

# **Single Electricity Market Committee**

## **Contracts for Differences (CfDs) in the Single Electricity Market (SEM)**

### **The 2010 Contracting Process**

SEM-10-006

12 February 2010

## **1. Introduction**

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

Risk Management is an integral element of the efficient and effective operation of the SEM. To date 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 in the SEM. The availability of CfDs is also an important means of delivering both wholesale and retail competition to the ultimate benefit of final customers.

The purpose of this information note is to outline the SEM Committee position with regard to the conduct of the SEM contracting process from 2010.<sup>1</sup> An indicative timetable is provided for participants' information and the SEM Committee expect more detailed timelines and relevant information such as volumes and products to be communicated to participants over the coming weeks.

## **2. Experience to Date**

Over the past three years contracts have generally been offered through what is known as the Directed Contract (DC) and the Non Directed Contract (NDC) processes. While we understand that bilateral contract trading occurs between independent participants, such commercial contracting does not come within the remit of the RAs.

Also, while only the DC process is directly regulated by the RAs, we do have a broader role in promoting market liquidity through the NDC process and/or a Multi-lateral Trading Facility (MTF) as well as a role in ensuring that any participation in the offering of CfDs by the incumbents is fair and transparent.

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<sup>1</sup> 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 RAs) that, on behalf of the RAs, takes any decision as to the exercise of a relevant function of CER or NIAUR in relation to an SEM matter. In this paper the terms 'SEM Committee' and 'RAs' are used interchangeably.

In 2009, the overall process started with NDCs offered first by NIE PPB. These were followed by Directed Contracts, then contracts backed by the Irish PSO and finally NDCs from ESB PG. 2009 saw the use of Tullet Prebon's MTF for the auction of all NDCs and PSO contracts as opposed to the faxed based system that was previously established by the sellers of NDCs.

At the end of 2009 the first auction for short term products<sup>2</sup> was held on the Tullet Prebon MTF offered by ESB PG. The RAs have been informed by ESB PG that they intend to offer more short term products, including monthly, in 2010, beginning the 23<sup>rd</sup> February, subject to availability. Please contact ESB PG for further details.

### **3. Contracting in 2010**

The figure below gives an indicative contracting process for 2010. As in previous years, the RAs expect that the DC and PSO subscriptions/auctions will be discrete processes in 2009. The RAs are proposing to have the DC primary and supplemental windows, over 4 and 1 week respectively<sup>3</sup>. The RAs are also proposing to extend the window for the PSO auctions from 2 weeks, as in 2009, to 3 weeks in 2010. The RA's expect that NDC 2010/11 products will be offered by ESB PG and by NIE PPB in advance of DC offerings, with ESB PG's commencing in late February as referred to above.

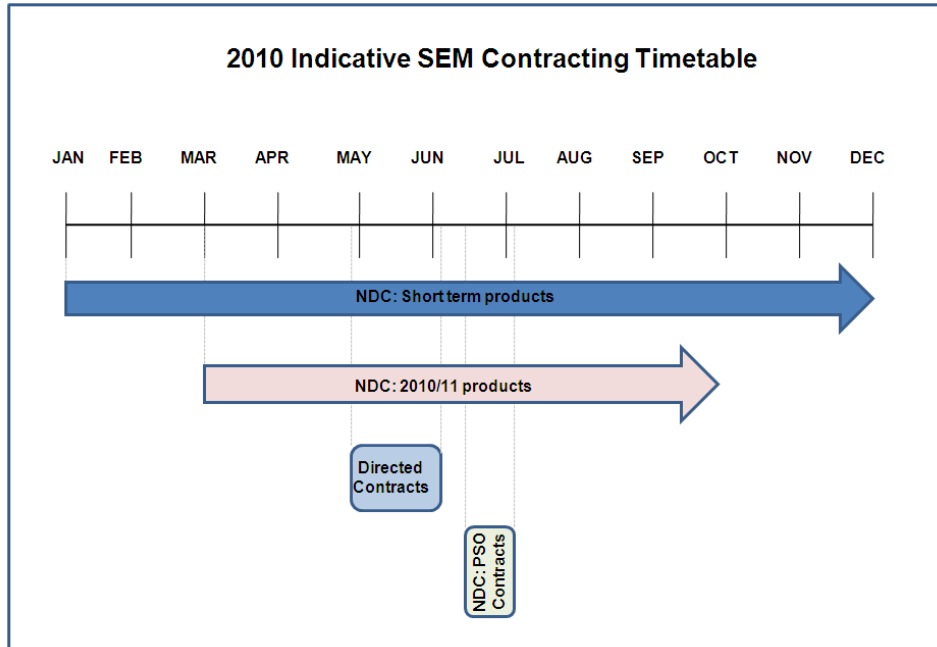
While NIE PPB are expected to offer CFDs to the market for the 2010-11 tariff year, there is less certainty over the volume of CFDs that they can offer for this period. This is due to the possible cancellation of Generating Units Agreements (GUAs) between NIE PPB and AES Kilroot for the two coal/oil fired units. These GUAs can be cancelled from as early as 1<sup>st</sup> November 2010, or anytime thereafter, provided 180 days notice has been given. For clarity, the GUAs for the Premier Power CCGT plant cannot be cancelled until 1<sup>st</sup> April 2012 at the earliest, so NDC volumes with respect to these particular PPB offering will not be impacted upon.

The relevant generators will notify the RAs and market participants of actual auction dates.

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<sup>2</sup> Products that are offered for periods within the current tariff year.

<sup>3</sup> Directed Contract Implementation Report: A Consultation Paper (SEM-10-005), also published on this date.



The RAs are aware that ESB PG has issued a notice on the Official Journal of the European Union seeking expressions of interest in the provision of a Multilateral Trading Facility for the auctioning of CFDs in the SEM and that they are carrying out a consultation with users of the existing MTF system. The RAs have received a commitment from ESB PG that this review of MTFs will not delay the contracting process in 2010 and that the existing MTF will be utilized until this process is completed and an enduring solution is put in place. The RAs understand that ESB PG will continue to keep both the RAs and market participants updated on this process as relevant.