Response of Bord Gáis Energy Supply
to
The Commission for Energy Regulation

On the consultation paper entitled

ESB PES Tariffs and the Transition to the SEM

Bord Gáis Energy Supply (BGES) welcomes the opportunity to comment on the consultation paper referred to above, issued by the Commission for Energy Regulation (CER) on 16th January 2006. Bord Gáis Energy Supply (BGES) has considered the paper and requests that the CER take this response into account when considering the issue further. Views expressed herein represent those of BGES only.

Options for setting ESB PES Tariffs

Option 1
- Implies that customers should not contract in the normal manner (12 months) with suppliers and may “hang out” until some transparency on the SEM exists. This is not conducive to normal market operation or stability.
- Provides the required indication to Suppliers and the market in general as to where hedge contracts will trade / need to trade in the year of 2007.

Option 2:
- Represents a consistent treatment of the PES tariff over the standard 12 month contract period while simultaneously being reflective of the underlying wholesale structure.
- Enhances stability for market players in a time of transition / uncertainty. This will reduce uncertainty in mind of customers in renewing contracts with Independent Suppliers.
- Provide an indication to Suppliers & the market in general as to where hedge contracts will trade / need to trade in the year of 2007.

Options 3:
- This option is completely at variance with established contracting practice in the market (12 month contracts) and clearly favours vertically integrated players. How would a non-vertically integrated player hedge/issue supply offers to customers under this scenario?
- Can create significant price distortion in the market, particularly for Independent Suppliers, when fundamentally the market should be as cost reflective as possible. Significant over/under recoveries can occur.
Option 4:
- This option is completely unworkable for independent suppliers unless the CER can simultaneously ensure that regulated entities will issue the appropriate hedge contracts to market participants. It is in nobody’s interest to have potentially volatile price movement/adjustments mid year.

PSO Setting
Option 4 – using a modelled SEM pool price for 2007 - is the most realistic and feasible option in relation to Options 1 and 2 for PES Tariff Setting described above.

Conclusion:
BGES is of the opinion that Option 2 followed by Option 1 as described in your paper are the only two workable options for setting PES Tariffs in 2007. Options 3 or 4 are not appropriate for the following reasons:
- A large portion of customers expect to purchase contracts on a 12 month basis.
- Setting two ESB PES Tariffs is cumbersome without any tangible benefits.