

The Single Electricity Market



Did you know.....

- The Single Electricity Market, a joint electricity market between Ireland and Northern Ireland, will commence full operation on 1st November 2007.
- The SEM will be administered by the Single Market Operator (SMO), a joint venture between EirGrid and SONI.
- Generators with an MEC <10MW are not obliged to participate in the market and can continue to trade electricity using bilateral contracts.
- In Northern Ireland, existing non-fossil fuel obligations (NFFOs) will continue.
- Wheeling arrangements in Northern Ireland will be discontinued. Participants in these arrangements will be offered the opportunity to enter into bilateral contracts with NIE Supply.

What is the Single Electricity Market?

Ireland and Northern Ireland are implementing an all-island wholesale electricity market, the Single Electricity Market (SEM). The SEM will be a centralised or gross pool market. Electricity will be bought and sold through the pool under a market clearing mechanism. Generators will receive the System Marginal Price (SMP) for their scheduled dispatch quantities, capacity payments for their actual availability, and constraint payments for changes in the market schedule due to system constraints. Suppliers purchasing energy from the pool will pay the SMP for each trading period, capacity costs, and system charges. The SEM market rules are set out in the Trading and Settlement Code (the T&SC).

The existing trading arrangements, including the Top-up and Spill regimes, will cease with the implementation of the SEM. All generator licences in Ireland and Northern Ireland will be amended to reflect the new market conditions.

Do I have to participate in the market to trade electricity?

Generators with a Maximum Export Capacity (MEC) $\geq 10\text{MW}$ will be required to participate in the market. Those with an MEC less than 10MW have the option to participate in the SEM. Generators who choose to participate in the market as of 1st November 2007 must first register with the Market Operator and participate in the market trials. Market Trials are scheduled to begin on the 16th July 2007.



What are the benefits of the SEM for small-scale generators?

Generators participating in the SEM will see a number of benefits in the new market:

- Generators do not need to find a purchaser for their electricity. There is no requirement to enter into bilateral contracts. All electricity will be purchased by the pool.
- All generators will be paid the SMP for the quantities bid that have been included in the market schedule. The SMP may be higher than their short-run marginal cost (SRMC).
- Under the SEM, settlement for dispatched quantities and constraints will be weekly, improving generator cash flow.
- All available generators will receive capacity payments from the SMO. Capacity payments will be paid on a monthly basis.
- Generators who have legacy contracts with licenced suppliers in Ireland or Northern Ireland may appoint the supplier to act as their Intermediary in accordance with the T&SC. The Intermediary may interact with the market on behalf of the generator.



“An all island Energy Market should provide for competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the minimum costs necessary”

*All-Island Energy Market: A Development Framework
November 2004*

What are the additional costs of participating in the SEM?

The Trading and Settlement Code (T&SC) requires participants to pay an accession fee along with an annual market participation fee. Additionally, all market participants will be required to lodge credit cover with the Market Operator.

Further costs are dependent on how a generator chooses to act within the market. Generators participating in the SEM may choose to act as price-takers or price-makers, subject to the requirements of the Grid Code and the T&SC.

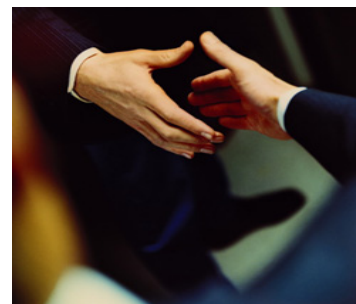
Price-takers will have minimal additional costs. These generators will notify the SMO of their quantity and forecast availability on a daily basis prior to gate closure, and will be run when available, subject to system security constraints. These generators will receive the SMP for their dispatched quantity for each trading period.

Price-makers may have additional resource costs, as they may need to be able to turn on or off their plant at short notice. Price-makers will offer price/quantity pairs into the market. These generators will not be dispatched below their offer price.

Additionally, generators may seek price and cash flow certainty. These generators may enter into contracts for differences (CfDs) with another party. These contracts set a strike price, which is generally the forecasted annual average SMP. When the SMP is below the strike price, the generator is paid the difference by the counterparty. When the SMP is above the strike price, the generator pays the additional monies to the counterparty.

What will happen with my existing contracts?

Existing contracts may need to be modified to take account of the changes to the wholesale electricity market under the SEM. All generators with existing contracts are advised to review their contracts in conjunction with their counterparties to determine if any changes will be necessary under the SEM. It is not expected that generators with an MEC <10 MW, who choose not to participate in the market will need to revise their contracts. Any change to a contract which is the subject of an Order under Section 39 of the Electricity Regulation Act (Ireland) of 1999 may require further consideration in that context. Generators should address these issues at an early stage to ensure that all necessary modifications are in place prior to market start on 1st November 2007.



What if I am not participating in the market?

For generators trading outside of the market, the SEM will have little change on the existing out-of-market mechanisms. Physical bilateral contracts will continue to be supported outside of the market for generators with an MEC less than 10MW. However, one of the counterparties to these contracts must be a participating supplier in the SEM. The energy exported by these generators will be deducted from the total demand of the suppliers for purposes of settlement. All payments to the generators will be made by the suppliers. Generators operating outside of the market will not be entitled to receive capacity payments.

In Northern Ireland, non-fossil fuel obligations (NFFOs) will continue to be supported. However, wheeling arrangements will cease with the introduction of the SEM. Generators that are currently participating in the wheeling arrangements will be offered the opportunity to enter into physical bilateral contracts with NIE Supply to sell their output once the SEM goes into live operation.

All generators trading outside of the market must be registered with the Meter Registration System Operators (MRSOs). In Ireland, generators must contact ESB Networks to register their units. In Northern Ireland, the registered supplier who is counterparty to the bilateral contract with the generator will manage the registration process with NIE T&D.

"We are committed to developing an All-Island electricity market where participants and customers will have equal rights respectively north and south of the border."

*Memorandum of Understanding
CER/NLAER
August 2004*

Where can I find more information on the SEM?

Additional information regarding the SEM can be found on the all island project website (www.allislandproject.org).

You may also contact the Commission for Energy Regulation (www.cer.ie) or the Office for the Regulation

of Electricity and Gas (www.ofreg.nics.gov.uk), the public face of the Northern Ireland Authority for Energy Regulation.

The Regulatory Authorities are considering organising a forum specifically for small-scale generators to

discuss these issues further.

If you are interested in participating in such a meeting, please contact the All Island Project team at

prc@allislandproject.org by

5th April 2007 and include "small-scale generation" in the subject line.



Glossary

System Marginal Price

The System Marginal Price (SMP) is the price calculated by the Ex Post Unconstrained Schedule (EPUS) software for every half hour trading period that will cover the cost of meeting the marginal cost of demand in the SEM.

Capacity Payments

Capacity payments are payments to generators for making capacity available to the market.

Availability

For a generator, availability means the units' capability in MW to deliver active power and reactive power.

Constraint Payments

Payments to generators where they are constrained up or constrained down. These payments will be made in accordance with the relevant sections of the Trading and Settlement Code.

Contracts for Differences

A contract between two parties, G ("generator") and S ("supplier"), stipulating that S will pay to G the difference between the strike price of the contract (generally the estimated annual average SMP) and the actual SMP for a particular trading period. (If the difference is negative, then G pays to S.) These contracts are entered into to provide price certainty for generators and suppliers.

Bilateral Contracts

A contract between two parties, G ("generator") and S ("supplier"), stipulating that S will pay to G a set price for a certain volume of electricity generated.

Intermediaries

Intermediaries may act for licencees in the SEM, taking on their rights and responsibilities which may include bidding, settlement and provision of credit cover. All Intermediary appointments must be approved by the RAs.

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Website Links

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All Island Project:	www.allislandproject.org	Dept of Communication, Marine & Natural Resources:	www.dcmnr.gov.ie
Single Market Operator:	www.allislandmarket.com	Dept. of Enterprise, Trade & Industry:	www.detini.gov.uk

