as per the existing wording. So once again I think the settlement would be by monthly fees - which wouldn't be an issue under Faster Settlement. If the parties wanted Faster Settlement of the compensation they may wish to amend the clause using the election sheet.

TL:DR Version: I think that the current version of § 14.8 should work under Faster Settlement without the need for a re-write.

Supporting Slides - M+10 Settlement

Settlement M + 10 Scenarios

eSM – M+10 CD Settlement – Timetable Example

A. Scenario: 1st falls on a Monday

..Previous Month...	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
	Monday	Tuesday	Wednesday	Thursday	Friday	Sat	Sat	Monday	Tuesday	Wednesday	Thursday	Friday
Delivery...			Settlement	Netting Generated & Matched						Payment		
			M +3 BD	M +4 BD						M + 10 CD		

B. Scenario: 1st falls on a weekend, followed by PH , e.g. Jan

..Previous Month...	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
	Sun	Mon -PH	Tuesday	Wednesday	Thursday	Friday	Sat	Sat	Monday	Tuesday	Wednesday	Thursday
Delivery...					Settlement	Netting Generated & Matched				Payment		
					M +3 BD	M +4 BD				M + 10 CD		

C. Scenario: 1st falls on a PH , weekend, followed by another PH , e.g. Easter Good Fri, WE followed by Easter Mon

..Previous Month...	1st Apr	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
	Easter Fri PH	Sat	Sun	Easter Mon PH	Tuesday	Wednesday	Thursday	Friday	Sat	Sun	Monday	Tuesday
Delivery...							Settlement	Netting Generated & Matched			Payment	
							M +3 BD	M +4 BD			M + 10 CD	

M+10 Settlement Rules

Amendments in blue

M +3 BD	Settlement == Invoice Generated & Matched
M +4 BD	Netting Generated & Matched
M + 10 CD	Payment on the 10th or ~~earlier~~ **next BD,** if the 10th CD is a PH in either jurisdictions

OpenQ1: Does this timetable allow for obtaining the index pricing that averages over the month ?

Answer: As per feedback, amended this slide to show Settlement and Netting to take place **a day later**, i.e. M+3BD and M+4BD respectively

OpenQ2:For the Easter scenario, should payment be the 8th or the 11th ?

Answer: **11th**, Amended slide to show **11th** and rule to state Payment on the 10th CD or next BD if 10th CD is a PH