

6th May 2011

Mr Andrew Ebrill,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24

Mr. Colin Broomfield,
The Utility Regulator,
Queens House,
14 Queens Street,
Belfast,
BT1 6ED

RE: 2011/12 Contracting Process, including PSO Related CfDs

Dear Andrew, Colin

Bord Gáis Energy (BG Energy) very much welcomes the Regulatory Authorities (RAs) clarification on the provision of DC and PSO related hedge contracts for the coming year. The importance of these hedge products for the sustainability and further development of competition in the retail electricity market cannot be under-estimated. Given the dynamic nature of competition in the Irish market it is imperative that liquidity in the wholesale market is sufficiently flexible and robust to allow retailers to adjust their portfolio on an ongoing basis. Hence it is also imperative that the forwards market which provides such liquidity is credible, transparent and a legitimate mechanism where all parties can trade in good faith. This will be difficult to achieve and will require participation from all stakeholders.

Given the recent deregulation of the retail electricity market, BG Energy believes that it is increasingly important that the RAs monitor activity in the wholesale market and forward market more closely to ensure that competition is not being hampered indirectly and that it is sustainable in the long-term. Specifically, BG Energy would urge the RAs to monitor the pricing of and bidding for unregulated hedge contracts to the same extent as it does in the spot market, to ensure that the reserve prices and bid prices are conducive to a competitive market – being both transparent and non-discriminatory – and provide an effective tool to support competitive offers for customers.

In section 3.1 of the consultation/information paper, the RAs refer to a ‘trading platform’ which it suggests “is available for any market participant who wishes to provide and trade in CfDs”. BG Energy is aware of a platform that is in development by ESB Power Generation in conjunction with Tullet Prebon, but it has not yet been made available to the wider market for testing or application. Furthermore, although a market platform which provides greater flexibility and transparency to the market is very welcome and indeed warranted, this platform

should be developed in consultation with industry as it must have broad approval of those parties who will use it if it is to have the desired effect in improving market liquidity. Such a platform should be an investment for the market as a whole, and not solely a mechanism to progress the reintegration of the market incumbent. To this end, BG Energy would welcome greater regulatory involvement in conjunction with all market participants towards the development of an effective forward market which provides flexibility, transparency but also true liquidity in terms of choice, price and volumes.

With respect to the specific questions posed as part of the consultation paper, BG Energy is in favour of the proposal to offer PSO contracts on a quarterly basis but would also support the retention of monthly contracts to provide optimum flexibility and a balance for retailers. In terms of the mix of PSO contracts, BG Energy would welcome the provision of greater flexibility and shape between the products offered. In particular, the provision of more peaking products as well as separate weekday and weekend products.

Finally, BG Energy recognises that a solution to liquidity in the SEM is not a straight forward or simple solution. However, the expected benefits of competition and deregulation will be eroded if a liquid and competitive forward market is not developed to complement the spot market. The establishment of what is now widely recognised as a credible spot market was achieved through extensive consultation with all market stakeholders. Similar efforts for the establishment of a forward market is needed both for the further development and sustainability of retail market competition but also as a means of enabling the SEM to integrate with its neighbouring markets.

I hope you find the above comments useful. Please do not hesitate in contacting me should you have any queries or further comments.

Yours sincerely,

Jill Murray
Manager Regulatory Affairs - Commercial
Bord Gáis Energy

{by e-mail}