

4th May 2012

Jean Pierre Miura
Utility Regulator
Queens House
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Dear Jean Pierre,

RE: Treatment of Losses in the SEM, Proposed Decision Paper SEM-12-024

Bord Gáis Energy (BG Energy) is disappointed both at the outcome and rationale of the SEM Committee's latest decision on the "Treatment of Losses in the SEM" (SEM-12-024). The Proposed Decision undermines the commitments given to stakeholders. Following three years of analysis and consultation, it is discouraging that the SEM Committee could not agree on an enduring solution to improve the policy position and signals provided in the market. Furthermore, the decision fails to recognise or address the fundamental flaw underpinning the compressed methodology – that is, the methodology does not reflect a generator unit's real use of the network. On that basis, compressed TLAFs, similar to the marginal methodology upon which it is based, is an unjust and discriminatory locational signal within the market. It distorts the merit order and is an expropriation of generators rights to returns.

On that basis, BG Energy is still firmly of the view, that until such time as the SEM Committee can provide a transparent and accurate mechanism to discriminate between locations on the system in a timely manner, it is incumbent on the SEM Committee to treat all generator units equally. Similar to the issue of the treatment of curtailment in a tie-break situation, the SEM Committee should seek to allocate system losses in a fair and transparent manner, which does not discriminate between new and old investments. To do otherwise would be in breach of the SEM Committee's legal obligations with respect to its treatment of licence holders in the market. In short, without the tools to accurately calculate real-time TLAFs, **the SEM Committee has no basis to differentiate the allocation of losses in the market and therefore can only reasonably apply uniform TLAFs.**

In its reasoning for the Proposed Decision, the SEM Committee was lead largely by the inconclusive results of its modelling but also by the polarised views of respondents and the expected changes to the SEM in 2016 as a result of Regional Integration.

While accepting that the modelling was inconclusive in the absence of a reasonable reference point for actual TLAFs, BG Energy does not accept that this supports or justifies the retention of what has been recognised as an “arbitrary” compressed methodology. As has been shown, the methodology underpinning compression does not reflect the prevailing network conditions and as such the suggested efficiency is neither achieved in the market or dispatch schedules. For these reasons, compression is neither appropriate nor relevant with respect to providing a meaningful or efficient signal in the market.

The position that; “[the] SEM is likely to be subject to significant changes due to regional integration and the SEMC does not wish to make further changes to the TLAf methodology that may have to be revisited in the medium term”, sends damaging signals to market stakeholders about the governance of the SEM. The SEM Committee has undergone 3 years of extensive consultation and analysis to address what has been recognised as a market mechanism that has “ran its course”. Notwithstanding the prevailing evidence, the SEM Committee has still not resolutely addressed the market distortion and has essentially condoned its application until 2016 – that is for a period of 8 years after the issue was recognised.

This regulatory uncertainty greatly increases the risks of operating and investing in the SEM. Although the SEM Committee may be comforted by the current capacity surplus, investments are still required both in flexible grid and generation infrastructure to meet and facilitate our renewable targets. The cost of this investment is increasing and will increase further in an uncertain regulatory and policy environment. It is therefore incumbent on the SEM Committee to provide an enduring solution, which is supported by a clear policy initiative, underpinned by principles of consistency, clarity and parity, and which ultimately provides for a stable regulatory environment.

This Proposed Decision does not provide any certainty to the market. Firstly, and as outlined at length, the compressed TLAFs will be based on a flawed methodology. The inaccuracy of the ex-ante methodology will only increase further as the level of intermittent generation and interconnection increases and the patterns of generation become less stable. Secondly, the Proposed Decision infers that the SEM Committee will

re-examine TLAFs at a future date. As such, this Proposed Decision does not provide an enduring solution and is subject to change at the discretion of the SEM Committee.

In a bid to provide timely signals while also addressing the underlying volatility of TLAFs, **BG Energy suggests that a migratory approach towards uniform TLAFs over the next two years would be a more suitable compromise.** This would involve further compressing TLAFs in each of the next two years and the implementation of uniform TLAFs in 2014. Such a migratory approach would better highlight the SEM Committee's commitment to resolving the market distortion, while providing sufficient notice to market players and potential investors of the impending changes.

In summary, the concerns with respect to the Treatment of Losses in the SEM have not been addressed as part of this three year review and consultation process. Although volatility will be reduced, the SEM Committee has suggested that it will review its decision in the near-term. The concerns with respect to dispatch efficiency, appropriateness of the locational signal and market stability still remain. As such, the SEM Committee's Proposed Decision to implement compressed TLAFs in the medium-term has not delivered on the objectives of the review. BG Energy therefore requests the SEM Committee to reconsider its current compromise position and to implement a migratory process towards uniform TLAFs in 2014. This will better address the issues of uncertainty and discrimination in the allocation of losses and will signal the commitment of the SEM Committee to address anomalies in the market in a timely manner.

I trust that you will give the above comments and proposals your full consideration before finalising a decision. In the meantime, please do not hesitate in contacting me should you wish to discuss the issues raised in this response in more detail.

Yours sincerely,

Jill Murray
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Bord Gáis Energy

c.c. Paul Brandon, CER
Pádraig Fleming, Bord Gáis Energy