

Gary Martin
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24
gmartin@cer.ie

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Subject: CER Strategic Plan 2014-2018, Consultation

Dear Gary,

Bord Gáis Energy (**BG Energy**) welcomes the opportunity to respond to this consultation on the CER's Strategic Plan 2014-2018 (**the Plan**). We generally agree with the Plan's overall direction, values and six goals. An insight into the CER's expected key priorities over the next five years is a useful guide for stakeholders. Provided the goals and strategies therein are actively pursued and the comments and suggestions in this response are taken into account, it can assist investor confidence and regulatory stability in the energy market.

This response focuses on a number of issues in relation to the goals set out in the Plan and suggests how some of the goals might be furthered. It is suggested that the CER should collaborate with its Northern Ireland regulatory counterparty in furthering those goals that require all-island consideration.

Balancing Competing Goals and Objectives in the Plan

Before finalisation of the Plan the CER needs a process that enables it to assess how the appropriate balance between goals can be attained.

An example of competing goals/ strategies is the goal of achieving cost effective delivery of electricity demand while ensuring security of supply or the goal of having a price review to ensure consumers and network users receive value for money while network owners or operators earn sufficient returns.¹ The CER's values as set out in Goal 6 all have individual merit but the values of most importance to balancing competing goals are "act in the public interest" and "be proportionate and objective; take balanced decisions". Effective application of these values in particular is critical, not only to appropriately balancing the goals but also, to the effective furthering of all of the goals in the Plan.

Users and consumers should not be obliged to pay for network delivery at any cost, particularly as the threat of security of supply shortages is considerably less today than it was a decade ago, whereas the risk of consumers being unwilling to pay for network developments largely related to EU policy goals, such as demand-side interaction and renewables roll-out, is much higher. Network costs as a percentage of final energy prices to customers are much higher in Ireland, as much as double the average in other EU member states.² Optimisation of existing onshore networks must occur as much as possible similar to the Plan's aim of optimising the existing interconnectors.

Prioritisation of goals in a transparent manner, such as applying market and consumer impact assessments, will encourage public perception of EU and national policies and the benefits they strive to bring consumers, in the medium-long term.

¹ Both appearing under Goal 2 – ensuring security of supply

² "Analysis of European Power Price Increase Drivers", Eurelectric, May 2014

Goal 6 – Ensure Regulation is Best International Practice – Living Up to Our Values

Regulatory practice and stakeholder engagement have been positive to date but there remains scope for improvement in the immediate term and throughout the course of the Plan.

As mentioned above, BG Energy believes that the values set out in the Plan are appropriate and relevant to the ongoing work of the CER and their appropriate application is central to effective regulation in which stakeholders can have confidence in.

Open, honest engagement with stakeholders is critical, as is the willingness to take on board market participants' real concerns that have consequential negative impacts on consumers. In general, this engagement has been of a high standard. With regard however to providing adequate time for responding to consultations, the usual timelines for the majority of consultations is 4 weeks. We note that Ofgem's, CER's equivalent in Britain, timelines for consultations varies between 4, 8 and 12 weeks depending on the significance, interest and impact of the consultation. Ofgem only uses 4-week timelines for issues that are urgent/ constrained by deadlines, or represent minor changes to existing policies. We encourage the CER to adopt a similar approach of varying timelines for consultation responses. There is also scope for the CER to improve on how they live up to their values. A recent example of where the values are, in BG Energy's view, not being adequately applied is the ongoing RoCoF project and the concerns around the scope of studies, their costs, applicable timelines and penalties. BG Energy urges the CER to better listen to industry views in order to apply a proportionate, transparent and equitable approach to achieving the RoCoF objectives. In general, any regulatory measures that could negatively impact market participants and ultimately end consumers should be mitigated insofar as possible, which often requires synergies and close collaboration between the CER and market participants.

The absence of a formal appeals procedure is, however, a major issue for market participants in their engagements with CER. It obliges participants to take legal action against CER, leading to costs for both parties which, when CER is found to be in error in a decision, are passed on to other market participants through increases in the following year's levy. Many commercial contracts now include provision for mediation and arbitration in their dispute resolution procedures and in Britain certain decisions of Ofgem can be appealed to the Competition Commission. Consideration of a similar appeals mechanism in Ireland is considered necessary.

The importance of robust qualitative and quantitative analysis in decisions with impacts of potentially high magnitude cannot be overemphasised. A recent example of concern is the Uplift modifications proposal³, which was not presented with robust quantitative and qualitative analysis, which is undesirable particularly when the costs for consumers were not entirely addressed. A further example is the RoCoF process whereby the exorbitant costs to generators are not being adequately considered. Such approaches must be avoided and to maintain confidence in the regulatory process the principle of an objective, rounded and balanced view of costs and benefits and impacts to market participants and consumers alike should be applied in all decisions. The I-SEM project is another major example of where an assessment of the customer costs and benefits will also be required.

We urge the CER to apply more robust and transparent cost benefit analyses of decisions before finalising them. Such analyses should not be limited to a select number of issues but must take into account all potential benefits, costs and impacts to all potentially affected entities.

Goal 2 – Ensure that “the lights stay on” – Secure electricity supplies from production to consumption

BG Energy generally welcomes the proposals in relation to the interconnector and emergency planning. Comments regarding electricity infrastructure are discussed under “Goal 3 and 5 - Energy Infrastructure” below. We limit comments in this section to the Plan's proposals regarding generation adequacy.

BG Energy welcomes the plan to monitor electricity generation including storage and DSM capabilities, as well as the proposed monitoring of system risks. Despite the capacity margin that exists currently however, we caution the CER against complacency in this sphere. Generation adequacy is a medium-

³ SEM-14-022

long term issue and future planning on this issue is necessary. Due consideration to future adequacy is necessitated for example by the fact that the capacity margin for NI is not as strong as that in the RoI and as an all-island market this situation must be rectified. There also exists a very real threat to security of supply in the short-medium term if the ‘back-up’ plant required to complement variable generation will not have sufficient revenues to remain in the market, which will be particularly problematic if a capacity remuneration mechanism is non-existent. Development of the North-South interconnector as a priority in network development and inclusion of a capacity remuneration mechanism (CRM) in the I-SEM project would help mitigate these risks.

The CRM in SEM has been instrumental in providing long term signals for capacity availability and investment which has ensured that a situation similar to that currently seen in GB and continental Europe, whereby a sudden rush for capacity is necessary, has not arisen. Avoidance of such “boom-bust” cycles in generation investments is in the long-term better for consumers and enables price stability and predictability. We therefore consider the inclusion of a CRM in the I-SEM project as critical to generation adequacy.

Long term generation adequacy planning mitigates regulatory and market uncertainty, increases investor confidence and ultimately benefits consumers with stable, predictable prices. Despite the need to pay for such adequacy, the cost to the consumer today will ultimately benefit consumers in the medium-long term. BG Energy urges the CER to heighten the awareness of consumers on this issue and the enduring benefits to consumers in terms of security of supply and stable pricing that short-medium term generation investments will lead to.

Goal 5 – Ensure that “the prices charged are fair and reasonable” – Fully competitive retail and wholesale markets delivering fair prices to customers

This goal goes to the heart of what is required of a competitive market and we fully support the CER’s target success measures for this goal.

We believe that the I-SEM project is one of the most important tasks in wholesale electricity market regulation to 2018 and its implementation will affect wholesale and retail prices. The Target Model should be implemented by 2016 in a manner that ensures efficient interconnector flows but also balances Target Model implementation with the specific market characteristics of SEM (e.g. small market; low interconnection). Market power mitigation measures have to date played a central role in ensuring prices remain competitive and we urge the CER to commit to maintaining such measures in the new electricity market design. Together with the I-SEM project, the DS3 project and (we propose) a Capacity Remuneration Mechanism (CRM) workstream should play equally important roles in delivering the required generation mix needed to meet the EU’s Target Model and renewables policy requirements for 2020 within the context of Ireland’s policy priorities and physical characteristics (e.g. geographical features and capacity mix). Their successful implementation will be instrumental in maintaining and enhancing wholesale and retail market competitiveness and ensuring reliable, affordable and competitive prices to 2018 and beyond.

In relation to competitive markets, prices, innovation and consumer welfare; we welcome the references to setting rules to facilitate competitive behaviour as and when required. We suggest that this should include at least cost-reflective bidding in physical electricity timeframes and that the role of the MMU in market monitoring is retained. BG Energy also strongly believes that better monitoring and incentivisation of efficient operation and development of networks, including increased transparency in the make-up of Dispatch Balancing Costs (DBC), is required. We believe the introduction of appropriate incentives and monitoring would ultimately reduce the costs for the end consumer.

With regard to retail markets specifically, BG Energy welcomes the de-regulation of the gas retail market in 2014 which will enable further competitive prices to enter this retail space. We strongly support transparency in consumer product offerings and enabling consumers compare and understand competitor offers and to easily switch between suppliers. BG Energy does however emphasise that consumer choice and product innovation must not be stifled by micro-regulation (such as possible product-by-product approval under smart metering) which could ultimately reduce the number and choice of products, and the benefits they bring, being offered to consumers.

Regarding network monopolies, we support the aim of benchmarking them internationally to drive efficiency gains and incentivising them to improve performance. Network costs form a major

component of retail prices and urgent review is required. If improvements in the competitiveness of network cost components in tariffs can be achieved, this will have an inevitable positive effect on end consumer prices.

Goals 3 and 5 - Energy Infrastructure

Due to the increasing cost of gas infrastructure, BG Energy believes that the CER must re-consider the most efficient and cost-effective method of remunerating gas infrastructure to enable full exploitation of the benefits of gas in electricity and heat production as well as in the reduction of CO₂ emissions.

Gas usage is reducing significantly due to climate change, increased renewable energy sources, DSM, market integration and related policies which are collectively driving down gas-fired generation revenues and increasing consumer prices. The competitiveness of gas as a fuel in the electricity and heating sectors is further diminished by the increasing cost of gas network charges. A more cost-effective method of remunerating gas networks would improve the cost competitiveness of gas, increase overall usage and therefore increase revenues and improve cost recovery over time.

The role of gas in the electricity market is also being stifled by gas network costs. For example, on an EU level gas is expected to be the primary fuel used in flexible plants that are increasingly necessary to complement variable generation.⁴ However in SEM, network tariffs are hindering its usage resulting in the use of oil and distillate plants in peaker mode. Were gas network costs reduced, gas fuelled plants could better compete in the electricity market, reducing overall electricity costs. The enhanced use of gas in electricity would also greatly contribute to CO₂ reduction targets, particularly when compared to oil, distillate, peat and coal plants.

In light of EU and national policies therefore, and the benefits the use of gas can bring to the heating and electricity sectors and in reducing CO₂ emissions, a review of a more cost-effective method of remunerating gas infrastructure is considered necessary.

Goal 1 – Ensure that “electricity and gas are supplied safely” – facilitating a world class public safety record

BG Energy would welcome clarity on the delineation between the CER’s role and the role of the Health and Safety Authority (HSA) with regard to electricity and gas safety. A degree of overlap appears to exist and we suggest that there may be scope to consider coordination of respective CER/ HSA roles. This could make additional resource available to the CER to work on its growing manifesto, which could contribute to its Goal 6 strategy on resource planning.

Summary and Conclusion

In conclusion, BG Energy agrees with the key objectives contained in this Plan but suggests that the CER should review the issues and suggestions described above as part of the process of achieving the stated goals and strategies. In summary, these issues and suggestions include:

- i. the need for the CER to determine a process of achieving an appropriate balance between the competing goals and strategies as outlined in the Plan;
- ii. the need to carry out robust quantitative and qualitative analysis to provide a holistic view on potential market participant and consumer impacts of proposed decisions (e.g. uplift, RoCoF, ISEM) before decisions are finalised;
- iii. the need for the CER to avoid complacency in medium-long term generation adequacy planning to avoid ‘boom-bust’ cycles such as the current situation in GB. Industry requires certainty on the CER’s long term strategy and consumers must be informed of the benefits in the medium-long term of generation adequacy costs today. Implementation of the Target Model taking into account local market characteristics, delivery of DS3 and a CRM workstream in the I-SEM project all have a role to play in delivering the required generation mix that supports EU and local policies in the longer term;

⁴ “European Energy Regulation: A Bridge to 2025 Public Consultation”, ACER, April 2014

- iv. the need to avoid micro-regulation of ‘smart’ products which could reduce competition and choice, and the need to reduce electricity and gas network costs in order to encourage and deliver competition and efficient prices to the end consumer.

I hope you find the above comments and suggestions helpful and should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Julie-Anne Hannon
Regulatory Affairs – Commercial
Bord Gáis Energy

{By email}