

Elena Ardines
Utility Regulator
Queens House
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1st July 2009

Dear Elena

RE: Energy Retail Competition Work Programme

Thank you for the opportunity to partake in this consultation and to contribute to the Utility Regulator's future Retail Competition Work Programme.

Bord Gáis Energy (BG Energy) welcomes the Utility Regulators commitment to provide a regulatory programme giving guidance and direction to the market, its participants and potential new entrants as to the expected future developments in the Northern Irish energy market. This will reduce regulatory uncertainty in the market and consequently the investment risks in entering the market.

The commitment shown by the Utility Regulator to the principles of competition is also appreciated. However it is important to be cognisant that the success or otherwise of competition and liberalisation is dependent on the extent to which the systems and arrangements underpinning the market are transparent and non-discriminatory.

Although theoretically the Northern Irish retail energy markets are fully open to competition, there are a number of structural factors which act as barriers to entry and inhibit competition from fully materialising. These are:

- Liquidity of wholesale energy markets
- Access to transportation networks
- Switching process and systems

The rest of this response will focus on these areas and identify where BG Energy believes improvements can be made to better facilitate the development of competition in the Northern Irish energy markets.

1. Liquidity of Wholesale Energy Markets

All suppliers to the gas and electricity retail market have equal access to the wholesale electricity and gas markets, namely the SEM pool market and the National Balancing Point (NBP) in the UK respectively. The UK's NBP market is widely known as one of the most liquid markets providing opportunities for suppliers to hedge their portfolios on a daily basis and minimise their risks. On the other hand, the SEM pool market is relatively illiquid and limited in its provision of hedging contracts. Given the all-island nature of this market, BG Energy believes that the shortcomings of the SEM wholesale market is outside the scope of this consultation. However, when finalising its work programme for retail competition, the Utility Regulator should be cognisant that the liberalisation process will not be fully completed until such time as there is a fair and liquid wholesale electricity market.

2. Access to Transportation Networks

European law recognises the importance of transparent and non-discriminatory access to transportation networks in promoting and delivering competitive markets. Traditionally, European energy markets were characterised by large vertically integrated monopoly utilities. The relationship between the different sections of the vertically integrated utility provided an advantage for the incumbent supplier relative to new entrants to the market and acted as a significant barrier to entry for independent entrants. Subsequent directives and regulations have worked to eliminate this relationship and ensure the provision of non-discriminatory access, both in terms of information and price, to all suppliers operating in the market.

The current structure of the Greater Belfast gas transportation network does not facilitate this objective and obstructs the ability of independent suppliers from competing fairly in the area and offering choice to customers. BG Energy would suggest that a more robust and transparent division between the retail and network operator is required before competition can be reasonably expected to develop in the area.

With respect to the electricity market, the current arrangements for the provision of metering services put new entrants at a disadvantage to incumbents. BG Energy believes that it is more appropriate for the regulated transporter to provide metering

services to customers. This would ensure the provision of and access to accurate data for all suppliers and would allow for the roll-out of policies such as smart-metering in a coordinated manner. It would also reduce the costs to customers by avoiding any duplication of costs.

3. Switching Processes and Systems

Switching is the engine of competition, facilitating the ability of customers to change supplier, thereby acting as a competitive constraint on suppliers to reduce costs and improve service offerings.

Switching refers both to the systems and processes that support the physical switching of customers and also the knowledge and willingness of customers to change suppliers. The current switching processes for both gas and electricity are cumbersome and slow, which reduces the impetus on customers to switch, and thereby increases the risks for independent suppliers entering the market.

BG Energy, as well as other suppliers in the Northern Ireland and the Republic of Ireland, is currently working with the Utility Regulator to develop an enduring solution to better facilitate switching in the Northern Irish electricity market. BG Energy does not believe that the system currently being scoped by the Utility Regulator and its consultants will best facilitate the development of competition in the Northern Irish market. Although the current proposal will improve the ease of the switching process for customers in Northern Ireland, the asymmetries between the system and the system in place in Republic of Ireland will be a disincentive for suppliers to enter both markets.

As stated by the Utility Regulator in its consultation document, the Northern Irish market is a small market if taken in isolation¹. However, if taken as part of the larger internal European market it could be an attractive market place for independent suppliers operating in other member states. In this regard, it would be more appropriate for Northern Ireland to harmonise the market interface systems for

¹ The retail market in the Republic of Ireland is also small relative to markets in other larger member states, however, recent evidence highlights the ability of the market to support competition and its ability to deliver choice and lower prices to customers.

retailers with that of the systems in the Republic of Ireland². This would be consistent with further harmonisation plans between the two jurisdictions and reduce the overall costs to the customer. A significant investment has also recently been made by the system operator in the Republic of Ireland to comply with European legislation and to support competition in the market. Northern Irish industry and customers would reduce their overall costs by integrating this system rather than building a new system for use in isolation. This may require changes to the system in the Republic of Ireland and this should be discussed with the Commission for Energy Regulation and the system operator before a final decision is made to proceed with an enduring solution.

Finally, the Utility Regulator suggests in its consultation document that “vigorous de-regulation” may assist competition to develop in the Northern Irish market. BG Energy would caution that this should only occur if the proper structures are in place to accommodate new entrants and allow for the fair and transparent treatment of all suppliers and customers. This requires transitional regulatory practices to develop a sustainable environment until such time as market and competitive forces are sufficiently robust to support the market independently. BG Energy would encourage the Utility Regulator to develop a medium to long-term regulatory framework outlining its core principles and objectives for competition and the key milestones required to achieve these objectives.

I hope you find this response helpful in your review and would welcome an opportunity to discuss the content further.

Yours sincerely,

John Cussen
Commercial Regulation Manager
Bord Gáis Energy

² BG Energy understands that for legal or other reasons it may not be practical or possible to fully integrate and harmonise the retail market systems in Northern Ireland and the Republic of Ireland at this time. However, from the point of view of retailers seeking to operate in both markets, it would be beneficial if the interface between the market operators and retailers were the same in both jurisdictions. This would reduce the costs of operating in both markets, reduce the barriers to entry and provide for greater competition in both markets.