



Integrated Single Electricity Market (I-SEM)

ESB's Proposed Revisions to Directed Contracts Master Agreement & Subscription Rules

Consultation Paper

SEM-17-065

4th September 2017

1 INFORMATION NOTE

- 1.1 The current policy underpinning the market power mitigation strategy in the Single Electricity Market (SEM) is partially based on the imposition of Directed Contracts (DCs) obligations on incumbent generators with large market shares in order to mitigate their potential to exert market power.
- 1.2 Currently, only two entities have a licence requirement to offer DCs to eligible suppliers in SEM (i.e. ESB Power Generation (“ESB”) and Power NI Power Procurement Business (“Power NI PPB”), with ESB being the only entity obliged to actively offer DCs to suppliers due to its current market share.
- 1.3 The terms and conditions associated with ESB’s DCs are detailed in the [DC Master Agreement](#) (SEM-14-082) and [DC Subscription Rules](#) (SEM-14-084).
- 1.4 Following the publication of the SEM Committee’s decision paper (SEM-14-085a) on a high level design for I-SEM, the SEM Committee has undertaken a number of actions to facilitate I-SEM Go-Live and the revised SEM trading arrangements including the publication of decision paper regarding the:
 - i. Trading & Settlement Code (SEM-17-024);
 - ii. Market Power (SEM-16-024);
 - iii. I-SEM’s Capacity Remuneration Mechanism (CRM) (e.g. SEM-15-103, SEM-16-022, SEM-16-039); and
 - iv. Financial trading within I-SEM (SEM-17-015).
- 1.5 Notwithstanding the revised SEM arrangements arising from I-SEM, ESB will continue to be required to offer DCs to suppliers based on their expected ownership concentration.
- 1.6 Given such decisions, the SEM Committee deemed it prudent that ESB undertake a review of the existing DC Master Agreement and DC Subscription Rules, and provide proposed revisions to the SEM Committee for approval to ensure the documents are compatible with market changes under I-SEM.
- 1.7 As part of ESB’s review of the existing DC Master Agreement and DC Subscription Rules, ESB was requested to consider issues such as (but not limited to):
 - i. Amending the contracts to reflect the appropriate reference price (i.e. I-SEM Day Ahead Market price); and

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- ii. Amending the contracts to reflect the introduction of a reliability option under I-SEM, which will cap the exposure of suppliers up to the strike price arising in the Capacity Remuneration Auction.
- 1.8 Following its review, ESB made the requested changes, and have also sought to include a proposal to replace the existing DC Master Agreement and Subscription Rules with what ESB describe as an industry standard functional model. It is ESB's view that the implementation of such a proposal will improve product harmonisation and collateral requirements for all market participants. Details of ESB's proposal is set out in the following documents:
- i. Explanatory Note;
 - ii. Framework Agreement based on the Nordic Association of Electricity Traders (NAET) Financial Energy Master Agreement (FEMA);
 - iii. Schedule setting out relevant credit terms;
 - iv. Credit Support Annex (CSA) setting out margining mechanics;
 - v. Confirmation document setting out commercial terms; and
 - vi. Revised Subscription Rules.
- 1.9 In view of the above, the SEM Committee considers it appropriate to launch a public consultation on ESB's proposed revisions to the DC Master Agreements and DC Subscription Rules. Consequently, the SEM Committee is publishing ESB's proposals, which is accompanied with ESB's Explanatory Note, which provides context for its proposed changes, detailing relevant changes while also outlining the rationale for its proposed changes.
- 1.10 Interested parties are invited to respond to the consultation, presenting their views on ESB's proposals for revisions to the DC Master Agreement & Subscription Rules.
- 1.11 Responses to the Consultation Paper should be sent to Kevin Baron (kevin.Baron@uregni.gov.uk) and Gonzalo Saenz (gsaenz@cer.ie) by 17:00 on 29nd September 2017.
- 1.12 Please note that the SEM Committee intends to publish all responses unless marked confidential. While respondents may wish to identify some aspects of their responses as confidential, we request that non-confidential versions are also provided, or that the confidential information is provided in a separate annex. Please note that both Regulatory Authorities (i.e. CER and UREGNI) are subject to Freedom of Information legislation.

1.13 As part of the SEM Committee's review of responses, it should be noted that such responses will also be forwarded to ESB for comment. Following consideration of responses and ESB's response to such comments, the SEM Committee intends publishing its decision in November 2017.

1.14 Separate to this consultation, the SEM Committee also intends consulting on its proposed approach to DC implementation for the first four rounds of DCs under revised SEM arrangements (arising from I-SEM implementation). The consultation on DC implementation will consider such issues as DC timetable, volumes and products offered, while also outlining proposed approach for DC modelling.