

Single Electricity Market Committee

Contracts for Differences (CfDs) in the Single Electricity Market (SEM)

The 2010/'11 Contracting Process

An Information Paper

SEM-10-017

1 April 2010

1. Introduction

The Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation (the Regulatory Authorities or RAs) have developed a single all-island electricity market, the Single Electricity Market (SEM), which came into operation on November 1st 2007. Further details on the project can be found on the AIP website (www.allislandproject.org).

Risk Management is an integral element of the efficient and effective operation of the SEM. To date there have been offerings of a substantial volume of 2-way Contracts for Differences (CfDs) which have enabled generators and suppliers to manage and hedge the wholesale price risk inherent in the SEM. The availability of CfDs is also an important means of delivering 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.

The purpose of this information paper is to provide the SEM Committee's¹ position with regard to the ongoing SEM contracting process. It shows the expected CfD timelines and products that will be available, covering Non-Directed Contracts (NDCs) and CfDs associated with the PSO that will be offered between now and mid 2011, as well as showing how they will compliment this year's offering of Directed Contracts (DCs) regulated by the RAs.

Further detail on the DC process, products and timelines are available in the DC Implementation Report (SEM-10-016) published today with this paper.

2. Background

This information paper updates on the paper published by the SEM Committee in February (SEM-10-006) which provided an indicative high-level timetable on the various CfD products - DCs, NDCs and CfDs associated with the PSO. It goes into more detail and takes into account comments received to that paper and to the DC

¹ 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 RAs) that, on behalf of the RAs, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter. In this paper the terms 'SEM Committee' and 'RAs' are used interchangeably.

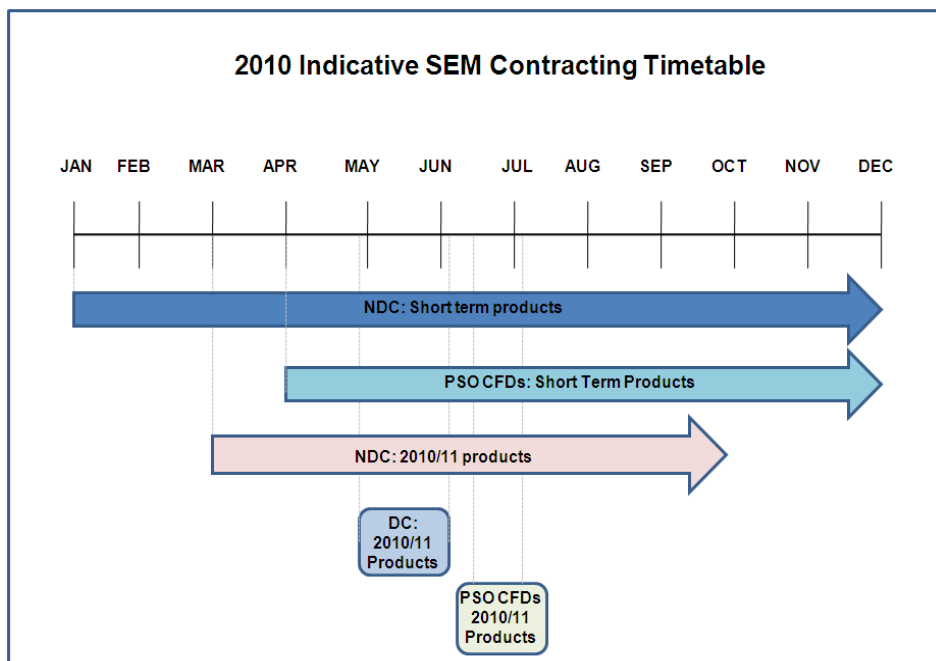
Implementation Report Consultation Paper (SEM-10-005) also published in February. Relevant comments included a request that CfDs associated with the PSO should be made available at different stages throughout the year (rather than in one short period in advance of the tariff year) and that there should be more notice on NDC auctions and/or their volumes. Further detail on the responses - and on the DC process, products and timing - can be found in the DC Implementation Report decision (SEM-10-016) which is also being published today with this paper.

3. Contracting in 2010/11

While only the DC process is directly regulated by the RAs (see SEM-10-016 published with this paper), the RAs have a broader role in promoting market liquidity through the NDC and PSO related process, as well as a role in ensuring that any participation in the offering of CfDs by the incumbents is fair and transparent.

The figure below shows the contracting process for the remainder of 2010 and, for NDCs and CfDs associated with the PSO in particular, though to mid 2011. It represents a significant widening of the type of CfD products offered in previous years, taking into account market participant comments/requests (see section 2) and also discussions with ESB PG and NIE PPB. This is then discussed in more detail in subsequent sections.

Figure 3-1



3.1 DCs

As in previous years, the DC subscriptions/auctions will be discrete processes in 2010, with the DC primary and supplemental windows taking place over 4 and 1 week respectively from late April. Please see SEM-10-016 (published today) for more details on this.

3.2 NDCs

At the end of 2009, and in February and March of this year, auctions for short term NDC products², including monthly products, were held on the Tullet Prebon Multi-Trading Facility (MTF) and offered by ESB PG. Please see the table below for more information on these auctions. This is a welcome development in providing for more transparency and liquidity in the forward contracting market.

Table 3-1

Product		ESB PG Auctions (MW)	
		February	March
Baseload	Mar-10		
	Apr-10	20	10
	May-10	40	15
	Jun-10	40	10
	Jul-10		
	Aug-10		
	Sep-10		
Mid Merit 1	Mar-10		
	Apr-10	20	40
	May-10	30	35
	Jun-10	30	20
	Jul-10		
	Aug-10		
	Sep-10		20
Mid Merit 2	Mar-10		
	Apr-10	20	45
	May-10	30	50
	Jun-10	30	20
	Jul-10		
	Aug-10		
	Sep-10		20
Peak	Mar-10	20	
	Apr-10		

² Products that are offered for periods within the current tariff year.

May-10		
Jun-10		
Jul-10		
Aug-10		
Sep-10		

ESB PG has committed to offering more short-term NDCs as monthly and/or quarterly products over the course of 2010/'11 after the DC auctions finish in June. ESB PG has also informed the RAs that they plan to hold ongoing within year NDC auctions on a monthly basis (subject to PG having a volume to sell).

ESB PG has committed to publishing a calendar of indicative NDC auction dates and indicative overall NDC volumes on the 23rd April. This follows the planned RA publication of the DC volumes and pricing formulae on April 16th (see SEM-10-016) in order that ESB PG can be first aware of their contracting commitments under the DC process. The publication on 23rd April should increase the notice time for these NDC auctions compared to previous NDC auctions - however the volume and prices will continue to be indicative and will only be confirmed on the morning of the auction.

ESB PG has also committed to facilitate the offering of short and long-term CfDs associated with the PSO for 2010/'11 (see next section).

NIE PPB³ is planning to hold their first NDC auction for the 2010-11 tariff year on the 1st April. NIE PPB will be publishing an invitation to bid on the 2nd April giving details of their auctions in April and another one will be published on the 29th April giving details of their auctions in May and June.

Once all the relevant updated information on NDC auction dates and total volumes becomes available, the RAs will publish a revised Information Paper on the contracting process - anticipated by early May.

3.3 PSO related CfDs

³ While NIE PPB are expected to offer CFDs to the market for the 2010-11 tariff year, there is less certainty over the volume of CFDs that they can offer for this period. This is due to the possible cancellation of Generating Units Agreements (GUAs) between NIE PPB and AES Kilroot for the two coal/oil fired units. These GUAs can be cancelled from as early as 1st November 2010, or anytime thereafter, provided 180 days notice has been given. For clarity, the GUAs for the Premier Power CCGT plant cannot be cancelled until 1st April 2012 at the earliest, so NDC volumes with respect to these particular PPB offering will not be impacted upon.

Taking account of market participant comments (see section 2) and recent discussions with ESB PG, the CfDs associated with the PSO, of which there are about 600 MW for the whole year, will be offered as follows:

2009/10 Unsold CfDs

Any unsold CfDs volumes associated with the PSO from the last annual PSO CfD auction round for the current tariff period (i.e. to end September 2010), of which there is approximately 196 MW for Q2 2010 and 172 MW for Q3 2010, will be offered between March and June as monthly baseload and mid-merit products for the period to end September.

The table below outlines the timetable, products and volumes involved:

Table 3-2

Product	MW Available				Auction Timing		
	Baseload	Mid Merit 1	Mid Merit 2	Total	Apr-10	May-10	Jun-10
May-10	66	65	65	196	100%	-	-
Jun-10	66	65	65	196	50%	50%	-
Jul-10	58	57	57	172	50%	50%	-
Aug-10	58	57	57	172	-	50%	50%
Sep-10	58	57	57	172	-	50%	50%

2010/11 CfDs

For the 600 MW available for the following tariff year, i.e. from 1st October 2010 to end September 2011, a mix of short and longer-term CfDs associated with the PSO will be offered, to give market participants a choice and flexibility of product. This will operate as follows:

- 33% will be sold annually, with four quarterly products over the period from October 2010 to September 2011, sold over three weeks from mid June to early July
- 33% will be sold bi-annually, with 2 quarterly products from October 2010 to March 2011 and 2 quarterly products from April to September 2011, sold over three weeks in both September and March respectively. These will be offered in conjunction with the monthly products indicated below in September and March.
- 34% will be sold as monthly products over a quarter, sold over a week in the month prior to the start each quarter.

This is summarised in the following table.

Table 3-3

<u>Timeline</u>	<u>Q4-10</u>	<u>Q1-11</u>	<u>Q2-11</u>	<u>Q3-11</u>
Annually (June & July)	33%	33%	33%	33%
Bi-annual (Sept/Mar)	67%	33%	67%	33%
Quarterly (Sept/Dec/Mar/Jun)		34%		34%

Unsold capacity from earlier auctions will be added to the volumes allocated to subsequent auctions. Baseload and mid-merit products will be offered as part of this mix.

3.4 ESB's review of Multilateral Trading Platforms

ESB PG has informed the RAs that their search and review of expressions of interest in the provision of Multilateral Trading Facilities for the auctioning of CFDs in the SEM has not resulted in any new providers entering the SEM market at this stage. Therefore ESB PG will use Tullet Prebon for the initial 2010-11 auctions.

3.5 Subsequent Contracting Information Paper

The RAs intend to publish a subsequent Information Paper on the contracting process combining all the indicative auction dates, once all the relevant updated information on NDC auction dates and total volumes becomes available. The RAs hope to publish this revised Information Paper by early May.