

21st September 2010

Neil Bingham
The Utility Regulator
Queens House
14 Queens Street
Belfast
BT1 6ED

RE: Consultation on the Options for Co-ordinating the Relinquishing of firmus energy's Supply Exclusivity in the Ten Towns Area

Dear Neil,

This letter is in response to The Utility Regulator's consultation on the options for co-ordinating the relinquishing of firmus energy's supply exclusivity in the ten towns area. Bord Gais Energy (BG Energy) are supportive of the opening of the ten towns to competition provided that this is done in the most co-ordinated, efficient and cost effective manner for both customers and suppliers.

From the information presented in the paper BG Energy would agree that the current staggered opening of the market is confusing for customers and not as efficient as other options proposed. Therefore, BG Energy supports the proposal for the market to be opened in two phases, large IC and small IC/residential. In the event that it is not possible to wait until CAG retail is in place, BG Energy would support the use of the Gaslink distribution code by firmus energy in the interim.

BG Energy's detailed response on the different questions posed by The Utility Regulator are provided in the appendix attached.

Please feel free to contact me if you have any queries.

Yours sincerely,

John Cussen
Commercial Regulation Manager
Bord Gáis Energy

APPENDIX

- 1. Do respondents agree that the current staggered market opening timetable presents potential difficulties and confusion for customers in understanding the different tariffs across the same sectors in different towns? What impact, if any, do respondents consider this could have on the development of competition in the ten towns area?**

BG Energy agrees that the current staggered market opening timetable presents potential difficulties and confusion for customers in understanding the different tariffs across the same sectors in different towns. This could cause a reluctance by new customers to convert to natural gas leading to a smaller gas market for suppliers to compete in. It could also cause a reluctance by customers to switch suppliers.

- 2. Do respondents consider that under the current arrangements there is potential for confusion for customers in understanding which sectors in which towns are open to competition? If so what is the impact on the different sectors and on how suppliers advertise?**

BG Energy do consider that under the current arrangements there is potential for confusion for customers in understanding which sectors in which towns are open to competition. As stated above, this could lead to a smaller gas market where customers are reluctant to convert to natural gas or a market where customers are reluctant to switch supplier.

The current arrangements would also make advertising more difficult as new suppliers would have to reduce their coverage to only those towns which were open and make it clear that their tariffs were only applicable in these towns.

- 3. What are the views of respondents on the choice of network codes and associated costs? What considerations are most pertinent for switching system implementation and the associated costs?**

As outlined in the consultation, developing a bespoke code would be the most costly option and would introduce a third code to the island which would need to be considered when CAG retail examines harmonisation options.

Waiting for CAG retail to be in place would certainly be the most cost effective and efficient solution. However, as the timelines for this are currently unknown, this may not be feasible. If it was felt that CAG retail would be implemented within a short enough timeframe to warrant a postponement of market opening in the ten towns, then BG Energy would recommend waiting until this time and hence remove the need for any cost of an interim distribution code and everything that it entails.

With regards to the other two options (use either the Gaslink or the PNLG code), it would be preferential for firmus energy to adopt the Gaslink Code. This has the advantage of being lower in cost. In order to reduce the work of separating out the distribution code from this, waiting for the CAG Transmission arrangements to be put in place in 2012 would be a benefit. This would require the opening timetable for a small number of large IC customers to be moved back to April 2013.

Pertinent considerations for the implementation of a switching system and the associated costs are as follows:

- The solution should be low cost in anticipation of CAG retail. The scale of sunk costs should be minimised.
- Complexity should be minimised due to the current small size of the market and in anticipation of CAG retail.
- Relevance for the future needs to be considered in terms of CAG retail.

4. Which option do respondents consider presents the best alternative, based on considerations of minimal costs, least confusion for customers and availing of effective competition at the earliest possible opportunity for customers? What arguments are there (based on cost, market clarity and competition considerations) for the alternative options? Is there an alternative option not presented in this paper or a refinement of one of the options that might be more optimal?

Option 2 would seem the most sensible approach for the opening up of the ten towns in terms of reducing confusion for customers and reducing costs associated with market opening (as apposed to the costs associated with an earlier, phased approach). It also removes the issue of apportioning supply operating costs over different towns some of which have regulated tariffs and some of which don't.

In the absence of a decision to wait until CAG retails is in place, BG Energy would agree with the proposed market opening date (April 2013) for the large IC customers. However, we would suggest pushing the market opening date for the small IC/residential market from April 2015 to April 2016 (the median date as per the large IC customer date) to allow for further development of the gas market through customers switching from oil.