



SEM Contracting 2014/15: Information on PSO-related CfDs

An RA Information Paper

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1. Purpose of this Paper

The purpose of this paper is to provide market participants with information on the volume, shape and timing of PSO-related CfD offerings for the year from October 2014 to end September 2015, referred here to as the “contract year”.

The arrangement for the offering of PSO-related CfDs for the 2014/15 contract year will essentially be the same as that which applied for the current 2013/14 contract year.

In summary, circa 2.35 TWhs of PSO-related CfDs will be offered for the contract year, apportioned evenly between each quarter, with monthly products offered for each quarter. Approximately 0.59 TWhs will be allocated to each quarter which will be offered on two separate dates, one week apart, with approximately 0.295 TWhs auctioned on each occasion. The distribution of the PSO-related CfD products will remain on a 50: 25: 25 capacity (MW) basis between baseload, mid-merit and mid-merit 2 product.

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 slightly over 1 month before the quarter in question, as shown in section 3 of this paper.

2. Background

2.1 Introduction

Since 1st November 2007 the 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.

2.2 Types of CfDs Available

There are currently three types of CfD being offered publically in the SEM. A background 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.
- CfDs associated with the Public Service Obligation (PSO) levy in Ireland. This information paper includes details on PSO-related CfD offerings/products for the 2014/15 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 years with:
 - Contracts and hedging now extending out beyond the traditional contract year; and,
 - Tullett Prebon 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.

3. PSO-related CfDs for Next Contract Year

3.1 Overview

For the 2014/15 contract year, the RAs are continuing with the overall approach to PSO-related CfDs as exists this year. In other words, there were quarterly offering of PSO-related CfDs, circa one month in advance, with monthly products offered for each quarter.

The distribution of PSO-related CfD products also remained 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 SEM-11-027¹. The same distribution will be offered for the 2014/15 contract year.

¹ Please see <http://www.allislandproject.org/GetAttachment.aspx?id=6f219d43-3bb8-4b4a-91fa-4b2aa9513336>

3.2 Auction Volumes and Dates

A total of 2.35 TWhs of PSO-related CfDs will be offered for the 2014/15 contract year, apportioned evenly between each quarter with monthly products offered for each quarter. The table below shows the exact volumes (MW) on offer for each quarter.

| MW | Q4-2014 | Q1-2015 | Q2-2015 | Q3-2015 |
|-------------|---------|---------|---------|---------|
| Baseload | 180 | 180 | 180 | 180 |
| Mid Merit | 90 | 90 | 90 | 90 |
| Mid Merit 2 | 90 | 90 | 90 | 90 |

Approximately 0.59 TWhs of PSO-related CfDs will be allocated to each quarter and offered on two separate dates, a week apart, with approximately 0.295 TWhs auctioned on each occasion, in a similar fashion to the approach for 2013/14. Again, 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 for the 2014/15 contract year will be typically held over 1 month before the quarter in question, as listed below:

- Half (0.297 TWh) of Q4 2014 product will be offered by ESB on Thursday 28th August 2014 and half (0.297 TWh) on Thursday 4th September 2014;
- Half (0.29 TWh) of Q1 2015 product will be offered by ESB on Thursday 13th November 2014 and half (0.29 TWh) on Thursday 20th November 2014;
- Half (0.293 TWh) of Q2 2015 product will be offered by ESB on Thursday 19th February 2015 and half (0.293 TWh) on Thursday 26th February 2015; and,
- Half (0.296 TWh) of Q3 2015 product will be offered by ESB on Thursday 21st May 2015 and half (0.296 TWh) on Thursday 28th May 2015.
