SEM Contracting 2012/13: Information on PSO-related CfDs

An RA Information Paper

SEM-12-025

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1. Introduction

1.1 Background

Since 1st November 2007 the Northern Ireland Authority for Utility Regulation (Utility Regulator) and the Commission for Energy Regulation (CER), together referred to as the Regulatory Authorities or RAs, have jointly regulated the all-Island wholesale electricity market known as the Single Electricity Market (SEM) covering both Northern Ireland and the Republic of Ireland. Further details on the project can be found on the AIP website at www.allislandproject.org.

The SEM includes a centralised gross pool (or spot) market which, given its mandatory nature for generators (above 10 MW) and suppliers, is fully liquid. In this pool electricity is bought and sold through a market clearing mechanism, whereby generators bid in their Short Run Marginal Cost (SRMC) and receive the System Marginal Price (SMP) for each trading period for their scheduled market quantities, as well as other revenue streams. Suppliers purchasing energy from the pool pay the SMP for each trading period along with other costs.

Risk Management is an integral element of the efficient and effective operation of the SEM. To date there have been offerings of 2-way Contracts for Differences (CfDs) which have enabled generators and suppliers to manage and hedge the wholesale price - i.e. SMP - risk inherent in the SEM. CfDs assist both wholesale and retail competition to the ultimate benefit of final customers. This is because the ability of generators and suppliers to enter into and access contracts enhances the financial certainty, flexibility and innovation of participants in both the wholesale and retail markets.

1.2 Types of CfDs Available

There are currently three types of CfD being offered publically in the SEM. Details on the different types are provided at SEM-10-057 at the following link:

http://www.allislandproject.org/GetAttachment.aspx?id=e83a335f-8366-416c-a6fe-96a0d54b1721

In brief, the three types of CfDs available are:

- Directed Contracts (DCs), whose volume, price and eligibility is set by the RAs as part of the SEM market power mitigation strategy. Information on DCs for the next contract year and beyond is published today in the RAs' "Directed Contracts Implementation for 2012/'13 and Beyond" decision paper.

- CfDs associated with the Public Service Obligation (PSO) levy in Ireland. This information paper includes details on PSO-related CfD offerings/products for the 2012/13 contract year; and,

- Non-Directed Contracts (NDCs), where market participants can offer CfDs which suppliers are free to bid for. The RAs have no role in setting the price or volume of these forward contracts, although we do promote their provision. The extent and frequency of NDC trading has increased considerably in recent times with:

- Contracts and hedging now extending out beyond the traditional contract year; and,
- Tullett Prebon now hosting regular “Over the Counter” (OTC) windows on its Brokered Market. This allows for greater interaction between generators and suppliers with respect to NDC prices and quantities, assisting in price discovery.

1.3 Purpose of this Paper

The purpose of this Information Paper from the RAs is to inform market participants of volume and timing of the auctions for PSO-related CfD offerings/products for the next contract year. Please see Section 2 of this paper for information on this.

2. PSO-related CfDs for Next Contract Year

2.1 Overview

In previous years CfDs associated with the PSO levy in Ireland have been offered in the SEM for contract liquidity purposes. The RAs published a paper in June 2011 (SEM-11-027) outlining that for the 2011/12 contract year PSO-related CfDs were to be offered on a quarterly basis, with 0.9TWh offered for each quarter, about a month in advance of the quarter in question.

For the upcoming 2012/13 contract year, the RAs are continuing with the overall approach to PSO-related CfDs already consulted and decided on last year. In other words, quarterly offering of PSO-related CfDs, circa one month in advance, will continue. The distribution of PSO-related CfD products will also continue to be broken down on a 50: 25: 25 capacity (MW) basis between baseload, mid-merit 1 and mid-merit 2 product. The reasons for this were detailed in the SEM-11-027 published last year. There will, however, be a change in volumes offered, as referred to below.

2.2 Auction Volumes and Dates

There will be a total of 3.28 TWhs of PSO-related CfDs offered for the 2012/13 contract year and this will be apportioned evenly between each quarter. The total volumes offered are slightly down on the 3.6 TWhs available for the current contract year. This is due to the lower total forecast production volumes of the plant for the next contract period related to the commissioning of the new East-West interconnector.

However the slightly lower volume of PSO-related CfDs available for the 2012/13 period is expected to be more than mitigated by the increase in DC volumes available. For more information on DCs see the "Directed Contracts Implementation for 2012/'13 and Beyond" decision paper published today.

The 0.82 TWhs of PSO-related CfDs allocated to each quarter will be offered on two separate dates with 0.41 TWhs auctioned on each occasion, in a similar fashion to the current contract period. Any PSO-related CfD volume (for a month in each quarter) offered in the first auction, that is not sold, will then be offered in the second auction.

The auction dates will be held about a month before the quarter. The auction dates for the 2012/13 tariff period are as listed below:

- Half (0.41 TWh) of Q4 2012 product will be offered by ESB on Thursday 23rd August 2012 and half (0.41 TWh) on Thursday 30th August 2012;

- Half (0.41 TWh) of Q1 2013 product will be offered by ESB on Thursday 22nd November 2012 and half (0.41 TWh) on Thursday 29th November 2012;

- Half (0.41 TWh) of Q2 2013 product will be offered by ESB on Thursday 21st February 2013 and half (0.41 TWh) on Thursday 28th February 2013; and,

- Half (0.41 TWh) of Q3 2013 product will be offered by ESB on Thursday 23rd May 2013 and half (0.41 TWh) on Thursday 30th May 2013.

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