



SEM Contracting 2015/16: Information on PSO-related CfDs

An Information Paper

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1. Purpose of this Paper

The purpose of this paper from the Regulatory Authorities (the Utility Regulator and the Commission for Energy Regulation or CER) is to provide market participants with information on the volume, shape and timing of PSO-related CfD offerings for the year from October 2015 to end September 2016, referred here to as the “contract year”.

The arrangement for the offering of PSO-related CfDs for the 2015/16 contract year will essentially be the same as that which applied for the current 2014/15 contract year.

In summary and as detailed in section 3 of this paper, circa 1.769 TWh of PSO-related CfDs will be offered for the contract year. Within this, varying CfD volumes, related to expected plant output, will be allocated to each quarter, with monthly products provided and auctions held quarterly. The distribution of the CfD products will remain on a 50:25:25 capacity (MW) basis between baseload, mid-merit and mid-merit 2.

2. Background

2.1 Introduction

Since 1st November 2007 the Regulatory Authorities or RAs, part of the SEM Committee, 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 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 in 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 thermal generating plants covered under the Public Service Obligation (PSO) levy in Ireland, offered via auction over the “Tullett Prebon” platform. This information paper includes details on PSO-related CfD offerings/products for the 2015/16 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 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 2015/16 contract year, the RAs are continuing with the overall approach to PSO-related CfDs as exists this year. In other words, there will be quarterly offering of PSO-related CfD via auction, circa one month or so in advance, with monthly products offered for each quarter.

The distribution of PSO-related CfD products also remains on a 50:25:25 capacity (MW) basis between baseload, mid-merit 1 and mid-merit 2 - the reasons for this were detailed in SEM-11-027¹.

3.2 Auction Volumes and Dates

A total of approximately 1.769 TWh of PSO-related CfDs will be offered for the 2015/16 contract year. This will be apportioned between each quarter related to the expected output of PSO thermal generating plant, with monthly products offered for each quarter.

The following table shows the exact volumes (MW) of PSO-related CfDs on offer for each quarter; the reduction in Q1 2016 CfD volumes is related to the Edenderry peat plant coming out of PSO contract in December 2015, while the lower CfD volumes for Q2 and Q3 2016 are related to the Tynagh and Aughinish plants coming out of PSO contract at end March 2016.

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

MW	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Baseload	220	160	80	80
Mid Merit	110	80	40	40
Mid Merit 2	110	80	40	40

The equivalent in MWh offered per quarter is as follows:

	Q4 2015	Q1 2016	Q2 2016	Q3 2016
MWh	446.2	320.1	174.6	164.9

The PSO-related CfDs allocated to each quarter will be offered via auction over the Tullett Prebon platform on two separate dates, a week apart, with approximately 50% on offer on each occasion in a similar fashion to the approach for 2014/15. As before, 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 2015/6 contract year will be typically held approximately 1 month or so before the quarter in question, as listed below:

- Circa half of Q4 2015 product will be offered by ESB on Thursday 27th August 2015 and half on Thursday 3rd September 2015;
- Circa half of Q1 2016 product will be offered by ESB on Thursday 19th November 2015 and half on Thursday 26th November 2015;
- Circa half of Q2 2016 product will be offered by ESB on Thursday 18th February 2016 and half on Thursday 25th February 2016; and,
- Circa half of Q3 2016 product will be offered by ESB on Thursday 19th May 2016 and half on Thursday 26th May 2016.
