

Response of Bord Gáis Energy Supply
to
The All Island Project Consultation Paper
on
Risk Management
in the
All Island Single Electricity Market
Ref. AIP/SEM/122/06

Bord Gáis Energy Supply (BGES) welcomes the opportunity to comment on the Risk Management Consultation Paper, issued by the All Island Project team in September 2006. BGES broadly welcomes the paper, which recognises the difficulties which may be experienced by Independent market participants wishing to conclude hedge contracts in the market. BGES has in the past made representations to the Regulatory Authorities outlining concerns in this area.

BGES has sincere reservations about market dominance and the collective strength of vertically integrated organisations (particularly with the incumbent businesses) and the possible impact this can have on non-vertically integrated suppliers in the retail market. However, we believe there are inherent issues with implementing options 2 and 3 in the All Island SEM market.

Option 2:

The All-Island SEM is still a relatively small market. To date, the wholesale markets of the separate jurisdictions have traded on a bi-lateral basis – for both baseload and imbalance power. While the fundamentals of the new market arrangements will largely differ from the current wholesale arrangements, we believe the market should be allowed the opportunity to continue with these arrangements on a satisfactory basis for all concerned. This helps to protect confidentially for the various market participants which is an essential ingredient for the development of an efficient competitive market. BGES fully supports the development of such a market. Allowing commercial freedom for all market participants in an efficient competitive generation and supply electricity market should be the ultimate goal of a developing marketplace. The Regulatory Authorities should only have to intervene in the event that the development of such a market is being impeded through any exploitation of a (probably dominant) market position.

Option 3:

Attempts to develop a stand-alone third party trading platform have in the past largely failed because of both market size and liquidity issues. While the idea of platform, providing confidential hedge contract bids and offers, is appealing for participants, the reality is that such a provision will prove too costly for this market. Essentially this option is unlikely to provide an efficient service which would provide a value for money service for participants, and consequently customers.

Conclusion

BGES has valid concerns that market dominance may have a negative impact on the development of both the generation and supply businesses associated with the All Island SEM. We share the

concerns of the Regulatory Authorities (expressed through the stated disadvantages) that the ability of the market to make their own trading arrangements for hedge contracts may not transpire due to the current market size and structure. However, we also believe that it is in the interests of the long term development of an efficiently competitive market that participants should initially be allowed the opportunity to develop such an open, transparent, fair market to the benefit of all market participants. Assuming that adequate volumes of Directed Contracts are to be made available to the market to reduce the possible abuse of a market dominance position, we believe an additional regulatory imposition will lead to the curtailment of an effective market and will constitute an overly regulated one. Furthermore, the issues of financial regulation and costs associated with the proposed options 2 and 3 make their effective implementation questionable.

Therefore, of the three options presented in the consultation paper, BGES is minded to support Option 1 whereby the industry is allowed to develop a derivatives trading market itself. However, the effectiveness of such an arrangement must be monitored by the Regulatory Authorities on an ongoing basis. Any evidence that such a market is not efficiently – or promptly - developing or that preferential trading arrangements appear to be in place for certain participants must be addressed immediately. Otherwise, there will effectively be a closed market in operation resulting in limited development opportunities for current independent or new entrants in both the generation and supply businesses. BGES believes that if the Regulatory Authorities opt for option 1 (because of the issues with options 2 and 3) they must proactively monitor the contracts market to ensure it is developing and operating effectively until such time as the market can be deemed to be efficiently competitive.