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Energia response to SEM Committee Consultation Paper SEM-21-065

Amendment to the Allocation of Directed Contracts

13 September 2021

1. Introduction

Energia welcomes the opportunity to respond to the SEM Committee Consultation Paper SEM-21-065 titled "Amendment to the Allocation of Directed Contracts" (the "Consultation Paper"). We are surprised and concerned that the Consultation Paper communicates an immediate amendment to the allocation of Directed Contracts (DCs) for the forthcoming Round 16 without prior consultation or engagement with industry. Furthermore, we note that the amendment is centred around benefitting smaller suppliers in respect of hedging their exposure in the market - we question the rationale and justification for this amendment and oppose this becoming an enduring change to the DC methodology moving forward. Section 2 below elaborates on these concerns.

2. Comments on Proposed Amendment

Governance and Regulatory Process

- In the first instance, the Consultation Paper notifies industry that an amendment to the DC eligibility model will be made effective for the upcoming Round 16. However there has been no prior engagement or consultation with industry in respect of this material change. This departure from good governance and best regulatory practice is very concerning and undermines industry confidence. We therefore request that this and any further changes that are being considered are sufficiently consulted on in advance.

Lack of Justification and Impacts of Proposed Change

- The impending change to the methodology for DC Round 16 will allocate DC volumes to smaller participants who currently have a MIC of less than 5% of the total market MIC. The volume being reallocated is to be removed from smaller participants who do not have FEMA arrangements in place with ESB GT and being reallocated to those eligible smaller suppliers that do have a FEMA arrangement in place.

- A number of points have been set out on Page 1 of the Consultation Paper outlining market developments which are making it difficult for forward hedges to be carried out by market participants and therefore justifying the change to the DC methodology to the benefit of smaller suppliers. However, the issues listed also impact on the hedging ability of larger suppliers in the market and therefore to make a change to the methodology which is to the benefit of smaller suppliers only is unjustified.

- In addition, the Consultation Paper understates the potential impact of the changes to the DC methodology, estimating that 3% of the volume will be re-distributed to eligible smaller participants and that the impact of this will only slightly reduce the volumes available in the DC supplementary round for larger suppliers. However, the proposal contains risks in that the impacted DC volume to be re-distributed could become greater in the future due to unforeseen outcomes or events e.g. if there is an issue with a larger suppliers FEMA agreement at any point in the future, based on the proposed amendment this DC volume would then be re-allocated to the smaller suppliers that are targeted to benefit from this change. Such a scenario would result in much more material and significant volumes being reallocated.

- In conclusion, Energia have significant concerns over both the lack of governance and regulatory process that has taken place for this change to the DC methodology for DC Round 16. Furthermore, we do not believe that sufficient justification or consideration of the potential impacts of the change to the methodology have been considered by the SEM Committee and therefore do not support the amendment becoming an enduring or permanent change.