Single Electricity Market Committee

Notice of the SEM Single Mutual Hedging Process
Directed and Non-Directed Contracts for Differences between PPB and Eligible Suppliers

SEM-08-059

7th May 2008

Notice of the SEM Single Mutual Hedging Process - Directed and Non-Directed Contracts for Differences between PPB and Eligible Suppliers

1. Introduction

1.1 The Commission for Energy Regulation and the Northern Ireland Authority for Utility Regulation (together the "**Regulatory Authorities**") have developed the Single Electricity Market ("**SEM**"), which came into effect on 1 November 2007. Owing to the pool-based structure of the market, SEM participants need to seek counterparties to hedge their position by entering into contracts for differences ("**CfDs**") to manage price risk under the SEM pool. There are two kinds of CfDs between SEM participants, Directed CfDs and Non-Directed CfDs, see further below.

1.2 The SEM Committee published a Decision Paper on 15 April 2008[1] and an Information Note of 17 April 2008[2] which gave notice to SEM participants of the upcoming SEM Single Mutual Hedging Process.[3] This is a mutual hedging process by which certain SEM participants (NIE Energy's power procurement business ("**PPB**") and eligible suppliers) will be entering into both Directed and Non-Directed CfDs with each other to hedge their respective risks relating to SEM participation. Pool CfDs form an important part of the SEM and the SEM Single Mutual Hedging Process is important for the determination of overall pricing of physical electricity sales via the SEM pool.

1.3 The SEM Committee is concerned to promote mutual hedging through pool CfDs and to ensure that the related process achieves the stipulated regulatory objectives of fairness and transparency. The SEM Committee therefore sets out in this Notice the SEM Single Mutual Hedging Process to be followed by SEM participants i.e. by both eligible suppliers who wish to participate and PPB. This reflects the outcome of the discussions and consultations amongst industry and the Regulatory Authorities following the publication of the Consultation Paper entitled "A Strategy for the Regulation of ESB and NIE in the Single Electricity Market: A Consultation Paper" dated 26th February 2007 (AIP/SEM/07/16) and the subsequent Decision Paper (AIP/SEM/304/07) dated 20th June 2007.

1.4 The SEM Single Mutual Hedging Process includes both Non-Directed CfDs and Directed CfDs; the latter resulting from a recent decision by the SEM Committee to require PPB to offer Directed CfDs at prices (quantum and other characteristics) specified by the SEM Committee. As these CfDs have to be offered at the prices that the SEM Committee has fixed, the process for these is different to that for Non-Directed CfDs. This process is the only process by which SEM participants will be able to enter into Directed CfDs with PPB for the period 1 October 2008 to 30 September 2009.

1.5 The SEM Single Mutual Hedging Process has been established as a one-off event (which concludes in mid June 2008) to enable PPB and eligible suppliers to enter into a mutual hedge for their energy market position between 1 October 2008 to 30 September 2009. There is no requirement on or agreement with PPB as to how they will hedge their SEM participation after the completion of the SEM Single Mutual

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[1] Directed Contracts 2008/09 Quantification and Pricing Decision Paper, SEM-08-051, 15th April 2008.
[2] Directed Contracts and Non Directed Contracts Processes 2008/09: An Information Note, 17th April 2008.
[3] 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 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.

Hedging Process or as to how they will hedge their position post September 2009 position.

1.6 Although this is a single process it will be necessary to have eight separate sessions within it first to cover the Directed CfDs (two sessions) and then the Non-Directed CfDs (six sessions), which may include MW quantities not taken up by eligible suppliers under the first two sessions.

1.7 Mutual hedging through pool CfDs, both Directed and Non-Directed, is to be achieved in accordance with the SEM Committee's requirements by PPB seeking counterparties from eligible suppliers for pool CfDs, based on PPB's hedging requirements which provide suppliers with an extensive hedging possibility, rather than by eligible suppliers offering CfDs or other possible mechanisms, as was considered and agreed following the Consultation PaperAIP/SEM/07/16. . It is important to note that PPB will have no obligations to eligible suppliers other than as a counterparty in accordance with the terms of the relevant Master Agreement. In particular it will not be providing any form of service to, or acting in any way on behalf of or as agent for, any eligible suppliers.

Part 1: Directed CfD process

1.8 As part of the SEM Committee's measures to mitigate against the potential effects of market power, the SEM Committee has directed ESB Power Generation and PPB to enter into 'directed' CfDs with eligible suppliers nominated and at prices (and other terms including quantum, period, etc.) stipulated by the SEM Committee. In addition, the SEM Committee has specified at Part 1 of this Notice the subscription process by which eligible suppliers may over two sessions subscribe for these Directed CfDs with PPB. The SEM Committee has aimed to ensure that this subscription process is compatible with that being followed by ESB Power Generation with respect to Directed CfDs which ESB Power Generation is required by the SEM Committee to offer.

Part 2: Non-Directed CfD process

1.9 After the conclusion of the two Directed CfD sessions, PPB will then seek to hedge the balance of its physical energy market position through six Non-Directed CfD sessions as set out in Part 2 of this Notice. In addition, we have specified at Part 2 of this Notice the process by which eligible suppliers may over six sessions subscribe for these Non-Directed CfDs with PPB. The SEM Committee has coordinated this process with the offering of Non-Directed CfDs by ESB Power Generation.

PART 1: DIRECTED CFDS

1. Directed CfDs

1.1 The SEM Committee has required PPB to offer Directed CfDs to licensed retail suppliers in Ireland and Northern Ireland. The Regulatory Authorities have provided the form of contract that is to be used, have specified the aggregate volumes to be offered and have specified the method by which the contracts will be priced. In addition, the SEM Committee has specified the following subscription process by which licensed retail suppliers may enter into these Directed CfDs with PPB.

2. Subscription

2.1 Eligible suppliers wishing to subscribe for Directed CfDs with PPB will only be able to do so by notifying PPB on 15th May 2008 (the "**DC Subscription Session**") of their elections in accordance with the process outlined in this Notice. There will then be a further opportunity for suppliers who have fully subscribed their eligibility on the DC Subscription Session to enter into additional Directed CfD transactions (to the extent available) on 22nd May 2008 (the "**Supplemental DC Subscription Session**").[4]

3. Directed CfD Quantities

3.1 The quantities of Directed CfDs which PPB is required to make available to eligible suppliers have been published by the SEM Committee.[5] These are as follows:

	PPB		
	Directed Contract Quantities		
Quarter	**Baseload Quantity (MW)**	**Mid-Merit Quantity (MW)**	**Peak Quantity (MW)**
Q4 2008	0	0	0
Q1 2009	0	0	0
Q2 2009	0	107	n/a
Q3 2009	0	233	n/a

4. Supplier Eligibility

4.1 The SEM Committee has determined the MW eligibility for the type of Directed CfD for each supplier and has notified eligible suppliers individually of their entitlements. Eligible suppliers will be entitled to subscribe for Directed CfDs up to their full entitlement and PPB will also be provided with each supplier's eligibility and will confirm that each supplier's elections are within the eligibility parameters set by the Regulatory Authorities.

4.2 Only suppliers who are "high net worth"[6] companies within the meaning of the Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005

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[4] PPB reserves the right to change the dates of the DC Subscription Session and/or DC Supplemental Subscription Session in the event that the SEM Committee change the dates of the published the DC Subscription and Supplemental Subscription Windows.

[5] See Directed Contracts 2008/09 Quantification and Pricing Decision Paper, SEM-08-051, 15 April 2008.

[6] Pursuant to Article 49 of the FPO a high net worth company is a company which satisfies one of the following conditions:

(i) a company which has a called-up share capital or net assets of not less than £5 million; or

("**FPO**") will be eligible to participate in the SEM Single Mutual Hedging Process. Interested suppliers will need to confirm their status as a "high net worth" company with PPB before participating in the SEM Single Mutual Hedging Process. They can do so by contacting PPB directly.

4.3 Eligible suppliers who meet the definition of a "high net worth" company (and such status has been confirmed with PPB) and are interested in entering into Directed CfDs with PPB through the SEM Single Mutual Hedging Process must have delivered to PPB by 9th May 2008 an executed 2008/09 Directed Master Contract for Differences Agreement (with PPB) in the form published by the Regulatory Authorities and have posted the appropriate credit cover. The 2008/09 Directed Master Contract for Differences Agreement which suppliers must execute before they can participate in the SEM Single Mutual Hedging Process contains various warranties that must be provided by eligible suppliers to PPB, including warranties in relation to Article 49 of the FPO and other related matters.

5. Pricing methodology

5.1 PPB will use the regression formulae which have been determined and published by the SEM Committee in SEM-08-051.

5.2 PPB will apply the approved published fuel and carbon indices to the regression formulae for the day of the DC Subscription Session in addition to each of the five Trading Days preceding the DC Subscription Session to derive six DC Strike Prices. The average of these six prices will define the DC strike price for each applicable quarter and product (the "**DC Strike Price**"). This average price methodology shall also be used for the Supplemental DC Subscription Session (if applicable). The table below details the Trading Days which shall be used to calculate the DC Strike Price for both the DC Subscription Session and the Supplemental DC Subscription Session.

	Trading Days used to determine average of prices					
DC Subscription Session	8/05/2008	9/05/2008	12/05/2008	13/05/2008	14/05/2008	15/05/2008
Supplemental DC Subscription Session	15/5/2008	16/05/2008	19/05/2008	20/05/2008	21/05/2008	22/05/2008

Pricing Windows for determining average of prices

5.3 PPB will inform eligible suppliers that have subscribed for Directed CfDs during both the DC Subscription Session and the DC Supplemental Subscription Session of the applicable strike prices for their Directed CfDs on Friday 16th May and Friday 23rd May respectively, having applied this pricing methodology.

(ii) a company which is a member of the same group as an undertaking which has a called-up share capital or net assets of not less than £5 million; or
(iii) a company which has more than 20 members, or which is a subsidiary undertaking of an undertaking which has more than 20 members, and which has a called-up share capital or net assets of not less than £500,000; or
(iv) a company which has more than 20 members, or which is a subsidiary undertaking of an undertaking which has more than 20 members and which is a member of the same group as an undertaking which has a called-up share capital or net assets of not less than £500,000.

5.4 PPB reserves the right to change its pricing methodology to the extent that the SEM Committee alters the pricing formulae at any time prior to either the DC Subscription Session or the Supplemental DC Subscription Session.

6. Subscription Process

6.1 In order to elect to enter into transactions up to their relevant eligibility eligible suppliers must inform PPB between 8.30am and 11.00am on the day of the DC Subscription Session of the amount of mid-merit capacity that they wish to subscribe for in each quarter by facsimile and email using the DC Supplier Subscription Form set out in Appendix 1.

6.2 The quantity must be expressed in MWs (to 1 decimal place) up to the supplier's relevant eligibility for that product in the relevant quarter. Suppliers may elect different quantities across different quarters and may choose not to elect at all in a particular quarter.

6.3 The minimum subscription for either of the two products on offer (i.e., mid-merit in Q2 2009 and mid-merit in Q3 2009) will be 0.1MW of each supplier's eligibility for a relevant quarter and suppliers may subscribe up to their full entitlement for a relevant product. In the event that a supplier submits a subscription that:

(a) Exceeds that supplier's maximum eligible amount in any quarter, PPB will deem such subscription to be for that supplier's maximum entitlement.

(b) Is for an amount less than the supplier's minimum subscription, PPB will deem such subscription to be rejected.

6.4 Suppliers should submit one fax of the DC Supplier Subscription Form on the day of the DC Subscription Session. In the event that multiple faxes are submitted by a supplier, PPB will utilise the first valid election for each product and quarter for that trading day. To be valid, a fax must be clear and unambiguous. Where the supplier's faxed subscription form is either unclear or ambiguous, the judgement of PPB as to its unclear or ambiguous terms shall be final. Suppliers are accordingly requested to submit the subscription form to PPB also via email within the 8:30am to 11:00am period.

6.5 PPB will assess the eligibility of elected quantities by quarter.

6.6 The DC Strike Price for the relevant DC Subscription Session will be based on the average of the six DC strike prices calculated for each of the preceding five Trading Days using the forward fuel and emissions prices and foreign exchange rates published at the end of each of those five Trading Days and the forward fuel and emissions prices and foreign exchange rates published on the day of the DC Subscription Session itself, as set out at 5.2 above. Hence, while the subscriptions will be made in the 8:30am to 11:00am period, the DC Strike Price will not be known until that Trading Day's closing fuel and emissions prices and exchange rates are published.

6.7 Within two business days of the DC Subscription Session, PPB will send to each supplier a Transaction Confirmation Letter in the form of Schedule 6 to the 2008/9 Master Contract for Differences Agreement for each transaction entered into. (Each subscription for a given product and quarter is considered a transaction). The transaction confirmation will contain the MW quantities and prices by quarter. The transaction confirmation will reflect any adjustments made to subscriptions to reflect breaches of maximum or minimum session amounts, total eligibility or the credit provisions set out below.

6.8 Each supplier will have the opportunity to review the accuracy of the Transaction Confirmation and to request corrections if necessary pursuant to the terms of the 2008/9 Master Contract for Differences Agreement. As provided in the 2008/9 Master Contract for Differences Agreement, in the event that the price information contained in the Confirmation differs from the calculated price using the methodology outlined in 5.2 above, then the arithmetic average of the six DC Strike Prices using the price formulae calculation shall prevail. Similarly, in the event that the MW quantity information contained in the Confirmation differs from the valid quantity/quantum of eligible volume subscribed, then the latter shall prevail.

6.9 All subscriptions are subject to the credit cover requirements set out below.

7. Notification of Subscriptions

7.1 By 4.00pm on the day of the DC Subscription Session, PPB will notify the Regulatory Authorities and each eligible supplier of the total cumulative MW quantity (by product and quarter) of Directed Contract volumes subscribed to by suppliers.

7.2 PPB will also notify the Regulatory Authorities by 2:00pm of the following business day after the DC Subscription Session of:

(a) the volumes transacted by each supplier, for each quarter, and

(b) PPB's calculation of the DC Strike Prices per quarter.

8. Supplemental Subscription

8.1 The Supplemental DC Subscription Session is designed to give suppliers who have fully subscribed their eligibility during the initial DC Subscription Session an opportunity to enter into additional Directed CfD transactions. In respect of Directed CfD transactions with PPB, this will take place on the Supplemental DC Subscription Session.

8.2 New entrants who are licensed in the period to mid-May and are not affiliated with any existing market participant will also be permitted to participate in the Supplemental DC Subscription Session. Such suppliers will have a maximum entitlement based on their MIC as measured by the Regulatory Authorities after the initial DC Subscription Session. New entrant eligibility will be notified to PPB by the Regulatory Authorities and any such new entrants will need to satisfy the eligibility requirements set out in section 4 above. PPB will monitor new entrant activity during the relevant period to assure that subscriptions by new entrants do not exceed eligibilities.

8.3 Suppliers who participated in the initial DC Subscription Session will be eligible to participate in the Supplemental DC Subscription Session only if they subscribed for 100% of their entitlement in the initial DC Subscription Session.

8.4 Following the DC Subscription Session, PPB will notify those suppliers who are eligible to participate in the Supplemental DC Subscription Session of the unsubscribed quantities that remain for each quarter. The eligibility of suppliers will be reset for the purposes of the Supplemental DC Subscription Session and each supplier who is eligible to participate will be separately eligible to take all of the unsubscribed quantities for the Supplemental DC Subscription Session, subject to the posting of sufficient credit cover.

9. Supplemental DC Subscription Session Process

9.1 Suppliers making quantity elections to PPB during the Supplemental DC Subscription Session will be required to do so in the same manner in which the elections were made during the DC Subscription Session.

9.2 If the available Directed CfD mid-merit quantities are oversubscribed as a result of multiple suppliers' electing the same transaction during the Supplemental DC Subscription Session, those suppliers' elections will be scaled down on a pro rata basis (to the nearest 0.1MW) until 100% of the available Directed CfD mid-merit quantities are subscribed.

9.3 PPB shall apply the same notifications for the Supplemental DC Subscription Session as for the DC Subscription Session to both the Regulatory Authorities and eligible suppliers.

10. Credit Cover Requirements

10.1 The SEM Committee has agreed that for the Directed CfDs, PPB may determine the credit cover requirements for individual eligible suppliers provided that these are no more onerous than those specified in the 2008/09 Directed Master Contract for Differences Agreement.

10.2 Each supplier that is entitled to subscribe for Directed CfDs with PPB and intends exercising any of its eligibility will need to have posted credit cover in advance of the DC Subscription Session.

10.3 PPB's credit cover requirements are as follows:

10.3.1 Each supplier with Directed Contract (**"DC"**) eligibility intending to exercise any of its DC eligibility will need to have posted sufficient credit cover in advance of the DC Subscription Session and Supplemental DC Subscription Session.

10.3.2 The Credit Cover requirements for the DC Subscription Session and Supplemental DC Subscription Session of the SEM Single Mutual Hedging Process shall be calculated using the expected prices (using the pricing formula published on 15 April 2008 in SEM-08-051) for each product in each of the two quarters based on the closing forward fuel and emissions prices and foreign exchange rates for the 15 April 2008. The ESTSEM prices for the PPB DC Credit Cover requirements are detailed in the table below:

	Mid Merit (£/MWh)
Q2	71.06
Q3	73.00

ESTSEM p,q prices based on 15 April 2008 Fuel and Carbon Indices and Exchange Rates.

10.3.3 Each supplier is required to provide PPB with 15% of the value of the underlying energy in credit cover for any volumes they wish to subscribe for, based upon the DC Strike Prices. PPB will reject any subscription volume in excess of the credit cover in place.

10.3.4 Therefore each supplier should calculate the total maximum DC volume (in MWh) they wish to subscribe for during the DC Subscription Session and the Supplemental DC Subscription Session.

10.3.5 If a supplier's elections exceed the amount of Credit Cover lodged then PPB will:

(a) Calculate the Credit Cover for the otherwise eligible bids for that Session

(b) Compare that value to the remaining unused Credit Cover

(c) If the required Credit Cover is greater than the remaining credit cover then all the (otherwise eligible) bids for that session are scaled back by the ratio of "remaining Credit Cover" to " required Credit Cover" (rounded to the nearest 0.1MW).

(d) Send out Confirmations for the accepted subscriptions with the standard timetable for Confirmations.

10.3.6 A supplier can increase Credit Cover between the DC Subscription Session and the Supplemental DC Subscription Session. The supplier must have the increased Credit Cover lodged before the Supplemental DC Subscription Session commences.

10.3.7 PPB may amend the above process if there are:

(a) Changes to the dates of the DC Subscription Session and Supplemental DC Subscription Session by the SEM Committee.

(b) Any revisions to the regression formulae published by the SEM Committee.

10.3.8 Once the DC Subscription Session and the Supplemental DC Subscription Session have been completed, the specific provisions as detailed in this section 10 covering credit cover for the DC part of the SEM Single Mutual Hedging Process will expire and the normal monthly and intra-monthly margining provisions will apply going forward as detailed in the 2008/2009 DC Master Contract for Differences Agreement.

PART 2: NON-DIRECTED CFDS

1. Non-Directed CfDs

1.1 After the Directed CfD sessions in order to complete its hedging position, PPB will be seeking counterparties for Non-Directed CfDs. Eligible suppliers will be informed about the types of Non-Directed CfDs for each of the six sessions below. Eligible suppliers will be able to submit offers for these as follows.

2. Non-Directed CfDs Timetable

2.1 The dates for the Non-Directed CfDs Sessions are:

Session:	**Date:**
NDC 1	29 May 2008
NDC 2	3 June 2008
NDC 3	6 June 2008
NDC 4	11 June 2008
NDC 5	16 June 2008
NDC 6	19 June 2008

2.2 On 27 May 2008 PPB will send any eligible suppliers a sample Offer Form for suppliers to complete and return to PPB to test communications channels.

3. Indicative volumes and prices

3.1 Indicative volumes and prices will be provided by PPB to the RAs for publication by 19 May 2008. An illustrative description of the types of products that may be made available is set out in Appendix 2.

4. Supplier Eligibility

4.1 Only suppliers who are not "high net worth"[7] companies within the meaning of Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("**FPO**") will be eligible to participate in the SEM Single Mutual Hedging Process.

4.2 Suppliers who wish to contract with PPB for Non-Directed CfDs through the SEM Single Mutual Hedging Process must have entered into either:

[7] Pursuant to Article 49 of the FPO a high net worth company is a company which satisfies one of the following conditions:
(i) a company which has a called-up share capital or net assets of not less than £5 million; or
(ii) a company which is a member of the same group as an undertaking which has a called-up share capital or net assets of not less than £5 million; or
(iii) a company which has more than 20 members, or which is a subsidiary undertaking of an undertaking which has more than 20 members, and which has a called-up share capital or net assets of not less than £500,000; or
(iv) a company which has more than 20 members, or which is a subsidiary undertaking of an undertaking which has more than 20 members and which is a member of the same group as an undertaking which has a called-up share capital or net assets of not less than £500,000..

4.2.1 an agreement amending the terms of the Non-Directed Master Contract for Differences Agreement in respect of suppliers that have already entered into a Non-Directed Master Contract for Differences Agreement with PPB,; or

4.2.2 a new Non-Directed Master Contract for Differences Agreement in respect of suppliers that have not already entered into a Non-Directed Master Contract for Differences Agreement with PPB.

4.3 Interested suppliers can contact PPB directly for copies of the relevant Non-Directed Master Contract for Differences Agreement.

4.4 Interested suppliers will need to confirm their status as a "high net worth" company with PPB before participating in the SEM Single Mutual Hedging Process. They can do so by contacting PPB directly.

4.5 Suppliers who meet the definition of a "high net worth" company (and such status has been confirmed with PPB) and are interested in entering into Non-Directed CfDs with PPB through the SEM Single Mutual Hedging Process must have delivered to PPB by 21 May 2008 an executed 2008/09 Non-Directed Master Contract for Differences Agreement or an amending agreement (for suppliers who have already entered into a Non-Directed Master Contract for Differences Agreement with PPB). The 2008/09 Non-Directed Master Contract for Differences Agreement and the amending agreement which suppliers must execute before they can participate in the SEM Single Mutual Hedging Process contains various warranties that must be provided by eligible suppliers to PPB, including warranties in relation to Article 49 of the FPO and other related matters.

5. Submission of offers

5.1 By 9.30am on each Session day PPB will send all eligible suppliers an Offer Form (in the form set out in Appendix 4) setting out the details of the volumes and prices specific to that session and the terms and conditions on which the offer is made. For details of the terms and conditions see the pro-forma Offer Form attached at Appendix 4.

5.2 Suppliers will submit their signed Offer Forms to PPB by 12.30pm on day of the relevant Non-Directed CfD Session.

6. Evaluation of offers, allocation and pricing methodology

6.1 Offers from suppliers will be evaluated by PPB according to the following evaluation criteria:

6.1.1 validity of offer (this criterion will include: whether the offer has been received in time, is correctly executed, whether there is any evidence of collusion on the part of the offerer, whether the offer is within the maximum limit for number of offers (if any) and is unqualified and unconditional and whether the offer price exceeds the reserve price);

6.1.2 eligibility of supplier; and

6.1.3 offer price in relation to the relevant volume. Offers below the reserve price will be rejected. In the case of over-subscription for products the highest priced offers will (subject to the reserve price) be accepted in preference to lower priced offers, irrespective of the order in which prices are offered.

6.2 The following allocation methodology will be used:

6.2.1 A pro rata allocation methodology will be used to allocate volume within each product where valid offer prices are the same and there is not enough volume available to accept all the offers at that price for that product.

6.2.2 The pro rata allocation will be calculated on the basis of the total number of offers at the relevant price.

6.2.3 Any unsold product may be reassigned to later sessions within the SEM Single Mutual Hedging Process and PPB reserves the right to move the allocation of product between different product types for later Sessions. Volumes awarded as part of this allocation process will be specified in MW, rounded down to 3 decimal places. So for instance, in the event that 3 suppliers have offered the same price for the remaining 5MW of the offer, each supplier will receive 1.666MW and 0.002MW shall remain unallocated for this session.

6.3 PPB will adopt a market clearing price methodology as follows:

6.3.1 where the total volume of offers is greater than 100% of the offered volume, the market clearing price shall be deemed to be the price of the lowest priced offer accepted either in part or in its entirety.

6.3.2 where the total volume of offers is less than or equal to the offered volume, the market clearing price shall be deemed to be the reserve price.

6.4 The market clearing price will set the strike price for all contract volumes for the session in question. Products which are for periods greater than three calendar months may be subject to a profiled clearing price for settlement purposes. If PPB decides to utilise a profiled clearing price then this shall be set out in the relevant Offer Form.

6.5 An illustrative non-binding worked example of the allocation procedure is set out Appendix 3.

7. Notification and confirmation

7.1 PPB will notify all successful suppliers of the volume they have been awarded by 4.00pm on each session day. PPB will also notify all eligible suppliers the following:

7.1.1 total MW of each offered product sold in the relevant session; and

7.1.2 the market clearing price.

7.2 Within two business days of each session successful suppliers will be sent a transaction confirmation in accordance with the Master Contract for Differences Agreement. If a supplier submits multiple successful offers for the same product in any session, all successful offers will consolidated into a single transaction (since all the successful offers will be executed at the same market clearing strike price, regardless of prices actually offered). The transaction confirmation will contain the megawatt quantities and prices by product.

8. Publication of anonymous offer and strike data

8.1 The SEM Committee may following the conclusion of the SEM Single Mutual Hedging Process publish anonymous offer and strike price data if the SEM Committee deem this to be of assistance to market participants.

9. Credit Cover

9.1 By participating in the SEM Single Mutual Hedging Process, participants agree to put in place any credit support required under the Non-Directed Master Contract for Differences Agreement (as amended) on such terms and in accordance with this Agreement.

9.2 PPB shall confirm the level of credit support required by the relevant supplier within 5 business days of the last Session day. The relevant supplier shall put in place this credit support within 5 business days of such notification.

Appendix 1

Directed CfD Supplier Subscription Form

Directed CfDs 2008/09

Part 1: Supplier Information

General Information

This form must be submitted to PPB before the close of [*insert date*].

Each eligible supplier must:

(a) complete the information required in Table 1 of Part 1 and all of Part 2; and

(b) submit the fully completed subscription form via fax,

as executed by an authorised representative of the eligible supplier.

Table 1: Identity of Supplier
(to be completed by eligible supplier)

Participant Entity Name:	
Address:	
Telephone:	
Facsimile:	
Email address:	
Authorised Representative:	

Note: For the avoidance of doubt in legibility, please complete this form electronically and provide PPB with the printed fax form completed.

Part 2: 2008/09 Directed CfDs Subscription Form

Eligible Supplier Name:

Session Date:

	Q2 2009	**Q3 2009**
Mid-Merit (0700-2300)		

Note: The product above is as defined in the 2008/9 Master Directed Contract for Differences Agreement.

IMPORTANT NOTICE:

This form is issued by PPB in accordance with Part 1 of the Notice of the SEM Single Mutual Hedging Process published by the Regulatory Authorities on [insert date]. Only an eligible supplier may submit an election in this DC Subscription Session.

By submitting this Directed CfDs Subscription Form, the eligible supplier shall be deemed to have unconditionally accepted that its elections will be transacted under the 2008/9 Directed Master Contract for Differences Agreement between PPB and the eligible supplier, including the Schedules to that Agreement.

Please return this template via FAX to [*insert number*] between [8:30 am] to [11:00 am] today.

** PLEASE DO NOT ALTER FORMAT**

Additional Info: An email of this form can be sent to PPB at [*insert email address*]

Supplier Signature:……………………………… Date:………………………….

Name of Signatory:……………………………… Date:…………………………..

Appendix 2

Illustrative Description of Non Directed CfDs Specification

1. Illustrative description of the types of non-directed CfDs

1.1 The non-directed CfDs offered will be limited in number and will comprise of simple constructs. It is currently anticipated that four types of product will be on offer from PPB. Three of the products will be the same as the defined products for the directed CfDs. The fourth product (Midmerit 2) will be a 7:00 a.m. to 7:00 p.m. weekday product. However, this information is indicative only and PPB may offer new products or withdraw existing products.

1.2 Indicative volumes and prices for the Non-Directed CfDs will be published by the Regulatory Authorities by 19 May 2008.

2. Products

	Baseload – For Trading Periods at the Contract Quantity arising in all hours.
	Mid-Merit 1 (MM1) – For Trading periods at the Contract Quantity during the hours beginning at 07:00 and ending at 23:00 on Business Days and for Trading Periods on days that are not Business Days at 80% of the Contract Quantity.
	Mid-Merit 2 (MM2) – For Trading Periods at the Contract Quantity during the hours beginning at 07:00 and ending at 19:00 on weekdays.
	Peak – For Trading Periods arising during the hours beginning at 17:00 and ending at 21:00 on all days during October, November, December, January, February and March at Contract Quantity

3. Volumes and Shapes

3.1 Total volumes to be offered have not yet been finalised but the intention is to spread the available volume across the non-directed sessions.

3.2 PPB are considering the types of contracts it will offer but it is likely they will comprise of:

(a) Annual flat products for Baseload, Mid-Merit (1) and Mid Merit (2);

(b) Six monthly winter products (Oct – March) for Baseload, Mid-Merit (1), Mid Merit (2) and Peak;

(c) Six monthly summer product(March – September) Baseoad, MidMerit (1) and MidMerit (2); and

(d) Quarterly products for Baseload, Mid-Merit (1) and Mid Merit (2) and Peak.

4. Product period(s):

	Annual represents the twelve (12) month period from 00:00 hours on 1st October 2008 until 24:00 hours on 30th September 2009 (inclusive).

	08Q4 represents the three (3) month period from 00:00 hours on 1st October 2008 until 24:00 hours on 31st December 2008 (inclusive).
	09Q1 represents the three (3) month period from 00:00 hours on 1st January 2009 until 24:00 hours on 31st March 2009 (inclusive).
	09Q2 represents the three (3) month period from 00:00 hours on 1st April 2009 until 24:00 hours on 30th June 2009 (inclusive).
	09Q3 represents the three (3) month period from 00:00 hours on 1st July 2009 until 24:00 hours on 30th September 2009 (inclusive).
	08Q4 + 09Q1 represents the six (6) month period from 00:00 hours on 1st October 2008 until 24:00 hours on 31st March 2009 (inclusive).
	09Q2 + 09Q3 represents the six (6) month period from 00:00 hours on 1st April 2009 until 24:00 hours on 30th September 2009 (inclusive).

Appendix 3

Illustrative Example of Non-Directed CfD Allocation Procedure

This worked example gives an illustrative example of the Non-Directed CfD allocation procedure for a single type of contract, Annual Baseload.

- Suppose that on a Non-Directed CfD session day PPB notifies suppliers that the following products are available:

19/05/07	Offered Volume	Reserve
Product	**Annual**	**Price (£/MWh)**
Baseload	100	45.00

- Suppose that there are three eligible suppliers, A, B and C, who make offers as follows

Supplier:	A
Session Date :	19 May 2008
Session Number:	1

Annual flat product

Baseload

Offer No.	MW	Offer price £
1	20	£50.00
2	50	£48.00
3	30	£45.00
4		
5		

Supplier:	B
Session Date :	19 May 2007
Session Number:	1

Annual flat product

Baseload

Offer No.	MW	Offer price £
1	10	£49.00
2	10	£48.00
3	10	£47.00
4	20	£46.00
5		

Supplier:	C
Session Date :	19 May 2007
Session Number:	1

Annual flat product

Baseload

Offer No.	MW	Offer price £
1	20	£49.00
2	20	£45.50
3	20	£45.00
4		
5		

- Then the offers will be ranked as follows:

Supplier	Offer No.	MW	Price	Cumulative MW
A	1	20	£50.00	20
B	1	10	£49.00	30
C	1	20	£49.00	50
A	2	50	£48.00	100
B	2	10	£48.00	110
B	3	10	£47.00	120
B	4	20	£46.00	140
C	2	20	£45.50	160
A	3	30	£45.00	190
C	3	20	£45.00	210

- In this case, the three highest offers, A1, B1 and C1 account for a total of 50MW of the offered volume. The offers A2 and B2 are exactly equal, and account for another 60MW of the offered volume, which is more than the remaining 50MW after offers A1, B1 and C1 have been allocated. Therefore offers A2 and B2 will be scaled down so that they receive pro-rata shares of the remaining 50MW. So in this example, the resulting transactions (volumes and CfD strike prices) are as follows:

Supplier	Offer No.	MW	Price	Cumulative MW	Accepted	CfD strike price
A	1	20	£50.00	20	20	£48.00
B	1	10	£49.00	30	10	£48.00
C	1	20	£49.00	50	20	£48.00
A	2	50	£48.00	100	41.67	£48.00
B	2	10	£48.00	110	8.33	£48.00

- The Clearing Price (which becomes the transaction strike price) is set at lowest of the accepted offers.

- If the total volume in offers is not greater than total Offered Volume then the Clearing Price is set as the Reserve Price.

Appendix 4

SEM Single Mutual Hedging Process

Pro-forma Offer Form for session held on [*insert date*]

Part 1: How to make an Offer

1. Information

1.1 In order to make a valid offer for Non-Directed CfDs, the eligible supplier must complete and sign this form and fax this to PPB at the number set out below. For the purposes of aiding analysis only suppliers must also send the completed form by email to the address set out below. In the event of any conflict between the faxed offer form and the emailed offer form the faxed form will prevail.

2. Identity of eligible supplier (to be completed by eligible supplier)

Name:	
Address:	
Telephone:	
Facsimile:	
Email address:	
Authorised representative:	

3. Offer

3.1 The eligible supplier named above unconditionally offers to buy the offered volumes of Non-Directed CfDs from PPB at the prices set out in Part 2 to this Offer Form. All offers submitted on this form constitute unconditional offers in the SEM Single Mutual Hedging Process (session number [*]) and accepted offers contracted transactions under the Master Agreement between PPB and the eligible supplier.

4. Terms and Conditions

4.1 By making this offer, the eligible supplier shall be deemed to have unconditionally accepted:

(a) that successful offers will be transacted under the Non-Directed Master Contract for Differences Agreement (as amended) between PPB and the eligible supplier including the Schedules to that agreement;

(b) that eligible suppliers cannot withdraw during the course of a Non-Directed CfD session after submitting an offer for that session;

(c) that eligible suppliers participate in this NDC Session at their own cost and risk;

(d) that PPB will not have any obligations to eligible suppliers other than as a counterparty in accordance with the terms of the Non-Directed Master Contract for Differences Agreement (as amended), in particular it will not be providing any form of service or acting in any way on behalf of or as agent for any eligible suppliers;

(e) that PPB may accept the offer in full or in part;

(f) that all prices offered will be in £ sterling and exclusive of VAT;

(g) that PPB may reject offers that do not satisfy these Terms and Conditions;

(h) that PPB may reject offers that were not submitted in accordance with Part 2 of the Notice of the SEM Single Mutual Hedging Process Directed and Non-Directed Contracts for Differences with PPB published by the Regulatory Authorities on [*insert date*]];

(i) that PBB may reject offers that are not equal to or greater than the reserve price and that are not rounded to nearest penny per megawatt hour; and

(j) these Terms and Conditions.

5. Signatory

Signature of eligible supplier's authorised representative

……………………………………………

Name of person signing

…………………………………………..

Position

The completed and signed Offer Form should be faxed and emailed to PPB at the following:

NIE PPB fax number:	00 44 2890707526
NIE PPB email address	PPBNDC@nieenergy.co.uk

Part 2: Offers for Non-Directed CfDs

[insert table of available products, quantities and reserve prices for relevant NDC session].