



## **SEM Contracting 2017/18:**

### **Information on PSO-related CfDs**

#### **An Information Paper**

SEM-17-055

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# 1 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 period from October 2017 up until the point of transition to I-SEM, which is scheduled to take place at 11pm on 22<sup>nd</sup> May 2018. This period is referred to as the “contract period”.

In summary and as detailed in section 3 of this paper, circa 0.46 TWh of PSO-related CfDs will be offered for the contract period. 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.

## 2 Background

### 2.1 Introduction

Since 1<sup>st</sup> 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 SEM Committee 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.

## **2.2 Types of CfDs Available**

There are currently three types of CfD being offered publically in the SEM. A background on each of the different types is 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:

- PSO-related 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 2017/18 contract period, up to the end of SEM;
- Directed Contracts (DCs), whose volume, price and eligibility is set by the RAs as part of the SEM market power mitigation strategy; 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.

### **3 PSO-related CfDs for the remaining of the SEM**

#### **3.1 Overview**

For the 2017/18 contract period, the RAs are continuing with the overall approach to PSO-related CfDs as existed in previous years. In other words, there will be quarterly offering of PSO-related CfDs via auction, circa one month or so in advance, with monthly products offered for each quarter.

It is important to note that with the commencement of I-SEM at 11pm on 22nd May 2017, the RAs are planning to publish a new information paper on PSO-related CfDs applicable to the new market rules in Q1 2018. See section 3.3 for more details.

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

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<sup>1</sup> Please see <https://www.semcommittee.com/publication/sem-11-027-contracting-process-2011-2012>

### 3.2 Auction Volumes and Dates

A total of approximately 0.46 TWh of PSO-related CfDs will be offered for the 2017/18 contract period. This will be apportioned between each quarter related to the expected output of PSO thermal generating plant, with monthly products offered for each quarter.

Table 1 shows the exact volumes (MW) of PSO-related CfDs on offer for each quarter:

MW	Q4 2017	Q1 2018	'Q2' 2018 <sup>2</sup>
Baseload	60	60	20
Mid Merit	30	30	10
Mid Merit 2	30	30	10

*Table 1: Expected Volumes (MW)*

The equivalent in GWh offered per quarter is shown in Table 2, as follows:

	Q4 2017	Q1 2018	'Q2' 2018
GWh	197	194	65

*Table 2: Equivalent in GWh*

Due to the decline in volumes on offer when compared to previous years, there will only be a single auction in each quarter, unlike previous years when there were two auctions for each quarter.

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<sup>2</sup> 'Q2' 2018 consists of 2 sets of monthly products (baseload mid merit & mid merit 2):

- 1) April 2018; and
- 2) 1<sup>st</sup> May to 11pm on 22<sup>nd</sup> May 2018.

The auctions for the 2017/8 contract period will be typically held approximately 1 month before the quarter in question, as listed below:

- All of Q4 2017 product will be offered by ESB on Thursday 10<sup>th</sup> August 2017;
- All of Q1 2018 product will be offered by ESB on Thursday 2<sup>nd</sup> November 2017; and
- All of 'Q2' 2018 product will be offered by ESB on Thursday 15<sup>th</sup> February 2018.

### **3.3 Auction Volumes and Dates for I-SEM products**

The RAs plan to publish an information paper in Q1 2018 with the volumes and dates of auctions for the PSO related CfDs that will apply from I-SEM go-live.<sup>3</sup> This will cover Q2 2018 (11pm 22<sup>nd</sup> May to the end of June) and Q3 2018. These products will require participants to sign up to revised CfD master agreements, which are also planned for publication in Q1 2018.

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<sup>3</sup> The cutover time for the new SEM trading arrangements is 23:00 GMT on 22nd May 2018.