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Subject: Imperfections Charge October 2018- September 2019 and Incentive Outturn October 2016- September 2017 Consultation, SEM-18-038 (the “Consultation”)

17th August 2018

Dear Billy,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to the above Consultation.

While this year’s increase in imperfections is not as high as the 144% increase seen in last year’s imperfections charge, BGE remains of the view that suppliers need to be in a position whereby they can forecast, with some certainty, the extent of imperfections costs that will be imposed from year to year. We are also concerned about the inference that supplier imperfection charges can be changed within year with little notice.

With this context in mind, we note the Regulatory Authorities’ (**RA**s’) rationale for the large reduction in the Imbalance Price Impacts forecast were the “safety nets” of the contingency fund and the RAs’ ability to revise tariffs mid-year should the revised allowance prove insufficient. BGE does not support changes to imperfections charges during a tariff-year given the likely negative impact this would have on suppliers and consumers alike. From the abovementioned rationale, we understand that should the contingency fund of €150m for I-SEM be depleted to fund various gaps in payments in and out, suppliers’ imperfection charges may increase ad hoc. BGE was of the understanding however that, in the event of any such depletion, the RAs’/ TSOs’ first steps would be to seek an increase in the fund. Thereafter, the RAs would use their discretion as to what approach to apply to recover gaps in payments in and out.

BGE supports this process and urges the RAs to consider ad hoc changes in imperfections charges as a last resort. Furthermore, we would welcome confirmation that it remains the RAs’ and TSOs’ intention to provide updates on the fund’s levels (at least monthly) and to continually monitor the level of the contingency fund and flag any depletions thereof, to market participants as early as possible. We would further welcome a commitment from the RAs to a mid-year review of imperfection charges, with the input of industry in terms of assumptions applied, with a view to mitigating any end of tariff year impacts for consumers.

The other key issue BGE wishes to express its concerns on is the suggestion again that a dispatch balancing cost (**DBC**) incentive may not apply in I-SEM due to time constraints. BGE is very concerned about the negative impact the removal of this incentive on TSOs’ actions to maximise cost efficiencies and introduce new operational initiatives to reduce imperfections costs, could have. While the I-SEM introduces many uncertainties in terms of scheduling and dispatch, we do not believe that it is in the consumers’ best interests to remove all incentives for the TSOs to optimise its operations with a view to minimising DBCs. The fact that the LNAF factor is zero for the foreseeable future emphasises the need for another mechanism to apply to encourage the management down of DBCs by the TSOs. We believe that the DBC incentive should be that mechanism. BGE would welcome further insight into why the RAs’ do not believe it sufficient to roll-over the current DBC mechanism in

terms of deadband, penalty and reward structure at least on an interim basis until an enduring solution is developed?

We ask that the RAs take into consideration our views above in the imperfections process that will apply in I-SEM including: a) the need to consider ad hoc within-year imperfections charge changes on a last resort basis only; b) ongoing monitoring of, and notification to market participants of, the contingency fund levels; c) the introduction of a mid-year review with stakeholder input to assist forecasting of, and mitigation of, constraints costs; d) application of the current DBC incentive at least on an interim basis.

Please do not hesitate to contact me should you wish to discuss any of the above further.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}