

**SEM Contracting 2016/17:** **Information on**

**PSO-related CfDs**

**An Information Paper**

SEM-16-040

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# Purpose of this Paper

The purpose of this paper from the Regulatory Authorities (the Utility Regulator and the Commission for Energy Regulation or CER) is to provide market participants with information on the volume, shape and timing of PSO-related CfD offerings for the year from October 2016 to end September 2017, referred here to as the “contract year”.

The arrangement for the offering of PSO-related CfDs for the 2016/17 contract year will essentially be the same as that which applied for the current 2015/16 contract year.

In summary and as detailed in section 3 of this paper, circa 0.94 TWh of PSO-related CfDs will be offered for the contract year. Within this, varying CfD volumes, related to expected plant output, will be allocated to each quarter, with monthly products provided and auctions held quarterly. The distribution of the CfD products will remain on a 50:25:25 capacity (MW) basis between baseload, mid-merit and mid-merit 2.

# Background

1.
2.

## Introduction

Since 1st November 2007 the Regulatory Authorities or RAs, part of the SEM Committee, have jointly regulated the all-Island wholesale electricity market known as the Single Electricity Market (SEM) covering both Northern Ireland and the Republic of Ireland. Further details can be found on the SEMC website at <https://www.semcommittee.com/>.

The SEM includes a centralised gross pool (or spot) market which, given its mandatory nature for generators (above 10 MW) and suppliers, is fully liquid. In this pool electricity is bought and sold through a market clearing mechanism, whereby generators bid in their Short Run Marginal Cost (SRMC) and receive the System Marginal Price (SMP) for each trading period for their scheduled market quantities, as well as other revenue streams. Suppliers purchasing energy from the pool pay the SMP for each trading period along with other costs.

Risk Management is an integral element of the efficient and effective operation of the SEM. To date there have been offerings of 2-way Contracts for Differences (CfDs) which have enabled generators and suppliers to manage and hedge the wholesale price - i.e. SMP - risk inherent in the SEM. CfDs assist both wholesale and retail competition to the ultimate benefit of final customers. This is because the ability of generators and suppliers to enter into and access contracts enhances the financial certainty, flexibility and innovation of participants in both the wholesale and retail markets**.**

## Types of CfDs Available

There are currently three types of CfD being offered publically in the SEM. A background on the different types are provided in SEM-10-057 at the following link:

<https://www.semcommittee.com/news-centre/sem-10-057-market-power-and-liquidity-state-nation-review>

In brief, the three types of CfDs available are:

* Directed Contracts (DCs), whose volume, price and eligibility is set by the RAs as part of the SEM market power mitigation strategy.
* CfDs associated with the thermal generating plants covered under the Public Service Obligation (PSO) levy in Ireland, offered via auction over the “Tullett Prebon” platform. This information paper includes details on PSO-related CfD offerings/products for the 2016/17 contract year; and,
* Non-Directed Contracts (NDCs), where market participants can offer CfDs which suppliers are free to bid for. The RAs have no role in setting the price or volume of these forward contracts, although we do promote their provision. The extent and frequency of NDC trading has increased considerably in recent years with Tullett Prebon hosting regular “Over the Counter” (OTC) windows on its Brokered Market. This allows for greater interaction between generators and suppliers with respect to NDC prices and quantities, assisting in price discovery.

# PSO-related CfDs for Next Contract Year

1.

## Overview

For the 2016/17 contract year, the RAs are continuing with the overall approach to PSO-related CfDs as exists this year. In other words, there will be quarterly offering of PSO-related CfD via auction, circa one month or so in advance, with monthly products offered for each quarter.

The distribution of PSO-related CfD products also remains on a 50:25:25 capacity (MW) basis between baseload, mid-merit 1 and mid-merit 2 - the reasons for this were detailed in SEM-11-027[[1]](#footnote-1).

## Auction Volumes and Dates

A total of approximately 0.94 TWh of PSO-related CfDs will be offered for the 2016/17 contract year. This will be apportioned between each quarter related to the expected output of PSO thermal generating plant, with monthly products offered for each quarter.

The following table shows the exact volumes (MW) of PSO-related CfDs on offer for each quarter:

In each auction the expected volumes are as follows:

Table 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| MW | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
| Baseload | 80 | 80 | 50 | 80 |
| Mid Merit | 40 | 40 | 20 | 40 |
| Mid Merit 2 | 40 | 40 | 20 | 40 |

The equivalent in MWh offered per quarter is as follows:

Table 2

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
| MWh | 263 | 258 | 152 | 263 |

The PSO-related CfDs allocated to each quarter will be offered via auction over the Tullett Prebon platform on two separate dates, a week apart, with approximately 50% (see table 3 for expected volumes) on offer on each occasion in a similar fashion to the approach for 2015/16. As before, any PSO-related CfD volume (for a month in each quarter) offered in the first auction that is not sold will then be offered in the second auction.

Table 3

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| MW | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
| Baseload | 40 | 40 | 25 | 40 |
| Mid Merit | 20 | 20 | 10 | 20 |
| Mid Merit 2 | 20 | 20 | 10 | 20 |

The auction dates for the 2016/7 contract year will be typically held approximately 1 month or so before the quarter in question, as listed below:

* Circa half of Q4 2016 product will be offered by ESB on Thursday 11th August 2016 and half on Thursday 18th August2016;
* Circa half of Q1 2017 product will be offered by ESB on Thursday 3rd November 2016 and half on Thursday 10th November 2016;
* Circa half of Q2 2017 product will be offered by ESB on Thursday 16th February 2017 and half on Thursday 23rd February 2017; and,
* Circa half of Q3 2017 product will be offered by ESB on Thursday 18th May 2017 and half on Thursday 25th May 2017.

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1. Please see <https://www.semcommittee.com/publication/sem-11-027-contracting-process-2011-2012> [↑](#footnote-ref-1)