



VIRIDIAN

Power & Energy

**Response by Viridian Power & Energy to
Commission for Energy Regulation's
Consultation Paper - CER/10/137**

***Bord Gáis Energy Fuel Variation Tariff (FVT)
Fixed Rate Charge Review***

27th August 2010

1. Introduction

Viridian Power and Energy (VPE) would like take the opportunity afforded to it in the CER Consultation Paper on the Review of Bord Gáis Energy's (BGE) Fuel Variation Tariff's (FVT) Fixed Rate Charge, to submit its views on the review undertaken and proposals for 2010/11.

2. VPE views on the proposed changes to the FVT pricing methodology

Review of FVT Fixed Rate Charge

VPE have consistently called for greater transparency in relation to the formulation of BGE's fixed rate charge. We note that the CER, in the most recent review (CER/10/143)¹, has rejected calls for the publication of the fixed rate model. In light of this, while continuing our calls for greater transparency, we would ask the CER to consider an alternative, noting the concerns expressed in relation to publication of BGE's model.

Such a alternative could consist of the publication of information on each element of the fixed rate charge, namely;

- each elements contribution (%) to the total fixed rate charge in the previous period;
- the submitted/proposed change (%) to this element; and,
- the resulting contribution (%) of this element to the upcoming year's fixed rate charge.

This approach should similarly be applied to the Own Supply-Cost charge.

Comparisons should also be provided using constant and market FX rates, as proposed for adoption in the coming year. An approach such as this would assist market participants in considering the reasonableness of such proposals, increase transparency and reduce the regulatory cost of continued submissions to address this ongoing issue.

Further information on the derivation of the "average forward FX rate", should be provided. From the graph provided in the consultation paper the data appears to be historic and as such creates confusion over what this value represents and how it was calculated. We note that market participants are unable to fully hedge historic rates and/or average rates and consideration should be given to ensuring that the rates chosen allow market participants to hedge such risk.

On the assumption that BGE may lose a further 25% of its customers in the FVT market over the upcoming gas year, we note that this is equivalent to approximately

¹ Although the published reference for the decision paper published 18 March 2010, in response to consultation paper CER/10/032, we assume this is an error and should be revised for clarity.

270 customers.² Given the remaining companies in the FVT market have been operating in the market for more than one year (significantly more in some cases), 270 customers represents 95% of the current total number of Energia's FVT customers, 215% of Flogas's FVT customers, and 111% of Vayu's FVT customers. Given the effects of competition on customer switching are most likely to be seen upfront in the initial periods before slowing substantially, we would call for all assumptions in relation to changes in customer numbers to be considered and for reasonable rates to be applied.

Finally, the consultation paper states that:

*"The intention is that these proposed changes will be applicable from the 1st October 2010 – 30th September 2011."*³

This indicates that the CER are ceasing the bi-annual review of FVT Fixed Rate Charges, although no reasoning is provided for this in the paper. Furthermore, no commitment is similarly given and as such requires clarity.

FVT Fixed Rate Charge proposals

Given the level of information provided in the consultation paper, it is not possible to comment specifically on the changes proposed to the fixed rate charge and own supply cost charge.

² All figures here are based on CER's Gas Market Update 2010 Q2, CER/10/133, 4 August 2010.

³ CER Consultation Paper, Bord Gáis Energy Fuel Variation Tariff (FVT) Fixed Rate Charge Review, CER/10/137, 13 August 2010, p.9.