

INTRODUCTION

Flogas welcomes the opportunity to respond to the SEM Committee Discussion Paper SEM-20-045 titled "Market Power and Liquidity." (the "Discussion Paper"). The below sections detail Flogas' responses to the SEM Committee's call for evidence as request in the Discussion Paper.

MARKET POWER

I. Is the electricity market sufficiently contestable that market participants are free to enter and exit the market?

Flogas are of the opinion that the electricity market is sufficiently contestable that market participants are free to enter and exit the market. While barriers to market entry remain low for new market participants, Flogas would emphasize that smaller, less mature market participants do not have the same opportunities to manage wholesale risks as larger participants.

II. Do you agree with the SEM Committee's intended approach of not further reviewing ESB's current ring-fencing arrangements at this time, and outline rationale for agreeing with the SEM Committee's intended approach? If not, please outline the basis for why ring-fencing arrangements should be reviewed and either partially/entirely removed.

Flogas agree with the SEM Committee's intended approach of not further reviewing ESB's current ring-fencing arrangements at this time. Flogas would like to echo earlier views of market participants in the SEM-16-024 decision paper. These views have not changed. The protection and promotion of forward liquidity and transparency should be at the core of the decision to remove current ring-fencing arrangements. The removal of ESB's current ring-fencing arrangements would only be viable if a FCSO plus MMO was to be implemented along with the Directed Contracts arrangements. However, this is not currently in line with the SEM Committee's approach of minimal intervention in forwards market.

III. Should the SEM Committee continue to use Directed Contracts as a mechanism for mitigating the potential use of market power in the SEM? If not, please provide rationale for not applying Directed Contract obligations, and detailed alternative options for mitigating potential market power.

Yes, Directed Contracts should remain as a mechanism for mitigating potential use of market power. As well as effectively mitigating potential use of market power, Directed Contracts have been pivotal in providing forward liquidity market breadth and market resilience during the current pandemic where over the last number of months liquidity has been low.

IV. Assuming the SEM Committee's continuation with Directed Contracts, would you be in favour of the Directed Contracts price being determined by a competitive auction? If yes, how should the auction be designed (i.e. what should auctions be trying to achieve/avoid in the proposed design for Directed Contracts)? If not, please provide detailed alternative options (e.g. should the RAs amend the DC pricing formulae?).

No, Flogas are of the view that the existing approach to Directed Contracts should continue, however we would support amendments to both the DC pricing formulae and allocation methodology. Also, the existing DC allocation methodology raises potential equity issues. Flogas would support a cap on DCs that can be purchased by Electric Ireland and would welcome further consultation on the DC pricing and allocation methodologies.

- V. Assuming the SEM Committee's continuation with Directed Contracts, do you agree that the Market Concentration Model (as described in SEM-17-06413) is an appropriate mechanism for determining Directed Contracts volumes? If not, what amendments/alternative approaches should be taken by the RAs to determining DC volumes?

Flogas would support a broader discussion of the Market Concentration Model as part of the review/ consultation of the Directed Contracts Allocation and Pricing methodologies.

- VI. Are there any specific reasons for which a market participant has not taken up their allocated Directed Contracts eligibility for a given period? (e.g. The DC price did not reflect your expectations/ already had a hedging strategy for the period in question, have access to alternative hedging products, etc.).

Yes, on a number of occasions, Flogas / Budget Energy did not take up our allocated volume as we calculated the DC prices as excessive.

FORWARD CONTRACTING & LIQUIDITY

- VII. In the event of no regulatory interventions regarding forward contracting in SEM, how do market participants envisage the forwards market for SEM evolving in the short, medium and long term?

Flogas welcome the positive organic measures in the forwards market in recent years and are hopeful that in the long term, these will lead to increased liquidity and competition. However, Flogas would like to highlight the relatively high cost associated with trading on these platforms. Also, we note high transaction costs arising from bid-ask spreads being observed in the market on a number of occasions. In the short and medium term, we would have concerns about the liquidity in products outside of the Baseload offering. For example, there is difficulty in securing a hedge against the Mid-Merit 1 periods outside of Directed Contract allocations. The availability of a variety of hedge products to manage risks across different timeframes is an important attribute of the forwards market.

- VIII. What actions could be taken by market participants to create greater forward contracting opportunities? Is there scope for natural growth or innovation in the forwards market, and if so, how can this be progressed? Can renewable supported generators offer hedges?

Yes, Flogas believe that there is scope for natural growth and innovation in the forwards market, however natural growth will only be realised in the long term. Flogas are of the opinion that the forwards market would benefit from a broader variety of innovative product offerings supported by all market participants including renewable supported generators. For example, offering shaped or sleeved hedges.

IX. On what public interest grounds should the SEM Committee decide to intervene in the forwards market in the future? In the event that the SEM Committee decide to intervene in the future, what impacts should be considered prior to intervening in the market?

Any proposed intervention should consider the impact that an increase in forward liquidity will have on increasing competition and lowering hedging costs, along with providing for greater levels of transparency.

We hope that you find these comments of use and submit them for your consideration. We would be pleased of course to discuss any aspect of our responses should you so wish.

For and on behalf of Flogas