Amendment to the Allocation of Directed Contracts Consultation Paper (SEM-21-065)

Power NI's Response

13th September 2021

Introduction

Power NI welcomes the opportunity to respond to the SEM Committee's Information & Consultation Paper on Amendments to the Allocation of Directed Contracts (SEM-21-065). Power NI has consistently advocated for and highlighted the vital importance of a functioning and liquid forward market in delivering tangible benefits to end consumers and underpinning retail competition. The Directed Contract (DC) process is an important element of the forward market which whilst providing an element of liquidity is also a fundamental part of the RAs market power mitigation strategy. Power NI has historically and continues to support the subscription methodology for Directed Contracts consisting of supplier eligibilities and formulaic pricing.

Following on from above, Power NI is surprised to see the changes being proposed in relation to the allocation process for DC Round 16, particularly so given the lack of engagement or consultation with market participants. Noting the reasoning provided in the paper, Power NI does not see any justification for it or support the rationale.

Specific comments

Power NI's over-riding concern is that this consultation relates to DC Round 17 and beyond with the changes discussed in the paper being effective for the forthcoming Round 16. This change has been implemented without any industry engagement or consultation which could not be described as regulatory best practice. Power NI would ask that all and any proposed changes to the DC allocation process are fully consulted upon to ensure confidence is maintained and any unintended consequences can be explored, discussed, and remedied if required.

Further to the transparency and regulatory process point above, Power NI would also question the fairness of what is being proposed. The paper makes reference to a number of developments that have negatively impacted forward liquidity – plant outages, reduced DC volumes, removal of PSO supported CfD's, unavailability of Financial Transmission Rights (FTR's) following Brexit etc. Power NI agrees that these factors are all contributing to an environment that suppresses forward liquidity and makes the achievement of an optimal hedging strategy extremely difficult / impossible.

However, these factors and their impact on liquidity have as much an impact on larger suppliers as they do on smaller suppliers on a relative basis. For the SEM Committee to implement a change that solely looks to benefit a particular classification of market participant i.e. smaller suppliers, feels unjustified.

In addition, the Consultation Paper downplays the 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 and Power NI do not feel unintended consequences such as this have been explored in a transparent manner.

Conclusion

In summary, Power NI remain concerned in relation to the lack of governance and the regulatory process under which the change related to DC Round 16 has been implemented. We do not agree with the justification provided in relation to these changes and therefore do not support the amendment to become an enduring or permanent change.