18th March 2011

Kevin Hagan
The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 22.

Colin Broomfield
The Utility Regulator,
Queens House,
10-18 Queens Street,
Belfast BT1 6ED.

RE: Contracts for Differences – Option for Directed Contracts 2011/12

Dear Kevin, Colin,

Bord Gáis Energy (BG Energy) welcomes the Regulatory Authorities (RA's) initiatives over the past number of months to consult with industry on the best way forward in enhancing the provision of liquidity in the Single Electricity Market (SEM). Liquidity in such a small market with a small number of players will not be achieved easily and it may be beneficial at this stage for an industry working group, with participation from the RAs, to be established to progress the issue in a timely and effective manner.

With respect to the RAs proposals for the provision of Directed Contracts (DCs) the added flexibility of the segmented approach would be a positive step. It would firstly allow for greater shape using the DCs, which will be particularly important given the expected termination of the PSO backed CfDs for the coming year.

Notwithstanding this, BG Energy has a number of concerns with the more segmented approach. Firstly, the current annual approach to DCs gives suppliers certainty with respect to the volumes offered to the market. BG Energy's understanding of the segmented proposal is that this certainty would be removed as the volumes could change from the annual auction towards the quarterly auction during reruns of the concentration model. This volume uncertainty would be a greater risk than any potential upside from increases in auctioned volumes throughout the year. Essentially, BG Energy would value the certainty in knowing the volumes at the beginning of the year to a greater extent than the potential for an increase in volume provisions throughout the year.

For this reason, BG Energy proposes that the volumes for the annual and quarterly auctions should be defined at the outset. That is to say that the concentration model should only be run once annually and the volumes arising then spread across the year as proposed between annual and quarterly auctions. On the other hand, BG

Energy supports the RAs proposal to rerun the eligibility model throughout the year to reflect churn levels between suppliers.

Secondly, with respect to the pricing proposals, BG Energy is of the view that the proposal to only use the Plexos model is a retrograde step for the market. Pricing and transparency around price derivation is key to the credibility of the market and participants' ability and willingness to participate in the market. The proposal to remove the regression formulae and to rely solely on the Plexos model will increase the risk of inaccuracies without any oversight by market participants.

Recognising that there is an extra layer of complexity in providing the regression formula, the proposed timescales of the auctions may not provide for the regression formula, as currently derived, to be provided. With this in mind, BG Energy would propose that a less technically complex regression formula is used and published ahead of each auction. A spark based formula could provide a simpler solution which could be produced in a more timely manner and would also ensure that the required market transparency is retained.

In summary, BG Energy is in favour of the RAs proposals to stagger the provision of DC volumes throughout the year. However, this progressive step should not be at the cost of transparency in price and volume setting. For that reason, BG Energy proposes:

a) that DC volumes are fixed at the beginning of the year and sold at the relevant annual and quarterly auctions, and
b) that a less complex regression formula, perhaps a spark based formula, is used and published when pricing DCs.

Please do not hesitate in contacting me if you would like to discuss these proposals in further detail.

Yours sincerely,

Jill Murray
Regulatory Affairs - Commercial
Bord Gáis Energy

{by e-mail}