



committee

**Single Electricity Market  
(SEM)**

**Market Power and Liquidity  
Information Paper**

**SEM-21-007**

**01/02/2021**

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## 1. Introduction

- 1.1.1 In July 2020, the SEM Committee published a Discussion Paper ([SEM-20-45](#)) on Market Power and Liquidity in the Single Electricity Market (SEM). In order to inform market participants of the SEM Committee's intended approach to addressing the four decisions within the 2017 Forwards & Liquidity Decision Paper ([SEM-17-015](#)), namely:
- Decision 1: The Regulatory Authorities (RAs) will undertake a review of liquidity in the I-SEM Forward Market 18 – 24 months after the I-SEM energy market starts operation.
  - Decision 2: The RAs will engage with industry on further coverage and harmonisation of existing Master Agreements that could facilitate trading and reduce costs where possible.
  - Decision 3: The RAs will under-take a review of ESB's ring-fencing requirement 18 – 24 months after the I-SEM energy market starts operation.
  - Decision 4: The SEM Committee will consult upon alternatives to the current allocation process for Directed Contracts (DCs).
- 1.1.2 Within the Discussion Paper, the SEM Committee noted that its intended approach for Decisions 1-3 was that no further review would be considered at this time, and with regards to Decision 4, the SEM Committee noted that its intended approach would be that a review of Directed Contract Allocation Process will take place. Additionally, as part of the Discussion Paper, the SEM Committee issued a call for evidence on market power and forward contracting in SEM.
- 1.1.3 Following the closure of the consultation window (28 August 2020), the Regulatory Authorities (i.e. CRU & UREGNI) received a total of 14 responses to the SEM Committee Discussion Paper. Of the 14 responses, 2 responses were marked confidential and 1 response was part confidential. Table 1.1 below lists respondents who have provided publicly available responses, which can be obtained from the SEM Committee website ([SEM-21-004](#)).

**Table 1.1: List of Respondents to Discussion Paper**

BG Energy	Marex Spectron
Bord Na Mona	Panda Power
European Energy Exchange	Power NI (part of Energia Group)
Energia	Power NI Energy PPB
ESB	PrePayPower
Flogas/Budget Energy	SSE

- 1.1.4 The SEM Committee notes that the respondents to the Discussion Paper reflected a broad spectrum of electricity market participants, including the largest all island market incumbent (i.e. ESB) to whom SEM Committee market power mitigation measures apply (i.e. ring-fencing & DCs), vertically integrated companies who have significant all-island commercial interests in electricity generation and supply, generation only companies, supplier only companies and exchange/broker providers.
- 1.1.5 With regards to the responses to the Discussion Paper, the SEM Committee notes that respondents had divergent views regarding the merits of regulatory interventions in the forwards market, and on the continuation/amendments to ESB's ring-fencing and DC arrangements. In particular, some respondents requested removal of ESB's ring-fencing and DC arrangements (one respondent other than ESB requested removal of ESB's DC obligations), while other respondents requested the strengthening of ESB's ring-fencing arrangements and imposing restrictions on Electric Ireland's ability to take up DCs. Some respondents who were also against the removal of any market power mitigation measures on ESB, requested the SEM Committee to:
- examine the relationships between all generation plant in which ESB has an interest and Electric Ireland to ensure that the vertical ring-fencing provisions are fully and properly applied (in particular the relationships between Coolkeeragh and Synergen power stations and Electric Ireland);
  - investigate whether ESB and Electric Ireland are tacitly hedging.
- 1.1.6 Notwithstanding the divergent views, the SEM Committee notes that a common theme amongst the responses to the Discussion Paper was the request for the RAs to publish data regarding the current state of market power and liquidity in the SEM. Regarding the matter of forward liquidity, the SEM Committee notes that some respondents not only requested the RAs to analyse forward trades within the ESB Group, but also to analyse trades within other vertically integrated companies and collate data on all forward transactions relating to the SEM.
- 1.1.7 In light of responses received, the SEM Committee now intends publishing data on market power and liquidity in the SEM (publication of such data to commence prior to the end of 2021), and to use such data to:
- facilitate a decision by the SEM Committee as regards the existing market power framework;
  - consider any further potential regulatory interventions in the forward market; and
  - consider whether any regulatory investigations are required.
- 1.1.8 With regards to market power data, the SEM Committee intends publishing data/information on the relevant market power metrics identified in the SEM Committee's 2016 market power decision paper ([SEM-16-024](#)).
- 1.1.9 In order to publish data on forward liquidity (e.g. forward churn) in the SEM (post I-SEM implementation), the RAs intend requiring market participants (both suppliers and

generators) to report (in accordance with their relevant licence obligations) on certain aspects of their forward trading activities, including but not limited to:

- broker hosted Over-the-Counter (OTC) trades;
- bilateral OTC trades;
- proxy hedges;
- Financial Transmission Rights (FTR) hedges;
- Details regarding contractual arrangements between parties for purchasing/selling forward contracts.

Once a reporting framework is established, the RAs may request the relevant market participants to report such data to the RAs on a periodic basis, which will be used by the RAs to identify forward churn, and monitor the ability of market participants to hedge forward. Given the commercially sensitive nature of such information, the RAs will only publish aggregate/summary information on forward trades. Additionally, the RAs will liaise with market participants (including OTC brokers) to identify other data that could be used to provide an indicator of forward liquidity in the SEM (e.g. bid/ask spreads).

1.1.10 Following consideration of relevant data on market power and forward liquidity in the SEM and in the context of the post December 2020 SEM-GB trading arrangements and the arrangements outlined in the Trade and Cooperation Agreement (TCA), the SEM Committee then intends updating market participants in Q4 2021 on its intended approach as detailed in the Market Power & Liquidity Discussion Paper (SEM-20-45).

1.1.11 In the event that market participants have any observations regarding the SEMC's approach as outlined in this Information Paper, and/or market participants responses ([SEM-21-004](#)) to the Discussion Paper ([SEM-20-045](#)), such responses should be forwarded to the RAs; [mmg@cru.ie](mailto:mmg@cru.ie) or [gary.mccullough@uregni.gov.uk](mailto:gary.mccullough@uregni.gov.uk) by Friday, 12 March 2021.

1.1.12 In conjunction with this Information Note, the RAs are publishing a draft Request for Information (RFI) data file. As part of the wider review of liquidity in the market, the RAs intend gathering data from market participants on aspects of their forward contracting activities. This draft excel file contains a number of tabs, requiring data on OTC, proxy hedges and contractual arrangements between organisations. The RAs are seeking comments on this draft RFI prior to finalisation as well as the frequency of publication of market power and liquidity data as mentioned in section 1.1.7 of this document. All comments shall be forwarded to [mmg@cru.ie](mailto:mmg@cru.ie) and [Gary.Mccullough@uregni.gov.uk](mailto:Gary.Mccullough@uregni.gov.uk) by Friday, 12 March 2021.