



SEM Monitoring Report: Q3 2018

SEM-19-002

November 2018

This report constitutes the last Market Monitoring Quarterly update for the original SEM. It outlines the trends in the Market, with a particular focus on Q3 2018. With the commencement of the new SEM on 1 October 2018 which is also overseen by the SEM Committee, the Market Monitoring focus is on closely scrutinising the market outcomes.

Regular monthly updates on price and quantity trends are being reported on the new SEM to the SEM Committee. The Market Monitoring Unit will also publish a high level report on performance of the new SEM early in the new year. In time quarterly reports will also be developed and published.

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2. INTRODUCTION

The Single Electricity Market (SEM) is the term that is used to describe the electricity market for the island of Ireland.

This report provides an overview of the SEM and sets out recent trends in the market in relation to pricing, demand, scheduling and contract prices. It focuses in particular on the wholesale element of electricity prices, which makes up roughly 60% of customers' bills.

The report was prepared by the Market Monitoring Unit (MMU); the MMU resides within the Utility Regulator Northern Ireland, the main monitoring function of the Regulatory Authorities in joint collaboration with the Commission for Energy Regulation (CER). The unit's role is to investigate market power within the SEM and to monitor compliance of market participants with regards to the Bidding Code of Practice (BCoP) and other market rules. Another aspect of the roles and responsibilities of the MMU is to review market prices. This report covers this particular area of the SEM, along with some others; the key areas are:

- An overview of how the market works and key trends observed over the lifetime of the SEM
- Detailed market information on price (System Marginal Price) and quantity (Market Scheduled Quantity and Dispatch Quantity)
- Information on trends in directed contracts which are imposed by the Regulatory Authorities on the incumbent generators with market power in the SEM.

The information in this report is based on data that was provided by the Single Electricity Market Operator (SEMO), except where otherwise indicated.

Any feedback or comments that stakeholders may have should be emailed to:

- Kevin Baron at kevin.baron@uregni.gov.uk.

3. OVERVIEW

- **Wholesale costs:** SEM Energy costs during the third quarter of 2018 increased by €46m on those in the second quarter of 2018.
- **SEM Price (System Marginal Price, SMP):** On average, SMP was €65/MWh for the quarter, this is roughly 12% higher than in Q2 2018.
- **SEM demand (Market Schedule Quantity, MSQ):** The average demand for the quarter was 3819 MW. By comparison, the demand in Q2 2018 was 3826 MW which is in line with seasonal trends.
- **Directed Contracts:** This was the fourth round of Directed Contacts for I-SEM. The full volume has been sold for all quarters in Round 4. The average Baseload price was €71.50, whilst the average Mid-Merit price was €80.61.
- **Actual Availability (AA).** In the third quarter of 2018, AA decreased by 2% on Q2 2018
- **Margin** levels in Q3 2018 were 1% higher than in Q3 2017
- **Shadow Price** remained at €46/MWh in Q3 2018
- **Uplift** has increased over the past quarter from €12/MWh in Q2 2018 to €21/MWh in Q3 2018.

4. SUMMARY

This section provides a high-level analysis of trends that are observed across the main elements of the SEM. The topics are various:

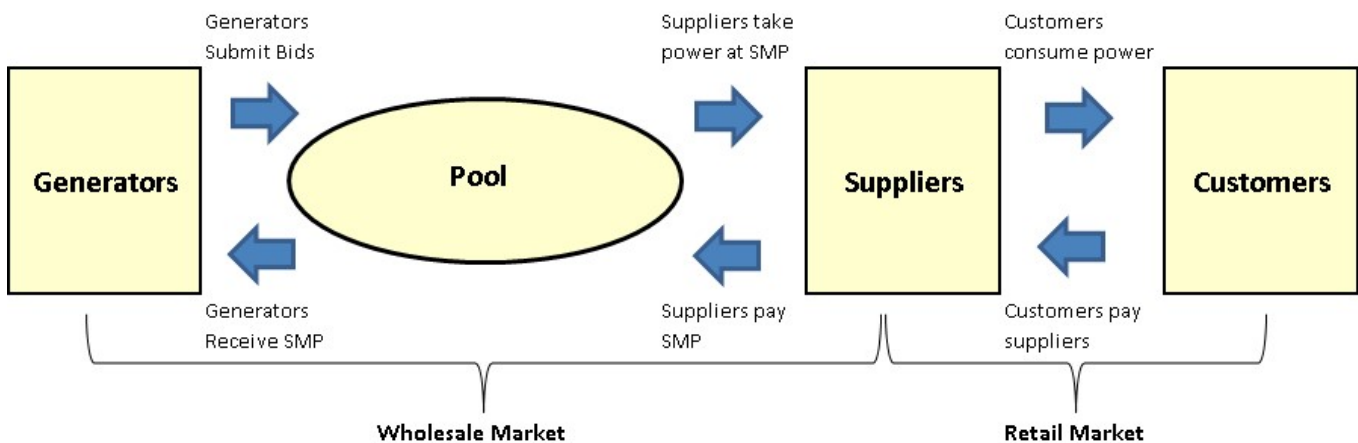
- **Background to the SEM:** This section explains how the market works, and in particular the way in which generators bid to provide the required electricity.
- **Electricity prices:** This section provides a high level breakdown of wholesale energy costs for the previous nine quarters.
- **System Marginal Price (SMP) and Demand:** This section provides information on the SMP and Demand levels since 2015.
- **Within day Energy Prices:** This section shows the average price and demand for each trading period in the previous nine quarters.
- **SMP Shadow Price & Uplift:** SMP can be broken down into two components - the Shadow Price and Uplift. This section looks at the impact of changes on SMP for Q3 2018.
- **Fuel mix:** This section outlines the changes in the type and proportion of fuels that were used for generation over the previous nine quarters.

How the Single Electricity Market works

This section provides a brief overview of how the SEM operates. The SEM is the electricity market for the island of Ireland. It was introduced in November 2007. The SEM is jointly regulated by the Utility Regulator and the Commission for Regulation (referred to in this report as the Regulatory Authorities).

The SEM is a pool market through which all suppliers and generators above a minimum threshold must trade electricity. A market overview is shown below.

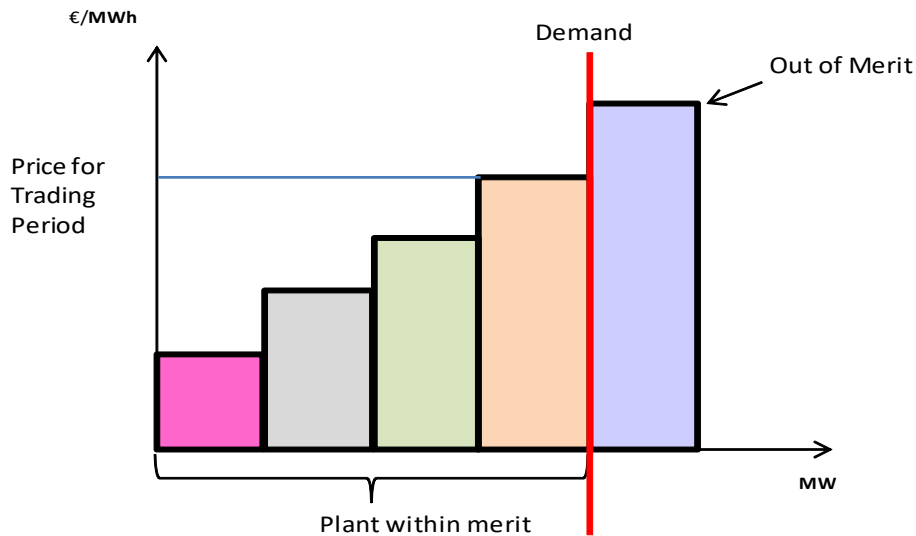
Figure 1: Market Overview



Generators submit bids to the market based on their short run marginal costs (as required by their licences and by the Bidding Code of Practice). These bids are mostly made up of fuel-related costs.

The SMP is determined for each half hour period, based on bids received from generators and customer demand. The SMP and schedule of generation is calculated by SEMO using optimisation software. Broadly speaking, bids that are submitted by the generators are stacked in order, starting with the least expensive, until demand is met. This process is illustrated in Figure 2:

Figure 2: Market Schedule



All generators that are scheduled (run in the market) are paid the same SMP for the energy they produce. Supply companies, which sell electricity to customers, pay the SMP for the electricity their customers consume.

Generators also receive Capacity Payments for any periods that they are available to generate. This contributes towards their fixed, long-term costs.

If there are constraints, a generator may be dispatched in a way that is different from the market schedule in order to balance supply and demand. These generators are said to be either 'constrained on' or 'constrained off'. Generators that are constrained off will pay back a payment and those that are constrained on will receive a payment. This ensures that generators are financially neutral for any differences between the market schedule and actual dispatch.

Settlement of the market is carried out by SEMO. This includes payment to generators and the invoicing of suppliers. The cost of operating SEMO is recovered from suppliers. This is a relatively small contributor to costs and is not covered in this report.

Electricity prices

Electricity prices are made up of a number of different charges, broadly, they are:

- Wholesale costs (around 60%)
- Network costs (around 30%)
- Supplier costs (around 10%)

This report focuses on the wholesale element of electricity prices.

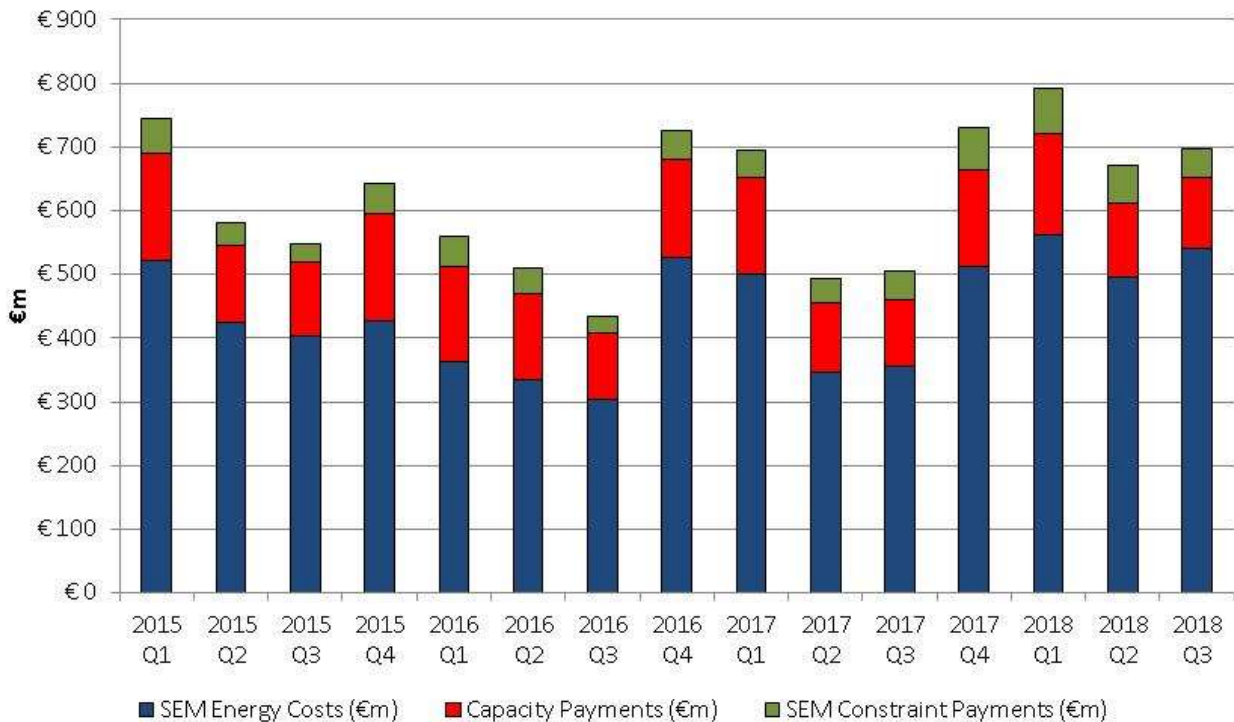
The main elements of the SEM wholesale costs are:

- Energy costs – Costs paid to generators for producing electricity
- Capacity costs – Costs paid to generators based on their availability to generate electricity
- Imperfections costs - Costs largely associated with network and system constraints.

The graph below gives a breakdown of these costs. The period covered is from Q1 2015 through Q3 2018.

Figure 3: SEM Costs

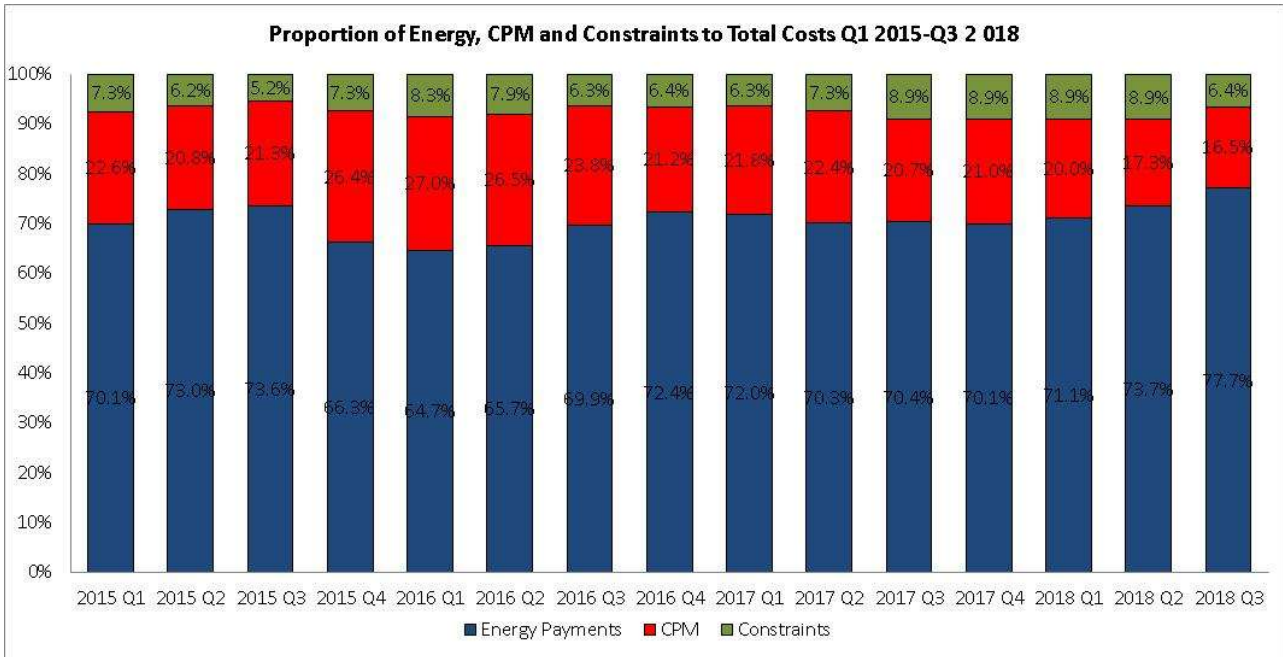
SEM Energy, Capacity and Constraints Costs (€m)



As the following chart shows, energy costs are the largest element of the overall wholesale cost. In the second quarter of 2018, 78% of total wholesale costs were attributable to energy. Constraints costs are 6% of total energy costs for Q3 2018, 3% lower than the Q2 2018 figure.

Energy Costs as a Percentage of Total Wholesale Costs

Figure 4: Total percentage of Energy, Constraints and Capacity Payments.



System Marginal Price and Demand trends

Average SMP for Q3 2018 was €65/MWh, roughly 12% higher than in Q2 2018 (€58/MWh).

Levels of demand decreased to an average of 3819 MW in Q3 2018 from 3826 MW in Q2 2018.

The figures over the page show the average monthly SMP and the MSQ recorded in the SEM since 2015.

Figure 5: Mean System Marginal Price Q1 2015 – Q3 2018

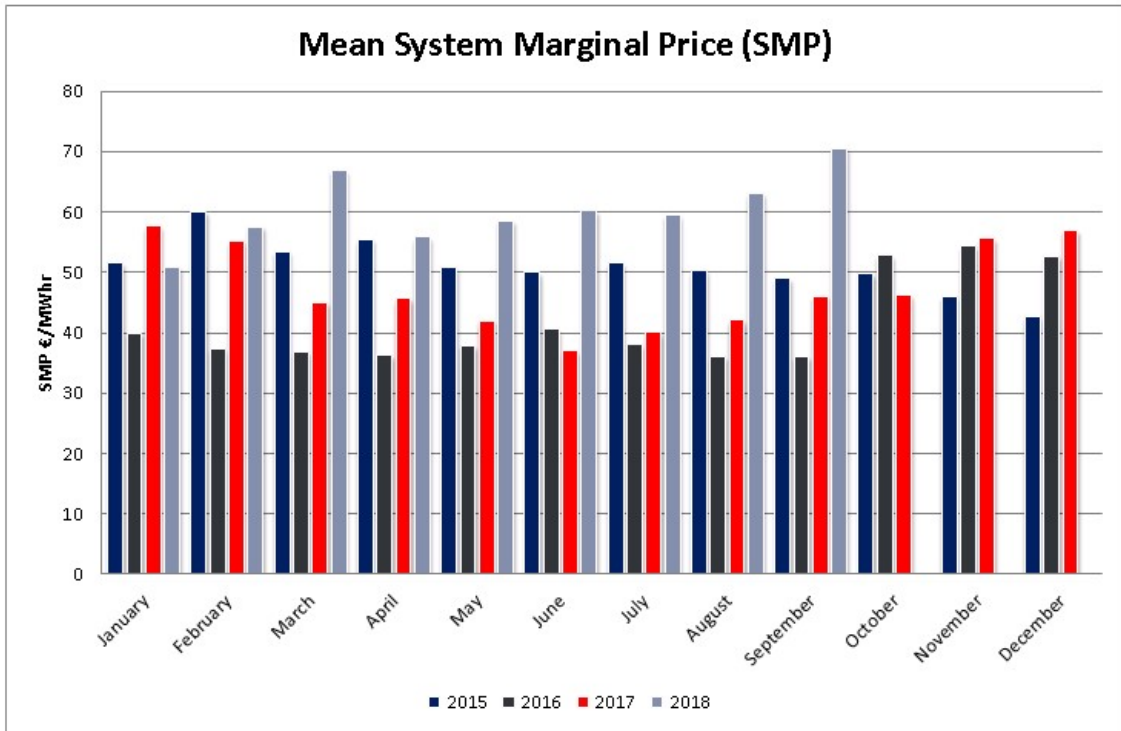


Figure 6: Demand in the Single Electricity Market Q1 2015 – Q3 2018

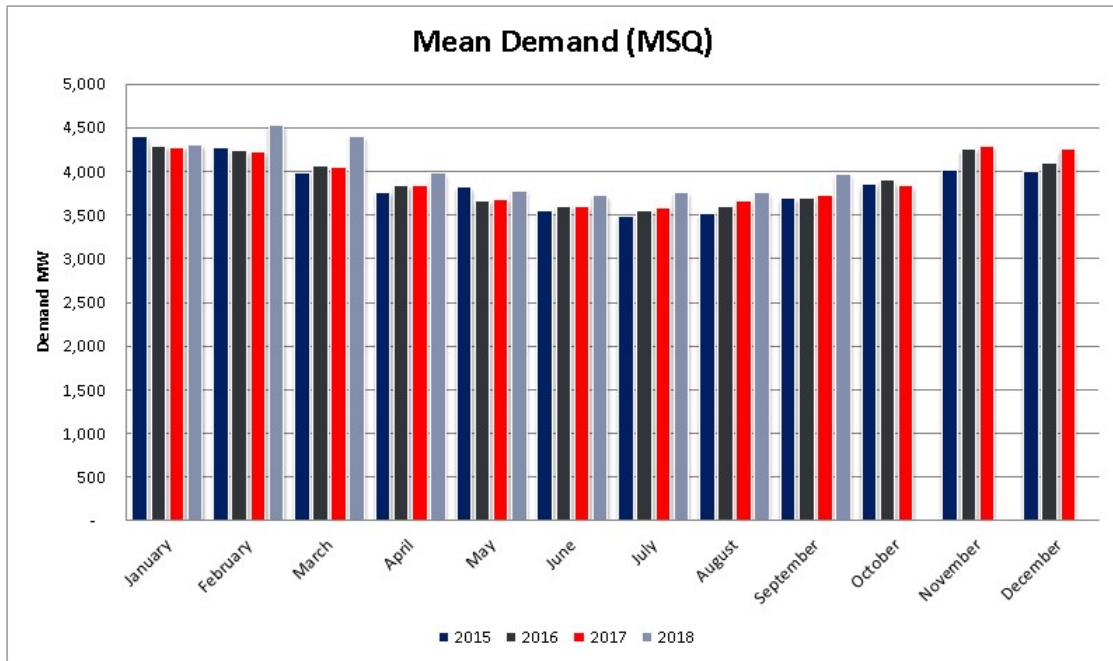


Figure 7: Average SMP Profile – Within Day

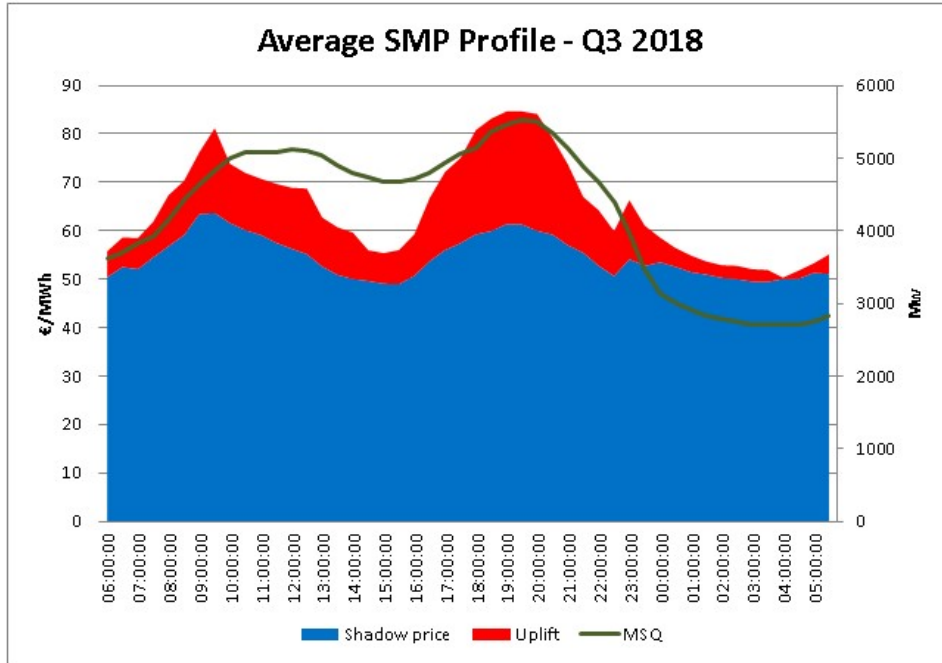
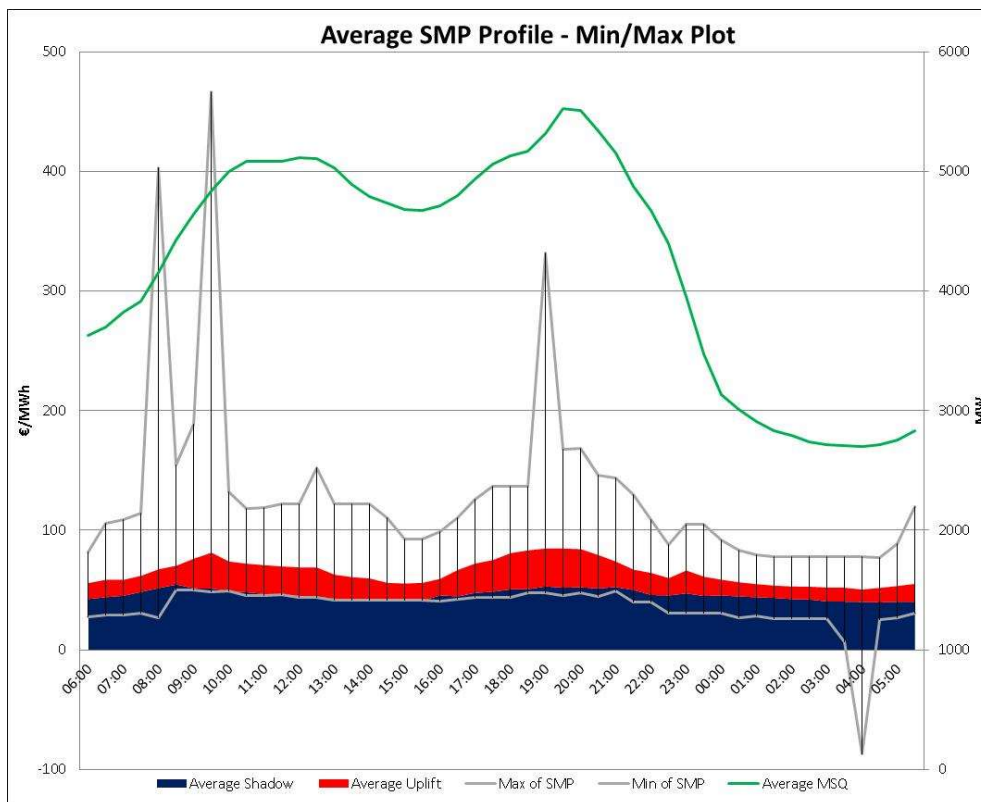
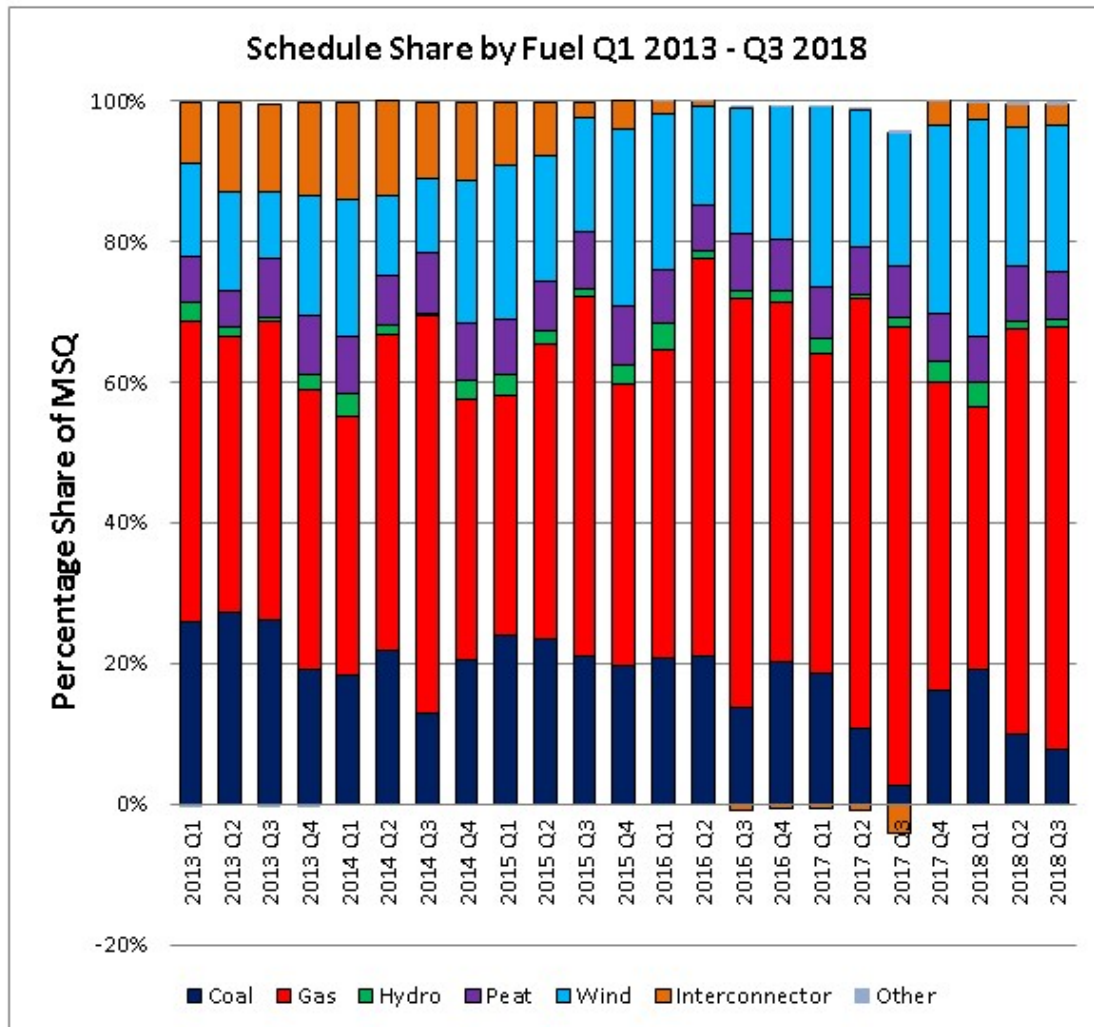


Figure 8: Average Q3 2018 SMP Profile – Minimax plot



Share of generation by fuel type (fuel mix)

Figure 9: Fuel Mix in the Single Electricity Market (100% Share)



Gas is the most common fuel that is used for electricity production in the SEM. The figure above shows the share of generation by each fuel type in each quarter since 2013.

A number of trends can be observed:

- Gas share increased 3% on Q2 2018 to 60% of total fuel share in Q3 2018
- Coal decreased in shared volume, down 1% on Q2 2018 to 8% of total share in Q3 2018.
- Wind share increased 1% to 21% in Q3 2018.
- Interconnector share in Q3 2018 was the same as in Q2 2018.

5. DETAILED MARKET INFORMATION

Summary

The following section provides more in-depth information on trends observed across the SEM:

1. **Dashboard.** This section builds on the previous chapter and explores quarterly trends that have been observed.
2. **Energy prices.** This section is presented in two main parts. The first covers the relationship between the SMP and prices in Great Britain (BETTA). The second covers the relationship between SMP and fuel/capacity prices.
3. **Market share.** This section looks at both the Market Schedule Quantity (MSQ¹) and Dispatch Quantity (DQ²) by company.
4. **Constraints.** Levels of constraints in the SEM have increased considerably over the past nine months. This section analyses the cost to the consumer of constraint payments.
5. **Infra-marginal rent (IMR).** IMR is the difference between the price paid for generation and the cost to produce that generation. Levels of IMR are analysed and trends explained in this section.
6. **Interconnector Flows:** This section analyses the percentage of interconnector flows in the expected profitable direction.

¹ MSQ is the market scheduled quantity of output of all generators in each trading period.

² DQ is the Dispatch Quantity defined as the level of active power dispatched by the relevant transmission system operator in each trading period.

Figure 10: Single Electricity Market dashboard

Quarterly Averages	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Change From last Quarter
SMP €/MWh	55	53	50	46	38	38	37	54	52	42	43	53	59	58	65	↑
% Change from previous Quarter	-4%	-4%	-4%	-8%	-17%	0%	0%	47%	-4%	-19%	2%	23%	11%	-2%	12%	
% Change from Quarter, previous year	-15%	-1%	-2%	-20%	-31%	-27%	-27%	17%	37%	10%	17%	-2%	13%	38%	51%	
Margin MW	6278	5125	5456	5233	6526	5764	5486	5401	6378	6050	5523	5930	6624	5594	5411	↘
% Change from previous Quarter	9%	-18%	6%	-4%	25%	-12%	-5%	-2%	18%	-5%	-9%	7%	12%	-16%	-3%	
% Change from Quarter, previous year	15%	1%	8%	-10%	4%	12%	1%	3%	-2%	5%	1%	10%	4%	-8%	-2%	
Demand MW	4137	3586	3564	3954	4155	3701	3608	4092	4177	3700	3654	4122	4314	3826	3819	→
% Change from previous Quarter	5%	-13%	-1%	11%	5%	-11%	-3%	13%	2%	-11%	-1%	13%	5%	-11%	0%	
% Change from Quarter, previous year	3%	1%	2%	1%	0%	3%	1%	3%	1%	0%	1%	1%	3%	3%	5%	
Actual Availability MW	10415	8770	9020	9187	10681	9465	9094	9487	10555	9750	9176	10052	11101	9421	9230	↘
% Change from previous Quarter	7%	-16%	3%	2%	16%	-11%	-4%	4%	11%	-8%	-6%	10%	10%	-15%	-2%	
% Change from Quarter, previous year	10%	2%	6%	-5%	3%	8%	1%	3%	-1%	3%	1%	6%	5%	-3%	1%	
Shadow €/MWh	41	40	42	38	32	33	27	47	44	35	37	43	46	46	46	→
% Change from previous Quarter	-4%	-1%	3%	-11%	-23%	-18%	-35%	74%	-6%	-20%	6%	16%	7%	0%	0%	
% Change from Quarter, previous year	-13%	9%	16%	-11%	-23%	-18%	-35%	24%	39%	6%	37%	-9%	5%	31%	24%	
Uplift €/MWh	14	12	8	8	6	5	10	7	8	7	5	10	13	12	21	↑
% Change from previous Quarter	-5%	-13%	-30%	0%	-20%	-20%	94%	-30%	14%	-13%	-29%	100%	30%	-8%	75%	
% Change from Quarter, previous year	-21%	-23%	-44%	-45%	-54%	-57%	18%	-13%	24%	36%	-50%	43%	63%	71%	320%	
Interconnector (Total)	366	233	182	152	80	30	-70	-28	-46	-46	-162	311	229	213	193	↓
Moyle	253	202	139	26	35	-6	-20	-17	30	-18	-70	198	145	118	104	
EWIC	113	31	43	126	45	36	-50	-11	-76	-16	-92	113	84	95	89	
% Change from previous Quarter	-17%	-36%	-65%	-16%	-47%	-62%	-330%	-60%	64%	0%	-252%	292%	-26%	-7%	-9%	
% Change from Quarter, previous year	-34%	-47%	-76%	-66%	-78%	-87%	-139%	-118%	-157%	-251%	-131%	1211%	598%	563%	219%	
Wind MW (produced)	919	644	583	998	910	525	658	787	1076	738	745	1082	1285	766	780	↘
% Change from previous Quarter	15%	-30%	-9%	71%	-9%	-42%	25%	20%	37%	-31%	1%	45%	19%	-40%	2%	
% Change from Quarter, previous year	17%	57%	57%	25%	-1%	-18%	13%	-21%	18%	41%	13%	37%	19%	4%	5%	

Note: The wind figures presented in this table do not cover production from wind farms which are not part of the SEM.

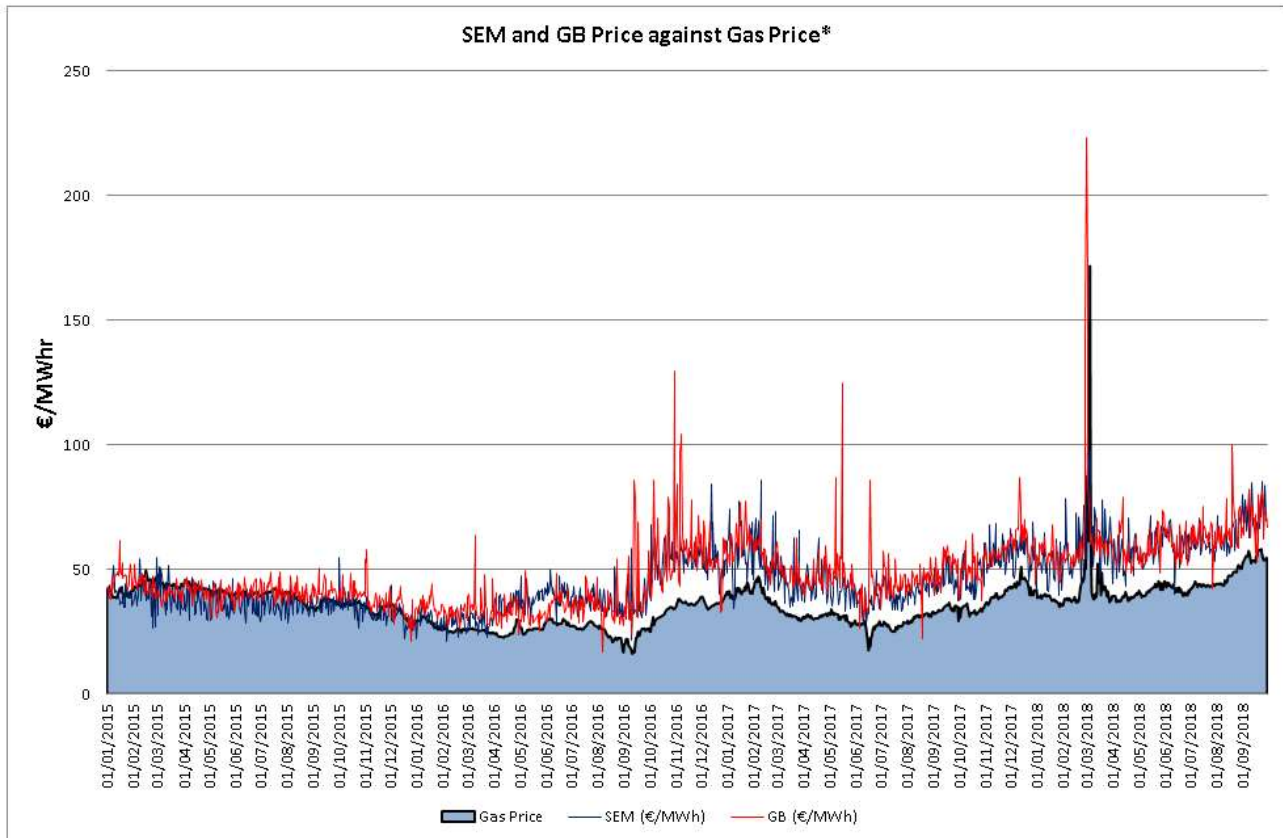
Summary highlights based on the dashboard

High Level Summary

- Average SMP was €65/MWh in Q3 2018. This 12% higher than the second quarter of 2018. In Q3 2017 the average SMP was €43/MWh, which was driven primarily by a lower gas price at that time.
- Levels of demand have remained generally stable over the past nine quarters, with the usual seasonal fluctuations being observed. Comparing Q3 2018 with the same quarter in 2017 we see that average levels of demand have increased by 5% to 3819 MW
- Actual Availability on the third quarter of 2018 decreased by 2% on Q2 2018
- Average Margin levels in Q3 2018 were 1% higher than in Q3 2017
- The Shadow Price has remained at €46/MWh in Q3 2018
- Average Uplift has increased over the past quarter from €12/MWh in Q2 2018 to €21/MWh in Q3 2018

Energy price trends

Figure 11: Price comparison between the Single Electricity Market and BETTA



**The Gas Price units have been transformed from GBP p/therm to €/MWh under a notional burn efficiency of 50%, for ease of comparison to the electricity price.*

The SEM prices shown in Fig.11 do not include Capacity Payments made to generators. The units of both the SEM price and the BETTA price are in €/MWh for ease of comparison.

Gas has been dominant in the generation fuel mix since the SEM was established. As a result the profile of electricity prices has tended to follow that of the price of gas. While this continues to be the case today, in general the proportion of gas in the fuel mix has started to decrease.

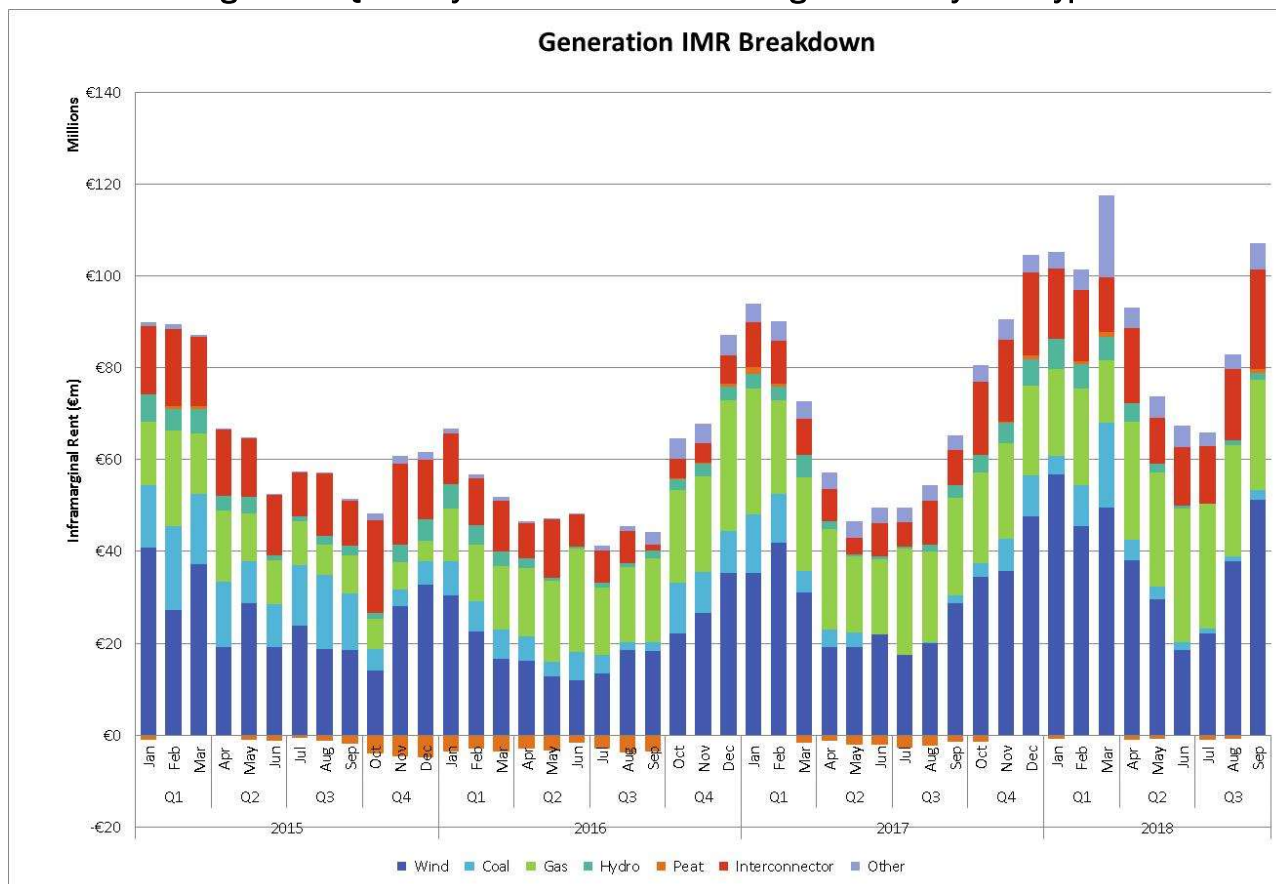
Quarterly average gas price increased from 54 p/therm in Q2 2018, to 65 p/therm in Q3 2018. This increase impacts on the SMP as the fuel mix is gas dominant within the SEM.

Infra-marginal rent (IMR) trends

IMR is the difference between the price paid for generation and the cost to produce that generation. All scheduled generators whose bids are less than the SMP for the period will earn varying levels of IMR, depending on their bid price.

The following chart shows the levels of IMR received by fuel type.

Figure 12: Quarterly breakdown of Infra Marginal Rent by Fuel Type

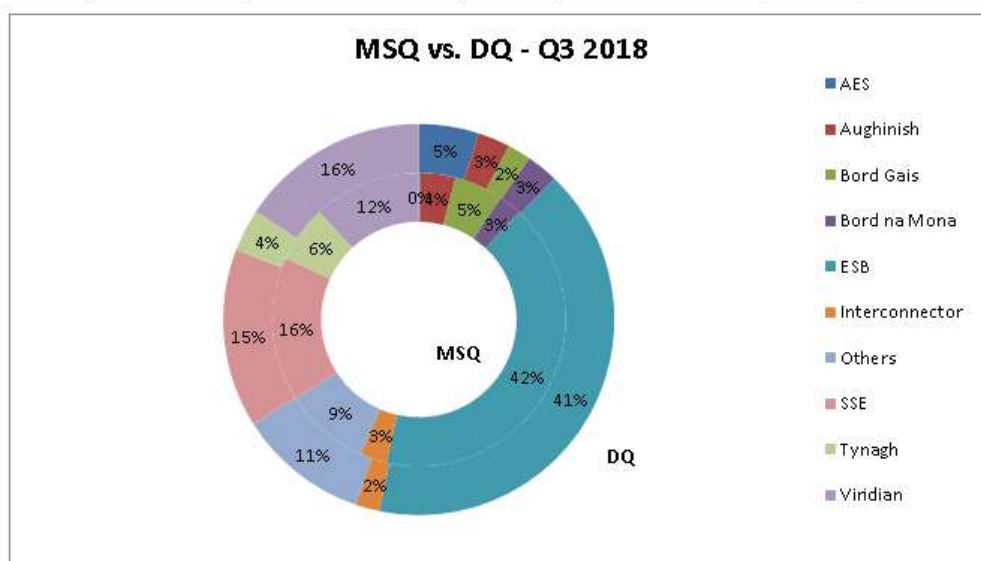


Wind generation makes up a large share of IMR when compared with its percentage of the fuel mix. In the latest quarter (Q3 2018), wind accounted for €111m of IMR revenues.

Market and Dispatch Share by Owner

Figure 13: Quarterly breakdown MSQ/DQ by Owner

Owner	MSQ - Current Quarter	MSQ %	DQ - Current Quarter	DQ %
AES	27,488	0%	749,876	5%
Aughinish	651,581	4%	596,881	3%
Bord Gais	897,612	5%	348,101	2%
Bord na Mona	423,902	3%	423,902	3%
ESB	6,948,519	42%	6,201,345	41%
Interconnector	488,681	3%	402,874	2%
Others	1,570,564	9%	1,594,451	11%
SSE	2,670,018	16%	2,286,543	15%
Tynagh	1,041,840	6%	648,441	4%
Viridian	1,989,289	12%	2,458,765	16%
Total	16,709,494	100%	15,097,324	100%



The SEM operates on an unconstrained basis and is settled by the SEMO on an ex post basis. This can lead to differences between the market schedule and the real time dispatch of generating units. This is due to the System Operator dispatching generating units in real time under additional constraints that are not included in the market engine.

The pie chart above compares the share of MSQ and DQ by generation owner, for the latest quarter.

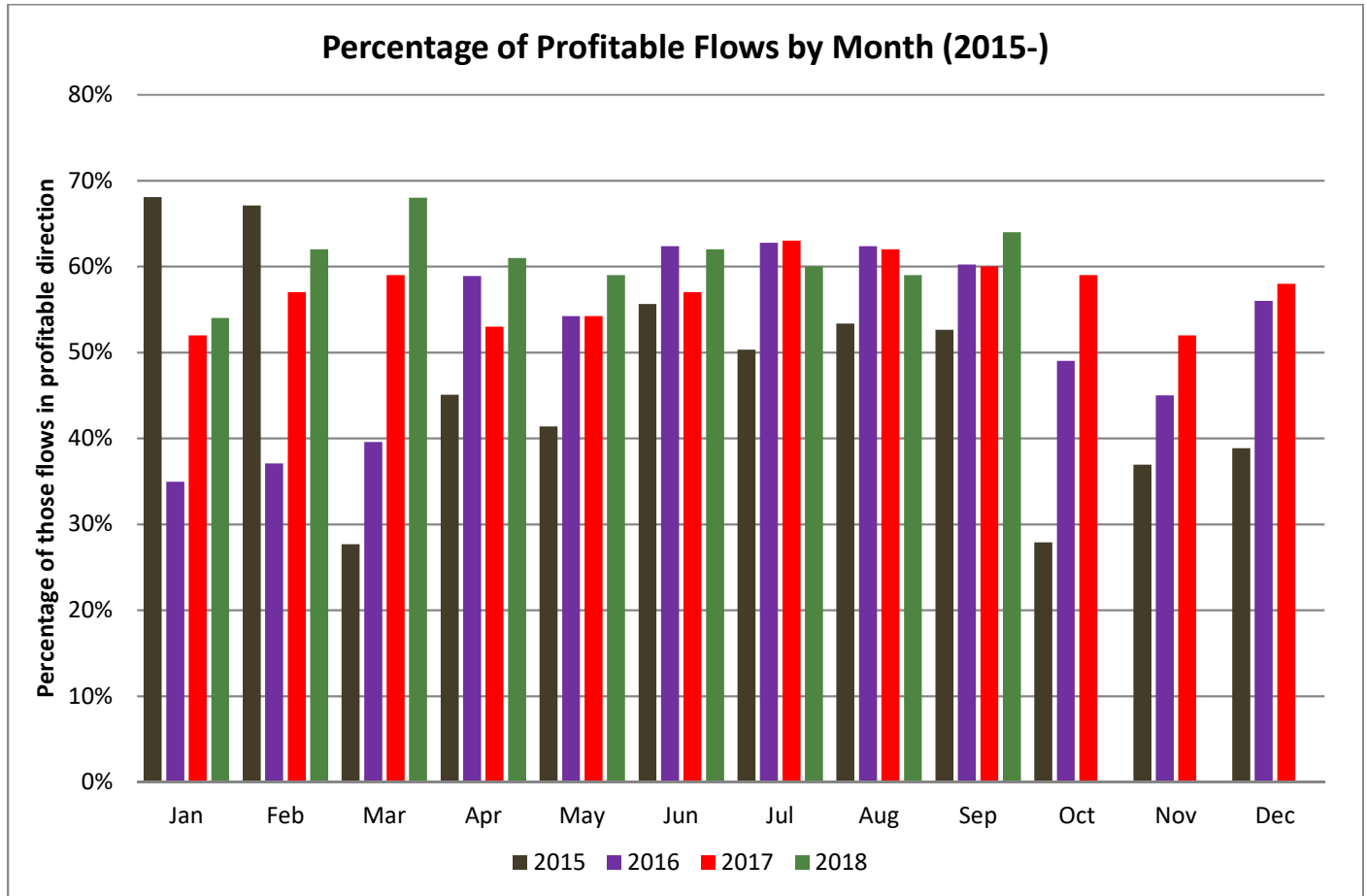
If there is a difference between the market schedule and the real-time dispatch the System Operators must dispatch generator units in real time under additional constraints not considered by the market engine. Transmission constraints and the need to provide reserve on the network are some of causes. Constraint payments keep generators financially neutral against these differences.

To balance supply and demand, constraining off will always result in generators being constrained on, and vice versa. Units constrained off will pay back a constraint payment and the corresponding units that are constrained on will receive a payment.

Interconnectors Flows - Profitability

The graph in Figure 14 illustrates the percentage of times in a month that the Interconnector flows in the expected profitable direction i.e. from GB to SEM if SEM Price is higher and vice versa.

Figure 14 – IC Profitable Flows



6. DIRECTED CONTRACTS Q3 2018

Overview

The tables and figures below show the price and volume of directed contracts subscriptions, using the same format as the contracting report. The information includes the latest subscription round, which was held in April 2018 and covers the period Q3 2018 to Q2 2019.

Table 1: Round 2 Key Information

Quarters on offer	Q1 2019 to Q4 2019		
Primary subscription dates	11-13 September 2018		
Supplementary subscription date	20 September 2018		
Volume sold	1.31 TWh		
Average price / MWh	Baseload	Mid Merit	Peak
	€71.50	€80.61	—

Directed Contract prices in the period have been heavily influenced by the forward fuel and carbon prices, which are substantially higher than was the case last quarter.

A breakdown of the volumes sold in the Primary and Supplemental windows are shown in Table 2:

Table 2: Primary and Supplemental Window volumes

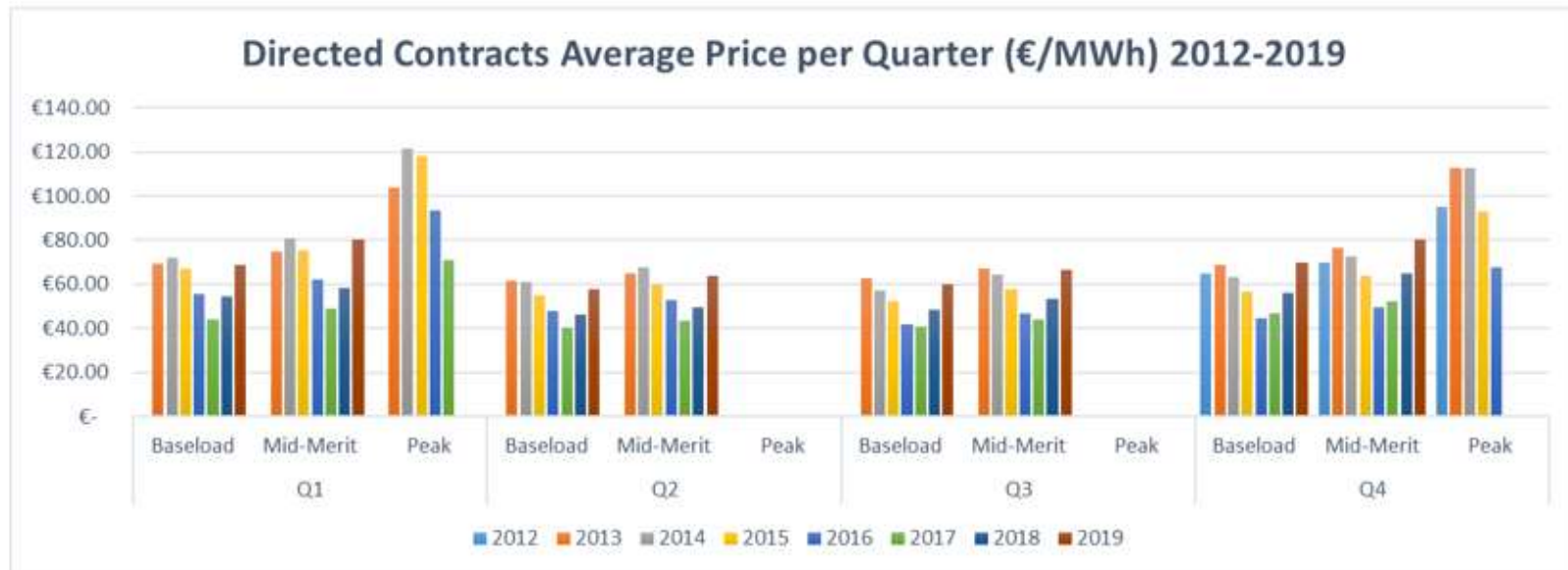
MW	Offered		Sold in Primary Window		% of volume sold		Sold in Supplemental Window	
	Baseload	Mid Merit	Baseload	Mid Merit	Baseload	Merit	Baseload	Mid Merit
Q3 18	0	355	0	218.6	NA	62%	0	136.6
Q4 18	43	147	26.1	89.9	61%	61%	16.8	56.9
Q1 19	32	136	19.3	81.9	60%	60%	12.5	53.9
Q2 19	63	107	31.3	56.2	50%	53%	31.6	50.7

During this round, 56% of baseload products were sold in the Primary Subscription Window. For Mid Merit, 60% was sold in the Primary Subscription Window. The remaining volumes were all taken up in the Supplemental Window.

Directed Contracts average price (€/MWh), 2012-2019.

DC Average Price per Quarter (€/MWh, 2012-2019)												
Year	Q1			Q2			Q3			Q4		
	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak
2012	-	-	-	-	-	-	-	-	-	€ 65	€ 70	€ 95
2013	€ 69	€ 75	€ 104	€ 62	€ 65	-	€ 63	€ 67	-	€ 69	€ 76	€ 113
2014	€ 72	€ 81	€ 121	€ 61	€ 68	-	€ 57	€ 64	-	€ 63	€ 73	€ 113
2015	€ 67	€ 76	€ 118	€ 55	€ 60	-	€ 52	€ 58	-	€ 57	€ 64	€ 93
2016	€ 56	€ 62	€ 93	€ 48	€ 53	-	€ 42	€ 47	-	€ 44	€ 49	€ 67
2017	€ 44	€ 49	€ 71	€ 40	€ 44	-	€ 41	€ 44	-	€ 46	€ 52	-
2018	€ 55	€ 58	-	€ 46	€ 50	-	€ 48	€ 54	-	€ 56	€ 65	-
2019	€ 69	€ 80	-	€ 58	€ 64	-	€ 60	€ 67	-	€ 70	€ 80	-

Directed Contracts average price (€/MWh)



Directed Contracts volumes (GWh), 2012-2019.

DC Volumes (GWh, 2012-2019)															
Year	Q1			Q2			Q3			Q4			Total		
	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak	Baseload	Mid-Merit	Peak
2012	0	0	0	0	0	0	0	0	0	546	0	61			
2013	643	0	0	788	19	0	795	153	0	868	142	51	3095	314	51
2014	680	350	90	815	126	0	1009	21	0	870	19	33	3374	516	123
2015	887	47	74	885	62	0	945	7	0	990	15	11	3707	132	84
2016	871	10	47	1135	7	0	1259	3	0	967	7	0	4232	26	47
2017	841	27	12	1148	160	0	695	191	0	1023	172	0	3707	550	12
2018	1370	0	0	1958	320	0	790	580	0	727	659	0	4846	1558	0
2019	801	606	0	562	329	0	196	353	0	139	147	0	1697	1436	0

Directed Contracts volumes (GWh)

