

Mr. Kevin Hagan  
The Commission for Energy Regulation,  
The Exchange,  
Belgard Square North,  
Dublin 24.

Dear Kevin,

**RE: Draft Decision on SEM Market Power and Liquidity**

Bord Gáis Energy (BG Energy) welcomes the SEM Committee's (SEMC) Draft Decision on Market Power and Liquidity. A decision on this issue will help provide a level of clarity and ultimately stability in the market which, given the wider uncertainty for the future of the market, will be a positive development for all interested stakeholder.

The SEMC's Draft Decision is, in BG Energy's view, a prudent approach at this time given the only very recent liquidity and competition developments as well as the impending wider changes to the market.

In light of these changes, it is understandable that ESB is refocusing its operations and interests within the context of a regional market. However, until such time as a decision is made on how the Irish market will integrate with the wider European market and an analysis is completed to understand the impact of these changes on the SEM, it would be premature and imprudent to bestow further changes and uncertainty on the market at this time. The SEMC has recognised these risks in its Draft Decision. It would be useful if the SEMC could go further in its analysis by providing a steer as to how these risks will be considered in the wider regional integration project and outline if and when there may be a further review of market power in the SEM.

Given the mandatory nature of the SEM pool, liquidity in the wholesale market itself is quite high. However this liquidity is not replicated in the hedge market which, as BG Energy has outlined previously, is imperative for retail market competition, particularly in a high churn market. BG Energy concurs with the SEMC's preference for the "organic development" of liquidity in the SEM. In order for this to evolve it is important that existing participants and potential new entrants can have confidence in the

market and its environment. There is interest from some non-Irish based institutions in the Irish contract market. This would improve liquidity and competition in the wholesale market and is ultimately a positive outcome for all stakeholders. Therefore it is imperative that change and risk in the market is minimised at this stage while participants work collectively to improve the operation of the market. With that in mind, BG Energy is of the view that any change, particularly ESB's 'Partial Vertical Integration' proposal, would hamper the organic development of real liquidity in the SEM and disrupt the market based initiatives which industry are currently working towards.

With respect to the ESB's 'Partial Vertical Integration' proposal, there is very little detail behind the assertions made and outlined in the consultation paper. An in-depth analysis quantifying the suggested benefits, how they would be distributed to customers, as well as a detailed impact analysis on the wholesale market should be conducted as part of a comprehensive consultation on the proposals. It is difficult for participants to fully understand the proposal, its implications, and therefore comment meaningfully and objectively with the current level of detail. Therefore, BG Energy cannot support any such proposal at this time.

There was a suggestion by the ESB in its response to the SEMC's initial consultation paper that a timescale should be provided for the removal of vertical ring-fencing. BG Energy agrees that a level of transparency and clarity should be provided if the SEMC anticipates a revision of its decision, however such a timescale should be provided alongside a detailed list of objective criteria for reintegration. This could take the form of a roadmap similar to that provided for in the deregulation of the retail markets in the Republic of Ireland. Further to the paragraph above, any subsequent consultation(s) should include a detailed impact analysis on both the retail and wholesale markets.

In its response to the SEMC the ESB also suggests that it will continue to make losses in its supply business if it remains vertically ring-fenced. This is not, in BG Energy's view, a logical conclusion. ESB Electric Ireland purchases its power and hedge contracts in the same markets as all other suppliers competing in the SEM. Therefore it is difficult to apportion causality completely to the separation of the ESB's divisions. It is more likely that such losses correlate with the supply businesses pricing structures and the aggressive nature of competition over the past number of years

Finally, the Draft Decision paper refers to the future role of the recently approved Regulation on Energy Market Integrity and Transparency on the governance of the SEM. It is likely that this regulation will also have implications for the governance of the OTC platform and the role of the Regulatory Authorities (RAs) in monitoring the wholesale and contracts market. It would be useful if the RA's considered hosting a workshop at their earliest possible convenience to discuss the Regulation and to share, with stakeholders, the RA's view on how it will/may change the role of market monitoring in the SEM and the wider European market.

I hope you find the comments above helpful in finalising your decision. In the meantime, please do not hesitate to contact me if you have any questions or require any further detail on either this response or our previous responses.

Yours sincerely,

Jill Murray

Manager, Regulatory Affairs – Commercial  
Bord Gáis Energy

{by email}