

Kevin Hagan  
Commission for Energy Regulation  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24  
Email: [khagan@cer.ie](mailto:khagan@cer.ie)

Andrew McCorrison  
Northern Ireland Authority  
for Utility Regulation  
Queens House  
10-18 Queen Street  
Belfast BT1 6ED  
Email: [Andrew.McCorrison@uregni.gov.uk](mailto:Andrew.McCorrison@uregni.gov.uk)

9<sup>th</sup> March 2012

**Re: Consultation on Contracts for Differences – Options for Directed Contracts 2012/'13, SEM-12-009 (“the Consultation”)**

Dear Kevin, Andrew,

Bord Gáis Energy (BG Energy) welcomes the opportunity to respond to the Consultation on options for directed contracts for 2012-2013. Directed Contracts (DCs) are crucial to the promotion of competition and development of liquidity in the Single Electricity Market (SEM). The proposals, particularly the proposal to hold DC auctions on a more regular basis in the Consultation, are reflective of the flexibility required by suppliers to constructively (re)adjust their portfolios for efficient risk management. These proposals will enhance utilities' risk management strategies, increase competition and maximise liquidity to the benefit of SEM participants and ultimately final consumers. BG Energy's viewpoints on the specific questions raised in the Consultation are discussed in turn below.

**1. The Process / Timeline for Offering Directed Contracts**

The suggestion in the Consultation to hold DC subscription windows every quarter with DCs being allocated on a rolling basis is welcomed by BG Energy. Providing optimum flexibility through increased opportunities for market participants to regularly (re)adjust their market positions in response to practical realities, is central to maintaining the competitiveness of the SEM and driving competition in the retail markets.

One drawback of rolling auctions as compared to annual auctions is the reduced certainty of knowing volume availability in advance of the tariff year. However, the expected increase in DC volumes for the coming year should provide scope to provide both certainty and flexibility to the market diluting the effect of such reduced certainty of volume availability. BG Energy is therefore in favour of the regular quarterly auctions with rolling allocation of DCs, as proposed in the Consultation.

## **2. The Pricing Structure for Directed Contracts**

Given the proposed change to allocate DCs on a quarterly rather than on an annual basis, BG Energy agrees that it is also logical to update DC pricing accordingly. While there are benefits to both the Regression Formulae and the direct Plexos modelling options as stipulated in the Consultation, BG Energy believes that the direct Plexos modelling (option b) would be more appropriate to apply to quarterly auctions. The Plexos option appears to be the more practical solution and should enhance market participants' confidence in risk management actions performed on a quarterly basis.

DCs serve to support a sustainable liquid and increasingly competitive forward market which complements the SEM spot market as a powerful market power mitigation tool. End consumers will ultimately benefit from the price certainty, competitiveness and stability which arise from the process. DC auctions on a quarterly basis as proposed in the Consultation and pricing on the basis of quarterly Plexos runs will be a positive step in maintaining and enhancing a liquid, competitive SEM. BG Energy welcomes continuous improvements in the operation of the forwards market and looks forward to continued engagement on this issue with the Regulatory Authorities in the future.

I hope that you find the above comments useful and if you have any queries, please do not hesitate to contact me.

Yours sincerely,

Julie-Anne Hannon  
Regulatory Affairs – Commercial  
Bord Gáis Energy

{By email}