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Dear Warren, Kenny,

I am writing to you in response to SEM Committee Consultation on the ‘Aggregator of Last Resort Framework’.

1. Potential Aggregator of Last Resort Models

Bord Gáis Energy (BGE) recognises the value of an Aggregator of Last Resort (AoLR) in the future market design framework. However, given that the function will continue to be provided on a commercial basis by suppliers and generators in the market, largely as it is currently, BGE does not see the value in duplicating roles at significant costs to the market. With that in mind, BGE would be in favour of the ‘Passive’ approach as proposed in the consultation paper. In our view, this option best combines the functional need for an AoLR without interfering with the commercial incentives to trade and balance in the market.

2. Governance of the Aggregator of Last Resort Entity

Another attractive feature of the passive option is that it minimises the requirement for further and on-going governance and regulation in the market.

If the SEM Committee was to decide that a more active function is needed similar to those of Options 1 and 2 where the function was tendered to the market, then clear and concise rules must be developed in advance such that the service is easily transferrable in future years. The SEM Committee must consider what a fall-back option would be in the event that the tender process failed with no independent party expressing an interest in providing the service. Based on experience in the process of appointing a supplier of last resort in the retail energy markets in the Republic of Ireland, there is a possibility that the tender process may not result in a provider of the service emerging and therefore it is likely that an entity, such as the TSO or SEMO, would have to be appointed under direction of the relevant regulatory authority.

This would require different regulatory provisions than for those of a commercial entity contracting to provide the service. The need for a ‘fall-back’ option would also add to the overall costs of providing the service, both through the installation of the required systems and services but also through the regulation and governance mechanisms that would be required as mentioned previously.

3. Incentives and Cost Allocation

As Options 1 and 2 will essentially continue to be provided for by commercial entities in the market, Option 3 is the most preferable option in terms of minimising costs, avoiding stranded assets and ensuring the AoLR is a true “last resort” mechanism. However, if in the event that the SEM Committee choose to appoint an AoLR, such as SEMO or the TSO, which results in a distinct investment, this cost and the regulation of this cost should be ring-fenced from the other regulated activities.

With respect to incentives, it really does depend on the objective of the AoLR function. Again, BGE's understanding is that the role is to provide a route to market for participants as a last resort to unfavourable or unmanageable commercial choices. Where the service is mechanistic, the incentives will be implicit in the market system design (once agreed). To the extent that there is a commercial tender for the function, the commercial pressures of the market should theoretically act as the incentive mechanism for the service provider (provided that users are not locked into the service). However, where the AoLR is appointed by direction of the relevant regulatory authority, incentives will be required to ensure value for money, to minimise costs and to set a minimum performance level for users of the service.

In terms of performance, again under the mechanistic approach this should be implicit in the market system design. However, under either Options 1 and 2 some form of profit sharing may be appropriate, as well as some form of cost metric to ensure that the provision of the service is reasonable and adds value to the market above and beyond those services already commercially available from other market participants.

4. Participant Eligibility

Eligibility for the AoLR service should be limited to variable generators. Recognising that there will be other small participants in the market, it would be too complex to design a mechanism (and specifically systemise a mechanism) to account for all types of market participants. Variable generators are more at risk to the new market than other demand side or dispatchable type generators, and therefore BGE can understand the need for a last resort option for these generators. However, other generators or demand side participants (of all sizes) will be less exposed to variable market risks and therefore should be able to manage them effectively within the market dynamics. Expanding the remit of the AoLR to cater for all types of participants would in BGE's view be an unnecessary expense for the market. Finally, BGE believes that the costs of the service should be borne solely by the beneficiaries thereof.

I hope you find the comments above helpful, but please do not hesitate in contacting me should you wish to discuss any of the points further.

Yours sincerely,

Jill Murray

{by email}

c.c. Julie-Anne Hannon, Bord Gáis Energy