



Single Electricity Market Committee

Directed Contracts:

**Adjustment to Round 1 & Postponement of
Round 2**

Information Paper

SEM-18-010

15th March 2018

INFORMATION PAPER

- 1.1 The SEM Committee hereby notifies market participants of its decision to:
- schedule an additional supplemental round for Round 1 (R1) of the Directed Contracts (DCs)¹, for market participants who participated in R1² and did not purchase part or all of Q1 2019 DC product; and
 - postpone Round 2 (R2) of the DCs, which was scheduled to take place on the 20th - 22nd March 2018 (Primary Subscription Window) and the 29th March 2018 (Supplemental Subscription Window).³
- 1.2 The additional supplemental round for R1 of the DCs and the rescheduled R2 of the DCs will now take place on the following dates:
- 21st March 2018: Additional supplemental round for R1 of the DCs⁴;
 - 3rd – 5th April 2018: Primary Subscription Window for R2 of the DCs; and
 - 12th April 2018: Supplemental Subscription Window for R2 of the DCs.
- 1.3 The SEM Committee has decided to have a supplemental round for R1 of the DCs and postpone R2 of the DCs due to an error in its validated I-SEM PLEXOS Model ([SEM-17-089](#)), which was published on the SEM Committee website on the 23rd November 2017.
- 1.4 For clarity, the validation of the I-SEM PLEXOS Model was completed by the Regulatory Authorities (i.e. CRU and UREGNI) consultants (i.e. Baringa Partners LLP), who presented the details of the validated model at a public workshop on the 5th December 2017.
- 1.5 Identification of the error occurred when Baringa Partners LLP completed a quality assurance of the validated I-SEM PLEXOS Model ([SEM-17-089](#)) for R2 of the DCs, which considered market participants concerns over high DC prices for Q1 2019 DC product (i.e. Baseload and Mid Merit) during R1 of the DCs.

¹ DCs are offered by ESB on a quarterly basis to market participants, with the volume, price and supplier eligibility set by the Regulatory Authorities (i.e. CRU and UREGNI) as part of the SEM market power mitigation strategy. While ESB is directed to sell DCs, market participants are under no obligation to purchase such DCs.

² R1 of the DCs originally took place on the 12th – 14th December 2017 (Primary Subscription Window) and the 21st December 2017 (Supplemental Subscription Window), and involved ESB offering DC product for Q2 2018 (23rd May -30th June), Q3 2018, Q4 2019 and Q1 2019.

³ R2 of the DCs will involve ESB offering DC product for Q3 2018, Q4 2018, Q1 2019 and Q2 2019.

⁴ The DC quantities to be offered by ESB for Q1 2019 in the additional supplemental round for R1 are set out in Appendix 1. Additionally, the prices for credit cover calculations (for the additional supplemental round for R1) are set out in Appendix 2.

- 1.6 Specifically, market participants' concerns pertained to the DC pricing formulae for Q1 2019 DC product, which were detailed in the SEM Committee Information Paper ([SEM-17-093](#)).
- 1.7 Following its review, Baringa Partners LLP subsequently notified the RAs that 2019 embedded generation data was inadvertently excluded from the validated model (further details of the error are contained within Baringa Partners LLP's Clarification Note – published in conjunction with this SEM Committee Information Paper), which in part contributed to higher Q1 2019 DC prices for Baseload and Mid Merit product.
- 1.8 Baringa Partners LLP advised the RAs that the omission of this generation put upward pressure on DC prices, and that the only contracts affected by this issue were those for Q1 2019 DC product during R1 of the DCs.
- 1.9 Additionally, Baringa Partners LLP, who completed the R1 DC price modelling on behalf of the RAs, confirmed that the formulae used to price Q1 2019 products for R1 of the DCs were incorrect and provided the RAs with corrected R1 DC Formulae for Q1 2019 DC product (see Appendix 3).
- 1.10 Subsequent to receiving Baringa's notification, the RAs conducted a review of the impacts of the error on market participants, who participated in R1 of the DCs.
- 1.11 The RAs have categorised the impacted market participants, who participated in R1 of the DC as follows:
 - Market Participants who purchased Q1 2019 DC Product at an incorrect price due to an error in validated I-SEM PLEXOS Model; and
 - Market Participants who did not purchase part or all of Q1 2019 DC Product, due to perceived high prices.
- 1.12 For market participants who purchased Q1 2019 DC product, during R1 of the DCs, the SEM Committee has decided that the prices they pay for purchasing such DC contracts should be determined based on:
 - the corrected R1 DC formulae, as detailed in Appendix 3 of this Information Paper; and
 - the commodity prices corresponding to the original day of purchase.

ESB will administer the repricing of DC contracts for Q1 2019, and will inform affected market participants accordingly (note: adjustments will be made by ESB after the additional supplemental window for R1 has been completed, which will involve the issuance of revised confirmations).

For clarity, the Q1 2019 DC volumes sold in R1 will be repriced using the corrected formulae and the prevailing commodity prices on the original day on which the product was purchased. These revised prices are shown in Table 1.

Table 1: Repricing of R1 Q1 2019 DC Volumes

Q1 2019 Product bought on:	Repriced Baseload (€ / MWh)	Repriced Midmerit (€ / MWh)
12-Dec-17	59.77	70.43
13-Dec-17	59.33	69.94
14-Dec-17	59.75	70.42
21-Dec-17	60.29	70.99

- 1.13 For market participants who elected to not take up their full Baseload and Mid Merit allocation during R1 of the DCs, the SEM Committee has decided that they will be given the opportunity to purchase Q1 2019 DC product based on the corrected R1 DC formulae, through an additional supplemental round for R1 of the DCs (based on the residual DC volumes left over from R1 of the DCs).

For clarity, it will not be possible for these affected market participants to purchase the full DCs volumes for Q1 2019 product that they were allocated for R1, as a small proportion of these volumes were taken up during the Supplemental Subscription Window, which took place on the 21st December 2017. The volume that these market participants will be eligible to take up will be pro-rated down to account for the volume purchased during the Supplemental Subscription Window.

The RAs will issue the affected market participants with their revised DC allocations for Q1 2019 DC product, and ESB will administer the additional supplemental round for R1 of the DCs in accordance with the DC Subscription Rules.

- 1.14 The additional supplemental round for R1 of the DCs will take place on Wednesday, 21st March 2018. The unsold Q1 2019 DC volumes to be offered in the supplementary round will be priced using the corrected formulae and the prevailing commodity prices on the 21st March 2018. In the event that not all Q1 2019 DC product is taken up, it should be noted that there will be no further supplemental round for R1.
- 1.15 In order to facilitate affected market participants participation in the additional supplemental round for R1 of the DCs, the SEM Committee will:
- Publish a public version of the corrected I-SEM PLEXOS Model (published in conjunction with this Information Paper);
 - Issue affected market participants with their revised DC allocations for Q1 2019 DC product (will be circulated by the RAs on the 15th March 2018); and

- Schedule an industry conference call on Tuesday, 20th March 2019, where Baringa Partners LLP will clarify the error within the validated model, explain impact on R1 DC prices and address market participants' queries.
- 1.16 Following the completion of the additional supplemental round for R1 of the DCs, the RAs will then publish an Information Paper for R2 of the DCs (27th March 2018), which will set out the total DC volumes to be offered by ESB, and the DC pricing formulae for R2 DC product.
 - 1.17 To facilitate market participants' participation in R2 of the DCs, the RAs will schedule a second industry conference call on Thursday, 29th March 2019, where Baringa Partners LLP will address market participants' queries regarding R2 DC prices.
 - 1.18 For market participants wishing to participate in the industry conference calls on the 20th March (2pm-3pm) and 29th March (10:30am -11:30am), they are requested to contact Baringa Partners LLP (RAsModelValidation@baringa.com) to register and get relevant dial-in details.
 - 1.19 Finally, the SEM Committee wishes to apologise to market participants affected by this error and for the subsequent delays it has caused for R2 of the DCs.

APPENDIX 1: DC VOLUMES TO BE OFFERED IN R1 (ADDITIONAL SUPPLEMENTAL ROUND)

Additional Supplemental Round		
	Baseload (MW)	Mid Merit (MW)
Q1 19	62	1.2

APPENDIX 2: PRICES FOR CREDIT COVER CALCULATIONS IN R1 (ADDITIONAL SUPPLEMENTAL ROUND)

	ESTSEM p,q		
	Baseload per MWh	Mid-Merit per MWh	Peak per MWh
Q1 2019	€61.36	€72.15	€102.31

Note: Calculated using commodity prices from the 13th March 2018

APPENDIX 3: CORRECTED R1 DC FORMULAE COEFFICIENTS

Contract (p)	Quarter (q)	Const, $\alpha_{q,p}$	Gas, $\beta_{q,p}$	Coal, $\delta_{q,p}$	CO2, $\epsilon_{q,p}$
Baseload	"Q2" 18	11.94	55.233	0.0605	0.5236
Midmerit 1	"Q2" 18	14.37	58.978	0.0700	0.5611
Baseload	Q3 18	10.16	57.811	0.0528	0.4945
Midmerit 1	Q3 18	12.55	60.920	0.0668	0.5382
Baseload	Q4 18	13.52	45.780	0.0975	0.5664
Midmerit 1	Q4 18	16.91	54.136	0.0959	0.5893
Peak	Q4 18	24.04	75.695	0.1031	0.7113
Baseload	Q1 19	17.53	51.073	0.0871	0.5706
Midmerit 1	Q1 19	22.78	59.266	0.0882	0.6038
Peak	Q1 19	37.03	76.966	0.1354	0.7690