

2nd September 2010

Modifications Committee Secretariat
The Oval,
160 Shelbourne Road,
Ballsbridge,
Dublin 4.

Dear Aisling,

RE: Participant Questionnaire – follow up to Working Group 4

Bord Gáis Energy (BG Energy) welcomes the Regulatory Authorities' Questionnaire and appreciates the opportunity to partake in the process. Throughout this working group process BG Energy's principal concerns in deriving this modification have been that it is non-discriminatory in its application across the SEM and that it does not provide opportunities for gaming which could distort the market. These concerns have been abated to a degree through the latest decision to implement a 3 gate closure solution applicable to all participants. Notwithstanding this, the risks still exist and must be considered fully when scoping the detail of how these gate closures will be implemented and how they will affect the market scheduling and pricing processes.

Question 1: “What are Participants’ preferred timings for the Gate Closures for EA1, EA2 and WD1 (bearing in mind the constraints above)?”

Given that approximately 65% of the MSQ's in the year to-date relate to gas generation plants (peaker and baseload) it is clear that gas trading and gas liquidity in particular has a significant influence on the Single Electricity Market and therefore needs to be considered in any timing decisions. In its response to the previous intraday trading questionnaire BG Energy outlined that the core gas trading times in the UK (from which approximately 90% of the gas in Ireland is imported) are from 8am to 4:30pm. While these are the core trading hours, in practice liquidity in the market is frequently only visible from 8:45 in the morning and liquidity starts to disappear by 4:30pm each day. Hence, in order for generators to be able to bid in realistic/reflective gas prices into WD1, gate closure would ideally take place no earlier than 8:45am each day.

Given that a market schedule run will take approximately 90 minutes (according to the information provided by SEMO), this would mean that EA1 could then take place immediately after WD1 completes i.e. 10:15am.

Finally, given that generators would like their indicative dispatch schedule from the TSOs by no later than 4pm each day (as is currently the case) and the RCUC run can take between 3-4 hours to complete, this would necessitate that the second D-1 gate closure, EA2, follows immediately after the EA1 market schedule run has completed i.e. 11.45am.

The above timelines are all predicated around the liquidity in the UK gas market. BG Energy's core position is that there should be a sufficient degree of liquidity in the gas market which would enable generators and market participants to bid in market reflective gas prices thereby avoiding any potential gaming issues. In addition, if gate closures are to occur outside the main UK gas trading times, it would be possible to envisage situations where generators could potentially include a risk premium in their gas price as they could frequently face the risk of there being no visible/tradable day-ahead/within price for the required volumes.

It should be noted that the aforementioned times are only indicative and the exact timing of each of the gate closures will depend significantly on how the rules are interpreted and implemented. In BG Energy's view, while a significant amount of progress has been made to date in arriving at an agreement on the principles (in particular the agreement that there should be no discrimination between interconnector users and generators in rebidding into any additional gate closures), a significant amount of work needs to be undertaken by the modification working group in the coming weeks/months in order to arrive at a final modification proposal for the SEMC.

Question 2: “(a) Do Participants require a production schedule in advance of the EA2 Gate Closure on D-1? (b) Do participants require a production schedule in advance of 4pm on D-1?”

As highlighted in its response to Question 1, BG Energy is of the opinion that until a more detailed outline of the final modification is arrived at, then it is a difficult task for each of the working group participants to arrive at a fully formed opinion as to the optimal timing and number of market/RCUC runs etc. Saying that, at this early stage in proceedings BG Energy cannot intuitively see any advantage in having a production schedule run in advance of the EA2 Gate Closure on D-1. A disadvantage such a run is that it could potentially delay the EA2 market schedule run which would in turn delay the associated production schedule run which would result in generators having to enter the market and buy day-ahead gas significantly later than 4:30pm each day.

In response to question 2 b, as outlined in its response to Question 1, BG Energy would advocate having a production schedule in advance of 4pm on D-1. Ideally, this production schedule would be made available at 3:30pm at the latest each day to

ensure sufficient market liquidity, but BG Energy is cognisant of the timing issues with market and production schedule runs.

In BG Energy's opinion, given that the CMG guidelines are aimed at increased competitiveness in electricity generation & supply markets in general, any market rules which would result in schedules (either market or production) being produced outside the core business/trading hours would ultimately necessitate 24 hour operations by market participants which in turn would act as a deterrent to new market entry which is contrary to the spirit of enhanced competition outlined in the rules. An additional side effect of 24 hour operations in the Single Electricity Market would be increased costs for market participants which would likely be passed onto end users.

Question3: “What is the end time/ Trading Period to which re-bidding should apply (e.g. should re-bidding apply for the period 06:00 to 16:00)?”

As advocated in BG Energy's response to the previous intraday trading questionnaire, BG Energy sees merit in the trading day being split in two. That is from 6.00-15.59 and 16.00-05.59 (in the event that the proposed changes to triad charges referenced at the last working group meeting do not go ahead, there are significant benefits in allowing parties to manage the risk of Triads).

It should be noted that in addition to deciding on how the trading day should be split participants will also need to take into consideration the outcomes to the following decisions

- a) Implicit Auctioning versus Explicit Auctioning, Use it or lose it or Use it or Sell it?
- b) What is the exact nature and interaction between the EA1, EA2 and WD1 gate closures?
- c) How do (a) and (b) impact gate closure times and will the SEMO market scheduling software be able to implement the suggested changes

At this stage and without further clarification from the RAs and the working group in general, BG Energy believes that it does not have sufficient information to enable it to provide a fully informed and detailed response to Question 3.

Question4: “For interconnector Units who intend to submit offers in the EA2 and WD1 gates, do you require the full range of 10 (P,Q) pairs, or will a lower number e.g. 5 (P,Q) pairs suffice?”

If reducing the number of (P,Q) pairs from 10 to 5 would result in a reduced burden on the market schedule and pricing software and would lead to reduced run times, then BG Energy would be in favour of the proposal.

Question 5: “What are Participants views on the following security mitigation options presented in Working Group 4?”

BG Energy is appreciative of the opportunity to discuss security of supply issues as this will clearly be a key consideration in arriving at a final modification proposal. In general, as outlined in previous paragraphs, a more detailed outline of the mod needs to be realised before responses to security mitigation options can be discussed in detail. Additionally, and probably as a separate exercise, it would be beneficial if market participants could be presented with additional information on the security mitigation options (for example BG Energy is not familiar with the limitations on the ATC that currently exists on the IFA).

On the “constraining interconnector flows for security” option presented, BG Energy would not be supportive of this under the current market rules as constraint payments are not defined for interconnector users in the T&SC. In addition, it would likely lead to 24 hour operations for interconnector users with the associated drawbacks as outlined in response to Question 2.

I hope the above answers clarify BG Energy’s position and are useful in your review. We look forward in participating in the forthcoming conference call scheduled for the 3rd of September where we hope some of the above issues will be addressed.

Please do not hesitate in contacting me or my colleagues Joe Collins and Stan Linehan, who are also part of the working group, if you have any comments or queries.

Yours sincerely,

Jill Murray
Commercial Regulation
Bord Gáis Energy