SEM committee

Operational Review of the Market Concentration Model for Determining Directed Contract Volumes

Information Note

SEM-19-030a

01 July 2019

Information Note

In 2017, the SEM Committee published a Directed Contracts Implementation Decision Paper (SEM-17-081) in which the Regulatory Authorities (RA's) committed to undertaking "an operational audit of the DC modelling". An external consultant was subsequently engaged to carry out a review of the Market Concentration model and the Eligibility model used in calculating Directed Contract (DC) volumes and supplier eligibilities respectively.

The external review of the Eligibility model resulted in no proposed amendments. The review of the Concentration Model identified several aspects that could be updated to better reflect the changing market and to improve operational efficiency.

The Market Concentration Model is used by the RA's to determine the volumes of DC's required to be offered in each round. This model was described in the Directed Contracts Implementation Consultation Paper (SEM-17-064) and published (as SEM-17-082) alongside the Directed Contracts Implementation Decision Paper (SEM-17-081).

This Information Note sets out the key changes that the RA's intend to implement to the Concentration Model, arising from the external review. These changes will be implemented from DC Round 8, which will commence on 17 September 2019. While all the changes listed below will impact the volumes of DC's calculated by the model to some extent, the change to peat atomisation and to the calculation of interconnector costs will have the largest effect.

Changes to the Market Concentration Model:

- As Bord na Móna's Edenderry plant is no longer receiving peat support under the PSO levy, the capacity of this plant will no longer be atomized i.e. it will be considered potentially competitive capacity from now on. Likewise, ESB's Lough Ree and West Offaly plants will no longer be receiving peat support after December 2019. The capacity of these plants will not be atomized in the model from Round 8 onwards and will be considered part of ESB's potentially competitive capacity.
- The cost of imports on the interconnectors will now be calculated on an hourly basis, as opposed to a quarterly average.
- Interconnector capacities will be updated to reflect losses, such that the values used will correspond to the interconnector capacities at the point of entry into the SEM. This will bring the interconnector capacities fully in line with the latest published SEM PLEXOS Model (SEM-18-175).
- The precision of the DC volume calculation was 1.0% i.e. the DC volume allocation was increased in 1.0% increments until the HHI fell below the target level. This will now be set to 0.1% to increase the precision of the calculation.
- ESB's share of wind will be updated and reviewed annually.
- The procedure for instances where product has been oversold has been updated. If in the final round that a product is sold, an excess of DC volumes has already been sold in the first three rounds, the volume in the final round is currently set to zero.

Henceforth, any oversold volume will be deducted from downstream products e.g. if excess volume has been sold for Baseload product in previous rounds, the Baseload volume will be set to zero in the final round and the excess volume will be deducted from the Mid-Merit and Peak (if applicable) volumes for that same quarter.

A copy of the RA's new Market Concentration Model, incorporating the changes listed above, has been published alongside this Information Note.