



Response to SEM Committee Information and Consultation Paper SEM-21-065

September 2021

Bright is a renewable electricity supply company, established in 2019 with have a clear vision to make energy cleaner, simpler and fairer for consumers, both North and South.

We welcome the SEM Committees decision to alter the basis on which Directed Contracts are allocated. As a new market entrant, we have found it extremely challenging to manage our trading risk in the current market. We've set out below the major issues we have identified to date.

1. The volumes available on the Tullett and Marex Platforms are limited. These markets are effectively a sellers' market with generators deciding what volume they will offer (if any) and at what price. Demand invariably exceeds supply and price is controlled by the seller. The commercial interests of the vertically integrated suppliers are best served by ensuring that new suppliers must pay high prices to manage their risk. Our experience to date is that the risk premia demanded by sellers results in prices which are uneconomic for smaller suppliers.
2. Our Directed Contract allocations are extremely low.
3. Clean spark spreads have increased significantly.

The consequences of the above are serious in that they hinder our ability to compete in the market and force us to carry a higher level of trading risk than we would wish while larger vertically integrated suppliers can hedge internally with no transparency on forward pricing. We are of the view that the current lack of liquidity available to new and smaller suppliers constitutes a barrier to entry. A situation where new suppliers can technically enter the market but are prevented from growing due to inadequate hedging options is essentially a barrier to entry.

The SEM Committee is correct in concluding that recent adverse market developments have a greater negative impact on smaller suppliers. It is clearly in the interests of consumers that competition be promoted, and that smaller suppliers be supported and afforded the facility to hedge at economic prices.

Given the scale of the problems facing smaller suppliers we are disappointed that the change being put forward by the SEM Committee is so minor. If an extra 3% of the Directed Contract volumes was to be allocated to the small suppliers who have contracts in place with ESB Networks it gives them an additional 0.5% of total Directed Contract volumes each and the largest five suppliers still retain 87% of the total directed contract volumes.

The average annual sale volumes of the six small suppliers is probably about 550 GWh per supplier. We estimate that the impact of implementing the SEM Committee proposal would increase the directed contract allocation from about 80 GWh to 100 GWh for the average small supplier. In other words, the proportion of sales volume covered by directed contracts would increase from 14.5% 18.2%. This does not give us a meaningful improvement in our ability to manage our trading risk, nor resolve the issues we have identified above.

We are calling on SEM Committee to make meaningful change to the basis of allocating directed volume contracts. It is unfair to new and smaller suppliers that the legacy positions of the larger incumbent suppliers are protected by an unjust system of allocating directed contract volumes. We are asking SEM Committee to take this opportunity to limit the barriers to entry and level the competitive playing field between larger and smaller suppliers by taking appropriate action. We propose that a fairer basis would be achieved by allocating a certain percentage of the overall directed contract volumes on an equal basis between suppliers who have directed contract agreements in place with ESB Networks, with a proviso that the directed contract volumes allocated cannot exceed your actual sales volumes. This would have a minimal negative impact on the larger Suppliers but would have a significant positive impact for the new and smaller suppliers.

We are happy to engage with SEM Committee to discuss our concerns.