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1st March 2023

RE: SEM-23-015 – Amendments to the Duration of the Directed Contracts Primary Subscription Window (the "Consultation")

Dear Market Modelling Group and Kevin,

Bord Gáis Energy (**BGE**) welcomes this opportunity to respond to the Consultation on Amendments to the Duration of the Directed Contracts (**DC**) Primary Subscription Window.

We support the proposal in the consultation to make the current operational six-day Primary Subscription Window for DC Rounds into an enduring arrangement. We agree with the rationale outlined for its introduction in 2022 to mitigate the impact of commodity price volatility seen since the economic post-pandemic recovery and the start of the armed conflict in Ukraine. The extended duration of the Primary Subscription Window in the last 3 DC rounds has given Suppliers options to mitigate some of the fuel price volatility risks, should they wish to do so. The changes have been effective and have been successful in that Suppliers have now adjusted their approaches to participating in DC Rounds on foot of the new 6 day approach and in our opinion it is working well. Please see answer to question 1 below.

We do not support however the new proposal in this consultation to oblige eligible participants to purchase equal amounts on each of the days in the DC Primary Subscription Window (i.e., 1/6th of their total eligible volumes each of the six days). We believe that the proposed spreading of volume evenly in each day of the window:

- will undermine Suppliers' in-house risk hedging activities which may negatively impact efforts to keep cost to customers down, and
- can impose an unnecessary additional trading burden on these participating Suppliers, again negatively impacting efforts to keep cost to customers down.

BGE is open to consideration of sharing or splitting the total eligible subscription volumes between the two weeks of the Primary Subscription Window (e.g., 50/50 split per week of the total eligible volume) but the choice of subscription date and volume, as it is today, must be left with the Supplier. This will best enable Suppliers' internal processes for price risk hedging to operate effectively and keep costs for customers as low as possible. Please see answer 2 below.

Please do not hesitate to contact me should you need to follow-up on any related issues to the above.

Yours sincerely,

Ian Mullins
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

ANNEX – Consultation Questions and BGE Answers

1. **Do you agree that the proposed amendments to the duration of the DC Primary Subscription Window should become an enduring arrangement? If you agree or disagree, please set out your rationale.**

BGE agrees that the proposed amendments to the duration of the DC Primary Subscription Window should become an enduring arrangement. The ongoing conflict in the Ukraine maintains the risk of elevated volatility in the commodity markets, notwithstanding the recent fall in commodity pricing as the markets exit the winter 2022/23 season following favourable climatic conditions and benign Asian demand for LNG. Uncertainty remains as to the demands for energy commodities in winter 2023/24 and uncontrollable forces (e.g., cold weather and strong Asian economic recovery) in that period which could again increase pricing volatility levels. As the risk drivers look set to continue for winter 2023/24 then the rationale behind the original change to the DC Primary Subscription Window in DC Round 18 remains valid. On this basis the need for the extension to the duration of the Primary Subscription Window from three business days to six business days (of three business days in one week and the other three business days in the following week) to mitigate unprecedented, sustained, and significant volatilities in commodity markets also endures.

Participants in the last 3 DC Rounds[1] have become familiar with the change in the process and have adapted to applying it within their DC Round activities. In the absence of clear reason to revert to the former Primary Subscription Window duration of three business days and given the likelihood of commodity price volatility to increase again in the coming winter period, BGE believes that the current operational change to the duration of the DC Primary Subscription Window should become an enduring arrangement.

2. **Do you agree that market participants should be obliged to participate during each day of the Primary Subscription Window in a given DC Round, i.e., suppliers would be eligible to purchase only 1/6th of their allocated volumes during each day of the six-day Primary Subscription Window? If you agree or disagree, please set out your rationale.**

BGE does not agree with the new proposal in this consultation to oblige eligible participants to purchase equal amounts on each of the days in the DC Primary Subscription Window (i.e., 1/6th of their total eligible volumes in each of the six days). The proposed spreading of volume will undermine Suppliers' in-house risk hedging activities and impose an unnecessary additional trading burden on these participants.

We believe that Suppliers should be left with the choice as to when to subscribe to their eligible volumes in the DC Rounds as they are today and not be mandated to purchase daily power volumes across the DC Primary Subscription window. Our rationale for this position is two-fold:

- Suppliers typically look to diversify the commodity purchasing risk where possible to ensure the price at the point of delivery of the power remains at or close to the contracted price from the DC Rounds and contributes to optimum pricing of supply to customers. As there is not a liquid forward power market available for SEM, then Suppliers often seek to hedge much of the pricing risk of the contracted DC Round volumes via the gas forward market having converted the awarded power contracts into the equivalent gas and carbon components. The gas forward market is a highly liquid market where volumes are traded in lots. The total size of the eligible power volumes awarded to Suppliers in the DC Rounds can generally transition to tradable lots sizes in the gas forward market. However, a division of the power volumes contracted in any day of the DC Round into volumes significantly smaller than the eligible DC volumes can make the equivalent gas forward volume impossible to trade on the gas forward market. This would prevent the contribution hedging brings to keeping down the cost for customers.
- We also believe that mandated actions should be avoided that would add to the administrative burden for Suppliers. Suppliers typically capture the awarded volumes for the DC Round into internal

[1] DC Rounds 18, 19 & 20

trade capture systems and can then also use those systems to effect any in-house risk hedging strategy (see sub-point in paragraph above). The DC Settlements process from ESB however means that the exact trade details are not known until the day following the DC Round subscription. This usually results in internal administrative corrections by Suppliers to their systems and risk exposures. Should the proposal proceed to mandate a spreading of volumes across each of the days in the DC Primary Subscription Window, then this workload can be increased six-fold, adding to the administrative burden for the Suppliers and increasing the risk of error in risk mitigation. Risk hedging mismatches due to administrative faults could result in undermining the downward pressure on costs for the customers.

BGE is open to consideration of sharing or splitting the eligible volume for Suppliers into equal volumes in each of the two weeks of the DC Primary Subscription window (i.e., 50/50 split of volumes across the two weeks of the window) but the subscription day choice of the whole volume for the week in question should remain with the eligible Supplier. This approach in our opinion will offer a measure of flexibility for ESB and Suppliers without undermining the Suppliers' choices as to when to contract the DC volumes.