



**SINGLE ELECTRICITY MARKET  
COMMITTEE**

**Review of the Market Concentration Model  
for Determining Directed Contracts  
Volumes**

**Information Paper**

**15<sup>th</sup> May 2024**

**SEM-24-038**

## **Information Note**

The Regulatory Authorities (i.e. CRU & UREGNI) are hereby notifying market participants of their intention to commence a review of the Market Concentration Model in Quarter 3 2024. The RAs are notifying relevant stakeholders that an external consultant has been appointed to carry out the review of the Market Concentration Model (“Concentration Model”).

The Market Concentration Model is used by RAs to calculate the quantity of Directed Contracts (DC) required to be offered to eligible suppliers in each DC round. In 2017, the Market Concentration Model was described in the Directed Contracts Implementation Consultation Paper ([SEM-17-064](#)). The model was subsequently published alongside the Directed Contracts Implementation Decision Paper ([SEM-17-081](#)). In 2019, the RAs published an Information Paper detailing key changes that were implemented, alongside an updated version of the model ([SEM-19-030](#)).

Currently, the DC quantities are calculated such that forecast market concentration in the SEM is below a certain target Herfindahl Hirschman Index (HHI) threshold level of 1,150. HHI is a common tool used by economists to measure market concentration. The HHI indicator is equal to the sum of the squares of the market shares of firms in the industry. The market share calculations that underlie the HHI analysis in the Concentration Model are based on potentially competitive capacity. DCs are allocated until the HHI is reduced below the current target HHI level. The RAs note the recent trend whereby increased interconnection has contributed to a significant reduction in the HHI levels prior to the allocation of DC volumes. Consequently, lower DC volumes have been offered in recent DC rounds.

The RAs intend to publish a consultation paper in *Quarter 3 2024* in order to progress the review of the Concentration Model. A review would ensure that the way in which DC volumes are calculated is efficient, robust and reflective of the changing market environment.

The RAs propose to consider the following as part of the review:

- Review the existing measure and target level of market concentration (HHI);
- Consider alternative measures of market concentration, including but not limited to; Pivotal Supplier Index, Residual Supply Index, and Residual Demand Analysis;
- Review the representation of renewables within the Concentration Model;
- Consider the representation of interconnectors, including new interconnection within the Concentration Model; and
- Consider the potential impact of the EU Carbon Border Adjustment Mechanism (CBAM) ([Regulation \(EU\) 2023/956](#)).

The RAs welcome market participants comments and their view(s) of the key focus areas for the review of the Market Concentration Model. Furthermore, the RAs are available to engage with market participants to discuss, on an individual basis, their initial view of key focus areas, prior to the publication of a consultation paper during Quarter 3 2024. Such discussions would enable RAs to determine the most prominent areas to focus the consultation process on from an industry perspective.

**All comments and/or requests to engage with the RAs can be directed to Lisa Murray at the Market Modelling Group ([mmg@cru.ie](mailto:mmg@cru.ie)) and Timothy Steele at the Utility Regulator ([timothy.steele@uregni.gov.uk](mailto:timothy.steele@uregni.gov.uk)) before close of business on Friday, 7<sup>th</sup> June 2024.**