

Directed Contracts (DCs) and Non Directed Contracts (NDCs) Processes 2008/09

An Information Note

17th April 2008

1. Introduction and Background

The Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation (the Regulatory Authorities) have developed a single all-island electricity market, the Single Electricity Market (SEM), which came into operation on November 1st 2007. Further details on the project can be found on the AIP website (www.allislandproject.org).

Risk Management is an integral element of the efficient and effective operation of the SEM. For the period covering the first 11 months of the market there have been offerings of a substantial volume of 2-way Contracts for Differences (CFDs) which have enabled generators and suppliers to manage price risk. These contracts were generally offered through what is known as Directed Contract (DC) and the Non Directed Contract (NDC) processes.

A fundamental element of the Regulatory Authorities' (RAs') market power mitigation strategy is the requirement on the incumbent generators, ESB Power Generation (ESBPG) and NIE Energy Power Procurement Business (PPB) as applicable, to offer contracts (Directed Contracts) at quantities, prices and in a specified form, the purpose of which is to remove the incentive on incumbents to attempt to profit from the use of market power.

ESBPG and PPB have also offered CFDs in the so-called Non Directed Contracts market. This market essentially includes the offering of all other hedge contracts not imposed by the RAs on incumbents under the market power strategy. Last year Ireland PSO-backed contracts were also offered under ESBPG's NDC auction process.

The RA's are supportive of and encourage SEM hedging to take place to facilitate risk management by SEM participants. The RA's particularly welcome the processes developed, at the request of the RAs, by ESB PG and PPB to facilitate the conduct of CfD transactions between them and other SEM participants in a transparent and fair manner to meet the

stipulated aims of both Regulatory Authorities of ensuring that all suppliers have equal access to CfD contracts under the SEM pool.

This Information Note is intended to provide an overview to market participants of the scheduled contracting processes this year for next year's standard contracting period of 1st October 2008 to 30th September 2009.

2. Directed Contracts (DCs)

The SEM Committee¹ has issued its decisions on the process and rules for subscribing to the forthcoming round of DCs. The SEM Committee has also published the approved Master Contract for Differences Agreement.

The products on offer through the DC process this year comprise quarterly Baseload, Mid-merit and Peak 2-way CFDs. The primary subscription window will open on 28th April and will end on 15th May 2008. Any remaining DCs not subscribed to will be offered in the supplemental subscription window which will run from 19th May to 23rd May 2008.

All relevant documentation on this year's DC process can found on the AIP website and can be accessed by clicking on the links below.

[Directed Contract Implementation Report](#)

[ESB Power Generation Directed Contract Subscription Rules](#)

[Master Contracts for Differences Agreement for 2008/9](#)

The SEM Committee published its decision on the Pricing Formulas and Aggregated Quantities for the DCs on 15th April 2008. Each Supplier will also be notified of its individual eligibility on this date.

¹ The SEM Committee is established in Ireland and Northern Ireland by virtue of section 8A of the Electricity Regulation Act 1999 as inserted by section 4 of the Electricity Regulation (Amendment) Act 2007, and Article 6 (1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 respectively. The SEM Committee is a Committee of both CER and NIAUR (together the Regulatory Authorities) that, on behalf of the Regulatory Authorities, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter.

3. Non Directed Contracts (NDCs)

Non Directed Contracts have been primarily offered by ESB PG and PPB. The standard products on offer to date have been quarterly Baseload, Mid-Merit (MM1 and MM2) and Peak products in the form of 2-way CFDs and the Regulatory Authorities understand that similar contracts will be offered again this year (ESBPG through an offer for sale to the market of financial CFDs, and from PPB through individually organised Single Mutual Hedging events). ESBPG and PPB will provide to the RAs for publication the indicative volumes of NDCs they plan to offer by 16th May 2008. The actual volumes offered may differ from these indicative volumes for a number of reasons, including the outcome of the DC subscription process.

The indicative dates for NDC offers are:

- Tues 27th May: NDC Trial
- Thurs 29th May: NDC 1
- Tues 3rd June: NDC 2
- Fri 6th June: NDC 3
- Wed 11th June: NDC 4
- Mon 16th June: NDC 5
- Thurs 19th June: NDC 6

The RAs are also aware that other industry participants apart from ESBPG and PPB engage in the trading of NDCs. The RAs are not currently aware of the specific plans of other parties.

As with the SEM gross mandatory pool, the RAs strongly encourage an appropriate degree of transparency in the contracts market. The RAs would encourage the main NDC sellers (ESBPG and PPB) to publish (or to make available to the RAs for publication) their individual volumes of trades and the corresponding strike prices.

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4. Ireland Public Service Obligation (PSO) - backed Contracts

As was the case last year Ireland PSO-backed contracts will be made available to the market through the NDC process by ESBPG on the dates indicated above. This will comprise 600 MW of quarterly Baseload products.

The indicative dates for the PSO offers are:

- 23rd June: Ireland PSO Event 1
- 26th June: Ireland PSO Event 2
- 1st July: Ireland PSO Event 3

The reserve prices for these PSO contracts will be set on the basis of the benchmark PSO price used to determine the PSO levy for the period 1st October 2008 to 30th September 2009. This will be based on the RAs' updated and validated PLEXOS model of the SEM using forward fuel prices before the date of publication of CER's PSO levy decision paper.

5. Queries and Information

For any queries on the above or further information on this matter please contact the following:

In relation to Directed Contracts: James Curtin in CER (jcurtin@cer.ie)

In relation to Non Directed and PSO-backed contracts: Elizabeth Farrelly in CER (efarrelly@cer.ie) or Alan Smith in NIAUR (alan.smith@niaur.gov.uk).