

Joe Craig  
Utility Regulator  
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26 March, 2015

Dear Joe

**Response to the ISEM Forwards and Liquidity Discussion Paper (10 February, 2015)**

We are happy to respond to this discussion paper on behalf of our 550 members ranging from our largest energy users to SME manufacturers across NI.

We see significant problems in the way in which the current SEM arrangements around Forwards operate which is one of the fundamental reasons why we endure significantly higher prices than most of Europe. We have been signalling this to the Utility Regulator for some time and forms part of our “Call to Action for Manufacturing” recently launched with the ETI Committee at Stormont. Fixing this issue now, and not simply waiting to a new market design, would bring very positive outcomes for all electricity consumers (from domestic right through to large I&C customers) and be a significant boost to competitiveness in our economy.

The majority of Manufacturing NI members require retail products with price certainty to insulate them from volatility in wholesale energy markets. We recognise that suppliers meet this demand for fixed or low volatility tariffs by hedging through forward markets.

Liquid, competitive and transparent forward markets are therefore critical to enable suppliers to hedge efficiently to achieve competitive retail prices and products which customers, like our members, ask for.

A healthy forward market should enable suppliers to:

- a. Contract forward at reasonable pricing levels, to enable them to offer fixed price tariffs and contracts to customers at competitive prices
- b. Manage the ‘shape’ of their portfolios
- c. Purchase forward contracts providing flexibility to their customers
- d. Contract forward to avoid excessive price premiums and credit costs

**Forward market liquidity in current SEM**

We understand that evidence exists that proves the current forward market in SEM is highly illiquid and we would strongly encourage the SEM Committee to take immediate action to address this to

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facilitate strong retail competition through the availability of hedging products to suit both customers and suppliers needs.

In addition, the significant apprehension about the outcome of the current market modelling work is preventing our members and others from achieving best value in the market in the medium term. Suppliers are not offering or are insisting on break clauses on long-term contracts locked in now when commodity prices are low and as a result the SEM price is low. This is preventing customers from getting supply which is comparable to competitors elsewhere in Europe and will further erode the islands competitiveness in the medium term.

You must take immediate action to resolve these issues. It is the biggest single gain which can be achieved for customers and would send a strong signal to customers that both regulators are working in their interests and bring confidence to the design process for the new ISEM market.

### **Forward market liquidity in ISEM**

1. Recent ESRI research warns of a potential price premia on forward contracts due to the increased risk of selling forward contracts under the ISEM. It also highlights competition and forward liquidity problems due to continued market power. These issues are of significant concern to our members and we therefore re-iterate our request for an independent 3<sup>rd</sup> party review of the ISEM design.
2. We welcome the SEM Committee's recognition of these issues in your discussion paper. We believe that a forward exchange and extension of market power mitigation measures to the forward market should be progressed.
3. As ESRI confirmed, the dominance of ESB in the SEM (and ISEM) is very unhealthy. It is our view that this ESB dominance is the source of the current problems in the forward contract market and results in consumers paying more than they should. ESB are in effect a monopoly and should be mandated to sell all of their expected output forward to promote liquidity in SEM and in the future ISEM.
4. A liquid forward market is essential to promote retail competition and provide the retail products required to our members. Therefore we believe that measures to promote a healthy forward market should be actively progressed immediately and not delayed until the start of the ISEM.

As previously communicated, there is little confidence from customers in the process and likely outcomes from the ISEM project. We urge both Regulators to take action on liquidity now and not wait for ISEM. This will bring significant customer confidence to your work on ISEM.

Yours sincerely,



Stephen Kelly  
Chief Executive