

# **Single Electricity Market Committee**

## **Contracts for Differences in the Single Electricity Market**

### **The 2010/'11 Contracting Process**

#### **An Information Paper**

SEM-10-031

19 May 2010

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## 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 1<sup>st</sup> 2007. Further details on the project can be found on the AIP website ([www.allislandproject.org](http://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's<sup>1</sup> position with regard to the ongoing SEM contracting process. In particular it provides detail on the timelines, volumes and products of Non-Directed Contracts (NDCs) and PSO-related CfDs that will be offered in the short-term and for the forthcoming 2010/'11 tariff year, i.e. from 1<sup>st</sup> October 2010 to end September 2011. This is an update to the Information Paper published by the RAs on 1<sup>st</sup> April (SEM-10-017).

The NDCs and PSO-related CfDs offerings detailed in this paper will compliment the Directed Contracts (DCs) which are currently being offered by ESB Power Generation (ESB PG) for the 2010/'11 tariff year, under a process regulated by the RAs. Please see the RAs' paper published on 22<sup>nd</sup> April (SEM-10-022) for information on these DC quantities, pricing formulae and timelines.

The DC and NDC volumes/products are presented in this paper for information-only purposes. However the RAs do invite specific comment from market participants on the proportion of the 2010-11 PSO-related CFDs converted into baseload, mid-merit 1 and mid-merit 2 and also the number of auctions they are offered over, as discussed in section 3.3. Any comments on this should be sent to the RAs by 2<sup>nd</sup> June 2010.

## 2. Background

This Information Paper follows the paper published by the SEM Committee on 1<sup>st</sup> April (SEM-10-017), which provided information available at the time on the various CfD product offerings over the next year - DCs, NDCs and CfDs associated with the PSO. This Information Paper now updates on that paper and provides more detailed information, specifically on:

- Short-term within-year ESB PG NDC offerings over the coming months;

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<sup>1</sup> 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.

- ESB PG and PPB NDC longer-term offerings for the 2010/11 tariff year and also within-year offering during that tariff year; and,
- PSO-related CfD timelines, volumes and products that will be offered by ESB PG for the 2010/'11 tariff year, building on information provided in the previous Information Paper.

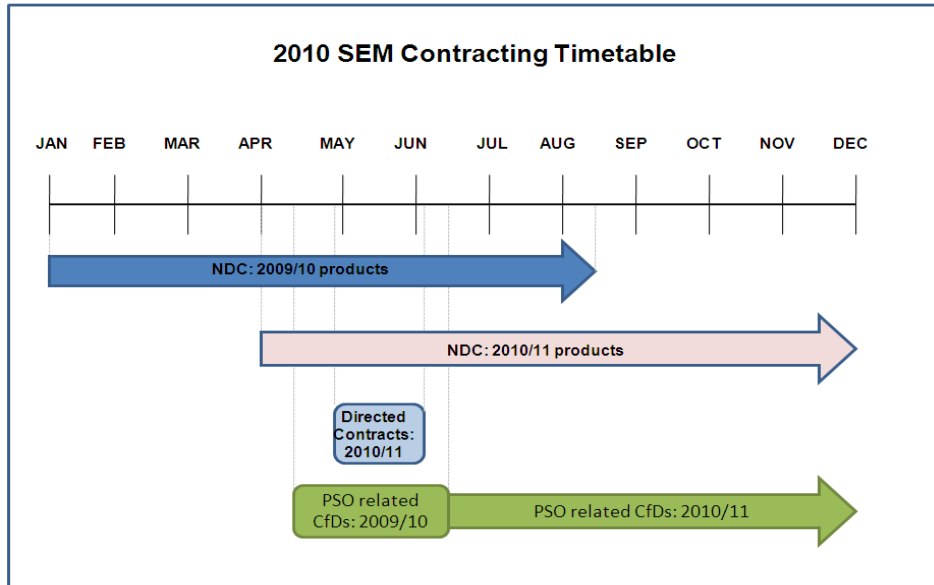
This Information Paper therefore provides market participants with advanced notice on the various CfDs that will be made available for 2010/11, including volumes, product types and auction dates. The aim of this is to provide transparency to the market, while it also reflects the RAs' desire to have a good mix of CfD products on offer at different times of the year, from short to long-term and from baseload to peaking, providing a high level of contract liquidity. It also takes into account previous market participant comments requesting that CfDs be made available at different stages throughout the year and that there should be more notice on NDC auctions and their volumes.

The DC and NDC volumes/products are presented in this paper for information-only purposes. However the RAs do invite specific comment from market participants on the proportion of the 2010-11 PSO-related CFDs converted into baseload, mid-merit 1 and mid-merit 2 and also the number of auctions they are offered over, as discussed in section 3.3. Any comments on this should be sent to the RAs by 2<sup>nd</sup> June 2010.

### **3. Contracting in 2010/'11**

While only the DC process is directly regulated by the RAs (see SEM-10-022), 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 and also discussions with ESB PG and NIE PPB.



This is discussed in more detail below and is divided between DCs, NDCs and PSO-related CfD offerings. This is followed by an overall summary of all CfD offerings for 2010/11 and a comparison with 2009/10.

### 3.1 Directed Contracts

The RAs have determined the DC process, pricing and quantities for the 2010/11 tariff year, as detailed in SEM-10-022 published by the RAs on 22<sup>nd</sup> April. The DC primary subscription window is currently ongoing and will continue until 24<sup>th</sup> May, with the supplemental window (offering unsold DC quantities from the primary window) to take place from 1<sup>st</sup> to 4<sup>th</sup> June. Below please see a summary of the DC products and quantities on offer for eligible suppliers for 2010/11.

#### ESB PG DCs 2010/11, MWs

QUARTER	BASELOAD	MIDMERIT	PEAK
Q4 2010	0	188	306
Q1 2011	0	155	202
Q2 2011	0	312	N/A
Q3 2011	0	211	N/A

For further details on the 2010/11 DCs, please see the RAs' paper SEM-10-022.

### 3.2 Non-Directed Contracts

#### 3.2.1 Within-Year NDCs

At the end of 2009, and in February and March and May of this year, auctions for short term NDC products<sup>2</sup>, including monthly products, were held on the Tullett Prebon Multi-Trading Facility (MTF) and offered by ESB PG. ESB PG had committed to offering more short-term within-year NDCs for the 2009/10 tariff year, subject to it having product to sell. ESB PG intends to hold these auctions on the following dates:

<sup>2</sup> Products that are offered for periods within the current 2009/10 tariff year.

- 8<sup>th</sup> June 2010;
- 7<sup>th</sup> July 2010;
- 12<sup>th</sup> August 2010.

ESB PG will publish an Invitation to Bid five days prior to each of the auctions detailing the products and reserve prices.

### **3.2.2 NDCs for 2010/11**

ESB PG has committed to offering a variety of NDC products, volumes for the forthcoming tariff year, with auction dates as indicated. In particular, from late May through to early July 2010 ESB PG will offer a significant baseload volume to compliment the lack of DC baseload offerings, while mid-merit, peaking and within-year products are also provided for, as below. ESB PG will publish an Invitation to Bid five days prior to each of the auctions detailing the products and reserve prices.

### **ESB PG Baseload NDCs**

- 125 MW as an annual baseload product<sup>3</sup> across the entire tariff year (October 2010 to September 2011); and,
- 50 MW to 175 MW as quarterly only baseload products offered across the tariff year.

This is detailed below.

	<b>ESB PG Baseload - MW (Indicative)</b>				
<b>Auction Date</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Thurs, 27<sup>th</sup> May</b>	-	-	-	-	50
<b>Thurs, 3<sup>rd</sup> June</b>	-	-	-	-	75
<b>Thurs, 10<sup>th</sup> June</b>	50	50	50	25	-
<b>Thurs, 17<sup>th</sup> June</b>	50	50	50	25	-
<b>Thurs, 24<sup>th</sup> June</b>	25	50	25	-	-
<b>Tues, 29<sup>th</sup> June</b>	-	-	-	-	-
<b>Thurs, 1<sup>st</sup> July</b>	-	25	-	-	-
<b>Total for Quarter (incl. Annual)</b>	<b>250</b>	<b>300</b>	<b>250</b>	<b>175</b>	<b>-</b>

### **ESB PG Mid-Merit 1 NDCs**

- 50 MW as an annual mid-merit 1 product<sup>4</sup> for the entire 2010/'11 tariff year; and;
- 25 MW to 175 MW as quarterly only products offered across the tariff year.

This is detailed below.

	<b>ESB PG Mid-Merit 1 - MW (Indicative)</b>				
<b>Auction Date</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Thurs, 3<sup>rd</sup> June</b>	-	-	-	-	50
<b>Thurs, 10<sup>th</sup> June</b>	50	50	50	25	-
<b>Thurs, 17<sup>th</sup> June</b>	50	50	25	-	-
<b>Thurs, 24<sup>th</sup> June</b>	25	50	-	-	-
<b>Thurs, 1<sup>st</sup> July</b>	-	25	-	-	-
<b>Total for Quarter (incl. Annual)</b>	<b>175</b>	<b>225</b>	<b>125</b>	<b>75</b>	<b>-</b>

### **ESB PG Mid-Merit 2 NDCs**

<sup>3</sup> For Trading Periods arising in all hours at the Contract Quantity

<sup>4</sup> For Trading Periods arising during the hours beginning at 07:00 and ending at 23:00 at the Contract Quantity on Business Days and at 80% of the Contract Quantity during these hours on non-Business Days.

- 50 MW as an annual mid-merit 2 product<sup>5</sup> for the entire 2010/'11 tariff year; and,
- 25 to 125 MW as quarterly only products offered across the tariff year.

This is detailed below.

	<b>ESB PG Mid-Merit 2 - MW (Indicative)</b>				
<b>Auction Date</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Thurs, 3<sup>rd</sup> June</b>	-	-	-	-	50
<b>Thurs, 10<sup>th</sup> June</b>	50	50	25	50	-
<b>Thurs, 17<sup>th</sup> June</b>	50	50	-	25	-
<b>Thurs, 24<sup>th</sup> June</b>	25	25	-	-	-
<b>Total for Quarter (incl. Annual)</b>	<b>175</b>	<b>175</b>	<b>75</b>	<b>125</b>	<b>-</b>

#### ***ESB PG Peaking NDCs***

- 25 MW in Q4 2010 and Q1 2011 as peaking product<sup>6</sup>.

This is detailed below.

	<b>ESB PG Peaking - MW (Indicative)</b>				
<b>Auction Date</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Annual</b>
<b>Thurs, 24<sup>th</sup> June</b>	25	25	-	-	-
<b>Total for Quarter (incl. Annual)</b>	<b>25</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### ***ESB PG Within-Year NDCs***

ESB PG had committed to offering more short-term within-year NDCs for the 2010/'11 contract year, subject to it having product to sell. If there is any unsold volume in the annual round of auctions then ESB PG will offer this again in the within year auctions. ESB PG expects to have about 1.4TWh of CfDs to offer over the following auctions:

- 9<sup>th</sup> September 2010;
- 7<sup>th</sup> October 2010;
- 11<sup>th</sup> November 2010;
- 9<sup>th</sup> December 2010;
- 13<sup>th</sup> January 2011;
- 10<sup>th</sup> February 2011;
- 10<sup>th</sup> March 2011;

<sup>5</sup> For Trading Periods arising during the hours beginning at 07:00 and ending at 19:00 at the Contract Quantity on Week Days only.

<sup>6</sup> For Trading Periods arising during the hours beginning at 17:00 and ending at 21:00 on all days during October, November, December, January, February and March, at the Contract Quantity



- 7<sup>th</sup> April 2011;
- 12<sup>th</sup> May 2011;
- 9<sup>th</sup> June 2011;
- 7<sup>th</sup> July 2011;
- 11<sup>th</sup> August 2011.

ESB PG will publish an Invitation to Bid five days prior to each of the auctions detailing the products and reserve prices.

***NIE PPB NDCs***

NIE PPB have to date (12<sup>th</sup> May 2010) held eight NDC Auctions for the 2010/'11 tariff year and plan to hold eleven more from 19<sup>th</sup> May to 25<sup>th</sup> June 2010. The actual volumes offered so far and the indicative volumes to be offered from 19<sup>th</sup> May to 25<sup>th</sup> June are detailed below.

			NIE PPB Baseload - MW					NIE PPB Midmerit 1 - MW					NIE PPB Midmerit 2 - MW					NIE PPB Peak - MW				
			Q4 2010	Q1 2011	Q2 2011	Q3 2011	Winter 10'11	Summer 2011	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Winter 10'11	Summer 2011	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Winter 10'11	Summer 2011	Q4 2010	Q1 2011
OFFERED	1	01/04/2010							25													
OFFERED	2	15/04/2010					20															
OFFERED	3	20/04/2010								20	20											
OFFERED	4	22/04/2010												20	20	20						
OFFERED	5	27/04/2010						20														
OFFERED	6	30/04/2010												20				20				20
OFFERED	7	07/05/2010					20						20									
OFFERED	8	12/05/2010				20									20	20					20	20
INDICATIVE	9	19/05/2010		20						20					20			20				20
INDICATIVE	10	21/05/2010										20	20									
INDICATIVE	11	26/05/2010			20						20			20	20							20
INDICATIVE	12	28/05/2010						20				20								20		
INDICATIVE	13	02/06/2010		20		20									20			20				20
INDICATIVE	14	04/06/2010					20						20						20			
INDICATIVE	15	09/06/2010	20						20							20	20					20
INDICATIVE	16	16/06/2010	20						20		20	20										20
INDICATIVE	17	18/06/2010						20				20	20									
INDICATIVE	18	23/06/2010			20											20	20					20
INDICATIVE	19	25/06/2010																20	20			
As of 12/05/2010			0	0	0	20	40	20	0	25	20	20	0	20	40	40	40	20	0	0	20	40
			40	40	40	20	20	40	20	20	40	40	60	60	20	60	40	80	40	40	80	60

### 3.3 PSO-Related CfDs

This section details the CfDs associated with the PSO in Ireland, of which there are about 600 MW for the whole year, which will be offered by ESB PG for the tariff year 2010/11. This builds on the information published on 1<sup>st</sup> April (SEM-10-017).

#### 3.3.1 Within-Year 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, are being offered between March and June as monthly baseload and mid-merit products for the period to end September.

The following table outlines the timetable, products and volumes involved.

Product	MW Available				Auction Timing		
	Baseload	Mid Merit 1	Mid Merit 2	Total	14 <sup>th</sup> Apr-10	14 <sup>th</sup> May-10	11 <sup>th</sup> 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%

#### 3.3.2 CfDs for 2010/11

For the 600 MW available for the following tariff year, i.e. from 1<sup>st</sup> 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 shown below.

Please note that the RAs invite specific comment from market participants on the proportion of the PSO-related CFD products proposed for offer for next year, which are 1/3, 1/3, 1/3 between baseload, mid-merit 1 and mid-merit 2. The RAs' invite comments on this breakdown and whether, for example, more baseload should be provided at the expense of mid-merit 1 and mid-merit 2 - see also section 3.4 for the current overall CfD mix proposed for the next tariff year compared to this tariff year. The RAs are also seeking comments from market participants on the number of auctions that the PSO baseload and mid-merit products are offered over, i.e. whether the products should be offered over more or fewer auctions or whether the number proposed is appropriate. Comments on this issue should be sent to the RAs by 2<sup>nd</sup> June 2010.

#### **Annual Product**

33% will be sold annually, with four quarterly products over the period from October 2010 to September 2011, sold from mid to late June.

Auction Date	Baseload, MW				Mid-Merit 1, MW				Mid-Merit 2, MW			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tues, 15 <sup>th</sup> June	22	22	22	22	22	22	22	22	22	22	22	22
Tues, 22 <sup>nd</sup> June	22	22	22	22	22	22	22	22	22	22	22	22
Wed, 30 <sup>th</sup> June	22	22	22	22	22	22	22	22	22	22	22	22
<b>Total</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>

### ***Bi-Annual Product***

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 two weeks in both September and March respectively. These will be offered in conjunction with the monthly products (see next).

Auction Date	Baseload, MW				Mid-Merit 1, MW				Mid-Merit 2, MW			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Thurs, 2 <sup>nd</sup> Sept	22	22	-	-	22	22	-	-	22	22	-	-
Tues, 7 <sup>th</sup> Sept	22	22	-	-	22	22	-	-	22	22	-	-
Fri, 10 <sup>th</sup> Sept	22	22	-	-	22	22	-	-	22	22	-	-
Tues, 1 <sup>st</sup> Mar	-	-	22	22	-	-	22	22	-	-	22	22
Thurs, 3 <sup>rd</sup> Mar	-	-	22	22	-	-	22	22	-	-	22	22
Tues, 8 <sup>th</sup> Mar	-	-	22	22	-	-	22	22	-	-	22	22
<b>Total</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>	<b>66</b>

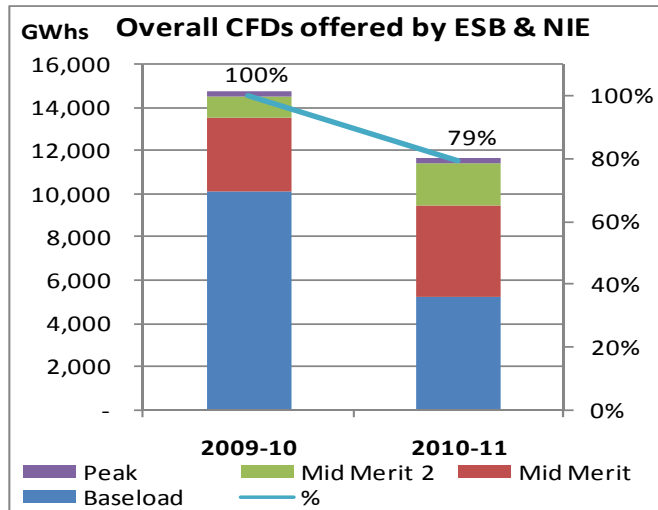
### ***Monthly Product***

34% will be sold as monthly products over the following quarter, sold prior to the start of the quarter.

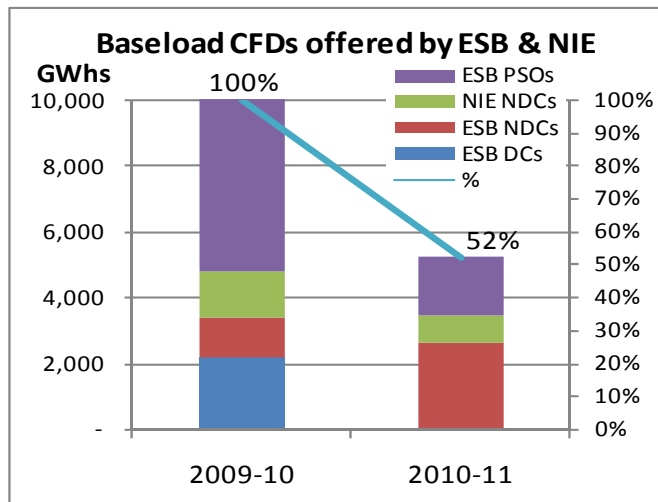
Auction Date	Baseload, MW				Mid-Merit 1, MW				Mid-Merit 2, MW			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Tues, 14 <sup>th</sup> Sept	68	-	-	-	68	-	-	-	68	-	-	-
Tues, 7 <sup>th</sup> Dec	-	68	-	-	-	68	-	-	-	68	-	-
Tues, 15 <sup>th</sup> Mar	-	-	68	-	-	-	68	-	-	-	68	-
Tues, 7 <sup>th</sup> June	-	-	-	68	-	-	-	68	-	-	-	68
<b>Total</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>	<b>68</b>

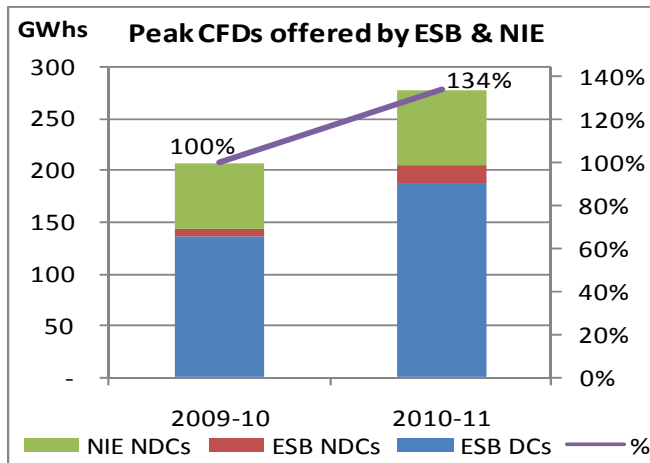
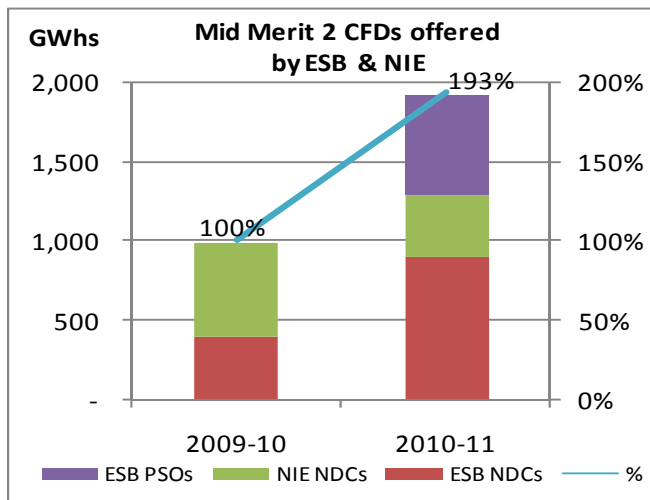
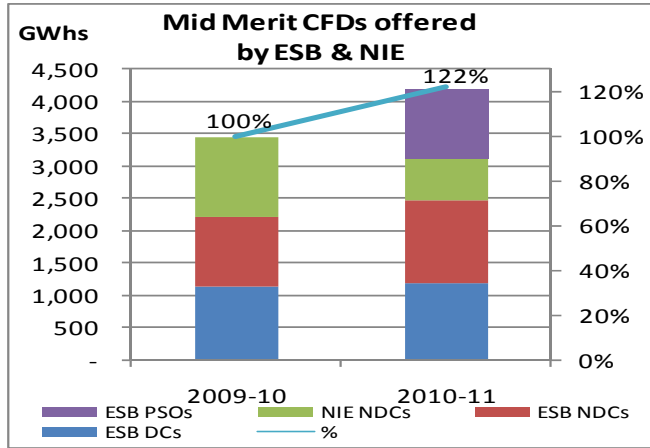
### 3.4 CfDs Overall

The figure below shows the overall CfD volumes on offer for the forthcoming tariff year by product type (baseload, mid-merit and peaking) covering DCs, NDCs and PSO-related CFDs, and compares these volumes with 2009/10. The volume of 2010-11 CfDs shown includes 1.4TWhs that ESB PG intends to offer as short term auctions throughout the forthcoming tariff year (this has been provisionally split equally between baseload, mid-merit 1 and 2). As can be seen there is an overall reduction of approximately 21% from the CfDs offered in the 2009 annual auctions. This is primarily due to lower DC volumes and ESB having a lower share of overall generation.



However, as shown in the following figures, there is an increase in mid-merit 1, mid-merit 2 and peaking CfDs being offered for the next tariff year, in line with anticipated market demand for shape. For the mid-merit products, this increase is primarily due to extra NDC volumes being offered from ESB and the PSO-related CfDs being split between baseload and mid-merit products (as proposed in section 3.3 above). For the peaking product the increase is primarily due to an increase in DC volumes being offered by ESB PG.





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