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RE: Consultation on Incentivisation of All-Island Dispatch Balancing Costs

Dear Jamie, Billy

Bord Gáis Energy (BG Energy) welcomes the Regulatory Authorities' (RAs) consultation on the incentivisation of all-island dispatch balancing costs. In general, provisions which impose commercial sensitivities on the TSO, thereby more closely aligning their interests with those of the users of the system, are to be supported. BG Energy looks forward to similar initiatives being implemented with respect to transmission losses and ancillary services in the near future.

Notwithstanding this, BG Energy is of the view that the Transmission Asset Owner (TAO), as the party with a licensed role for ensuring that the transmission system is developed and maintained and managing the transmission capital and maintenance work programmes, also has a role in containing and reducing constraints. To this end, BG Energy would suggest that certain of these incentives should also be applied to the TAO if they are equally to contribute to the efficient maintenance and development of the system such that they minimise constraints.

The remainder of this response focuses on the specific areas consulted on in the latest paper.

1. Applicability of an All-Island DBC Incentive Mechanism in the Current Industry Structure

Recognising that the SEM is in a period of major development and change, BG Energy is still of the view that certain reasonable incentives, placed on both the TSO and TAO, would be effective in trying to minimise the cost of grid maintenance and developments on users of the system and customers. To this end, the proposals presented in the latest consultation paper are welcomed considering the development plans scheduled over the coming years.

2. Introduction of a DBC Incentive

BG Energy agrees with the principle that if an incentive mechanism is to be effective, it must be controllable by the party being incentivised. It is for this reason that BG Energy has proposed that the incentive scheme be expanded to include the TAO, who through their contractual arrangements with the TSO and under licence, have an obligation with respect to the maintenance and development of the grid.

On the basis of incentivising only 'controllable costs', BG Energy agrees with the suggested provision of an ex-post review of the DBCs that were budgeted for and those that are actually incurred. Any such review must be objective and transparent such that it provides confidence in the regime and its ability to spread the risk of DBCs proportionately between all stakeholders. The ex-post review should consider wider economic changes as provided for in the consultation. In terms of the grid development plan and published outages programmes, changes in these parameters and the impact they have on DBCs should only be considered to the degree that they have been impacted by factors outside of the control of EirGrid, such as planning issues and un-forecasted generator outages that do not relate to changes in work schedules/plans from the TSO/TAO.

If the incentive mechanism is to be credible a robust monitoring and reporting programme must be implemented. This will be referred to further in section 3 below, but given the overall significance of DBCs and the cost they impose on users of the system, a regime to continuously monitor movements to the scheduled and budgeted programme should be implemented alongside the incentive regime.

With respect to the relative split between EirGrid and SONI, it seems somewhat arbitrary on the face of it. For instance, EirGrid has no direct control or responsibility over constraints in Northern Ireland which are under the control of SONI. On that basis, if a DBC penalty in a given year was wholly related to a constraint in Northern Ireland, it would seem unreasonable for EirGrid to bear the cost of that constraint. Similarly if the constraint was in EirGrid's jurisdiction, it would not be appropriate for SONI to bear those costs. This 'relevant responsibility' was recognised within the paper but the suggested 75:25 split proposed in section 3 seems to place definitive responsibility on each of the TSOs for DBCs on an all-island basis, regardless of what jurisdiction the constraints occur. It is unclear as to whether licence changes may be required to provide for such an 'all-island' exposure to each of the TSOs.

3. Monitoring of DBCs

As provided in section 2 above, a robust monitoring regime is important to the credibility and effectiveness of the incentive regime. A regular report, as provided for by the RAs in the consultation paper, would be very useful in keeping participants informed of changes in forecasted constraints and the rationale for these changes. An annual performance report would also be useful to; detail the changes in the ex-ante forecasted DBCs; the reasons for the changes; the proportion of these changes that were within and outside of the TSO/TAO's control; the mitigating measures that were taken to reduce DBCs and the cost of these measures. Although not an exhaustive list, BG Energy is of the view that an annual performance report that is published will further act to incentivise the TSO/TAO to effectively manage and minimise DBCs but would also add significantly to transparency with respect to dispatch decisions.

4. The Parameters of a DBC Incentive Regime

Having regard to the fact that not all DBCs are within the control of the TSO and indeed that a level of flexibility will be needed to allow the TSO/TAO to effectively develop the system in the most cost effective and time efficient manner, BG Energy broadly supports the asymmetric, dead-band proposal presented by the RAs.

As a first step, and given the timescales between consultation and implementation in October 2011, it may be more appropriate at this stage to implement the proposed incentive regime with the proposed dead-bands and asymmetric penalties/rewards on a trial basis. That is to say, to report quarterly on changes to DBCs, outages etc. and to issue an annual report as outlined above but to hold-back on issuing actual penalties or rewards on the TSO/TAO during the first year. For all intense of purposes, the regime will be implemented but without any financial rewards/penalties. This will allow all parties to assess the appropriateness and effectiveness of the regime without the associated financial risk.

I hope you find the above comments and suggestions helpful. I am available at any stage to talk through them in more detail if you think it would be useful.

Yours sincerely

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Bord Gáis Energy