

INTRODUCTION

Flogas welcomes the opportunity to respond to the SEM Committee Discussion Paper SEM-21-065 titled "Amendments to the Allocation of Directed Contracts." (the "Discussion Paper"). The below sections detail Flogas's response to the SEM Committee's question as requested in the Discussion Paper.

AMENDMENT TO DC ELIGIBILITY MODEL

Do you agree that the proposed amendment to the DC Eligibility model should be an enduring arrangement? If you disagree, please set out your rationale.

Flogas commends the positive steps taken to deal with equity concerns within the forwards market and agrees that the proposed amendment should become the enduring arrangement. However, the realised increase arising from this redistribution is trivial and, in any case, the small suppliers would receive a proportion of this volume through the supplemental auctions.

Flogas wish to draw on previous comments from our response to the SEM-20-045 consultation paper and would re-emphasize that smaller, non-vertically integrated market participants do not have the same opportunities to manage wholesale risks as larger participants. This issue raises concerns around equity. Small participants have minimal market share and therefore, allocations in Directed Contracts are minimal.

Furthermore, Flogas note that in recent DC rounds, there have been no baseload and very little mid-merit volume offerings, particularly across the winter period, when suppliers face their highest risks. Liquidity on other platforms outside of the Directed Contracts also remains poor. In addition, there is a relatively high cost associated with trading on the other forwards platforms.

While the risks are proportionally reduced for smaller participants, the forwards market should provide an effective route for mitigating these risks. Flogas would support a cap on DCs that can be purchased by Electric Ireland and other vertically integrated suppliers. We would also support lowering the target HHI so that it is more in line with the UK HHI. Flogas would welcome further consultations to review the DC market concentration and allocation methodologies.

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.