Amendment to the Allocation of Directed Contracts

Information & Consultation Paper

SEM-21-065

13 August 2021

1 INTRODUCTION

In July 2020, the SEM Committee commenced a review of Market Power and Liquidity in the Single Electricity Market (SEM) by publishing a Market Power and Liquidity Discussion Paper (SEM-20-045), and in February 2021 subsequently published a Market Power and Liquidity Information Paper (SEM-21-007).

Whilst the review of market power and liquidity in the SEM is currently ongoing, the SEM Committee notes that there are recent developments in the wholesale power market, which are limiting market participants access to forward hedges.

Developments impacting negatively on forward liquidity include the following:

- An increased number of planned outages of thermal generators has reduced generation capacity and contributed to an increase in the wholesale price of electricity;
- A decline in the availability of Directed Contracts (DCs) volumes over recent DC rounds with a shift towards reduced baseload products and a greater share of mid-merit products;
- Public Service Obligation (PSO) Contracts for Difference (CfD's) are no longer available[1];
- Interconnector Financial Transmission Rights (FTR's) are no longer available to interested parties since 1st January 2021; and
- Clean spark spreads have trended upwards since January 2021.

The SEM Committee notes that the current situation may have a greater impact on small utilities operating in the electricity retail market. Furthermore, the SEM Committee notes that clean spark spreads[2] have increased since the start of 2021 in response to higher wholesale electricity prices (see Figure 1). This has increased the challenges faced by small utilities operating in the

[1] PSO CfDs are no longer available since August 2019.

[2] The clean spark spread represents the theoretical net revenue of a gas-fired generator having deducted the cost of fuel and emissions.

electricity retail market as they have limited options to hedge such exposures in contrast to VIUs and larger utilities.

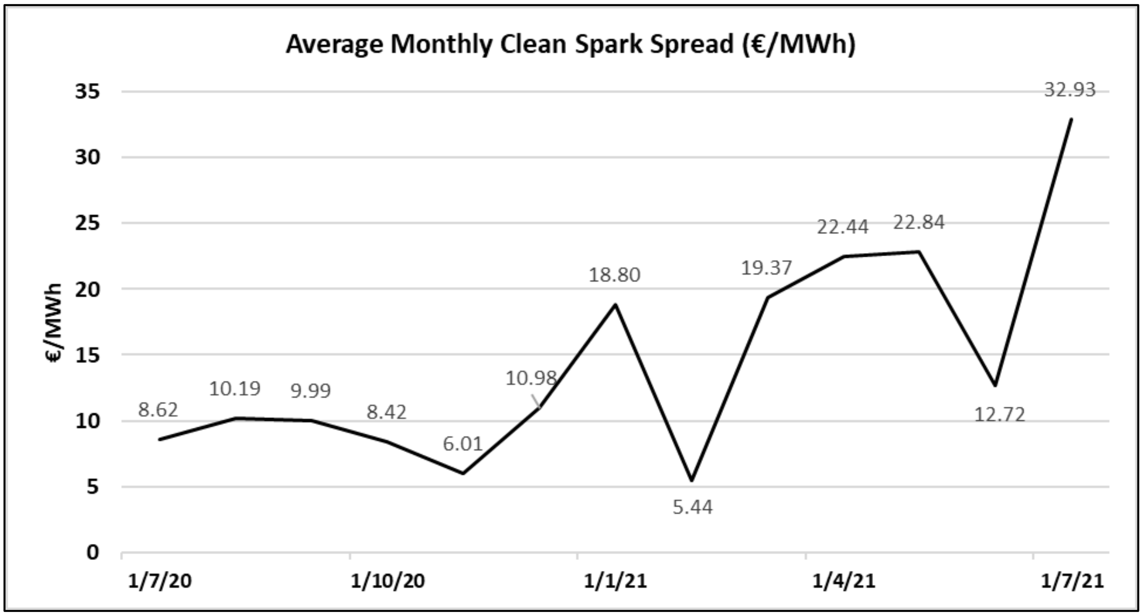

Figure 1: *Historic 12-month trend for Clean Spark Spread (€/MWh). Note that average Clean Spark Spread for the 6 months prior to 1st January 2021 was €9.05/MWh, while the average for the 6 months post 1st January 2021 was €17.12/MWh.*

Given recent market developments, as outlined above, the SEM Committee is therefore implementing an immediate measure for DC Round 16 (refer to Section 2) in order to support small suppliers, promote competition and ultimately protect the interest of the electricity consumer. Additionally, the SEM Committee is consulting on whether this amendment shall become an enduring amendment to the existing DC Eligibility model, pending the conclusion of the broader market power & liquidity workstream.

2 AMENDMENT TO THE DC ELIGIBLITY MODEL

As summarised in SEM-17-064 (DC Implementation Consultation for I-SEM), the DC Eligibility model currently calculates each suppliers DC eligibility (MW) separately for each quarter (four quarters per DC round) and each product type (i.e., baseload, mid-merit and peak).

Given recent market developments, the SEM Committee intend removing Round 16 DC volumes normally allocated to eligible companies who do not have a DC Financial Energy Master Agreement (FEMA) (SEM-18-036) arrangement in place with ESB Generation & Trading such that they cannot participate in a forthcoming DC round[3], and then reallocate these DC volumes to small suppliers.

Specifically, prior to Round 16DC Primary Subscription Window, the Regulatory Authorities (i.e. CRU & UREGNI) will re-allocate DCs from market participants who cannot participate in the DC round (following confirmation from ESB Power Generation regarding status of market participants contracting arrangements) to suppliers with a Maximum Import Capacity (MIC) value less than 5 % of the total market MIC and can participate in a DC round. The SEM Committee notes that such an approach does not impact on the supplier eligibilities for larger suppliers in the DC Primary Subscription Window but may reduce the potential DC volumes available to such suppliers in the DC Supplemental Subscription Window. For illustrative purposes, Figure 2 below quantifies the effects of such a measure based on Round 15 DC MIC values and the associated DC Primary Subscription Window.

The SEM Committee notes the precise volume of DCs to be re-allocated will vary depending on the MIC values that are updated during each DC round. However, current estimates indicate approximately 3 % of the total volume of DCs will be redistributed (see Column E, Figure 2). As indicated above, suppliers who have a market share greater than 5% will continue to receive their appropriate allocation of DC volumes but will not receive any additional DC volumes (i.e. Companies 1 to 5 in Figure 2). Therefore, based on available information the five largest suppliers would not receive an additional DC volume allocation under the proposed amendment. Figure 3 provides a breakdown of DCs sold for quarters within years 2017 – 2021, demonstrating that the bulk of DCs continue to be purchased by the five largest suppliers.

[3] The RAs understand that in total 12 companies have signed up to ESBs DC FEMA, albeit other companies may sign up in future.

Column A	Column B	Column C	Column D	Column E	Column F
	Eligible for DCs based on MIC	DC Agreement in place with ESB G&T	Share of Total MIC Original Allocation	Share of Total MIC Amended Allocation	Eligible for Increased DC Volume Allocation
Company 1	**Y**	**Y**	35%	35%	**N**
Company 2	**Y**	**Y**	19%	19%	**N**
Company 3	**Y**	**Y**	14%	14%	**N**
Company 4	**Y**	**Y**	9%	9%	**N**
Company 5	**Y**	**Y**	9%	9%	**N**
Company 6	**Y**	**Y**	3.7%	4.6%	**Y**
Company 7	**Y**	**Y**	3.6%	4.6%	**Y**
Company 8	**Y**	**Y**	1.7%	2.2%	**Y**
Company 9	**Y**	**Y**	1.2%	1.5%	**Y**
Company 10	**Y**	**Y**	1.1%	1.4%	**Y**
Company 11	**Y**	**Y**	0.5%	0.6%	**Y**
Company 12	**Y**	**N**	0.31%		**N**
Company 13	**Y**	**N**	1.13%		**N**
Company 14	**Y**	**N**	0.92%		**N**
Company 15	**Y**	**N**	0.36%		**N**
Company 16	**Y**	**N**	0.19%		**N**
Company 17	**Y**	**N**	0.10%		**N**
Company 18	**Y**	**N**	0.09%		**N**
Company 19	**Y**	**N**	0.04%		**N**
Company 20	**Y**	**N**	0.03%		**N**
Company 21	**Y**	**N**	0.02%		**N**
Company 22	**Y**	**N**	0.02%		**N**
Company 23	**Y**	**N**	0.01%		**N**
Company 24	**Y**	**N**	0.01%		**N**

Figure 2: *In the above table 24 companies have been awarded DCs based on their size in the market as measured by their share of total MIC (Column B: 'Eligible for DCs based on MIC' and Column D 'Share of Total MIC Original Allocation'). In column C the companies (1 to 11) that have a FEMA in place with ESB are indicated by a Y. Companies marked with an N are eligible for DCs but do not have a FEMA in place. Column D arranges, in descending order, the percentage of DCs allocated based on a company's current share of the market (as measured by MIC). Column E ('Share of Total MIC Amended Allocation') shows how the proposed arrangement would increase the allocation of DCs to companies 6 to 11 only. The additional volumes added to Column E (Companies 6 to 11) are sourced from Column C (Companies 12 to 24). Column F ('Eligible for Increased DC Volume Allocation') illustrates how this proposed amendment only affects those companies identified by a Y.*

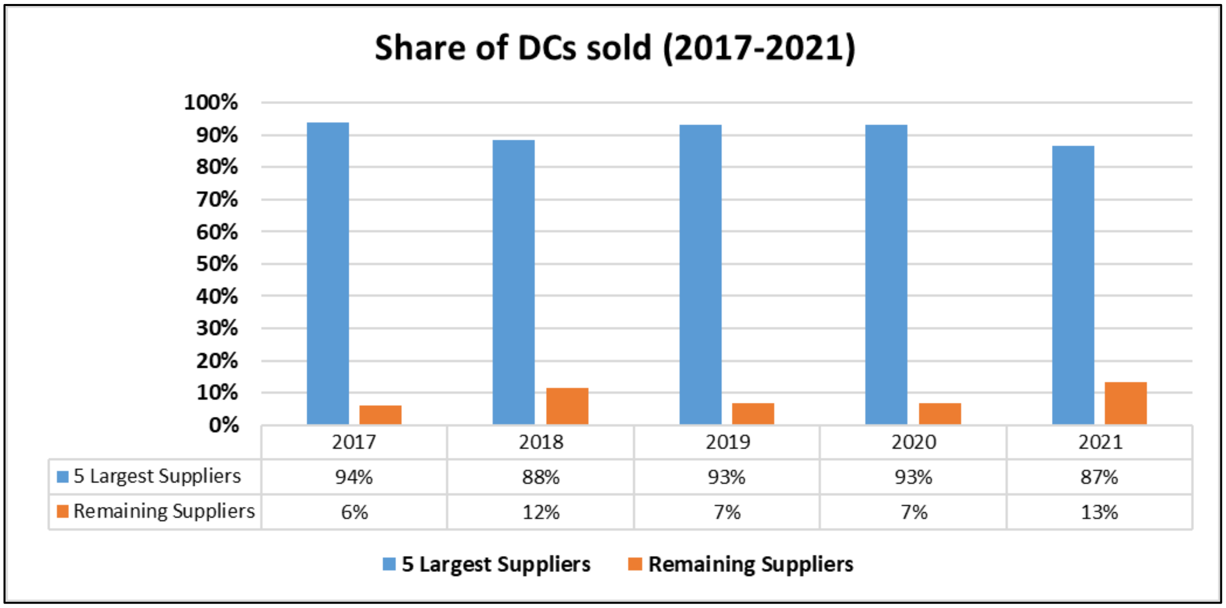

Figure 3: *Share of DCs sold for 2017 to 2021 displaying the significant proportion of DCs taken up by the five largest suppliers in the market. The annual DC volumes above are for DCs sold in all quarters of that year.*

3 NEXT STEPS

The SEM Committee will implement the amendment to the DC eligibility model (as detailed in Section 2) with immediate effect for Round 16 of the DCs (SEM-20-067).[4] The SEM Committee welcomes feedback from stakeholders as to whether this amendment to the DC Eligibility model shall become an enduring arrangement pending the conclusion of the broader market power and liquidity workstream. Responses to this paper can be forwarded to mmg@cru.ie by COB Monday 13th September 2021.

Respondents are invited to respond to the following question:

- Do you agree that the proposed amendment to the DC Eligibility model should be an enduring arrangement? If you disagree, please set out your rationale.

[4] Directed Contracts Subscription Dates Round 13-16 Information Note.