

Bronagh McKeown
Utility Regulator
Queens House
14 Queen St
Belfast
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21st July 2016

Dear Bronagh

Re: Imperfections Charge October 2016 – September 2017 and Incentive Outturn October 2014 – September 2015 Consultation Paper

Bord Gáis Energy (BGE) welcomes this opportunity to respond to the Regulatory Authorities' (RAs) consultation on the Imperfections Charge October 2016-September 2017 and Incentive Outturn October 2014-2015 consultation.

BGE notes the assumptions used in calculating the 2016/17 Imperfections charge and K factor adjustment, and accepts the consequent reduced charge for the 2016/17 tariff year. However, we do have some concerns about the current procedure regarding the calculation of the Imperfections charge, particularly as we move forward into I-SEM in October 2017.

In the infancy of I-SEM, we will experience a period of change and uncertainty in the electricity market, and participants will be exposed to a host of variable charges that have the potential to change within year as well as year-on-year. These include, but are not limited to, Imperfections Charges, Market Operator Charges, Capacity Charges, Residual Error Charges and Currency Adjustment Charges. We are keen to seek as much stability and certainty in supplier charging as possible, and generally, BGE would contend that stability in charging could be improved by more robust governance of the inputs and assumptions used by the TSOs in their charging forecast.

In 2014/15, the estimated K factor adjustment was set at €5m. Due to a number of factors, most notably the increase in wholesale fuel prices in 2015 and the increase in the carbon price floor in GB, the actual overrecovery for 2014/15 was €37.56m. This level of overrecovery is set to continue with the estimate for 2015/16 sitting at some €40m, and has resulted in a 2016/17 Imperfections charge of €2.05 per MWh, compared with €4.47 per MWh for the 2015/16 tariff year. Although the change is positive this year, BGE is keenly aware that there is as likely a potential for a drastic underrecovery of charges between years, and are mindful of the potential impact on electricity prices where these charges have to be subsequently recovered. Such swings are undesirable for both suppliers and their customers.

While we do not challenge the integrity of the PLEXOS modelling work carried out by the TSOs and RAs, we hold that allowing market participants to review the assumptions and inputs would contribute greatly to the transparency and accuracy of the modelling exercise. Had such a process been in place in 2015, market participants would have been able to alert the RAs to the increased GB carbon price floor, and a discussion opened on any amendment of the Imperfections charge at that point.

With this in mind, we propose that from the 2017/18 tariff year, the RAs present their modelling methodology (the non-confidential inputs and assumptions) for consultation before the Imperfections charge is finalised by the RAs, and make the modelling data available to interested market Participants. This will allow Participants to feed back on the charging methodology, and enable additional sense checking to be performed. We do appreciate that there is some sensitive information contained within this data, but we would contend that there are generic data sets that could be substituted in such cases.

Incidentally, the change in the Imperfections charge methodology that will be brought about by the introduction of the ISEM rules next year is conducive to making an amendment in the way these charges are calculated.

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

Sincere regards,

Sarah Fuller
Regulatory Affairs – Commercial
Bord Gáis Energy

{By e-mail}