

# **Single Electricity Market Committee**

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

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

#### **An Information Paper**

SEM-10-040

22 June 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 1<sup>st</sup> 2007. Further details on the project can be found on the AIP website ([www.allislandproject.org](http://www.allislandproject.org)).

So far this year, the RAs have published a number of Information Papers on the provision of Contracts for Differences (CFDs) in the SEM, with the most recent Information Paper published on 19<sup>th</sup> May, SEM-10-031<sup>1</sup>. This paper detailed the expected timing and quantity of contracts on offer from the incumbent generators, for both the short term (i.e. the current 2009-10 tariff year) and the next tariff year (i.e. October 2010 to September 2011).

In SEM-10-031 the RAs provided information on a significantly greater number of contract auctions and types of contract than was available last year. It also invited comments from market participants on two specific issues regarding the PSO-related CFDs - the proportion of PSO-related CFDs converted into Baseload, Mid Merit 1 and 2, and the number of auctions they are offered over.

This paper now updates on SEM-10-031, taking account of comments received on the above issues only (other issues raised can be followed up separately with the RAs by the market participants). A summary of comments on the above issues, along with the RAs' response, is provided in section 2 of this paper. Following on from this, section 3 provides information on any changes in the contracting process from that contained in SEM-10-031 (i.e. it should be read in conjunction with SEM-10-031).

Separate from the above issues, since SEM-10-031 was published, NIEE PPB has decided to suspend all scheduled contract auctions from the 3<sup>rd</sup> June 2010. This action was taken in response to the SEM Committee's planned consultation on generator Transmission Loss Adjustment Factors (TLAFs) and a proposed decision to treat them on a uniform basis from October 2010. NIEE PPB has committed to updating the market by Friday 25<sup>th</sup> June 2010 on its revised NDC quantities and auction dates and following receipt of this information we will publish this on the AIP website.

## 2. Summary of comments submitted

The RAs have received comments from the following 3 organisations:

- ESB Customer Supply (ESB CS)
- Bord Gáis (BG)
- Viridian Power and Energy (VPE)

These comments are summarised below.

### **Baseload and Mid Merit Proportions of PSO-related CFDs**

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<sup>1</sup> [http://www.allislandproject.org/en/market\\_decision\\_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e](http://www.allislandproject.org/en/market_decision_documents.aspx?article=1324200e-97d3-412e-99a2-94b64c804e1e)

Both VPE and BG welcomed the introduction of Mid Merit products to the PSO related CFDs. VPE suggested that the volume of Mid Merit 2 products on offer be increased and noted that only suppliers with significant load at the weekends were interested in Mid Merit 1, such as the PES suppliers.

However, ESB CS raised concerns over the volume of Baseload contracts on offer and has suggested that it should be revised from 200MW to 450MW. It was noted that the overall volume (MWhs) of PSO related CFDs will fall by 34% from previous years compared to when it was all Baseload.

ESB CS also noted that the 3 peat stations and the Aughinish CHPs that are included in the PSO all operate as Baseload and total 450MW. Based on historical production patterns of the thermal generators funded by the PSO, they suggest winter Mid Merit 1 and 2 volumes of 150MW and 100MW, respectively, and 50MW for summer Mid Merit 1 and 2 each. They also requested that the RAs outline their methodology for arriving at the PSO volumes proposed in SEM-10-031.

BG wanted clarity as to whether unsold volumes from earlier auctions will get reoffered in the preceding shorter term auctions.

### **RA Response**

The CER is the Regulatory Authority with responsibility for the Ireland PSO related CFDs, and taking on board the above comments, it has been decided to increase the Baseload share of the PSO-related CFDs from 200MW to 300MW and reduce the Mid Merit 1 and 2 volumes from 200MW to 150MW respectively. This applies in every quarter of the 2010-11 tariff year. This is in view of the big reduction in Baseload CFDs compared to last year, driven primarily by a lack of Baseload Directed Contracts due to ESB PG's lower market share. This change helps address that issue somewhat while it still involves the provision of more flexible Mid Merit products than was available previously, to the benefit of suppliers. Accordingly, this change strikes an appropriate balance between the various contract products, taking on board comments received to SEM-10-031.

The RAs can confirm that any unsold contract volume from an earlier auction will be reoffered in subsequent auctions for delivery periods that have not lapsed.

The volumes of PSO related CFDs offered, as Baseload, Mid Merit 1 or Mid Merit 2, is related to the output of the underlined thermal stations funded by the PSO. This includes some or all of the output from the following stations:

- Lough Ree
- West Offaly
- Edenderry
- Tynagh
- Aughinish Alumina

In addition to the above, consideration of the demand for different products is also taken into account when deciding the division of PSO related CFDs between Baseload, Mid Merit 1 and Mid Merit 2.

### **Timing of PSO-Related CFD Auctions**

Both BG and VPE welcomed the increased frequency of PSO related auctions. BG suggested the addition of monthly and weekly auctions using unsold volumes from

the annual and quarterly auctions. VPE requested greater frequency and granularity of products with monthly (M) auctions offering products from M+1 to M+6. VPE also wanted an increase in the share of contracts offered in the quarterly auctions, as this would increase flexibility for suppliers.

ESB CS stated that the bulk of all hedges for the forthcoming tariff year, over 65%, will be offered between May and June. It suggested that the PSO related volumes proposed for June and September should be offered in July. It also stated that availability of PSO-related CFDs was inconsistent with the Revenue Framework Decision Framework Paper (CER 10-067) where CER requires ESB CS to procure hedges on a laddered basis.

**RA Response**

It has been decided to maintain the schedule of PSO-related CFDs auctions outlined in SEM-10-031. The frequency of auctions and the type of contract product offered (annual, bi-annual and quarterly) is far greater than last year, while the RAs need to ensure that there are not too many auctions or short-term only products. That said, this matter will be reviewed in the future, in light of experience with the 21010-11 tariff year.

The RAs do not find any inconsistency with the schedule and volumes of PSO-related CFDs proposed in SEM-10-031 or the revised volumes in this information paper and the decision in CER 10-067. The CER 10-067 decision simply establishes a ceiling on the share of hedges that ESB CS can take over the period in question.

**3. Revised 2010-11 Schedule and Volumes of PSO-related CFDs**

Below shows the change in the contracting process from that contained in SEM-10-031 and should be read in conjunction with SEM-10-031. It shows that the Baseload share of the PSO-related CFDs has increased from 200MW to 300MW and the Mid Merit 1 and 2 volumes reduced from 200MW to 150MW respectively. This applies in every quarter of the 2010-11 tariff year and is achieved by changing the volumes offered in the bi-annual and quarterly auctions (i.e. not the annual auctions).

***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**

32.5% 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	39	39	-	-	13	13	-	-	13	13	-	-
Tues, 7 <sup>th</sup> Sept	39	39	-	-	13	13	-	-	13	13	-	-
Fri, 10 <sup>th</sup> Sept	39	39	-	-	13	13	-	-	13	13	-	-
Tues, 1 <sup>st</sup> Mar	-	-	39	39	-	-	13	13	-	-	13	13
Thurs, 3 <sup>rd</sup> Mar	-	-	39	39	-	-	13	13	-	-	13	13
Tues, 8 <sup>th</sup> Mar	-	-	39	39	-	-	13	13	-	-	13	13
<b>Total</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>	<b>39</b>

**Monthly Product**

34.5% 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	117	-	-	-	45	-	-	-	45	-	-	-
Tues, 7 <sup>th</sup> Dec	-	117	-	-	-	45	-	-	-	45	-	-
Tues, 15 <sup>th</sup> Mar	-	-	117	-	-	-	45	-	-	-	45	-
Tues, 7 <sup>th</sup> June	-	-	-	117	-	-	-	45	-	-	-	45
<b>Total</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>