

# **Tullett Prebon Irish Power (SEM) CfD Auctions**

**Seller Protocol and Auction Rules**

**18<sup>th</sup> February 2010**

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# **Tullett Prebon Irish Power (SEM) CFD Auction Seller Protocol**

**Version 1.2, February 2010**

## **1. Introduction**

This Protocol sets out the processes and procedures to be followed by the MTF Operator and the Seller in relation to each Auction for CfD Products conducted through the MTF. It forms, by reference, part of the terms and conditions between the Seller and the MTF Operator.

## **2. Auction Dates**

2.1 The Seller will, from time to time, notify the MTF Operator with a list of Auction dates. This list may also detail the types of CfD Products which are to be offered by the Seller in such Auction(s).

2.2 Within 1 Business Day of such notification, the MTF Operator will publish the date(s) of any such Auction on the MTF Website.

## **3. Invitations to Bid**

3.1 No later than five (5) Days before an Auction or the first Auction in a series of Auctions (or such other time as the Seller may specify), the MTF Operator will send to each Registered Interested Participant an Invitation to Bid. The Invitation to Bid will set out:

3.1.1 Indicative CfD Products offered;

3.1.2 Indicative quantities; and

3.1.3 Indicative reserve prices.

## **4. Auction Details and Auction Notices**

4.1 By 1600 hours on the Business Day preceding the day of the Auction the Seller will provide the MTF Operator with details of the Auction (including a draft Auction Notice).

- 4.2 The Auction details will set out the CfD Products being offered, including the following:
- (a) the volume of each CfD Product being offered;
  - (b) the periods for each CfD Product being offered; and
  - (c) the reserve price for each CfD Product being offered.
- 4.3 By 0800 hours on the day of the Auction the MTF Operator will have established the Workspace which will contain the details of the Auction.
- 4.4 The Seller (only) will be permitted access to the Workspace from 0800 hours on the day of the Auction and will notify the MTF Operator of any changes to the Auction details and Auction Notice no later than 0900 hours on the day of the Auction. The MTF Operator will amend the Auction Notice and Workspace as necessary in accordance with instructions from the Seller.
- 4.5 The MTF Operator will send out Auction Notices to all Eligible Auction Participants via email by 0930 hours on the day of the Auction.

## **5. Eligible Auction Participants**

- 5.1 The Seller will provide the MTF Operator with a list of persons who have a current Master Agreement with the Seller, and who are in compliance with its terms (including in relation to the provision of any credit cover) no later than 1600 hours on the day preceding the day of the Auction.
- 5.2 The Seller may provide an updated list of Eligible Auction Participants to the Seller no later than 1 hour before the start of the Auction.
- 5.3 The MTF Operator will ensure that each Eligible Auction Participant has signed up to the MTF Terms and Conditions incorporating the Auction Rules before it is permitted to participate in an Auction.

## **6. Bid Assessment**

- 6.1 The Seller will provide a spreadsheet(s) to the MTF Operator to assist with its assessing of the bids in accordance with the Auction Rules. This spreadsheet(s) will be provided to the MTF Operator by 0930 hours on the day of the Auction.
- 6.2 The MTF Operator will, after the Close of Bids, assess the bids in accordance with the Auction Rules. The MTF Operator will, by 1430 hours on the day of the Auction and prior to publishing the final results of the Auction, provide the

Seller with a copy of the bids and the provisional results, and provide the Seller with 1 hour to review this data. If the Seller identifies any errors in the provisional results, the MTF Operator will re-run the assessment and if necessary discuss the provisional results with the Seller until the final results are agreed by the Seller.

- 6.3 The MTF Operator will publish the final results and notify Eligible Auction Participants in accordance with the Auction Rules.
- 6.4 The MTF Operator will at all times be responsible for the accuracy of the assessment of the Auction bids and the Seller review process will in no way diminish the responsibilities and liabilities of the MTF Operator in relation to the bid assessment.

## **7. Communication Channels**

- 7.1 The MTF Operator and Seller will furnish each other with email addresses and telephone numbers for issuing documentation such as the Auction Notice and Auction Results. Each entity is responsible for notifying the other entity if these addresses or telephone numbers change or if the contact name will be unavailable before, during or after an Auction in order to undertake tasks in accordance with this Protocol.

## **8. Suspending an Auction**

- 8.1 If the MTF Operator suspends an Auction in accordance with the MTF Terms and Conditions it will immediately notify the Seller of such suspension and the reasons for it.

## **9. Monitoring and Reporting**

- 9.1 Seller and the MTF Operator will notify each other as soon as reasonably practical of any breach of the Auction Rules by an Eligible Auction Participant and will use all reasonable endeavours to assist each other with any reporting requirements or information requests from any regulatory authority.

## **Section A – NIE Energy CfD Products Auction Rules**

### **1. Introduction**

These Auction Rules describe the auction process and set out the terms and conditions to be followed by the MTF Operator, the Seller and Eligible Auction Participants for Auctions of CfD Products conducted through the MTF. By participating in Auctions, Eligible Auction Participants accept and agree that the Auction Rules, as they may be amended from time to time, govern the terms on which each Eligible Auction Participant participates. These Auction Rules form, by reference, part of the terms and conditions between Eligible Auction Participants, the Seller and the MTF Operator and form part of the Master Agreement as provided therein.

### **2. Eligibility to Participate**

2.1 An entity wishing to participate in an Auction must:

- (a) have entered into the MTF Terms and Conditions with the MTF Operator;
- (b) be a party to a Master Agreement with the Seller and in compliance with its terms;
- (c) comply with the auction process set out in these Auction Rules.

### **3. Pre-Auction Information**

3.1 The MTF Operator will post from time to time a notice detailing the dates of forthcoming Auctions on the MTF Website.

3.2 No later than five (5) Business Days before an Auction or the first Auction in a series of Auctions (or such other time as the Seller may specify), the MTF Operator will send to each Registered Interested Participant an Invitation to Bid. The Invitation to Bid will set out:

- 3.2.1 Indicative CfD Products offered;
- 3.2.2 Indicative quantities; and
- 3.2.3 Indicative reserve prices.

- 3.3 Any entity wishing to participate in an Auction must ensure that it meets the eligibility criteria set out in paragraph 2 above.

#### **4. Auction Notices**

- 4.1 An Auction Notice will be sent by the MTF Operator to all Eligible Auction Participants via email by 0930 hours on the day of the Auction. The Auction Notice sent to each Eligible Auction Participant shall indicate that a Workspace for the Auction has been created and is available for download and will confirm:

- (a) the Auction commencement time and Close of Bids
- (b) the Seller who is offering CfD Products;
- (c) the details of CfD Products being offered by the Seller, including:
  - (i) the volume of each CfD Product being offered;
  - (ii) the periods for each CfD Product being offered; and
  - (iii) the reserve price for each CfD Product being offered.

#### **5. Bidding**

- 5.1 The MTF Operator will operate the Auction and Transactions will be executed using the MTF.
- 5.2 Eligible Auction Participants must submit bids in accordance with the MTF Procedures issued, from time to time, by the MTF Operator.
- 5.3 The MTF Operator will establish and maintain two distinct communication channels for Eligible Auction Participants to submit bids:
- 5.3.1 the MTF electronic user interface; and
  - 5.3.2 voice brokerage services for Eligible Auction Participants whose MTF communication channel has failed. (This service is only available to Eligible Auction Participants who have agreed separately under the MTF Terms and Conditions for this service to be provided by the MTF Operator.)
- 5.4 Eligible Auction Participants may bid for all or some of each CfD Product quantity offered.

- 5.5 Eligible Auction Participants must ensure that bid prices are equal or higher than the reserve price. Each bid must be quoted in sterling in pounds per megawatt hour (£/MWh) and rounded to two decimal places.
- 5.6 All bids must be unqualified and unconditional. Each bid is an offer to the Seller to buy all or some of each CfD Product quantity offered at the price in the bid on the terms of the Master Agreement. A bid cannot be withdrawn after Close of Bids.
- 5.7 All bids must comply strictly with the requirements of these Auction Rules, the Auction Notice, the MTF Terms and Conditions, the MTF Procedures and, insofar as may be applicable, the Master Agreement. Non-conforming bids will be rejected.
- 5.8 All bid prices will be deemed to be exclusive of Value Added Tax. Any applicable Value Added Tax will be payable by the relevant party in accordance with the terms of the Master Agreement.

## **6. Close of Bids and Bid Delivery**

- 6.1 In order for the bids to be valid, Eligible Auction Participants must submit bids to be received by the MTF Operator by no later than the Close of Bids on the day of the Auction as notified in the relevant Auction Notice.
- 6.2 Any bids received after the Close of Bids will be rejected by the MTF Operator in their entirety.

## **7. Evaluation of Bids**

- 7.1 Bids will be evaluated by the MTF Operator.
- 7.2 Bids will be evaluated according to the following evaluation criteria:
- (a) validity of bid (this criterion will include: whether the bid has been received in time, is correctly executed, whether the bid is within the maximum limit for number of bids (if any), and is unqualified and unconditional, and whether the bid price exceeds the reserve price);
  - (b) eligibility of bidder; and
  - (c) price bid in relation to the relevant volume being bid for. Bids below the reserve price will be rejected. If the auction is over-subscribed, higher priced bids will (subject to the reserve price) be accepted in

preference to lower priced bids, irrespective of the order in which prices are bid.

7.3 The following allocation methodology will be used:

- (a) A pro rata allocation methodology will be used to allocate volume within each CfD Product where valid bid prices are the same and there is not enough volume available to accept all the bids at that price for that CfD Product.
- (b) The pro rata allocation will be calculated on the basis of the total number of bids at the relevant price.
- (c) Volumes awarded as part of this allocation process will be specified in MW, rounded down to 3 decimal places. So for instance, in the event that 3 bidders have bid the same price for the remaining 5MW of the offer, each bidder will receive 1.666MW and 0.002MW shall remain unallocated for this auction.

7.4 The MTF Operator will calculate the market clearing price as follows:

- (a) Where the total volume of bids is greater than 100% of the offered volume, the market clearing price shall be deemed to be the price of the lowest priced bid accepted either in part or in its entirety.
- (b) Where the total volume of bids is less than or equal to the offered volume, the market clearing price shall be deemed to be the Reserve Price.

The market clearing price will be the “**Strike Price**” for all contract volumes executed in the Auction in question. CfD Products which are for periods greater than three calendar months may be subject to a profiled clearing price for settlement purposes. If the Seller decides to utilise a profiled clearing price then this shall be set out in the relevant Auction Notice.

7.5 An illustrative non-binding worked example of the allocation procedure is set out in the Appendix to Section A of these Auction Rules.

## **8. Notification of Results**

8.1 The MTF Operator will notify all successful bidders by publishing in the Trade Book the volume they have been awarded and Strike Price for each CfD Product by 1600 hours on the day of the Auction (or such later time as may be notified).

- 8.2 The MTF Operator will publish on the MTF Website by 1600 hours on the day of the Auction (or such later time as the Seller agrees) the Auction results, including:
- (a) total volume of each offered CfD Product sold in the Auction;
  - (b) the market clearing price for each CfD Product.
- 8.3 Within two business days of the Auction, the Seller will for each Transaction entered into send to the successful Eligible Auction Participants a Confirmation Letter in accordance with the terms of the Master Agreement. If an Eligible Auction Participant submits multiple successful bids for the same CfD Product in a given Auction, all successful bids will be consolidated into a single Transaction (since all the successful bids will be executed at the same market clearing Strike Price, regardless of prices actually bid). The Confirmation Letter will contain the megawatt quantities and prices by CfD Product.
- 8.4 The results published by the MTF Operator may be updated following consultation with the Seller in the event of any error, inaccuracy or for any other reason, in which case the Seller shall update and reissue the Confirmation Letter.

## **9. General**

- 9.1 The frequency and timing of Auctions and the number and specifications of the CfD Products offered are at the absolute discretion of the Seller. The Seller is making no representation or warranty as to any of these matters. The Seller may at any time decide not to offer any more CfD Products.
- 9.2 It is the responsibility of Eligible Auction Participants to ensure that they have the up-to-date Auction Rules and any other information relevant to their participation in Auctions.
- 9.3 Eligible Auction Participants may ask the MTF Operator for clarification of the Auction Rules and Auction Notices. Where clarification is given, the MTF Operator may also disclose it to all other Eligible Auction Participants.
- 9.4 The MTF Operator in agreement with the Seller may at any time amend, vary, supplement, modify, replace or terminate any term or condition in these Auction Rules.
- 9.5 There must be no collusion by any Eligible Auction Participant with any other Eligible Auction Participant. Evidence of collusive behaviour will be reported to the relevant regulatory authorities and will result in disqualification of bids.
- 9.6 These Auction Rules and each of the Auctions to be conducted hereunder relate solely to Transactions to which the Seller is to be a party as principal and

constitute separate arrangements from any arrangement for auctions for contracts for differences by other persons, even where such auctions are conducted pursuant to similar rules.

- 9.7 By submitting a bid, each Eligible Auction Participant unconditionally accepts the terms and conditions of these Auction Rules and warrants that it has full legal power and authority to participate in the Auction and to conclude Transactions for successful bids under the Master Agreement.
- 9.8 In relation to these Auction Rules, Eligible Auction Participants participate in Auctions at their own cost and risk. In no event shall the Seller be liable to any other party for any losses, liabilities, cost or expense including special, indirect or consequential damages, or for any loss of profit, anticipated profit or revenue, arising out of or in connection with any Auction and/or the use of any trading platform or multi-lateral trading facility, however caused, whether in contract, tort (including negligence) or otherwise, including in the event of its cancellation.
- 9.9 Nothing in clause 9.8 excludes or limits the liability of the Seller for: (a) death or personal injury caused by the Seller's negligence; (b) fraud or fraudulent misrepresentation; or (c) any other act or omission, liability for which may not be limited under applicable law.

## **Appendix to Section A**

### **Worked example of NIE ENERGY Auction Allocation Procedure**

This worked example considers the auction for a single CfD Product on 21 May 2009.

- The CfD Product is for Annual Baseload.
- The CfD Product shall be offered in 5MW unit blocks

<b>01/11/07</b>	<b>Total Volume</b>	<b>Reserve</b>
<b>CfD Product</b>	<b>Annual</b>	<b>Price (£/MWh)</b>
Baseload	25 MW	45.00

Three Eligible Auction Participants, A, B and C, bid as follows:

Bidder :	A
Auction Date :	21 May 2009
Auction Number:	1

Annual flat product			
<b>Baseload</b>	Bid No.	MW	Bid price £
	1	5	£50.00
	2	5	£49.00
	3	5	£46.00
	4	5	£45.50
	5	5	£45.00

Bidder :	B
Auction Date :	21 May 2009
Auction Number:	1

Annual flat product			
<b>Baseload</b>	Bid No.	MW	Bid price £
	1	5	£49.00
	2	5	£48.00
	3	5	£47.00
	4	5	£46.00
	5	5	£45.00

Bidder :	C
Auction Date :	21 May 2009
Auction Number:	1

Annual flat product			
<b>Baseload</b>	Bid No.	MW	Bid price £
	1	5	£49.00
	2	5	£48.00
	3	5	£45.50
	4	5	£45.00
	5		

Then the bids will be ranked as follows:

Bidder	Bid No.	Bid MW	Bid Price	Cumulative MW Bid
A	1	5	50	5
A	2	5	49	10
B	1	5	49	15
C	1	5	49	20
B	2	5	48	25
C	2	5	48	30
B	3	5	47	35
A	3	5	46	40
B	4	5	46	45
A	4	5	45.5	50
C	3	5	45.5	55
A	5	5	45	60
B	5	5	45	65
C	4	5	45	70

In this case, the four highest price bids, A1, A2, B1 and C1 account for a total of 20MW of the offered volume. The bids B2 and C2 are exactly equal, and account for another 10MW of the offered volume, which is more than the remaining 5MW after bids A1, A2, B1 and C1 have been allocated. Therefore bids B2 and C2 will be scaled down so that they receive pro-rata shares of the remaining 5MW. So the resulting transactions (volumes and CfD Strike Prices) are as follows:

Bidder	Bid No.	Bid MW	Bid Price	Cumulative MW Bid	Accepted MW	price
A	1	5	£50.00	5	5	£48.00
A	2	5	£49.00	10	5	£48.00
B	1	5	£49.00	15	5	£48.00
C	1	5	£49.00	20	5	£48.00
B	2	5	£48.00	25	2.500	£48.00
C	2	5	£48.00	30	2.500	£48.00

## **Section B – ESB Power Generation NDC CfD Products Auction Rules**

### **1. Introduction**

These NDC Auction Rules describe the auction process and set out the terms and conditions applicable to auctions conducted by ESB Power Generation (ESB PG) as Seller on a Multilateral Trading Facility operated by the MTF Operator to sell Non-Directed Contracts under the terms of the Master Agreement. By participating in the NDC Auctions, participants accept and agree that these Auction Rules, as they may be amended from time to time, govern the terms on which each Eligible Auction Participant participates.

The NDC Auctions will be open to any Eligible Auction Participant. An Eligible Auction Participant is a person who meets the eligibility requirements set out in Section 2.

### **2. Eligibility to Participate in the NDC Auctions**

2.1 Any party wishing to participate in an NDC Auction on the Multilateral Trading Facility must, by 1600 on the day preceding the auction, have:

- (a) Executed the Master Agreement with ESB PG and be in compliance with its terms
- (b) Posted the credit cover required pursuant to the Credit Support Document
- (c) Executed the MTF Terms and Conditions with the MTF Operator and provided the MTF Operator with a list of its authorised traders;
- (d) Provided details of email accounts to which Auction Notices may be sent.

### **3. Registration Process and Invitation to Bid**

3.1 The MTF Operator will publish the latest version of these Auction Rules, and any subsequent updates, on the MTF Website.

3.2 No later than five (5) days before an NDC Auction (or at such other time as ESB PG may specify), the MTF Operator will send to each Registered Interested Participant an Invitation to Bid. The Invitation to Bid will set out:

- (a) Indicative CfD Products offered;
- (b) Indicative quantities; and
- (c) Indicative reserve prices.

3.3 The MTF Operator shall notify Registered Interested Participants by email of any material changes to auction dates, indicative CfD Products offered or indicative quantities that ESB PG may make after the issue of the Invitation to Bid.

#### **4. Auction Notices**

4.1 Eligible Auction Participants will, in the normal course, be sent Auction Notices via email by the MTF Operator by 0930 hours on the day of the NDC Auction. The Auction Notice will set out final confirmation of the:

- (a) Code identifying the NDC Auction for a particular auction date
- (b) CfD Products being offered. For each CfD Product offered, ESB PG will define a Reference DC Product which will be used for margin calculation purposes (in accordance with the Master Agreement)
- (c) Quantities offered (stated in MW)
- (d) Reserve Prices
- (e) Close of Bids.

4.2 The MTF Operator will, in the normal course, publish the details of the Auction on the Multilateral Trading Facility on behalf of ESB PG by 1030 hours on the day of the NDC Auction.

4.3 An illustrative non-binding example of an Auction Notice is included as Appendix 1 to Section B.

4.4 Any changes to indicative values set out in the Invitation to Bid which may be made after issuing the Invitation to Bid and which have not already been notified will be notified to Eligible Auction Participants via Auction Notices.

4.5 For the avoidance of doubt, Auction Notices will not be sent to Registered Interested Participants who are not also Eligible Auction Participants.

## **5. Bidding**

- 5.1 Following issue of the Auction Notice in accordance with clause 4 the NDC Auction will commence at 1030 hours on the same day.
- 5.2 The MTF Operator will operate the NDC Auction and execute Transactions using the MTF.
- 5.3 Eligible Auction Participants must submit bids in accordance with the MTF Procedures and the Bidding Rules set out below.
- 5.4 Bidding Rules:
  - 5.4.1 Bids must be unqualified and unconditional.
  - 5.4.2 A bid shall consist of a nominated pairing of bid percentage and bid price in respect of a CfD Product.
  - 5.4.3 Bids must be entered by Close of Bids on the day that the Auction Notice is issued.
  - 5.4.4 Bidders may enter, amend, verify, and withdraw bids on the Multilateral Trading Facility or, if a bidder has made arrangements in advance to this effect with the MTF Operator, by way of voice brokerage services provided by the MTF Operator. The system will automatically close at 1230 hours and bidders will be unable to update bids after this time.
  - 5.4.5 Bidders must ensure that:
    - (a) Bid prices are equal to or higher than the reserve price and expressed in Euro, to the nearest Euro cent/MWh. If any of the bids for a given CfD Product are not in this format, all bids for that CfD Product by that Eligible Auction Participant on that day will be disqualified. Bids for other CfD Products will not, however, be disqualified. E.g. if Eligible Auction Participant X bids 10% at €60.00 and 20% at €60.001 for annual Baseload, then both of these bids for annual Baseload will be disqualified, but any bids for quarterly Baseload made that day will not be disqualified, assuming that bids for quarterly Baseload are in the required format.
    - (b) Volumes are expressed as a % of the quantity offered, to a maximum of 2 decimal places. If any of the bids for a given CfD Product are not of this required format, all bids for that CfD Product by that Eligible Auction Participant on that day will be disqualified. Bids for other CfD Products will not, however, be disqualified. E.g. if Eligible Auction Participant X bids 10.00% at €60.00 and 20.001% at €61.00 for Q1 Baseload, both of these bids for Q1 Baseload will be disqualified, but

any bids for Q2 Baseload made that day will not be disqualified, assuming that bids for Q2 Baseload are in the required format.

- (c) Each bid is for a minimum of 0.05% of the offered quantity. If any of the bids for a given CfD Product are not in this format, all bids for that CfD Product by that Eligible Auction Participant on that day will be disqualified. Conforming bids for other CfD Products that day will not be disqualified.
- (d) Bids for any given CfD Product do not exceed 100% of the offered quantity on any given day (in any single bid or in aggregate for the 5 bids allowed for that CfD Product). E.g. in the event of 3 bids such as those below, where no single bid exceeds 100%, but three bids in aggregate equal 153% will do so, all 3 bids will be disqualified. Bids for other CfD Products that day will not be disqualified.

Bid #	Bid %	Bid price
1	51.00%	70.000
2	51.00%	71.000
3	51.00%	72.000
4	0.00%	0.000
5	0.00%	0.000

5.5 Bidders may:

- (a) Bid for all or some of each CfD Product quantity offered
- (b) Make up to five bids per CfD Product.

5.6 It should be noted that the Multilateral Trading Facility has not been programmed to enforce all details in these Auction Rules. For the avoidance of doubt, it is the responsibility of the Bidders and not of ESBPG or the MTF Operator to ensure that Bids entered in the Multi-Lateral Trading Facility comply with these NDC Auction Rules.

5.7 Bidders must in respect of each NDC Auction ensure that they have sufficient credit cover to support the entire volume of their bids on that day. If on any given day the aggregate credit cover posted by an Eligible Auction Participant is insufficient to support its bids on that day, Bids will be scaled back in accordance with the methodology set out in Section 8.

5.8 By submitting a bid, the Eligible Auction Participant shall be deemed to have unconditionally accepted:

- (a) The terms and conditions of these Auction Rules;
- (b) That successful bids will be transacted under the Master Agreement between ESB PG and the bidder in question;

- (c) That the following details may be emailed to Eligible Auction Participants and/or published on the MTF website:
  - (i) Market clearing price at which volumes for each CfD Product offered were sold and the volume of trades (in MW) of each CfD Product in each NDC Auction;
  - (ii) Weighted average price of each CfD Product offered across all 2009/10 NDC Auctions.

5.9 The identity of individual successful or unsuccessful bidders shall not be disclosed, except where specifically provided for in the Master Agreement, and as provided for in these Auction Rules.

## **6. Procedure for Allocating Volumes to Bidders/Determining Auction Prices**

6.1 Bids will be processed and assessed by the MTF Operator, as follows. All bids contained in the MTF at Close of Bids will be assessed and volumes allocated on a market clearing price basis, using the following procedure:

- (a) Identify and disqualify invalid bids;
- (b) For each CfD Product offered rank each bid from highest price to lowest price;
- (c) Allocate volumes in rank order of highest price bid to lowest price bid until 100% of offered volume has been accounted for;
- (d) If valid bids total less than 100% of offered volumes, volumes for which valid bids have not been received will remain unsold that day;
- (e) If two or more valid bids of identical price cause the 100% of offered volume to be exceeded, those bids will be scaled back pro-rata to the size of their bids until the allocated volume equals 100% of the offered volume;
- (f) Volumes awarded will be specified in MW, rounded to a maximum of 3 decimal places. So for instance, in the event that 3 bidders have bid the same price for 8MW, each bidder will receive 2.667 MW and 0.001MW shall be oversold;
- (g) Calculate the market clearing price as follows:
  - (i) Where the total volume of bids is greater than 100% of the offered volume, the market clearing price shall be deemed to

be the price of the lowest priced bid accepted either in part or in its entirety;

- (ii) Where the total volume of bids is less than or equal to the offered volume, the market clearing price shall be the reserve price.

- 6.2 The market clearing price will be the Strike Price for all CfD volumes executed in the NDC Auction in question. Where the relevant CfD Product is capable of having a profiled clearing price for settlement purposes, that price may be utilised and this decision will be set out in the Auction Notice.
- 6.3 An illustrative non-binding worked example of this procedure is set out in Appendix 2 to these Auction Rules.

## **7. Confirmation Process**

- 7.1 The MTF Operator will notify successful bidders of the volume they have been awarded by 1600 hours on the day of the NDC Auction by publishing the Trade Book. This notification will be provisional and subject to detailed verification.
- 7.2 The MTF Operator will publish on the MTF Website by 1600 hours on the day of the NDC Auction (or such later time as the Seller agrees) the NDC Auction results for that day, including:
  - (a) Total % of each offered CfD Product sold in the NDC Auction;
  - (b) The market clearing price for each CfD Product.
- 7.3 Within two business days of the NDC Auction, ESB PG will send to the successful bidders a Transaction confirmation substantially in the form of Schedule 4 of the Master Agreement for each Transaction entered into. If a bidder submits multiple successful bids for the same CfD Product in a given NDC Auction, all successful bids for that CfD Product will be consolidated into a single Transaction (since all the successful bids will be executed at the same market clearing Strike Price, regardless of prices actually bid). The Transaction confirmation will contain the megawatt quantities and Strike Prices.
- 7.4 The successful bidder will have the opportunity to review the accuracy of the Transaction confirmation and request corrections if necessary pursuant to the terms of clause 3.3 of the Master Agreement.
- 7.5 ESB PG will inform successful bidders of the  $\pi_{p,q}$  for each CfD Product to be used pursuant to Schedule 6 to the Master Agreement.

7.6 Broker Fees: any fee chargeable by the MTF Operator for use of the MTF or in respect of a bid pursuant to the MTF Terms and Conditions or otherwise will be the responsibility of the bidder and not of ESB PG. Such fees will be notified and invoiced by the MTF Operator.

## **8. Management of Credit Cover Prior to and During the NDC Auctions**

8.1 Any Party wishing to execute any Transaction under the Master Agreement must provide credit cover in accordance with Schedule 6 of that Agreement prior to submission of a bid.

8.2 The Underlying Value of the Bid shall be calculated based on Credit Baseline Prices for each CfD Product set out in Table 1 below (or notified in the Auction Notice). Hence the Underlying Value of the Bid shall be calculated as the MWh of CfD Product bid for multiplied by the Credit Baseline Price.

**Table 1- Credit Baseline Prices for NDC Auction on 23<sup>rd</sup> February 2010 (as of closing fuel prices, 16<sup>th</sup> February 2010), in €/MWh**

	March 2010	April 2010	May 2010	June 2010
Baseload	41.91	46.28	46.28	46.28
Mid-Merit (0700-2300)	46.04	54.32	54.32	54.32
Mid-Merit 2 (0700-1900)	46.04	54.32	54.32	54.32
Peak (1700-2100)	64.51			

8.3 These Credit Baseline Prices are calculated using the formulae applicable to CfD Products sold pursuant to Directed Contracts, and as such should not be taken as indicative of reserve prices for NDC CfD Products to be notified in the Invitation to Bid or the Auction Notices.

8.4 In respect of the NDC Auction to be held on 23<sup>rd</sup> February 2010, Eligible Auction Participants required to lodge credit in accordance with Schedule 6 of the 2009/10 NDC Master Contract for Differences Agreement may, at their discretion, opt for a reduced upfront credit requirement on the following terms:

- (a) The Buyer must ensure that it provides, in the form of an Escrow Account or a Letter of Credit, credit cover equal at minimum to 5% of the Underlying Value of the Bid, adjusted for any VAT rates payable to the relevant VAT Authorities in the Relevant Jurisdiction.
- (b) The reduction of the minimum credit requirement by way of credit posted prior to submission of a bid to 5% of the Underlying Value of

the Bid applies only in the period between the NDC Auction on 23<sup>rd</sup> February 2010 through 26<sup>th</sup> February 2010. With effect from 2400 hours on the latter date the 5% minimum requirement and the Credit Baseline Price shall cease to apply, and normal credit cover requirements shall apply.

- (c) On the 26<sup>th</sup> February 2010 ESB PG will estimate credit cover requirements in respect of NDC volumes sold at the NDC Auction of 23<sup>rd</sup> February 2010 in accordance with the terms of the Master Agreement excluding paragraph 2.2 of Schedule 6 of the Master Agreement, and may issue a margin call accordingly as appropriate. In the event that the Buyer fails to post the full margin by 1700 hours on the third Business Day after the issue of the margin call an Event of Default shall be deemed to have occurred and the Seller shall be entitled to the remedy set out in Clause 10 (Termination Payment) of the Master Agreement.

- 8.5 Where a bidder submits a Bid and has insufficient credit cover to cover the entirety of its bids that day, all of its bids shall be scaled back in equal proportion until the bids are commensurate with the credit cover the bidder has posted.
- 8.6 For the avoidance of doubt, the checks for credit cover adequacy and the credit cover calculation will be made after the rejection of invalid bids.
- 8.7 Eligible Auction Participants will, in respect of Transactions entered into pursuant to a Master Agreement, be required to submit different Letters of Credit (where Letters of Credit are their chosen means of satisfying credit cover requirements) from any Letters of Credit provided as credit cover in respect of any Transaction effected pursuant to any 2008/9 Master Agreements (including the 2008/9 NDC Master Agreement), 2009/10 Master Contract for Differences Agreement being a Directed Contract or the 2009/10 PSO-Supported Master Contract for Differences Agreement, and may not use any surplus margin on those Letters of Credit to meet credit cover requirements in respect of Transactions pursuant to the Master Agreement.

## **9. General**

- 9.1 The frequency and timing of NDC Auctions and the CfD Products offered, quantities offered and reserve prices are at the absolute discretion of ESB PG. ESB PG makes no representation or warranty as to any of these matters. At any time, ESB PG may decide not to conduct any more NDC Auctions or to cancel a scheduled NDC Auction.
- 9.2 An Eligible Auction Participant who no longer wishes to participate in NDC Auctions should notify ESB PG to this effect.

- 9.3 It is the responsibility of Eligible Auction Participants to ensure that they are aware of the up-to-date Auction Rules and any other information relevant to their participation in NDC Auctions.
- 9.4 Eligible Auction Participants may ask the MTF Operator for clarification of the Auction Rules and Auction Notices. Where clarification is given, the MTF Operator may also disclose it to all other Eligible Auction Participants.
- 9.5 The MTF Operator in agreement with ESB PG may at any time amend, vary, supplement, modify, replace or terminate any term or condition in these Auction Rules.
- 9.6 There must be no collusion by any Eligible Auction Participant with any other Eligible Auction Participant. Evidence of collusive behaviour will be reported to the relevant regulatory authorities and result in disqualification of bids.
- 9.7 By submitting a bid, each Eligible Auction Participant warrants that it has full legal power and authority to participate in the NDC Auction and to conclude Transactions for successful bids under the 2009/10 NDC Master Contract for Differences Agreement.
- 9.8 Eligible Auction Participants participate in NDC Auctions at their own cost and risk. In no event shall ESB PG be liable to any other party for any losses, liabilities, cost or expense including special, indirect or consequential damages, or for any loss of profit, anticipated profit or revenue, arising out of or in connection with any NDC Auction and/or the use of any multilateral trading facility or trading platform, however caused, whether in contract, tort (including negligence) or otherwise, including in the event of its cancellation.

## Appendix 1 to Section B: Illustrative NDC Auction Notice



Non Directed Contracts Auction Notice: Auction Number NDC-XXX (Xth XXXX 2010)			
<b>Monthly Product Offer (Month X 2010)</b>			
	<b>Volume (MW)</b>	<b>Reserve Price</b>	<b>DC Reference Product</b>
<b>Product</b>	<b>Month X</b>	<b>(€/MWh)</b>	
<b>Baseload</b>			Q2 Baseload
<b>Mid-Merit (0700-2300)</b>			Q2 Mid-Merit
<b>Mid-Merit 2 (0700-1900)</b>			Q2 Mid-Merit
<b>Peak (1700-2100)</b>			Q2 Peak
<b>Monthly Product Offer (Month X 2010)</b>			
	<b>Volume (MW)</b>	<b>Reserve Price</b>	<b>DC Reference Product</b>
<b>Product</b>	<b>Month X</b>	<b>(€/MWh)</b>	
<b>Baseload</b>			Q3 Baseload
<b>Mid-Merit (0700-2300)</b>			Q3 Mid-Merit
<b>Mid-Merit 2 (0700-1900)</b>			Q3 Mid-Merit
<b>Peak (1700-2100)</b>			Q3 Peak
<b>Monthly Product Offer (Month X 2010)</b>			
	<b>Volume (MW)</b>	<b>Reserve Price</b>	<b>DC Reference Product</b>
<b>Product</b>	<b>Month X</b>	<b>(€/MWh)</b>	
<b>Baseload</b>			Q2 Baseload
<b>Mid-Merit (0700-2300)</b>			Q2 Mid-Merit
<b>Mid-Merit 2 (0700-1900)</b>			Q2 Mid-Merit
<b>Peak (1700-2100)</b>			Q2 Peak
<b>Monthly Product Offer (Month X 2010)</b>			
	<b>Volume (MW)</b>	<b>Reserve Price</b>	<b>DC Reference Product</b>
<b>Product</b>	<b>Month X</b>	<b>(€/MWh)</b>	
<b>Baseload</b>			Q3 Baseload
<b>Mid-Merit (0700-2300)</b>			Q3 Mid-Merit
<b>Mid-Merit 2 (0700-1900)</b>			Q3 Mid-Merit
<b>Peak (1700-2100)</b>			Q3 Peak
<b>Monthly Product Offer (Month X 2010)</b>			
<p>Note: The products above are as defined in the 2009/10 NDC Master Contract for Differences Agreement.</p>			
<p><b>IMPORTANT NOTICE:</b>                      This Auction Notice is issued in accordance with the Auction Rules. Only an Eligible Auction Participant may submit a valid bid in this NDC Auction.</p> <p>By submitting a bid in this NDC Auction, the Eligible Auction Participant shall be deemed to have unconditionally accepted:</p> <ul style="list-style-type: none"> <li>(a) the terms and conditions of the Auction Rules; and</li> <li>(b) that successful bids will be transacted under the 2009/10 Master NDC Agreement between ESB PG and the bidder, including the Schedules to that Agreement</li> </ul>			
<p>Please enter your bids on the Tullet Prebon MTF system before <b>12:30pm</b> (Close of Bids) today</p>			

## Appendix 2 to Section B: Worked Example of NDC Auction Allocation Procedure

This worked example considers the auction for a single CfD Product, Annual Baseload.

Suppose that on 3<sup>rd</sup> June ESB PG states that it is to make the following offer in that day's auction

<b>03/06/09</b>	<b>Volume</b>	<b>Reserve</b>
<b>CfD Product</b>	<b>(MW)</b>	<b>Price (€/MWh)</b>
Baseload <b>(Annual)</b>	100	65.00

Suppose that there are three Eligible Auction Participants, A, B and C, who bid as follows:

**Bidder:** A

**Auction Date:** 3 June

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20.00%</td> <td>70.00</td> </tr> <tr> <td>2</td> <td>50.00%</td> <td>68.00</td> </tr> <tr> <td>3</td> <td>30.00%</td> <td>65.00</td> </tr> <tr> <td>4</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	20.00%	70.00	2	50.00%	68.00	3	30.00%	65.00	4			5		
	Bid #	Bid %	Bid price																
	1	20.00%	70.00																
	2	50.00%	68.00																
	3	30.00%	65.00																
	4																		
5																			

**Bidder:** B

**Auction Date:** 3 June

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10.00%</td> <td>69.00</td> </tr> <tr> <td>2</td> <td>10.00%</td> <td>68.00</td> </tr> <tr> <td>3</td> <td>10.00%</td> <td>67.00</td> </tr> <tr> <td>4</td> <td>20.00%</td> <td>66.00</td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	10.00%	69.00	2	10.00%	68.00	3	10.00%	67.00	4	20.00%	66.00	5		
	Bid #	Bid %	Bid price																
	1	10.00%	69.00																
	2	10.00%	68.00																
	3	10.00%	67.00																
	4	20.00%	66.00																
5																			

**Bidder:** C

**Auction Date:** 3 June

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20.00%</td> <td>69.00</td> </tr> <tr> <td>2</td> <td>20.00%</td> <td>65.50</td> </tr> <tr> <td>3</td> <td>20.00%</td> <td>65.00</td> </tr> <tr> <td>4</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	20.00%	69.00	2	20.00%	65.50	3	20.00%	65.00	4			5		
	Bid #	Bid %	Bid price																
	1	20.00%	69.00																
	2	20.00%	65.50																
	3	20.00%	65.00																
	4																		
5																			

Then the bids will be ranked as follows:

Bidder	Bid #	Bid %	Bid price	Cumulative % bid
A	1	20.00%	70.00	20.00%
B	1	10.00%	69.00	30.00%
C	1	20.00%	69.00	50.00%
A	2	50.00%	68.00	100.00%
B	2	10.00%	68.00	110.00%
B	3	10.00%	67.00	120.00%
B	4	20.00%	66.00	140.00%
C	2	20.00%	65.50	160.00%
A	3	30.00%	65.00	190.00%
C	3	20.00%	65.00	210.00%

In this case, the three highest price bids, A1, B1 and C1 account for a total of 50% of the offered volume. The bids A2 and B2 are exactly equal, and account for another 60% of the offered volume, which is more than the remaining 50% after bids A1, B1 and C1 have been allocated. Therefore bids A2 and B2 will be scaled down so that they receive pro-rata shares of the remaining 60%. So the resulting transactions (volumes and CfD Strike Prices) are as follows:

Bidder	Bid #	Bid %	Bid price €/MWh	Cumulative % Bid	Accepted %	Strike Price €/MWh	Accepted MW
A	1	20.00%	70.00	20.00%	20.000%	<b>68.00</b>	<b>20.000</b>
B	1	10.00%	69.00	30.00%	10.000%	<b>68.00</b>	<b>10.000</b>
C	1	20.00%	69.00	50.00%	20.000%	<b>68.00</b>	<b>20.000</b>
A	2	50.00%	68.00	100.00%	41.667%	<b>68.00</b>	<b>41.667</b>
B	2	10.00%	68.00	110.00%	8.333%	<b>68.00</b>	<b>8.333</b>

## **Section C – ESB Power Generation PSO-Supported CfD Products**

### **1. Introduction**

These PSO Auction Rules describe the auction process and set out the terms and conditions applicable to auctions conducted by ESB Power Generation (ESB PG) as Seller on a Multilateral Trading Facility operated by the MTF Operator to sell PSO-supported contracts under the terms of the Master Agreement. By participating in the PSO Auctions, participants accept and agree that these Auction Rules, as they may be amended from time to time, govern the terms on which each Eligible Auction Participant participates.

The PSO Auctions will be open to any Eligible Auction Participant. An Eligible Auction Participant is a person who meets the eligibility requirements set out in Section 2.

### **2. Eligibility to Participate in the PSO Auctions**

2.1 Any party wishing to participate in a PSO Auction on the Multilateral Trading Facility must have:

- (a) Executed the Master Agreement with ESB PG
- (b) Posted the credit cover required pursuant to the Master Agreement
- (c) Executed the MTF Terms and Conditions with the MTF Operator and provided the MTF Operator with a list of its authorised traders;
- (d) Provided details of email accounts to which Auction Notices may be sent.

### **3. Registration Process and Invitation to Bid**

3.1 The MTF Operator will send to each Registered Interested Participant the latest version of these Auction Rules, and any subsequent update.

3.2 No later than five (5) days before a PSO Auction (or at such other time as ESB PG may specify), the MTF Operator will send to each Registered Interested Participant an Invitation to Bid. The Invitation to Bid will set out:

- (a) Indicative CfD Products offered;

- (b) Indicative quantities; and
- (c) Indicative reserve prices.

3.3 The MTF Operator shall notify Registered Interested Participants by email of any material changes to auction dates, indicative CfD Products offered or indicative quantities that ESB PG may make after the issue of the Invitation to Bid.

#### **4. Auction Notices**

4.1 Eligible Auction Participants will, in the normal course, be sent Auction Notices via email by the MTF Operator by 0930 hours on the day of the PSO Auction. The Auction Notice will set out final confirmation of the:

- (a) Code identifying the PSO Auction for a particular auction date
- (b) CfD Products being offered. For each CfD Product offered, ESB PG will define a DC Reference CfD Product which will be used for margin calculation purposes in accordance with the Master Agreement
- (c) Quantities offered (stated in MW)
- (d) Reserve Prices
- (e) Close of Bids.

4.2 The MTF Operator will, in the normal course, publish the details of the PSO Auction on the Multilateral Trading Facility on behalf of ESB PG by 1030 hours on the day of the PSO Auction.

4.3 An illustrative non-binding example of an Auction Notice is included as Appendix 1 to these PSO Auction Rules.

4.4 Any changes to indicative values set out in the Invitation to Bid which may be made after issuing the Invitation to Bid and which have not already been notified will be notified to Eligible Auction Participants via Auction Notices.

4.5 For the avoidance of doubt, Auction Notices will not be sent to Registered Interested Participants who are not also Eligible Auction Participants.

#### **5. Bidding**

5.1 Following issue of the Auction Notice in accordance with clause 4 the PSO Auction will commence at 1030 hours on the same day.

- 5.2 The MTF Operator will operate the PSO Auction and execute Transactions using the MTF.
- 5.3 Eligible Auction Participants must submit bids in accordance with the MTF Procedures and the Bidding Rules set out below.
- 5.4 Bidding Rules:
- 5.4.1 Bids must be unqualified and unconditional.
- 5.4.2 A bid shall consist of a nominated pairing of bid percentage and bid price in respect of a CfD Product.
- 5.4.3 Bids must be entered by Close of Bids on the day that the Auction Notice is issued.
- 5.4.4 Bidders may enter, amend, verify, and withdraw bids on the Multilateral Trading Facility or, if a bidder has made arrangements in advance to this effect with the MTF Operator, by way of voice brokerage services provided by the MTF Operator. The system will automatically close at 1230 hours and bidders will be unable to update bids after this time.
- 5.4.5 Bidders must ensure that:
- (a) Bid prices are equal to or higher than the reserve price and expressed in Euro, to the nearest Euro cent/MWh. If any of the bids for a given CfD Product are not in this format all bids for that CfD Product by that Eligible Auction Participant on that day will be disqualified. Bids for other CfD Products will not, however, be disqualified. E.g. if Eligible Auction Participant X bids 10% at €60.00 and 20% at €60.001 for annual Baseload, both of these bids for annual Baseload will be disqualified, but any bids for quarterly Baseload made that day will not be disqualified, assuming that bids for quarterly Baseload are in the required format.
- (b) Volumes are expressed as a % of the quantity offered, to a maximum of 2 decimal places. If any of the bids for a given CfD Product are not in this required format, all bids for that CfD Product by that Eligible Auction Participant on that day will be disqualified. Bids for other CfD Products will not, however, be disqualified. E.g. if Counterparty X bids 10.00% at €60.00 and 20.001% at €61.00 for Q1 Baseload, both of these bids for Q1 Baseload will be disqualified, but any bids for Q2 Baseload made that day will not be disqualified, assuming that bids for Q2 Baseload are in the required format.
- (c) Each bid is for a minimum of 0.05% of the offered quantity. If any of the bids for a given CfD Product are not in this format, all bids for that

CfD Product by that Eligible Auction Participant on that day will be disqualified. Conforming bids for other CfD Products that day will not be disqualified.

- (d) Bids for any given CfD Product do not exceed 100% of the offered quantity on any given day (in any single bid or in aggregate for the 5 bids allowed for that CfD Product). E.g. in the event of 3 bids such as those below, where no single bid exceeds 100%, but three bids in aggregate equal 153% will do so, all 3 bids will be disqualified. Bids for other CfD Products that day will not be disqualified.

Bid #	Bid %	Bid price
1	51.00%	70.000
2	51.00%	71.000
3	51.00%	72.000
4	0.00%	0.000
5	0.00%	0.000

5.5 Bidders may:

- (a) Bid for all or some of each CfD Product quantity offered
- (b) Make up to five bids per CfD Product.

5.6 It should be noted that the Multilateral Trading Facility has not been programmed to enforce all details in these Auction Rules. For the avoidance of doubt, it is the responsibility of the Bidders and not of ESBPG or the MTF Operator to ensure that Bids entered in the Multi-Lateral Trading Facility comply with these PSO Auction Rules.

5.7 Bidders must in respect of each PSO Auction ensure that they have sufficient credit cover to support the entire volume of their bids on that day. If on any given day the aggregate credit cover posted by an Eligible Auction Participant is insufficient to support its bids on that day, Bids will be scaled back in accordance with the methodology set out in Section 8.

5.8 By submitting a bid, the Eligible Auction Participant shall be deemed to have unconditionally accepted:

- (a) The terms and conditions of these PSO Auction Rules;
- (b) That successful bids will be transacted under the Master Agreement between ESB PG and the bidder in question;
- (c) That details may be emailed to Eligible Auction Participants of:

- (i) Market clearing price at which volumes for each CfD Product offered were sold and the volume of trades (in MW) of each CfD Product in each PSO Auction;
- (ii) Weighted average price of each CfD Product offered across all 2009/10 PSO Auctions.

5.9 The identity of individual successful or unsuccessful bidders shall not be disclosed, except where specifically provided for in the PSO Master Agreement, and as provided for in these Auction Rules.

## **6. Procedure for Allocating Volumes to Bidders/Determining Auction Prices**

6.1 Bids will be processed and assessed by the MTF Operator, as follows. All bids contained in the MTF at Close of Bids will be assessed and volumes allocated on a market clearing price basis, using the following procedure:

- (a) Identify and disqualify invalid bids;
- (b) For each CfD Product offered rank each bid from highest price to lowest price;
- (c) Allocate volumes in rank order of highest price bid to lowest price bid until 100% of offered volume has been accounted for;
- (d) If valid bids total less than 100% of offered volumes, volumes for which valid bids have not been received will remain unsold that day;
- (e) If two or more valid bids of identical price cause the 100% of offered volume to be exceeded, those bids will be scaled back pro-rata to the size of their bids until the allocated volume equals 100% of the offered volume;
- (f) Volumes awarded will be specified in MW, rounded to a maximum of 3 decimal places. So for instance, in the event that 3 bidders have bid the same price for 8MW, each bidder will receive 2.667 MW and 0.001MW shall be oversold;
- (g) Calculate the market clearing price as follows:
  - (i) Where the total volume of bids is greater than 100% of the offered volume, the market clearing price shall be deemed to be the price of the lowest priced bid accepted either in part or in its entirety;

- (ii) Where the total volume of bids is less than or equal to the offered volume, the market clearing price shall be the reserve price.

6.2 The market clearing price will be the Strike Price for all CfD volumes executed in the PSO Auction in question. Where the relevant CfD Product is capable of having a profiled clearing price for settlement purposes, that price may be utilised and this decision will be set out in the Auction Notice.

6.3 An illustrative non-binding worked example of this procedure is set out in Appendix 2 to these Auction Rules.

## **7. Confirmation Process**

7.1 The MTF Operator will notify successful bidders of the volume they have been awarded by 1600 hours on the day of the PSO Auction by publishing the Trade Book. This notification will be provisional and subject to detailed verification.

7.2 The MTF Operator will publish on the MTF Website by 1600 hours on the day of the PSO Auction (or such later time as the Seller agrees) the PSO Auction results for that day, including:

- (a) Total % of each offered CfD Product sold in the PSO Auction;
- (b) The market clearing price for each CfD Product.

7.3 Within two business days of the PSO Auction, ESB PG will send to the successful bidders a Transaction confirmation substantially in the form of Schedule 4 of the PSO Master Agreement for each Transaction entered into. If a bidder submits multiple successful bids for the same CfD Product in a given PSO Auction, all successful bids for that CfD Product will be consolidated into a single Transaction (since all the successful bids will be executed at the same market clearing Strike Price, regardless of prices actually bid). The Transaction confirmation will contain the megawatt quantities and Strike Prices.

7.4 The successful bidder will have the opportunity to review the accuracy of the Transaction confirmation and request corrections if necessary pursuant to the terms of clause 3.3 of the PSO Master Agreement.

7.5 After the last PSO Auction ESB PG will inform successful bidders of the  $\pi_{p,q}$  for each CfD Product to be used pursuant to Schedule 4 to the PSO Master Agreement.

7.6 Broker Fees: any fee chargeable by the MTF Operator for use of the MTF or in respect of a bid pursuant to the MTF Terms and Conditions or otherwise will be

the responsibility of the bidder and not of ESB PG. Such fees will be notified and invoiced by the MTF Operator.

**8. Management of Credit Cover Prior to and During the PSO Auctions**

- 8.1 Any Party wishing to execute any Transaction under the PSO Master Agreement must provide credit cover in accordance with Schedule 4 of that agreement prior to submission of a bid.
- 8.2 The Underlying Value of the Bid shall be calculated based on Credit Baseline Prices for each CfD Product set out in Table 1 below (or notified in the Auction Notice). Hence the Underlying Value of the Bid shall be calculated as the MWh of CfD Product bid for multiplied by the Credit Baseline Price.

**Table 1- Credit Baseline Prices for PSO Auctions (as of closing fuel prices, 11<sup>th</sup> June 2009), in €/MWh**

	<b>Q4 2009</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>
<b>Baseload</b>	56.58	60.03	58.34	57.28

- 8.3 These Credit Baseline Prices are calculated using the formulae applicable to CfD Products sold pursuant to Directed Contracts, and as such should not be taken as indicative of reserve prices for PSO CfD Products to be notified in the Invitation to Bid or the Auction Notices.
- 8.4 In respect of PSO Auctions held up to and including the 3<sup>rd</sup> July 2009, Eligible Auction Participants required to lodge credit in accordance with the 2009/10 PSO Master Contract for Differences Agreement may, at their discretion, opt for a reduced upfront credit requirement on the following terms:
  - (a) The Buyer must ensure that it provides, in the form of an Escrow Account or a Letter of Credit, credit cover equal at minimum to 5% of the Underlying Value of the Bid, adjusted for any VAT rates payable to the relevant VAT Authorities in the Relevant Jurisdiction.
  - (b) The reduction of the minimum credit requirement by way of credit posted prior to submission of a bid to 5% of the Underlying Value of the Bid applies only in the period between the first PSO Auction (22<sup>nd</sup> June 2009) through 3<sup>rd</sup> July 2009. With effect from 2400 hours on the latter date the 5% minimum requirement and the Credit Baseline Price shall cease to apply, and normal credit cover requirements shall apply.
  - (c) On the 7<sup>th</sup> July 2009 ESB PG will estimate credit cover requirements in respect of PSO volumes sold at PSO Auctions as of that date in accordance with the terms of the PSO Master Agreement excluding paragraph 2.2 of Schedule 4 of the PSO Master Agreement, and may

issue a margin call accordingly as appropriate, notwithstanding that the 7<sup>th</sup> July is not the thirteenth Business Day in July. In the event that the Buyer fails to post the full margin by 1700 hours on the third Business Day after the issue of the margin call an Event of Default shall be deemed to have occurred and the Seller shall be entitled to the remedy set out in Clause 11 (Termination Payment) of the PSO Master Agreement.

- 8.5 Where a bidder submits a Bid and has insufficient credit cover to cover the entirety of its bids that day, all of its bids shall be scaled back in equal proportion until the bids are commensurate with the credit cover the bidder has posted.
- 8.6 For the avoidance of doubt, the checks for credit cover adequacy and the credit cover calculation will be made after the rejection of invalid bids.
- 8.7 Eligible Auction Participants will, in respect of Transactions entered into pursuant to a PSO Master Agreement, be required to submit different Letters of Credit (where Letters of Credit are their chosen means of satisfying credit cover requirements) from any Letters of Credit provided as credit cover in respect of any Transaction effected pursuant to any 2008/9 Master Agreements (including the 2008/9 PSO Master Agreement), 2009/10 Master Contract for Differences Agreement being a Directed Contract or the 2009/10 Master Contract for Differences Agreement for Non-Directed Contracts, and may not use any surplus margin on those Letters of Credit to meet credit cover requirements in respect of Transactions pursuant to the 2009/10 PSO Master Agreement.

## **9. General**

- 9.1 The frequency and timing of PSO Auctions and the CfD Products offered, quantities offered and reserve prices are at the absolute discretion of the CER. ESB PG makes no representation or warranty as to any of these matters. At any time, the CER may decide not to conduct any more PSO Auctions or to cancel a scheduled PSO Auction.
- 9.2 An Eligible Auction Participant who no longer wishes to participate in PSO Auctions should notify ESB PG to this effect. Eligible Auction Participants cannot withdraw during the course of a PSO Auction after submitting a bid.
- 9.3 It is the responsibility of Eligible Auction Participants to ensure that they are aware of the up-to-date Auction Rules and any other information relevant to their participation in PSO Auctions.
- 9.4 Eligible Auction Participants may ask the MTF Operator for clarification of the Auction Rules and Auction Notices. Where clarification is given, the MTF Operator may also disclose it to all other Eligible Auction Participants.

- 9.5 The MTF Operator in agreement with ESB PG may at any time amend, vary, supplement, modify, replace or terminate any term or condition in these Auction Rules.
- 9.6 There must be no collusion by any Eligible Auction Participant with any other Eligible Auction Participant. Evidence of collusive behaviour will be reported to the relevant regulatory authorities and result in disqualification of bids.
- 9.7 By submitting a bid, each Eligible Auction Participant warrants that it has full legal power and authority to participate in the PSO Auction and to conclude Transactions for successful bids under the 2009/10 PSO Master Contract for Differences Agreement.
- 9.8 Eligible Auction Participants participate in PSO Auctions at their own cost and risk. In no event shall ESB PG be liable to any other party for any losses, liabilities, cost or expense including special, indirect or consequential damages, or for any loss of profit, anticipated profit or revenue, arising out of or in connection with any PSO Auction and/or the use of any multilateral trading facility or trading platform, however caused, whether in contract, tort (including negligence) or otherwise, including in the event of its cancellation.

## Appendix 1 to Section C: Illustrative PSO Auction Notice



### PSO Auction Notice Number: **PSO\_301 (xx Month, 2009)**

#### PSO-Supported Contracts Quarterly Baseload Product Offer:

Quarter	Volume (MW)	Reserve Price (Euro/MWh)	DC Reference Product
Q4 2009	0	0.00	Baseload Q4 2009
Q1 2010	0	0.00	Baseload Q1 2010
Q2 2010	0	0.00	Baseload Q2 2010
Q3 2010	0	0.00	Baseload Q3 2010

#### **IMPORTANT NOTICE:**

This PSO Auction Notice is issued by ESB Power Generation in accordance with the PSO Auction Rules. Only an Eligible PSO Auction Participant may submit a valid bid in this PSO Auction.

By submitting a bid in this PSO Auction, the Eligible PSO Auction Participant shall be deemed to have unconditionally accepted:

- (a) the terms and conditions of the PSO Auction Rules; and
- (b) that successful bids will be transacted under the 2009/10 PSO Master Contract for Differences Agreement between ESB PG and the Bidder, including the Schedules to that Agreement.

Please enter your bids on the MTF before 12.30 p.m. (close of bids) today

## Appendix 2 to Section C: Worked Example of PSO Auction Allocation Procedure

This worked example considers the auction for a single CfD Product, Annual Baseload.

Suppose that on 22<sup>nd</sup> June ESB PG states that it is to make the following offer in that day's auction

<b>22/06/09</b>	<b>Volume</b>	<b>Reserve</b>
<b>CfD Product</b>	<b>(MW)</b>	<b>Price (€/MWh)</b>
Baseload <b>(Annual)</b>	100	65.00

Suppose that there are three Eligible Auction Participants, A, B and C, who bid as follows:

Bidder: A

Auction Date: 22/06/2009

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20.00%</td> <td>70.00</td> </tr> <tr> <td>2</td> <td>50.00%</td> <td>68.00</td> </tr> <tr> <td>3</td> <td>30.00%</td> <td>65.00</td> </tr> <tr> <td>4</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	20.00%	70.00	2	50.00%	68.00	3	30.00%	65.00	4			5		
	Bid #	Bid %	Bid price																
	1	20.00%	70.00																
	2	50.00%	68.00																
	3	30.00%	65.00																
	4																		
5																			

Bidder: B

Auction Date: 22/06/2009

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10.00%</td> <td>69.00</td> </tr> <tr> <td>2</td> <td>10.00%</td> <td>68.00</td> </tr> <tr> <td>3</td> <td>10.00%</td> <td>67.00</td> </tr> <tr> <td>4</td> <td>20.00%</td> <td>66.00</td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	10.00%	69.00	2	10.00%	68.00	3	10.00%	67.00	4	20.00%	66.00	5		
	Bid #	Bid %	Bid price																
	1	10.00%	69.00																
	2	10.00%	68.00																
	3	10.00%	67.00																
	4	20.00%	66.00																
5																			

Bidder: C

Auction Date: 22/06/2009

Annual product																			
<b>Baseload</b>	<table border="1"> <thead> <tr> <th>Bid #</th> <th>Bid %</th> <th>Bid price</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20.00%</td> <td>69.00</td> </tr> <tr> <td>2</td> <td>20.00%</td> <td>65.50</td> </tr> <tr> <td>3</td> <td>20.00%</td> <td>65.00</td> </tr> <tr> <td>4</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td></td> <td></td> </tr> </tbody> </table>	Bid #	Bid %	Bid price	1	20.00%	69.00	2	20.00%	65.50	3	20.00%	65.00	4			5		
	Bid #	Bid %	Bid price																
	1	20.00%	69.00																
	2	20.00%	65.50																
	3	20.00%	65.00																
	4																		
5																			

Then the bids will be ranked as follows:

Bidder	Bid #	Bid %	Bid price	Cumulative % bid
A	1	20.00%	70.00	20.00%
B	1	10.00%	69.00	30.00%
C	1	20.00%	69.00	50.00%
A	2	50.00%	68.00	100.00%
B	2	10.00%	68.00	110.00%
B	3	10.00%	67.00	120.00%
B	4	20.00%	66.00	140.00%
C	2	20.00%	65.50	160.00%
A	3	30.00%	65.00	190.00%
C	3	20.00%	65.00	210.00%

In this case, the three highest price bids, A1, B1 and C1 account for a total of 50% of the offered volume. The bids A2 and B2 are exactly equal, and account for another 60% of the offered volume, which is more than the remaining 50% after bids A1, B1 and C1 have been allocated. Therefore bids A2 and B2 will be scaled down so that they receive pro-rata shares of the remaining 60%. So the resulting transactions (volumes and CfD Strike Prices) are as follows:

Bidder	Bid #	Bid %	Bid price €/MWh	Cumulative % Bid	Accepted %	Strike Price €/MWh	Accepted MW
A	1	20.00%	70.00	20.00%	20.000%	<b>68.00</b>	<b>20.000</b>
B	1	10.00%	69.00	30.00%	10.000%	<b>68.00</b>	<b>10.000</b>
C	1	20.00%	69.00	50.00%	20.000%	<b>68.00</b>	<b>20.000</b>
A	2	50.00%	68.00	100.00%	41.667%	<b>68.00</b>	<b>41.667</b>
B	2	10.00%	68.00	110.00%	8.333%	<b>68.00</b>	<b>8.333</b>

## Glossary

**“Auction” or “NDC Auction” or “PSO Auction”** means an auction of CfD Products offered by the Seller and conducted by the MTF Operator pursuant to the Auction Rules and the Auction Notice applicable to that auction;

**“Auction Notice”** means a notice in respect of a proposed Auction provided by the MTF Operator to Eligible Auction Participants before 09:30 hours on the day of the Auction in accordance with the Auction Rules, and which in the normal course sets out, amongst other things, firm offer volumes and firm reserve prices;

**“Auction Rules” or “NDC Auction Rules” or “PSO Auction Rules”** means these terms and conditions governing the Auction prepared by the Seller in consultation with the MTF Operator and as published by the MTF Operator from time to time;

**“Baseload”** means the contract quantity arising in all hours of a trading period;

**“Business Day”** means a weekday (other than a Saturday or Sunday) which is not a public holiday or bank holiday in the Republic of Ireland, Northern Ireland or England, save that where the term “Business Day” is referred to in the description of a CfD Product, references to “Business Day” shall mean a weekday (other than a Saturday or Sunday) which is not a public holiday or bank holiday in the Republic of Ireland or Northern Ireland only;

**“CfD Product”** means the contracts for differences offered by the Seller for such volumes, prices and other details as set out in the relevant Auction Notice and **“CfD Products”** shall be construed accordingly.

**“Close of Bids”** means 12:30 hours on the day of the Auction or such other time as may be notified in the Auction Notice;

**“Confirmation”** has the meaning given to it in the Master Agreement;

**“Confirmation Letter”** has the meaning given in the Master Agreement;

**“Credit Baseline Prices”** means prices for each CfD Product notified by ESB PG in Section B of the Auction Rules to be used in the calculation of credit cover requirements prior to 28<sup>th</sup> July 2009 in relation to NDC auctions and prior to 4<sup>th</sup> July 2009 in relation to PSO auctions. If ESB PG exercises its rights to define new CfD Products after the issue of these Auction Rules it may notify the Credit Baseline Prices in respect of these CfD Products in the Invitation to Bid or the Auction Notice;

**“Credit Support Document”** has the meaning given to it in the Master Agreement;

**“Eligible Auction Participant”** means a person who satisfies the requirements set out in these Auction Rules in relation to eligibility to take part in an Auction;

**“Escrow Account”** has the meaning given to it in the Master Agreement;

**“Invitation to Bid”** means the invitation sent by the MTF Operator to Registered Interested Participants before an Auction or series of Auctions in accordance with the relevant section of the Auction Rules;

**“Letter of Credit”** has the meaning given to it in the Master Agreement;

**“Master Agreement”** means the Master Contract for Differences Agreement entered into between the relevant Seller and each relevant Eligible Auction Participant including any schedules thereto and, more particularly, in relation to Section B means the 2009/10 Master Contract for Differences Agreement for Non-Directed Contracts issued by ESB PG on 11<sup>th</sup> May 2009, and in relation to Section C means the 2009/10 Master Contract for Differences Agreement for PSO-Supported Contracts issued by ESBPG on 11<sup>th</sup> June 2009.

**“Mid-Merit (0700-2300)”** means for trading periods at the contract quantity during the hours beginning at 0700 hours and ending at 2300 hours on business days and for trading periods on days that are not business days at 80% of the contract quantity;

**“Mid-Merit 2 (0700-1900)”** means for trading periods at the contract quantity during the hours beginning at 0700 hours and ending at 1900 hours on all weekdays (Monday – Friday);

**“Multilateral Trading Facility”** or **“MTF”** means the Multi Lateral Trading Facility registered by the MTF Operator as such with the Financial Services Authority used by MTF Users for the purposes of executing CfD Products;

**“MTF Operator”** means Tullett Prebon (Europe) Limited;

**“MTF Procedures”** means the guidance procedures issued by the MTF Operator to MTF Users for using the MTF;

**“MTF Terms and Conditions”** means the terms and conditions for access and use of the MTF entered into between the MTF Operator and MTF Users;

**“MTF Users”** means any relevant Seller or Sellers and Eligible Auction Participants;

**“MTF Website”** means the website used by the MTF Operator to publish information relating to the Auction;

**“Peak (1700-2100)”** means for trading periods arising during the hours beginning at 1700 hours and ending at 2100 hours on all days during October, November, December, January, February, and March at the contract quantity;

**“Registered Interested Participant”** means a person who has registered an interest (with the Seller and the MTF Operator) in participating in an Auction held by the MTF Operator for CfD Products to be offered by the Seller;

**“Seller”** means the person offering CfD Products for sale in the Auction, who in Section A is NIE ENERGY Limited in its capacity as the power procurement business and in Sections B and C is ESB Power Generation (ESB PG);

**“Strike Price”** means the market clearing price for all CfD volumes executed in an Auction as further described in the relevant section of the Auction Rules;

**“Trade Book”** means the complete list of trades which have been executed through the MTF in respect of each Eligible Auction Participant for each Auction;

**“Transaction”** has the meaning given to it in the relevant Master Agreement;

**“Underlying Value of the Bid”** in relation to Sections B and C only, has the meaning given to it in the Master Agreement and which is more particularly described in Section 8.2 of Section B and Section 8.2 of Section C;

**“Workspace”** means the MTF workspace containing details of the CfD Products being offered by the Seller in the Auction.