



## **Gaelectric Holdings Plc.**

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Response Paper to:

### **I-SEM Market Power Mitigation Consultation**

**Gaelectric Holdings Plc. Response**

18/01/2016

**Public**

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## 1 INTRODUCTION

Gaelectric holdings plc (“Gaelectric”) welcomes the opportunity to respond to the SEM Committee’s consultation on I-SEM Market Power Mitigation. Since the inception of the SEM in 2007, market power has been a live concern that has required mitigation measures. The introduction of the more dynamic I-SEM increases the potential for generators possessing market power to influence market prices across certain trading windows should they go un-regulated. Introducing the I-SEM only re-enforces the need to mitigate market power in order to protect other market participants, and ultimately the end consumer. When designing these market power mitigation measures, we request that the SEM Committee give due consideration to how the market may develop into the future.

The most sustainable method of market power mitigation is to increase competition and this is something that the regulators and market operators should endeavour to achieve through all avenues; be it I-SEM design, DS3 or the CRM. Excessive and intrusive regulation of bidding behaviour in the I-SEM may stifle the ability of new participants, without market power, to recover their costs. This would place the existing incumbent generators, who possess structural market power, at a relative advantage to new entrants, thereby creating a barrier for such new entrants. Therefore, ***Gaelectric strongly support the implementation of targeted market power mitigation measures applied to participants judged to possess structural market power.***

While Gaelectric acknowledge the need for market power mitigation measures across all trading periods, we are of the view that the Bidding Code of Practice (“BCoP”) in its current form will be no longer fit for purpose when I-SEM is introduced. BCoP is excessively restrictive will not allow generators adequate scope to recover their costs in a more dynamic market place. Therefore a new approach needs to be adopted that allows the flexibility for participants to ensure their costs are recovered, without stifling competitive tension in the market and ensuring that the wider goals of the target model are met. The monitoring of bidding practices should not be uniform in their severity across markets and participants.

The day ahead market is run as an unconstrained market which mitigates the potential for participants to exercise local market power behind constraints. This increased competition should push the market towards a more competitive outcome than the Balancing Market. Limitations with EUPHEMIA may also cause a unit to bid different to their SRMC in order to minimise their costs and ensure cost recovery over a longer time period. The introduction of three separate physical trading periods coupled with DS3 system service provision and RO considerations mean that considerations of opportunity cost need to be expanded. All of this suggests that the application of prescriptive bidding

regulations, similar to BCoP, for DA/ID trading periods would be unsuitable. Therefore **Gaelectric support the introduction of a market abuse condition into generator licences.**

This should be supplemented by the requirement of those market participants that are deemed to have structural market submitting additional reports market behaviour to the MMU for the day-ahead/intraday time periods. Gaelectric also support the implementation of other market power mitigation measures such as directed contracts and vertical ring-fencing to further prevent participants exercising market power.

Given that the balancing market will run as a constrained market, opportunities may arise for participants with structural market power behind a constraint to exercise that market power. Gaelectric acknowledge that market power mitigation measures may be required to prevent these generators exercising their structural market power. Notwithstanding this, **Gaelectric are strongly of the view that any mitigation measures should be applied in a targeted manner at those who possess structural market power (as determined by relevant RSI/HHI thresholds) or those in a long term constraint.** Such participants should be bound by transmission licence constraint conditions. Other balancing market participants should continue be mandated to abide by the market abuse condition in their licence with the Market Monitoring Unit capable of investigating suspicions of anti-competitive behaviour. The introduction of REMIT and the increased access of transaction data and associated increase in transparency should help the market monitoring unit in achieving its aims.

The forward market is financial rather than physical and therefore may be regulated differently. Notwithstanding this, the financial position of generators in these market may influence a generators desired pricing in the physical markets. This could lead to generators with structural market power having an incentive to influence prices in the physical markets in such a way so as to increase the value of their financial contracts. This relationship is something that should be considered by the SEM Committee when designing and implementing policy.

Below is a summary of points raised throughout this response.

- Gaelectric support the targeted implementation of market power mitigation measures across all trading periods for those with structural market power.
- For DA/IDM we support the introduction of a market abuse clause in the generator licence as opposed to prescriptive bidding controls.
- For the BM we are of the view that a bidding principles approach, with ex-post enforcement by the MMU should be implemented.

- When comparing generator unit bids in relation to perceived SRMC – Opportunity costs must consider the more dynamic I-SEM market along with interactions with DS3 and the CRM.
- Gaelectric agree that the existing SEM market power mitigation measures have been effective and should be suitable for the I-SEM.
- For DA/IDM we support the introduction of Option 4 - A market abuse clause in the generator licence where participants are allowed enough scope to ensure their bids reflect actual market conditions.
- For BM we are of the view that generators should abide by market abuse conditions, similar to DA/ID. There should also be extra responsibilities on generators with the ability to exercise local market power to report to the MMU who should be able to implement ex-post enforcement.
  - o Of the options presented, we support Option 1 – An MMU trigger market intervention.
- Considering the limitations with EUPHEMIA and the unit commitment dilemma's, when bidding into the day ahead market units must be allowed adequate scope to ensure they recover their costs.
- Gaelectric are of the view that local constraints may place some generators at an advantage and these generators must be subject to a transmission constrain licence condition.
- Gaelectric agree with the SEMC that forward contracts are less elastic therefore there is less scope for market power to be exerted. That said, the market should not be regulated in such a way as to eliminate any “certainty premium” that generators/suppliers are willing to pay.
- Gaelectric agree with the view of the regulators that a participant's position in the financial markets (FTR's, Forwards contracts) may influence their incentives in the physical markets and the regulators must remain aware of these incentives.
- Gaelectric are disappointed at the lack of new entrants included in the SEM Committee modelling scenarios.

## 2 GAELECTRIC BACKGROUND

Gaelectric is an independent wind, energy storage, solar and biomass developer operating within the Republic of Ireland, Northern Ireland, United Kingdom and North America. To date Gaelectric holds approximately 175MW of generating assets across 9 projects in Northern Ireland and the Republic of Ireland, and a further 40MW of 'shovel ready' projects with grid connections and full planning approvals in place. Gaelectric's near term pipeline on the island of Ireland is circa 320MW with the expectation that the company will have 400MW of wind projects generating power by the end of 2017.

Through developing our portfolio of wind assets through early stage planning into construction and operation phases, we have become one of the largest independent developers and operators of wind energy on the island. Gaelectric are further involved in the development of bioenergy and solar projects in Ireland and the UK.

In addition to our renewable portfolio, Gaelectric are developing Project CAES NI. This project has an agreed connection offer in place with SONI and its planning application has been submitted Planning NI. Project CAES NI is designated as a Project of Common Interest (PCI) by the European Commission and has been recommended for grant funding of up to €6.5million under the Connecting Europe Facility.

Project CAES NI will provide 330MW generating capacity with 250MW synchronous demand. Compressed Air Energy Storage is a commercially proven technology which has been in operation since 1978 in Huntorf, Germany and since 1991 in Alabama, United States. CAES has a strong technical ability and Gaelectric have shown that it is capable of providing substantial performance within the DS3 system services. It is also a potentially valuable asset to both Gaelectric and the system operators for balancing the grid, particularly within I-SEM. Further to our development of Project CAES, Gaelectric and Tesla have announced the purchase and planned deployment of Tesla Energy's first battery power utility-scale project in Ireland, and we expect to develop a 1 MW demonstration project in 2016.

Gaelectric have recently established a separate internal Trading and Markets team. This team will be tasked with undertaking market analysis, contracting with third party assets and managing the entire asset portfolio across all markets in which they operate.

### 3 CONSULTATION QUESTIONS

***Q1. Do you agree with the policy developments and trends identified (above) as potentially impacting on an I-SEM market power mitigation strategy?***

Gaelectric agree that topics discussed will affect the market dynamic and that market power mitigation measures should account for these changing dynamics.

In particular Gaelectric are aware of the potential difficulties surrounding the recovery of fixed costs through the EUPHEMIA algorithm considering the potential limitations for coupled bids between days. For this reason excessively restrictive regulations applied across the market mandating generators to bid their short run marginal costs may prevent generators from recovering their fixed costs. It would be particularly difficult to enforce SRMC bidding given the need to internalise start up and no load costs in the bids submitted.

With this in mind we strongly support the targeted application of certain market power mitigation measures such as directed contracts and vertical integration at those who may be capable of exercising market power. We echo the view that these have been successful in the current SEM.

***Q2. Are there other factors not identified here which you consider relevant?***

Gaelectric are of the view that the structure of the reliability option will reduce incentives for anti-competitive bidding. Should a participant bid above the strike price and their bid be accepted, the strike price will effectively act as a cap for the RO contracted volume. This will be the case across all markets due to the Split market reference price option. This will go some way to dis-incentivising over inflated bids.

Provisions for administered scarcity pricing in the balancing market prove the SEMC acknowledge the need for scarcity to be reflected in balancing market prices. This is further re-enforced by the assertions that during periods of scarcity, prices in the Balancing market will be the higher of the administered scarcity price of the BM price.

We believe that in preventing generators from reflecting scarcity to some extent in their bids, the SEM Committee are promoting conflicting objectives. On one hand the SEM Committee are clear in their desire to promote Day Ahead liquidity, however on the other hand it has been proposed that bids into the balancing mechanism will be based on Short Run Marginal Cost (SRMC) which would largely result in a price curve that is not reflective of the state of balance in the market. The latter would not result

in the enhancement of liquidity in the Day Ahead timeframes given that there is less incentive to be balance responsible in a market as highly regulated as proposed here.

This issue has been further confused by the fact that the concept of “innovation” has been publically proposed by the SEM Committee yet we see no consideration of this in the consultation paper and therefore request consideration of our view that scarcity should be allowed to be reflected (to an extent) in the market.

***Q3. Do you agree with the proposed appropriate markets/trading periods for assessing market power in I-SEM’s energy and financial markets?***

Gaelectric agree that they are both temporal and geographical dimensions to monitoring market power and that some form of monitoring should be applied across all of these time-frames.

A participant’s position in the forwards markets may influence their desired outcome and bidding behaviour in the I-SEM physical markets (and vica versa). For generators capable of exercising market power, there may be an incentive to influence physical markets depending on their position in the financial markets. While Gaelectric agree with that the forward and FTR markets are financial rather than physical markets and may be regulate differently/by a different body, this interaction must be considered when deciding on the appropriate market monitoring of the physical markets.

Gaelectric acknowledge the necessity to implement varying degrees of regulation depending on the timeframe however plants which are constrained on in stress events will be required to recoup their start-up costs over short periods of time. Sufficient scope needs to be given to generators to price these costs into their BM price/quantity pairs. The decision by the SEMC to introduce Administered Scarcity Pricing (ASP) into the balancing market suggests they agree that prices need to rise above a plants short run marginal cost to ensure that their entire running costs are captured as well as providing an adequate market signal for firms to be available and balance responsible. As per our comments above, the market should be able to accommodate the “innovation” that was initially proposed by the SEM Committee.

***Q4. Do you agree with the proposed geographic scope of the proposed markets/trading periods?***

Gaelectric would like to emphasise the importance of addressing the ability to exercise local market power behind transmission/locational constraints. Gaelectric are of the view that these should be addressed through licence conditions on participants; specifically a transmission constraint licence condition. This has previously been discussed at I-SEM Rules Liaison Group meetings.



***Q5. Do you agree with the proposed definition of competitive behaviour and pricing in I-SEM?***

Perfectly competitive markets occur where all participants are operating at a level where the remuneration for their output is equal to their marginal cost – not short run marginal costs. The CRM is designed to cover the portion of investment costs that is not recovered through the energy market (i.e. long run marginal costs) however the increased risks associated with CRM, particularly for renewables, means that a greater portion of these marginal costs may need to be recovered through the energy markets. This is caused by the fact that capacity will be competitively procured in future and some participants may not receive a capacity contract. For this reason we are of the view that the definition of competitive behaviour should be expanded to plants recovering their marginal costs.

***Q6. Do you think that the suggested examples in which market power can be exercised in I-SEM captures the relevant issues?***

Gaelectric are comfortable that the methods of exercising market power outlined in the document capture the possible ways in which a participants may attempt to exercise their market power.

***Q7. Do you agree that the potential for market power abuse in I-SEM appears to be weaker in the forward financial market compared to the physical markets?***

In general Gaelectric agree that the increased elasticity of forward products will result in less scope for the exercise of market power as participants can choose not to purchase a forward contract. The degree to which market power will exist in the forward timeframe however will be dependent on the products being introduced and the associated liquidity that is driven into this market. That said, the exercise of market power should not be confused with suppliers/generators willing to include a “certainty premium” above/below the predicted SMP in the agreed contract price. Some market monitoring should take place to ensure that this isn’t excessive however certainty has value and there should be some allowance for this in the contracted price.

***Q8. Do you agree with the implications for market power arising from interactions between the physical markets, CRM, FTRs and DS3 System Services as shown above?***

Gaelectric agree with the view of the SEMC that possession of FTR contracts will not provide a participant with the ability to influence physical markets, however it may provide them with the incentive to do so. This interaction between FTR positions and a participants capabilities within physical markets must be addressed with targeted market power mitigation measures.

Gaelectric would also emphasise the importance of clear and transparent structural framework on how this link will be assessed (metrics used etc.) and the potential thresholds which, if breached, would trigger the implementation of targeted market power mitigation measures. Note that we are referring to structural market power in this instance and do not support heavy regulation of all bids to manage the risk which may present from a portion of the market. Rather this approach is best served via a monitoring function (similar to the Market Monitoring Unit).

Despite the split market reference price acting as an implicit price cap on energy revenues, Gaelectric agree with the view that for RO contracted volumes, the incentive still exists to exercise market power up to the strike price. However the RO does not increase the incentive for capable participants exercise market power, if anything it decreases it however the incentive still remains up to the strike price value, and its value is therefore limited.

***Q9. Do you agree that these are the appropriate metrics to identify market power ex-ante and ex-post in I-SEM?***

Gaelectric comfortable with the metrics that have been proposed in the consultation.

***Q10. Are there other metrics that you consider should be applied?***

Currently Gaelectric have no suggestions of further metrics that should be applied.

***Q11. Do you agree with the approach taken by the RAs to modelling market power in I-SEM?***

While Gaelectric broadly agree with the modelling method, the scenario assumptions and projections that informed the model show a disappointing lack of new entrants, particularly energy storage projects. This seems at odds with the aims set out in the recent white paper where the importance of storage projects was emphasised.

As a side comment, we have consistently called for joined up thinking from the SEM Committee and this extends to the assumptions used in the modelling of future portfolios. There is a consistent and substantial discrepancy between a number of such exercises being undertaken for market power and DS3 and this is clearly a sub-optimal use of resources and may result in inefficient policy decisions. By way of example, 412MW of new entrants was proposed in this consultation which did not appear in the DS3 scenario analysis which included circa 390MW of storage which is not included here. We request that centrally agreed portfolios are agreed and presented across all workstreams.

***Q12. Do you agree with the conclusions for I-SEM market power that have been drawn from the modelling results?***

Given the scenarios assumptions, the results seem plausible. Gaelectric note the worrying structural market power ESB will possess in 2024 should these scenario assumptions come to pass. ESB's RSI breaches 1.2 64% of the time as modelled and this presents a considerable opportunity to exercise market power and needs to be closely monitored by the regulators.

We believe that new entrants should be promoted in the RO/DS3 programmes which would serve to reduce the dominance of participants in the market by creating a more liquid and competitive marketplace. We emphasise the importance of the development of policies which support the development of new entrants.

***Q13. Do you agree with the SEM Committee's view on the effectiveness of each of the SEM market power mitigation measures?***

Gaelectric agree with the view expressed by the SEMC that there is no evidence of significant abuse of market power in SEM since its inception.

With this in mind, the existing mitigation measures cannot simply be lifted from the SEM and be applied in the I-SEM in their current form. It is a far more dynamic market with many more opportunities and new entrants which need to be considered in the design of the mitigation measures. Therefore we believe that it is wholly inappropriate to lift existing measures such as BCoP from the SEM. Similarly, some will require transparent structural criteria which, if breached, will result in the application of targeted mitigation measures such as vertical ring-fencing/directed contracts etc.

We believe that competition should be allowed to develop in the market such that day ahead liquidity is maintained and for this reason we urge the SEM Committee to avoid a heavy handed approach to regulation which could have unforeseen knock on consequences.

***Q14. Are there any particular aspects of the SEM market power mitigation strategy that you think should be applied differently, especially in relation to I-SEM?***

See above regarding flexibility and structural criteria.

The introduction of a less liquid intraday and balancing market will introduce greater opportunity costs than is associated with trading at day ahead. A similar opportunity cost may arise from trading energy as opposed to reducing output and receiving DS3 availability payments. Limitations with the EUPHEMIA algorithm may make recovery of full start-up costs more difficult with a subsequent

requirement for generators to include elements of these costs in their daily bids. Given the comments above we believe that the application of a BCoP like monitoring should take account for recovery of all of these costs across all markets Day Ahead/Intra-day/Balancing Markets. The increased complexity and risk in the market also makes it, in our view, particularly difficult for the application of strict BCoP style rules applying a firm Short Run Marginal Cost rule in bids/offers.

We do however support the need for targeted market power where specific instances of structural market power exist. This can take the form of heavier regulation or application of bidding controls on specific units.

Other market power mitigation measures such as directed contracts and vertical ring-fencing of utilities may need to be expanded beyond incumbent generators. This should be done in a structured and transparent way using specific thresholds beyond which a participant would be forced to provide a directed contract.

***Q15. Do you agree with the five key principles for assessing market power mitigation policies as outlined in this section 8.3? If you think there should be alternatives, please state the reasoning.***

Gaelectric broadly agree with the five principles as set out. While Gaelectric agree that practicality and effectiveness are of the upmost importance, we are of the view that targeted and flexible measures implemented in a transparent manner will be a practical solution yielding effective results.

We are of the view that such targeted measures will help the regulators in their stated aim of interfering with the market to the least extent necessary. We reiterate our desire to ensure that a heavy handed approach is not taken on all participants.

***Q16. For the Forward Contracting Obligation:***

***- What should be the measure and threshold that results in a market participant being included or excluded in the FCO, i.e. what is its applicability?***

The existing directed contract mechanism applies only to incumbent generators and Gaelectric are of the view that this should change. Forward contracting obligations (FCO's) should be applied to any generators capable of exercising market power, either in the physical market or forward markets.

While FCO's should succeed in eliminating the incentive to increase prices in the physical markets, generators will be indifferent to prices increasing above the agreed strike price for FCO volumes. However uncontracted volumes will provide an incentive for prices in physical markets to increase.

This will require careful consideration by the regulators in choosing not only the participants with whom FCO's should be agreed, but also the volume they should be contracted for.

The scenario analysis undertaken should inform the position of the regulators with target RSI and HHI metrics set for the physical market. FCO's should then be applied to generators who exceed the pre-defined market power thresholds up to the volume such that market power in the physical markets is below the target benchmark.

***- What should be the volume and product definition of forward contracting required from a market participant who falls under the FCO?***

FCO products should offer similar granularity to those currently on offer (Base-load / mid merit / Peaker). This will be important as dominant players market share declines while their RSI may increase during periods of low capacity due to dispatchability therefore product flexibility.

We remind the SEM Committee that the market dynamics will change over the coming decade and more flexible, fast acting plants will develop for which baseload only products are inappropriate.

***- How should the price be set for the volume contracted under the FCO?***

Gaelectric support some element of a market focus to price setting, particularly where the quantity of contracts on offer is high and competition can develop. We do however support that the RAs continue some involvement on the pricing and for obligated forward contracts it seems appropriate that the RAs can influence the price subject to an analysis being undertaken which ensures that this does not impact on competition or liquidity in market based forward timeframe.

***- What type of access should buyers have to FCO volumes?***

Gaelectric are of the view that Forward Contract Obligations should not be limited suppliers supplying to the retail market with a high market share. They should be distributed via a more market based approach whereby any suppliers should be eligible to receive a contract.

***Q17. Which of the balancing market mitigation options do you consider most appropriate, i.e. MMU-triggered intervention, automated intervention via a PST or via the "flagging and tagging" approach, or prescriptive bidding controls? Where feasible please relate the preferred approach the five key principles for this workstream of effective, targeted, flexible, practical and transparent.***

Gaelectric are concerned about the flexibility of each of the options presented. As alluded to earlier, there will be greater opportunity costs and more difficulties in recovering start-up costs and this must

be factored into the interpretation of SRMC when analysing participants bidding behaviour. We do not therefore support any form of prescriptive bidding controls.

We are further concerned that ex-post intervention could impact the efficiency of the outcome for other participants and this effect should be avoided.

Gaelectric are of the view that there should be an option for balancing market regulation similar to those proposed to DA/ID market regulation where bidding principles are set out for participants with those possessing market power subject to greater scrutiny. Gaelectric would support the extension of this approach to the balancing market. A bidding principles approach with targeted market monitoring would allow for targeted, flexible mitigation measures to be applied to participants with structural market power while preventing over-regulation and allowing generators to recover their costs and for natural competition to develop. The implementation of REMIT will also increase the transparency of market participant's interactions which should also help the market monitoring unit when analysing market transactions.

Gaelectric therefore support the development of a market abuse condition for Balancing Market regulation which would likely achieve a balance between the risk of over-regulation whilst also ensuring participants are faced with examination of irregular outcomes.

Gaelectric also request that the SEMC come forward with more detail on the purpose of Administered Scarcity Pricing with the Balancing Market. It seems that through the introduction of ASP, the SEMC is placing a value on scarcity once a pre-determined reserve margin has been breached. This should provide an appropriate market signal to participants should the reserve margin be breached. Gaelectric are of the view that the market should be allowed some scope to send signals to participants to prevent the reserve margin being breached in the first instance. This would serve to increase security of supply and, with targeted market power mitigation measures, prevent participants with structural market power overly influencing the price. Given this and the need for DA liquidity, Gaelectric do not believe that limiting balancing bids/offers to strict SRMC metrics is an appropriate or efficient manner in operating the market.

***Q18. Which ex-ante bidding/offer market power mitigation options for the DA and ID markets do you favour – bidding principles and ex-post assessment, or ex-post assessment only? Where feasible please relate the preferred approach to the five key principles for this workstream of effective, targeted, flexible, practical and transparent.***

Gaelectric strongly advocate for a market abuse condition to be introduced into the licence for generators with those generators deemed to possess market power subject to additional reporting requirement to the MMU. Since the Day Ahead/Intraday markets run on an unconstrained basis, the increased competition and lack of local market power should drive market towards more competitive outcome. With the back-up of REMIT and increase accessibility and transparency, the MMU should have no difficulties accessing data investigate suspicions of anti-competitive behaviour.

Within this there should be adequate scope given to the definition of opportunity cost such that it will encompass potential interactions with DS3 and the increased risk associated with generators (particularly intermittent renewables) in participating in the RO.

It is clear that limitations associated with EUPHEMIA may require that generators to bid in innovative ways to ensure their start-up and no load costs are adequately captured. Should an overly prescriptive bidding regime be introduced at the Day ahead/Intraday timeframe it may limit a generators ability to reclaim these costs and therefore create a needless missing money problem. This proposal is not equivalent to supporting market abuse, but rather the fair and equitable opportunity to ensure costs are met in a competitive market.

With this in mind, Gaelectric are of the view that Option 4; the inclusion of a market abuse condition for participants with greater requirements placed on those with market power to report to the MMU. The inclusion of the market abuse condition in the licence allows adequate scope for action on the part of the regulators should uncompetitive behaviour on the part of a market participant be proven. If implemented correctly, Option 4 will comply with each of the 5 principles which the SEMC have set out.

Option 4 would result in licence changes that would need to be consulted on before I-SEM go live.

***Q19. If ex-ante bidding principles were to be adopted, how flexible should they be and how would this be facilitated/enshrined in their wording?***

Gaelectric do not support the development of ex-ante bidding proposals given that we deem these to be a wholly inappropriate intrusion by the RAs in the market.

***Q20. Under what structural conditions or in combination with other market power mitigation measures should vertical ring-fencing of the incumbents be relaxed?***

Similar to our views on other market power mitigation measures, transparent structural criteria should be decided in the form of index scores that can apply to participants all along the supply chain. All

utilities should be subject to vertical integration should they build up sufficient market share to exercise market power. Similarly, vertical integration should be relaxed in cases where a utility no longer possess the market share to warrant ring-fencing of their generation and supply companies.

#### 4 CONCLUSION

Gaelectric would like to take the opportunity to thank the SEMC for the opportunity to respond to the consultation on market power mitigation. As illustrated by the modelling undertaken by the SEMC, the potential for generators to possess structural market power, once the I-SEM goes live there are considerable periods during which some participants will possess structural market power. This will require effective, flexible and targeted market power mitigation measures to be implemented in the market to those participants of concern. As outlined above, Gaelectric support the targeted application of bidding behaviour of reporting, Forward Contract Obligations and Vertical Ring-fencing on specific market participants should their market share exceed pre-agreed metrics.

Similarly for the balancing market, Gaelectric are of the view that provision for the application of market power mitigation measures should be in line with a theme of market abuse conditions being introduced across the board into licences. Consideration should also be made of the connection between financial markets (Forwards/FTR's) and the incentive this may give to structural market power holders to influence prices in the physical market for uncontracted volumes.

We look forward to these issues being addressed in the upcoming decision paper and welcome further engagement with the regulators on these issues.