



**Amendments to the Duration of the
Directed Contracts Primary Subscription
Window**

Consultation Paper

SEM-23-015

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EXECUTIVE SUMMARY

Consultation Paper

In March 2022, the SEM Committee published a notification to market participants of their decision to introduce a six-day Primary Subscription Window. The SEM Committee also outlined amendments implemented to the process of calculating Directed Contract (DC) pricing formulae ([SEM-22-017](#)). Such amendments were implemented as a result of the unprecedented volatilities observed across commodity markets and were introduced in DC Round 18 ([SEM-22-020](#)). Due to the ongoing elevated volatilities observed in commodity markets, the SEM Committee decided to implement the amendments in DC Round 19 ([SEM-22-029](#)), DC Round 20 ([SEM-22-085](#)) and DC Round 21 ([SEM-23-013](#)). The Regulatory Authorities (RAs) previously noted their intention to hold a consultation in Quarter 1 2023 to determine if the amendments should become enduring in subsequent DC rounds.

The RAs are now consulting on whether the amendments made to the duration of the Primary Subscription Window, as outlined in [SEM-22-017](#), shall become enduring.

A number of questions are posed at the end of this consultation and the SEM Committee welcomes market participant's views. Responses to the consultation paper should be sent to the Market Modelling Group (mmg@cru.ie) and Kevin Baron (kbaron@uregni.gov.uk) by close of business on Wednesday, 1st March 2023. The SEM Committee intends to make a decision on the approach in advance of DC Round 22, scheduled to be held in March 2023.

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1. Introduction

1.1 Background

Directed Contracts (DCs) are a part of the Regulatory Authorities' (RAs; i.e. CRU and UREGNI) market power mitigation strategy to ensure the benefits associated with the SEM are not undermined by abuse of market power by incumbent generators.. The Subscription Rules (SEM-18-036d) for the DCs have been made evergreen.

1.1.1 Recent Amendments Made to the Directed Contract Process on an Enduring Basis

In January 2021, the RAs notified market participants of amendments to the DC process due to updates to commodity data availability (SEM-21-005). Additionally, in November 2021, the SEM Committee set out their decision to continue with the amended approach for the allocation of DCs, which involves reallocating a limited volume of DCs to smaller suppliers in each DC round (SEM-21-085).

1.1.2 Interim Amendments Introduced to the Direct Contract Process in 2022

In March 2022, the SEM Committee published a notification to market participants of their decision to postpone Directed Contracts (DC) Round 18 (SEM-22-008) due to the unprecedented, sustained, and significant volatilities in commodity markets. In May 2022, market participants were notified of amendments made to the process of calculating DC pricing formulae (SEM-22-017). Participants were informed of the RAs' decision to extend the duration of the Primary Subscription Window from three business days to six business days. In November 2022, the RAs noted their intentions to hold a consultation in Quarter 1 2023, to determine if the amendments made to the DC process should become enduring arrangements.

2. Proposed Enduring Amendments to the Directed Contract Process

2.1 Proposed Amendment to the Duration of the Primary Subscription Window

In Section 2 of SEM-22-017, the RAs outlined the rationale for the introduction of a six-day Primary Subscription Window, instead of the historically standard three-day Primary Subscription Window.

The rationale for introducing a six-day Primary Subscription Window is as follows:

- It allows eligible suppliers to mitigate some of the fuel price volatility risks by spreading their eligible volumes over additional trading days, if they wish to do so;
- It may, dependent on eligible suppliers trading strategies, allow ESB to more effectively hedge exposure to price volatility; and
- It may assist in extending the timeframe for suppliers to obtain credit cover requirements.

For the avoidance of doubt, there is currently no obligation for any eligible supplier to avail of the option of a six-day Primary Subscription Window. It is entirely at each supplier's discretion as to which day(s) they choose to participate in any given DC Round.

3. Next Steps

The RAs welcome feedback and views from market participants as to whether the proposed amendments outlined in this paper shall become enduring arrangements.

Stakeholders are invited to respond to the following questions:

A) Proposed Amendments to the Duration of the DC Primary Subscription Window:

- 1) Do you agree that the proposed amendments to the duration of the DC Primary Subscription Window should become an enduring arrangement? If you agree or disagree, please set out your rationale.

- 2) Do you agree that market participants should be obliged to participate during each day of the Primary Subscription Window in a given DC Round, i.e., suppliers would be eligible to purchase only 1/6th of their allocated volumes during each day of the six-day Primary Subscription Window? If you agree or disagree, please set out your rationale.

Unless explicitly requested otherwise all responses received will be published. Accordingly, respondents should submit any sections that they do not wish to be published in an appendix that is clearly marked as “confidential”.

Responses to the consultation paper should be sent to the Market Modelling Group (mmg@cru.ie) and Kevin Baron (kbaron@uregni.gov.uk) by close of business on Wednesday, 1st March 2023. Due to time constraints, and given the importance to maintain the current DC timelines, the RAs have decided to implement a two-week response timeframe for this consultation. The SEM Committee intends to make a decision on the approach in advance of DC Round 22, scheduled to be held in March 2023.