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RE: Implementation of the European Target Model for the Single Electricity Market (SEM) – Next Steps Proposed Decision Paper (SEM-12-105a) (the Proposed Decision)

Dear Philip, Jean-Pierre,

Bord Gáis Energy (**BG Energy**) welcomes this opportunity to comment on the Proposed Decision pursuant to the January 2012 Consultation on this SEM European Market Integration project (**the Project**). BG Energy accepts the intent of the Proposed Decision to provide a degree of high level insight on the Project's next steps and certain assumptions ahead of the Project progressing to "Phase 2" – the High Level Design (**HLD**) phase. In light of European deadlines driving the Project, BG Energy strongly supports the aim to progress the Project to HLD in Q1 2013.

BG Energy has a number of comments that it urges the SEM Committee (**SEMC**) to take account of in the next phases of the Project. These views relate primarily to the choice of HLD principles and objectives, the treatment of renewables including the importance of maintaining the legislative duty and principle of promoting renewables, the additional working assumptions addressed in the Proposed Decision as well as the proposed stakeholder engagement and next steps in the Project. These issues are expanded on below.

1. The Top-Down Design Approach

BG Energy accepts the SEMC's decision that the framework principles for the HLD design phase will be the 8 HLD principles adopted at SEM's inception, plus the addition of the principle of Target Model compliance. While there have been a number of developments since SEM was established that can impact the choice of principles for market design (for example significant increases in installed renewable capacity, doubling of interconnector capacity), the 8 original HLD principles undoubtedly remain as important today as they were on SEM's establishment.

Furthermore, the principle of Target Model compliance is a necessary addition to the 8 principles. It is however important to bear in mind that the Target Model does not mandate a single market design to apply on a pan-European basis. The Target Model aims to enable pan-European cooperation in cross-border trading that incorporates harmonisation of times and processes for long-term, day-ahead, intraday and balancing trades. Importantly, the SEMC's stated intention¹ is to implement the Target Model in a manner

¹ As noted on page 12 of the Proposed Decision

that most efficiently protects the long and short term interests of electricity consumers while simultaneously achieving compliance with Network Codes and the Third Package. This approach requires that due consideration is given to local security of supply and competition needs. This in turn incidentally requires the maintenance of market attributes that have been critical in SEM's success to date, including in particular market power mitigation measures.

Finally, the choice of applying no weighting to the proposed HLD principles, instead requiring the process to be informed by the SEMC's duties, is in BG Energy's view a correct decision. BG Energy believes however that it is of extreme importance that the SEMC apply their legislative duties in a manner that does not permit more weight to be given to one principle over another, instead interpreting the principles holistically to ensure the best outcome for consumers and market participants. A holistic interpretation and balanced application of the duties to the principles in this manner will positively contribute to achieving a new SEM design that delivers Target Model compliance and also ensures the best interests of the consumer are protected.

2. Treatment of Renewables

BG Energy is cognisant of the fact that the promotion of the use of energy from renewable resources is one of the SEMC's legislative duties. In this regard, BG Energy emphasises the importance of maintaining the legislative duty and high level principle of promoting renewables and would very much welcome clarity with respect to the SEMC's proposal that this principle will be maintained "where appropriate". Indicative criteria as to when the SEMC might allow the promotion of renewables to be overridden by an alternative consideration(s) or when it would **not** be deemed appropriate to promote renewable generation would be very helpful for SEM participants in anticipating market changes which are instrumental to commercial developments.

Proposals in the Proposed Decision to continue priority dispatch principles and to explore the protection of renewables from penal imbalances for example by aggregation are highly commended. Moreover, the working assumption of a centrally dispatched market, which currently provides transparent pricing in the SEM, is a further important characteristic for the promotion of renewables in the market. SEM's transparency and the resulting clear reference pricing have been key drivers not only in mitigating the SEM market power issues but also in supporting the investment in and deployment of renewables to date. These elements should not be underestimated in delivering investor certainty and should be retained given the ambitious levels of investment required to achieve renewable targets. Their role is particularly important from a renewables subsidy viewpoint and in the achievement of renewables targets which will ultimately benefit the end consumer.

Finally, BG Energy believes that it is premature to apply a decision that will remove compensation for curtailment of renewables at such an early stage of the Project. At this stage, given that the operation of the intraday and balancing timeframes at both a European and SEM level has yet to be finalised, this is an issue that should be permitted to evolve throughout the HLD phase and beyond.

3. Further Working Assumptions

The proposed maintenance of a capacity remuneration mechanism and market power mitigation measures are keenly welcomed by BG Energy, not least from a security of supply and consumer protection perspective. These market attributes have been critically instrumental in SEM's success to date. In this regard, the SEMC should remain cognisant of the significant investments made by SEM participants on the basis of the current regulatory construct and the importance of maintaining regulatory certainty insofar as possible. Additionally, many market participants have pending projects and regulatory uncertainty and insufficient

supports hinder their development potential. This is despite the fundamental role such projects will play in ensuring the achievement of renewables targets and facilitating flexible system operation for example. While the construct must change to accommodate the Target Model, the negative impacts such uncertainty will have on investor confidence should be minimised and controlled by providing clear signals of intent and setting pressing but achievable timelines for the delivery of the HLD. The HLD principle of stability and the SEMC's duties including ensuring market participants can finance their activities are central to this issue.

BG Energy understands that the Proposed Decision to apply the principle of central dispatch in the HLD is a working assumption. During the next phase of the Project, BG Energy looks forward to engaging with the project team and other stakeholders to develop this assumption and its interaction with the various market timeframes. However and importantly, BG Energy urges the SEMC to balance the Target Model pan-EU competition objective with the local on-island needs of the SEM. This will ultimately result in the most equitable outcome to the Project, for the market and for its stakeholders.

4. Project Process and Stakeholder Engagement

BG Energy strongly advocates the stakeholder engagement proposals suggested by the SEMC. Synergies between regulatory bodies and government departments are core fundamentals of designing a successful market design in any country.

On a local basis, the proposed project office is a welcome proposal for the Project and indeed BG Energy believes that an efficient, positive resulting Project will require significant resources. We highly commend the SEMC's intention to staff the project office in preparation for the next phase of the Project and to take on resources necessary to assist it in achieving their objective in a timely manner. Furthermore, BG Energy understands that, while there has been limited interaction with industry since April 2012 when the January 2012 consultation closed, given the breadth and major impact of the Project on SEM participants and consumers, significant interaction has occurred between SEM regulatory bodies and government departments. BG Energy was not expecting a proposed position on issues such as central dispatch, and it was understood from communications last May that there would be industry consultation on this issue alongside further consultation on capacity mechanisms and the integration of renewable generation. Further to these communications a further consultation or workshop on the issues to discuss and follow up on previous responses before the Proposed Decision was released would have been welcomed. However, it is understood that the proposals are working assumptions for the HLD phase and that the SEMC envisage significant engagement with experts and industry in the development and application of these assumptions during the HLD process and beyond.

In this respect, the proposal to instigate a Stakeholder Forum on the European Internal Market which BG Energy understands applies equally to the implementation of the Target Model in SEM is critical. In particular, it would be considered very useful to adopt for example at least the two following parallel working streams for the duration of the Project:

1. A "project stakeholder forum" to include regulatory authorities, government departments, industry participants and system operators to meet monthly or more often as required for updates on the Project's progress;
2. A "design stakeholder forum" to discuss particular topics under consideration both before and during the formal consultations that will occur in the HLD. Such forums should be attended by all stakeholders (regulatory authorities, government departments, industry participants, system operators) and be chaired by the appropriate body, e.g. where a network code is under consideration, the TSOs should chair, if comitology is in issue, government departments should chair.

With the adoption of the Proposed Decision's proposed stakeholder engagement, and in particular the forums outlined above BG Energy believes that a collaborative and inclusive approach to the Project can occur ensuring that future concrete decisions will be made that are in the best interests of consumers and SEM participants alike.

5. Conclusion and Next Steps

In conclusion, BG Energy welcomes this Proposed Decision and its intent as a guide for the Project going forward. The 9 proposed HLD principles² which are to be guided by the SEMC's legislative duties are an appropriate choice and should ensure that Target Model compliance is achieved in line with local security of supply and competition needs, for the ultimate benefit of consumers and SEM participants. SEMC duties such as consumer protection and the promotion of renewables are critical in the HLD and the maintenance of current SEM attributes, including protecting renewables from penal imbalances, transparent pricing, priority dispatch and market power mitigation measures are of paramount importance for the continued connection and investment in renewable energy on the island.

BG Energy looks forward to significant engagement throughout the HLD on working assumptions including capacity mechanisms, market power mitigation measures and central dispatch in order to come to the best outcomes for SEM, on a local and European basis. Furthermore, it is essential that significant analysis must be conducted in advance of any decision taken in relation to the market design and the analysis underpinning decisions must consider all stakeholders affected by any decision. In this regard, consideration of investments made under the current regulatory construct and of the minimisation of negative impacts on investor confidence should be paramount.

Ultimately, BG Energy thoroughly supports the SEMC's intention to progress the Project to the High Level Design phase in Q1 2013. Given the stringent binding timelines applying to the Project, the suggestions above regarding principles, objectives and working assumptions, together with the adoption of the stakeholder engagement proposals intended to be employed by the SEMC and the incorporation of parallel working streams of project and design stakeholder forums, will ensure the most timely and optimum achievement of the goal from a European and local perspective. This is much more preferable than risking potential delays that may affect the Project going forward, as has been the case with other SEM issues in the recent past. BG Energy encourages and anticipates extensive constructive stakeholder liaison during the HLD phase to achieve Target Model compliance within the time allowed.

I hope you find the above comments and suggestions helpful. Should you have any queries on any of the above please do not hesitate to contact me.

Kind regards,

Julie-Anne Hannon
Regulatory Affairs - Commercial
Bord Gáis Energy

{By Email}

² The 8 original HLD principles plus the Target Model compliance principle