Single Electricity Market Committee

Market Power Mitigation in the SEM

Directed Contract Implementation Report

A Response and Decision Paper

SEM-08-020

13 March 2008

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1 Introduction

The Regulatory Authorities (RAs) published a Consultation Paper (SEM-08-02) on 5th February 2008 which outlined the methodology and processes involved in determining Directed Contract quantities and prices for the tariff year 2008/09.

The Consultation Paper proposed the following amendments to the process pursued in 2007:

- condensing the subscription window into a four week period, compared to last year's six-week period, with the initial subscription window lasting for three weeks (instead of four) and the secondary window for one week (instead of two);

- starting the subscription period a month or more earlier than the generic timetable set out in AIP-SEM-07-92, such that:

  - the initial subscription window would open on 28th April 2008 and close on 16th May 2008;

  - the supplemental subscription window would open on 20th May 2008 and close on 26th May 2008;

- increasing the daily subscription limit from 10% of a supplier's eligibility or 10MW, whichever is the higher, to 15% or 15MW, in the light of the proposed shorter subscription windows;

- allowing suppliers to subscribe for Directed Contracts on a quarterly rather than an annual basis;

- aligning the DC products more closely with electricity forward agreement (EFA) product blocks available in the BETTA market, by changing:

  - o the definition of the peak period from the trading periods arising during the hours beginning at 16:30 and ending at 20:00 to one beginning at 17.00 and ending at 21.00 on all days during the fourth and first quarters of the year;[1]

  - o the definition of the mid-merit period from one which begins at 07.30 to one that begins at 07.00 and ends at 23.00;[2]

- making minor changes to the Master Directed Contract for Differences Agreement, including:

  - o adopting the same format of the monthly invoice that ESB PG and PPB must send to suppliers as was used in the non-directed contracts last year;

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1 While this definition of the peak period does not exactly match an equivalent EFA period, it does equally straddle EFA blocks 5 and 6 which run from 15.00 to 19.00 and from 19.00 to 23.00 respectively.

2 EFA blocks 3, 4, 5 and 6 run from 07.00 to 23.00.

- o changing the deadline for the issuing by ESB PG or PPB of the monthly invoice from the 5th Business Day of the month to one of the 7th Business Day of the month; and
- o clarifying the calculation of forward exposure during delivery of the contract for the purpose of credit margining when quarterly fuel prices are no longer visible when a given quarter has begun.

The RAs received comments from seven interested parties on the Consultation Paper. The seven respondents were:

- Bord Gáis Energy Supply (BGES)
- ESB Customer Supply (ESB CS)
- ESB International (ESBI)
- ESB Power Generation (ESB PG)
- NIE Energy PPB (PPB)
- NIE Energy Supply (NIEES)
- Viridian Power & Energy (VPE)

The following section summarise these seven submissions in turn, under the following headings: Directed Contract modelling and methodology; Directed Contract process and timelines; Directed Contract products, volumes and pricing; Direct Contract Agreement; and other comments. A response by the RAs is provided in each case.

The SEM Committee has determined that the implementation of the market power mitigation strategy is an SEM Committee matter within the meaning of the legislation.[3] Each section of this paper concludes with the SEM Committee's final decision. These final decisions are summarised in a concluding section.

3 The SEM Committee is established in Ireland and Northern Ireland by virtue of Section 8A of the Electricity Regulation Act 1999 as inserted by Section 4 of the Electricity Regulation(Amendment) Act 2007, and Article 6 (1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 respectively. The SEM Committee is a Committee of both CER and NIAUR (together the Regulatory Authorities) that, on behalf of the Regulatory Authorities, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter.

2 Respondents' Comments and the Regulatory Authorities' Response

The comments of respondents on the Consultation Paper are summarised below.

2.1 Directed Contract Modelling and Methodology

2.1.1 Initial Proposals

In the Consultation Paper, the RAs outlined the methodology and modelling involved in the determination of Directed Contracts volumes and prices. The main models utilised in the process include:

Concentration Model: the Concentration Model calculates the quantity of Directed Contracts that ESB PG and PPB will be required to make available to eligible suppliers, using the Herfindahl Hirschman Index (HHI) as a measure of market concentration. The target HHI is set by the RAs. This model relies on PLEXOS inputs and outputs. Hence, a validated PLEXOS model is required before the Concentration Model can be used.

Eligibility Model: the Eligibility Model determines the eligibility of each eligible supplier for Directed Contracts, calculating separately for each quarter and each product-type (peak, mid-merit, and baseload). The calculations are performed in an MS Excel spreadsheet.

Econometric Pricing Model: this model is used to estimate the relationship between fuel and carbon prices with the price of electricity and hence to derive the Directed Contract pricing formula. The Econometric Pricing Model uses output from PLEXOS, which calculates the market price of electricity on the basis of assumptions about the prices of fuels and carbon, among other things.

2.1.2 Respondents' Comments

PPB emphasised that, given the dependence of the various models used by the RAs on PLEXOS, the outputs of PLEXOS need to be robustly determined. It was not clear to PPB how the integrity of PLEXOS would be demonstrated such that participants would have confidence in the model outputs. PPB also pointed out that the modelling of the market using PLEXOS must reflect the outcome of the investigation of bidding behaviour of certain generators and the conclusion of the debate on the bidding of the full opportunity costs of carbon. **ESB PG** made the same point in their response.

ESB CS asked that the RAs confirm that the same fuel price indices that were used for last year's Directed Contract pricing formula would be used this year, in the interests of managing the impact on IT systems.

VPE believed that last year's PLEXOS modelling resulted in robust results when compared to market outcomes to date. VPE thought that any changes that may be being considered by the RAs to the functionality of PLEXOS would need to be carefully considered and would require significant extensive testing by the product vendor to ensure that changes do not distort future projections. VPE thought that it might be more appropriate to use PLEXOS on the same basis as last year and to undertake a project to enhance the model accuracy after significantly more market data was available, noting that the volume of data since market start was relatively small and has not tested the extremes or seasonality of market operation and thus would not be conclusive in supporting model validation.

2.1.3 Response by the Regulatory Authorities

The RAs note that an exercise to validate the PLEXOS model input data is currently being undertaken. This work includes validating generator technical and commercial offer data by unit, variable O&M costs, variable cost input forecasts; and the calibration of PLEXOS against actual half hourly ex post data on unit schedules, shadow prices, uplift and SMP from the Market Operator for the period from 1st November 2007. The work will be completed by the end of March. The intention is to get a set of technical input data that is either consistent with generators' own assessment or with what they submit to the Market Operator or both; and a means of calculating commercial offer data that is consistent with adherence to the Bidding Code of Practice, suitably adjusted (if necessary) in the light of the conclusion of the current inquiry into the bidding behaviour of certain generators and the current consultation on the bidding of the full opportunity costs of carbon.

How PLEXOS will then be run to determine Directed Contract volumes and prices will be determined in the light of the results of the validation exercise. The RAs acknowledge that the amount of data available from the actual operation of the market since it began in November 2007 is by necessity limited. However, they cannot rule out at this stage the possibility that the exercise to validate the model against market outcomes will yield interesting lessons, despite the relative paucity of market data.

The RAs can confirm that the same sources (e.g., Platts, Heren, LEBA etc.) of fuel price indices will be used as were used last year. Where an index is no longer published (e.g., the balance of month ICE natural gas index published by Heren), a suitable next best alternative will be used.

2.1.4 Final Proposal

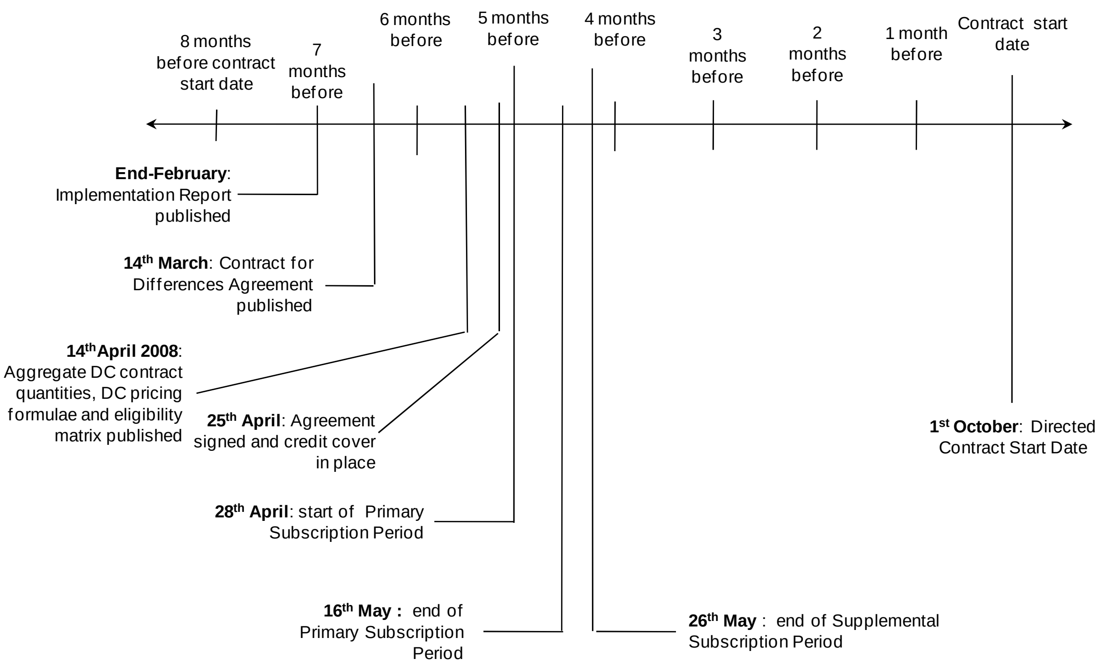
Having considered the various responses on the operation of all the Directed Contract models, the SEM Committee has decided to continue to use the models (concentration, eligibility and econometric pricing models) and methodologies used in the equivalent process last year. The concentration and econometric pricing models will in turn rely on the inputs and outputs of the newly validated PLEXOS model.

2.2 Directed Contract Processes and Timelines

2.2.1 Initial Proposals

In the Consultation Paper, the RAs outlined the processes and timetable for the Directed Contracts subscription process in 2008/09. The proposed timetable is set out below.

2008 DIRECTED CONTRACT TIMETABLE



2.2.2 Respondents' Comments

BGES stated their preference for a four week initial Directed Contract subscription window, followed by a one week supplemental subscription window. This would be followed by a three week auction of non-Directed Contracts for NDCs and one and a half weeks for the PSO auctions. They also suggested that important elements of all auctions of Contracts for Differences (CfDs) and the Moyle capacity auction should be made available to market participants a number of weeks before the start of the first auction. These elements should include full or indicative information on timing, volumes, products and pricing basis. This would add clarity and transparency for all market participants.

ESB PG suggested an alteration to the end date of the initial subscription window, arguing that a gap of one business day should be maintained between the end of the initial window and the start of the supplemental window to enable supplemental volumes to be determined and communicated to participants. This would mean that the initial window should end on Thursday 15th May. ESB PG also noted that the overall timetable for CfD contracting in 2008 was challenging to implement. There was a very short reaction time from receiving Directed Contract volumes / pricing formula on 14th April to starting trading a fortnight later.

Finally, ESB PG were of the opinion that the complexity of electing up to a maximum of 15% or 15MW in any quarter in any product ran an increased risk of human error in accepting subscriptions over the phone. To reduce this risk, ESB would prefer not to accept subscriptions by phone. ESB PG suggested that – as a *quid pro quo* - they would be willing to extend the daily bid submission window from 08:30 to 10.00 to 08:30 to 11.00 in both the initial and supplemental windows.

ESB CS asked that the final DC forward price formula be published in advance of the publication of indicative prices in mid-April in order to support IT development. On the timetable, ESB CS thought that a period of not less than six weeks was both desirable and prudent adequately to allow for comprehensive and thorough development and analysis of PES tariffs. This would mean that the Directed Contract auction should start two weeks earlier than set out in the Consultation Paper. While they acknowledged that this was not possible in 2008, they urged the RAs to ensure that the importance of providing sufficient time for PES tariff development was borne in mind when establishing timetables for subsequent years.

ESB CS also suggested, in that in an effort to improve transparency that each supplier be issued their total maximum import capacity (MIC) and the corresponding aggregate MIC of all suppliers for each of the customer classes. ESB CS also requested that the RAs publish in advance the range of values (i.e. limits) in determining whether the fuel or carbon indices have moved sufficiently outside of the tolerances causing the suspension of subscription for Directed Contracts.

2.2.3 Response by the Regulatory Authorities

The RAs note the preference on the part of BGES for a more extended timetable for the selling of Directed Contracts, Non Directed Contracts and PSO-backed contracts; and on the part of ESB CS for an earlier start to allow more time for the evaluation of tariffs. However, the RAs are satisfied that the current proposals for the Directed Contract/Non-Directed Contract timetable strike the right balance between allowing sufficient time for ESB CS and NIEES subsequently to incorporate the results into their tariff analysis and the need to minimise the time between the selling of contracts and the time periods to which they relate. The timetable for the CfD contracting round in 2009/10 will be considered nearer the time.

On the face of it, the proposal by ESB PG that they would prefer not to accept subscriptions for DCs by telephone seems reasonable. It will be considered when ESB PG submit to the RAs draft subscription guidelines for approval.

The RAs accept ESB PG's proposal that the initial subscription window should end a day earlier than was originally proposed, on Thursday 15th May. This will allow the supplemental window to open on Monday 19th May and end on Friday 23rd May.

The RAs also accept ESB CS's proposals that eligible suppliers individually be told their total MIC and the corresponding aggregate MIC of all suppliers for each of the customer classes.

As far as the interconnector auctions are concerned, the RAs are aware that SONI publish a timetable for the auction of monthly and annual capacity auctions and that the amounts available and other terms are sent out in bid documents a week before the auction. The RAs are satisfied that the timing and nature of this information flow is sufficient.

Finally, the RAs note the suggestion that the timing, volumes, products and pricing basis of all the CfD auctions and the auctions of capacity on the Moyle interconnector should be made available to market participants a number of weeks before the start of the Directed Contract subscription process. The RAs will discuss with ESB PG and PPB whether and to what extent this is possible in the case of the non-directed contracts due to be auctioned in May/June.

2.2.4 Final Proposal

In the light of respondents' comments, the SEM Committee has decided that:

- the initial Directed Contract subscription window will end a day earlier than was originally proposed, i.e., on 15th May;
- the supplemental window will open on Monday 19th May and end on Friday 23rd May; and
- eligible suppliers individually should be told their total MIC and the corresponding aggregate MIC of all suppliers for each of the customer classes at the time their eligibility for Directed Contracts is communicated to them.

The RAs will discuss with ESB PG and PPB whether and to what extent information about the timing, volumes , products and pricing of non-directed contracts and other terms can be published in advance of the Directed Contract subscription window (which opens in late April); and whether similar information on the PSO-backed contracts can also be published then.

2.3 Directed Contract Products, Volumes and Pricing

2.3.1 Initial Proposals

In the Consultation Paper, the RAs proposed that for 2008/09:

- the Directed Contract products would be segmented by quarter (Q4-08 to Q3-09) and by product type (baseload, mid merit and peak) and that each of the ten products could be subscribed for separately;
- the definition of mid-merit would be changed from 07.30 to 23.00 to 07.00 to 23.00;
- the definition of peak would be changed from 16.30 to 20.00 on all days during October, November, December, January, February and March to 17.00 to 21.00 on all days in those months;
- suppliers would be able to subscribe each subscription day for 15% of their eligibility or 15MW, whichever was the higher.

2.3.2 Respondents' Comments

BGES stated their preference for monthly products and suggested a number of alternative mid merit and peak products. They also suggested that, with the benefit of SEM operation, the ability to offer one-way CfDs (i.e., options) should have improved and asked whether this could be introduced for a particular product e.g. a two hour peak product.

ESB PG recognised that closer alignment of product definitions to the EFA blocks would facilitate liquidity in the Irish contracts market and was willing to support the consensus in regard to the product definitions proposed. This applied to both the peak and mid-merit 1 product definitions.[4] However, ESB PG would not support multiplicity of peak and mid-merit 1 products.

ESB CS suggested that in the supplemental window, where there was more than one participant subscribing for the supplementary allocation, the allocation should be split between the participating subscribers on a proportionate basis representative of their individual market share, rather than all participants having equal access to the remaining available DC quantities.

ESBI suggested that shorter duration contracts should be made available and recommended that mid-merit contracts be extended to include the weekends as well as weekdays.

NIEES were concerned by the proposal to change the definition of the peak product from 16:30 to 17.00, because this would remove a key element of hedging cover at a time of both high price volatility and heightened demand.

VPE recommended a change to the mid-merit products which they saw as having been designed specifically for the two PES suppliers. They thought that the mid-merit products should reflect the more generic product type, 07:00 – 19:00 on weekdays, which would be of equal value to all suppliers.

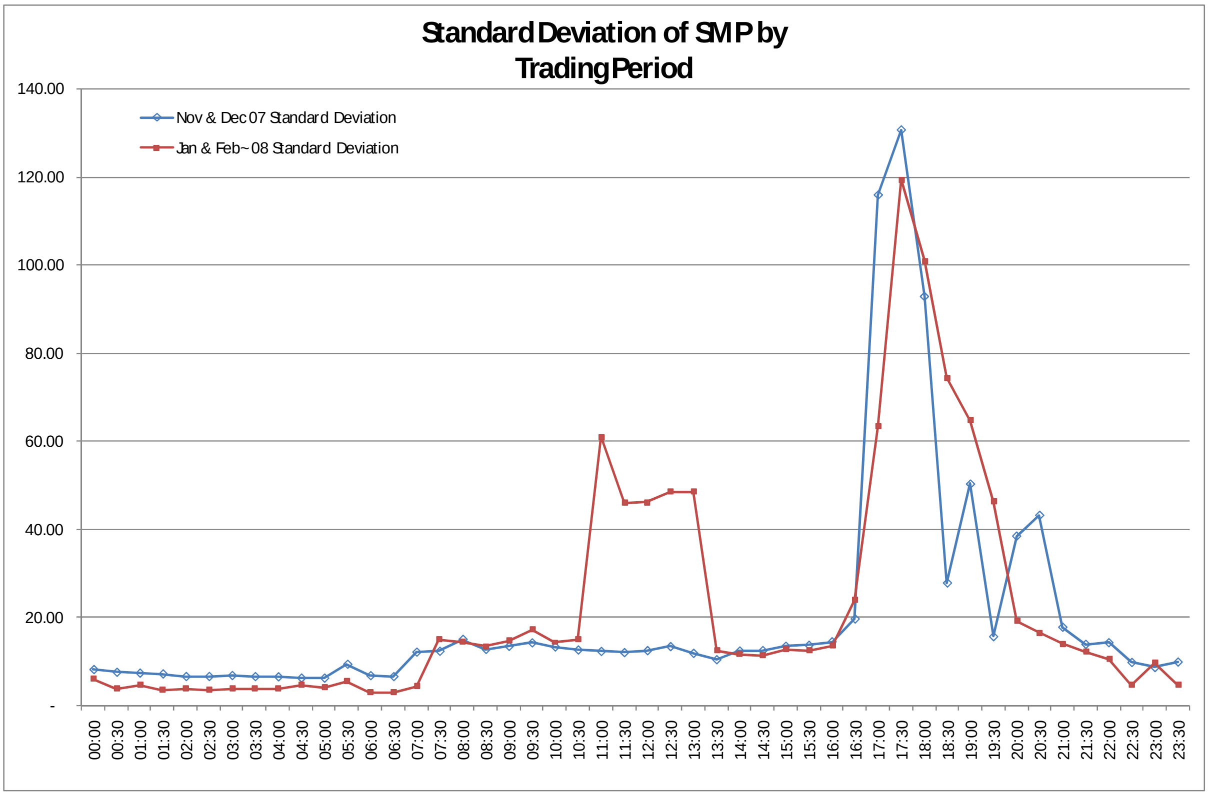
2.3.3 Response by the Regulatory Authorities

In response to these various comments, the RAs note that only one respondent objected to the proposal to change the definition of the peak period from 16.30 to 20.00 to 17.00 to 21.00, on the grounds that prices in the half hour beginning at 16.30 were volatile and that changing the definition would diminish the ability of buyers to hedge against that volatility.

Available data, shown in the chart below, show that there is not significantly more volatility in SMP at 16.30 than during the day (e.g., from 07.00 until 17.00), using the standard deviation of half hourly prices as a measure of volatility.[5] The marked volatility in SMP in the four months since the start of the market in November 2007 generally occurs in the period 17.00 to 19.00 or 19.30.

4 Mid-merit 1 refers to the definition of Mid-Merit used in last year's Directed Contract, which was for the hours beginning at 07:30 and ending at 23:00 on weekdays and for 80% of the Contract Quantity during those hours at weekends and on public holidays.

5 Standard deviation measures how widely values (SMP in each half hour in this instance) are dispersed from the average. Dispersion is the difference between the actual value and the average value. The larger the difference between SMP in a particular half hour and the average SMP in that half hour, the higher the standard deviation will be and the higher the volatility.



The RAs note the preference of a number of suppliers either for shorter duration products (e.g., monthly rather than quarterly) or for more types of products (e.g., mid-merit weekday products). The RAs are satisfied that the RAs original proposals strike the right balance between complexity and liquidity. The greater the number of products available, some of which may compete against others, the more difficult they are to price and the less liquid the auctions will be. Moreover, ESB PG and PPB already offer mid-merit weekday only contracts. The RAs see no great benefit in requiring ESB PG and PPB to make the same product available in the Directed Contract subscription process.

One-way CfD contracts were considered at this time last year in designing the Directed Contract strategy and process. They were rejected then because it was thought that the option fee would be difficult to determine. That decision is still valid now, given the lack of sufficient data since the market began to allow the RAs to price volatility. The option will be kept open for future years.

Finally, the RAs do not consider that ESB CS's suggestion about the eligibility of suppliers in the supplemental window is workable. While it is known at the start of the supplemental window how many and which participants are eligible to subscribe in the window, it would require prior knowledge of how many suppliers and who was actually going to participate. Without this information, there would be a risk of some Directed Contracts remaining unsold at the end of the process.

2.3.4 Final Proposal

Having considered the various comments of respondents, the SEM Committee is satisfied that the RAs' original proposals should stand:

- suppliers will be allowed to subscribe for Directed Contracts on a quarterly rather than an annual basis;
- the definition of the peak period will be the trading periods arising during the hours beginning at 17:00 and ending at 21:00 on all days during the fourth quarter of 2008 and the first quarter of 2009; and
- the definition of mid-merit will be 07.00 to 23.00 on all weekdays and at 80% of the contract quantity on weekends and public holidays.

2.4 Directed Contract Agreement

2.4.1 Initial Proposals

In the Consultation Paper, the RAs proposed that only minor changes should be made to the Master Directed Contract for Differences Agreement. These included:

- changing the specified format of the monthly invoice that ESB PG and PPB must send to suppliers;
- changing the deadline for the issuing by ESB PG or PPB of the monthly invoice from the 5th Business Day of the month to one of the 7th Business Day of the month; and
- clarifying the calculation of forward exposure during delivery of the contract for the purpose of credit margining when quarterly fuel prices were no longer visible when a given quarter has begun, in line with the practice now used in the existing contracts.

2.4.2 Respondents' Comments

BGES argued that the Master Directed Contract should avoid inflexible terms. An example was the approach to credit cover. BGES thought that all parties should be allowed to contract with other parties whom they view to be creditworthy. In standard CfD contracts, it was unusual for one party to waive the right of another to assess if the former was deemed creditworthy under the latter's normal criteria. More unusual was for that same party not to have the ability to determine if it was satisfied that all, some or none of the interested counterparties were considered creditworthy by its own standard set of criteria. Appropriate wording of a term or clause could be inserted into the Master CfD Agreement, to cover an *ad hoc* approach with clear parameters in place, to demonstrate that a transparent, clear and fair approach was in place for different treatment of different parties in standard auction processes.

ESB PG supported changing the invoicing deadline to the 7th business day, provided that:

- the settlement date also moved back by two business days to preserve the existing payment window; and

- credit margining took place on the 13th business day to preserve the one business day gap after the invoices are due for settlement.

On credit cover, ESB PG stated that it would be more practical to ensure that Letters of Credit for the new contracting period are separate letters of credit and that this should be made clear in the rules.

ESB PG also suggested, in light of delays in market publication from recent Market Operator re-settlements, amending clause 7.7.2 of the Master Directed Contract Agreement to state that upon the completion of the Market Operator's monthly settlement re-run, either party can request for an adjustment to be made reflecting the newly available information. ESB PG's suggestion was that the resettlement of CfDs would follow the same timing as Market Operator resettlement. In addition, ESB PG proposed to modify the existing (i.e., 2007/08) contracts to bring the process into alignment.

ESB CS noted that adjusting the monthly invoicing to the 7th business day, also necessitated a corresponding movement in the payment timelines and the Master Directed Contract for Difference should be amended accordingly. ESB CS also asked for clarification of the impact of this invoice amendment on the payment timelines.

NIEES also raised this point stating that there should be no compression to the minimum five business day period between receiving an invoice and payment being due.

2.4.3 Response by the Regulatory Authorities

In response to these various comments, the RAs accept that adjusting the monthly invoicing deadline from the 5th business day to the 7th business day also necessitated a corresponding movement in the payment timelines. ESB PG's suggestion that the payment dates be moved back by two business days is appropriate. This would preserve the minimum five business days between receiving an invoice and payment being due.

The RAs accept ESB PG's suggestion that amending clause 7.7.2 of the Master Directed Contract for Differences Agreement to state that upon the completion of the Market Operator's monthly settlement re-run, either party can request for an adjustment to be made reflecting the newly available information; and that the resettlement of CfDs would follow the same timing as Market Operator resettlement. In addition, ESB PG proposed to modify the existing (i.e., 2007/08) contracts to bring the process into alignment.

On the question of credit cover, the RAs have discussed with ESB PG whether there is scope for more flexibility in its credit cover terms. However, the RAs understand that ESB as a state-owned entity is specifically constrained by legislation in what credit terms it can accept from a counterparty when trading in financial contracts for differences calculated by reference to the system marginal price in the SEM.[6]

Finally, the RAs acknowledge that the original deadline of 14th March for the publication of the revised Master Directed Contract for Differences Agreement is unrealistic. But it will be published by the end of March.

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6 The specification of the Minister for Finance forming part of the Financial Transactions of Certain Companies and Other Bodies Act, 1992

2.4.4 Final Proposal

The SEM Committee has decided that the monthly invoicing deadline will be moved back by two business days and that all associated deadlines (e.g., for payment) will be adjusted to preserve the original intervals; and that ESB PG's suggestion in respect of changes that need to be made to reflect settlement re-runs by the MO and credit margining calculations are appropriate. The Master Directed Contract for Differences Agreement will be amended accordingly. The SEM Committee notes that ESB PG also intends to amend current contracts (both Directed and non-directed) with existing counter-parties to ensure that the timings of the existing business process are aligned with this revised proposal.

No comments were received on the specified format of the monthly invoice that ESB PG and PPB must send to suppliers. The same format as that used in the non-directed contracts will therefore be used.

2.5 Other Comments

Some respondents raised a number of other issues in their responses. These are summarised below:

2.5.1 Respondents' Comments

PPB were concerned that they would be subject to Directed Contracts and stated that it had no resources in place that would enable it to conduct any DC transactions in the immediate future. Even if PPB were to start now to put the necessary systems in place, it was extremely unlikely that they would be developed and implemented by mid-April.

BGES suggested that Moyle capacity auctions should take place in tandem with the NDC/PSO auctions. They also suggested that, since the RAs were involved in the provision of NDC and PSO auctions, draft contracts be issued to participants as soon as was practicable. Ideally final contracts for all hedge/CfD auctions (and the Moyle capacity auction) should be made available to market participants three or four weeks prior to the start of the first auction.

BGES also suggested that potential restrictions on parties discussing non-standard hedge contracts should be removed if at all possible. This should not extend to the current restriction on ESB CS and NIEES organisations from engaging in or concluding bilateral contracts with their affiliates without advance RA approval. BGES asked for RA confirmation that these restrictions were only in relation to ESB PG and PPB respectively, i.e., they did not apply to ESB CS negotiating hedge/CfD contracts with ESB Independent Generation.

VPE voiced concern that the Directed Contract price setting process would determine a benchmark price for PSO plant such as the peat plants. VPE sought to protect its customers (and by extension all customers) from any PSO payments beyond what was absolutely necessary and were thus concerned that any model assumptions that would lower the PLEXOS modelling price beyond what has already been validated last year.

VPE also suggested, in the interests of greater transparency of DC and NDC subscription and auction processes, that the volumes and prices paid by each supplier should be made available to all in the market.

2.5.2 Response by the Regulatory Authorities

In response to these various comments, the RAs take note of PPB's point about their lack of preparedness for offering Directed Contracts on the timetable proposed by the RAs. However, the RAs cannot rule out at this stage that PPB will be required to offer Directed Contracts for subscription.

On the timing of Moyle interconnector auctions, the RAs note that the auction of 40MW import capacity on the Moyle Interconnector for the period 1st April 2008 to 1st April 2009 has already taken place and that it was expressly arranged in February to offer an alternative to Directed Contracts. The RAs will discuss with SONI whether such an auction should take place at the nearer the time of the Directed Contract subscriptions in future years.

On the legal form of the contracts, the Moyle Interconnector Capacity Framework Agreement (Single Electricity Market) is already in the public domain. As far as the RAs are aware, the legal form of the Master Contract for Differences Agreement closely follows that of the Master Directed Contract for Differences Agreement, except that much of the negotiable material is in Schedules rather than the body of the contract itself.

ESB CS has committed (in its 2007 Hedging Policy Statement, which has been approved) not to engage in bilateral negotiations with affiliated counterparties without the prior approval of the Commission for Energy Regulation. There is nothing in Synergen's or Coolkeeragh's licence to prevent them from negotiating contracts with ESB CS, though they are explicitly prohibited from:

- giving subsidies to an affiliate;
- disclosing or obtaining commercially confidential information to or from an affiliate; and
- offering to provide electricity to an affiliate on terms as to price or on other terms affecting the financial value of supply which would be materially more or less favourable than those on which the licensee would provide or would offer to provide electricity to comparable purchasers.

The RAs are currently re-validating PLEXOS in the light of developments since market opening. It is the RAs' intention that it has as unbiased a model as possible to use for the purpose of setting the Directed Contracts prices and the reserve prices in subsequent PSO contracts. There is no intention deliberately to suppress the PSO reserve price in the interests of minimising tariffs and maximising the size of the PSO levy.

Finally, the RAs do not consider VPE's suggestion that, in the interests of transparency, the volumes taken and the prices paid by each supplier under either the Directed Contract or the non-directed contracts to be appropriate. Price paid and volumes taken are commercially confidential information. The RAs would however support greater transparency in the NDC market, without infringing on the rights of participants to maintain their commercial data as confidential. One means of achieving this would be for all NDC sellers to publish their individual volumes of trades and the corresponding strike prices.

3 Conclusions

Having considered the various comments of respondents, the SEM Committee is satisfied that most of the RAs' original proposals in AIP-SEM-08-02 should stand. In particular, by comparison with last year:

- eligible suppliers will be allowed to subscribe for Directed Contracts on a quarterly rather than an annual basis;
- the definition of the peak period will be the trading periods arising during the hours beginning at 17:00 and ending at 21:00 (rather than 16.30 to 20.00 as was the case last year) on all days during the fourth quarter of 2008 and the first quarter of 2009; and
- the definition of mid-merit will be 07.00 to 23.00 (rather than 07.30 to 23.00) on all weekdays and at 80% of the contract quantity on weekends and public holidays.

In response to respondents' comments, the SEM Committee has decided to amend the RAs' original proposal, such that:

- the initial Directed Contract subscription window will end a day earlier than was originally proposed, i.e., on 15th May;
- the supplemental window will open on Monday 19th May and end on Friday 23rd May;
- eligible suppliers individually will be told their total MIC and the corresponding aggregate MIC of all suppliers for each of the customer classes at the time their eligibility for Directed Contracts is communicated to them;
- the monthly invoicing deadline in the Master Directed Contract for Differences Agreement will be moved back by two business days and that all associated deadlines (e.g., for payment) will be adjusted to preserve the original intervals; and
- clause 7.7.2 of the Master Directed Contract for Differences Agreement will be amended to state that, upon the completion of the Market Operator's monthly settlement re-run, either party to the Agreement can request for an adjustment to be made reflecting the newly available information and that the resettlement would follow the same timing as Market Operator resettlement.

The RAs will discuss with ESB PG and PPB whether and to what extent information about the timing, volumes , products and pricing of non-directed contracts and other terms can be published in advance of the Directed Contract subscription window (which opens in late April); and whether similar information on the PSO-backed contracts can also be published then.