

Karen Shields
NIAUR
Queens House
14 Queen Street
Belfast
BT1 6ED

16th July 2012

Re: Imperfections Charges for October 2012 – September 2013 Consultation (SEM-12-045) (“the Consultation”)

Dear Karen,

Bord Gáis Energy (“BG Energy”) welcomes this opportunity to respond to the Consultation on Imperfection Charges 2012-2013.

BG Energy is surprised to see that the Dispatch Balancing Costs (“DBC”) have only decreased by €0.5 million from the 2011-2012 forecast and is concerned that the reasoning for such a small decrease in light of various mitigating factors since last year’s forecast have not been clearly explained or elaborated on in the Consultation. Notwithstanding the high level overview of key assumptions and price sources used in calculations, BG Energy believes that it is difficult to constructively comment on the inputs to the imperfections calculations without the provision of further details by the TSOs/ Regulatory Authorities (RAs).

On review of the Consultation, a number of observations are discernable and clarification or confirmation of such would be welcomed.

For example:

- i. It appears that reducing oil and distillate prices should have a favourable reducing impact on imperfections charges given that the expense of calling on out-of-merit generation should decrease in line with oil and distillate price reductions;
- ii. Despite the dearth of flexible, fast-response units to generation and demand changes Turlough Hill has returned from outage this year. In light of the K-Factor under recovery last year of €54.5 million, a significant amount of which can be attributed to Turlough Hill BG Energy is unclear as to where or whether the value of Turlough Hill’s return to service has been adequately captured in this year’s forecast;
- iii. Furthermore, the €1.2 million increase in specific reserve constraints attributed to Turlough Hill is lacking sufficient detail to adequately understand such an increase;
- iv. Reference is made to Carbon Price Floor figures but clarification is sought as to the source of such figures and the expected effect on the price of generation in Northern Ireland;
- v. Intraday trading could reasonably be considered to favourably reduce imperfection charges with more opportunities for generators to respond more regularly to generation and demand changes and an assumption should be made in this regard;

- vi. Further details on the modelling of the interconnection (including hurdle rate and “risk factor”) and of BETTA would also be welcome;
- vii. Finally, it is uncertain as to whether the issue of the feasibility of moving the data freeze date has been assessed by the TSOs as referenced in last year’s RAs’ Decision?¹

In conclusion, BG Energy believes that it is difficult to constructively comment on the provision and inclusion of aspects of the DBCs calculations without further detail. Enhanced transparency and explanation of DBCs assumptions and inputs would be very much welcome and indeed is necessary if participants are to comment on the proposed forecast for the coming year and if these costs are to act as the benchmark against which the TSOs incentives on minimising DBCs are to be measured. From the detail available BG Energy opines that it appears that (as compared to last year’s forecast), the decrease in out-of-merit generation constraint costs, the lower demand due to a milder winter and the return of the highly flexible Turlough Hill should all significantly contribute to a reduction in imperfections charges this year. However these may be offset against other assumptions made by the TSO that are not widely known by market participants.

BG Energy very much welcomes TSO incentives regarding DBCs and agrees with the objective of the K-Factor but urges the RAs to take the above comments into consideration before finalising this year’s imperfection charges. Accurate, detailed and transparent forecasting is critical as it minimises the potential impact volatile K-Factor adjustments can have on consumers in terms of price stability and also assists achievement of an appropriate baseline for TSO DBCs incentives.

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

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}

¹ Page 6, SEM-11-060 Decision on Imperfection Chagres for October 2011-September 2012