

**Industry & Regulation  
Centrica**

20<sup>th</sup> June 2006

To: ERGEG  
By email: GGPGGB@erggeg.org

Dear Sir, Dear Madam

**Ref. ERGEG Guidelines for Good Practice for Gas Balancing**

I refer to your April public consultation on Guidelines for Good Practice for Gas Balancing. On behalf of Centrica, I wish to make the following remarks.

We welcome ERGEG's second consultation on these Guidelines and the majority of the amendments adopted subsequent to the first consultation in 2005. The creation of a more level playing field for gas balancing participants will, we believe, encourage market competition and ultimately benefit customers.

In addition to our activities in our home market of Great Britain, Centrica's existing European gas activities are concentrated in the Benelux market area, and we are now establishing a new German business based in Düsseldorf. The balancing arrangements we encounter in these Continental European markets are frequently much more onerous than those in Great Britain, and we fully support ERGEG's attempts to improve gas balancing arrangements across the EU.

Following the final publication of the Guidelines, we would urge all stakeholders in the European gas markets, in particular the regulatory authorities, to ensure that these Guidelines are adopted by the suggested date of January 2007. The establishment of effective gas balancing arrangements will help smooth the progress of the July 2007 full market opening.

The key principles for gas balancing arrangements are that they are fair, non-discriminatory and transparent, and that they are established on objective market-based criteria. We would re-iterate our remarks from the earlier consultation that it is crucial that the rules are applied equally to all gas balancing market participants, whether or not they are vertically integrated organisations. In this the establishment of controls relating to confidential information, by ring-fencing relevant operations and establishing codes of conduct and compliance rules, is very important from the outset.

Below we list a few remarks about the key characteristics of a balancing regime:

- Balancing period – we support the proposal for a daily balancing system, unless there are justified technical or operational reasons that make a shorter duration necessary.
- Imbalance charges – we encourage TSOs to establish market-based approaches or (if that is not feasible) transparent calculation methodologies in determining or revising imbalance charges.
- Penalty charges – whilst it is important that penalty charges (and imbalance charges) are set at a level to incentivise market participants to actively manage their balancing positions, these charges should not exceed the actual balancing costs incurred by the TSO, as stated by ERGEG.
- Trading and pooling of imbalance positions – we are encouraged by ERGEG’s support for the trading or pooling of shippers’ positions, specifically where market liquidity is under developed. However we still consider that the concept of ‘pooling’ imbalance positions is not sufficiently well-defined. In our view, the case for pooling or trading of imbalances depends on the shape of the overall balancing regime. For example:
  - Where there is hourly balancing but no within-day market instruments exist, there is likely to be a case for both balancing tolerances and ex post trading of hourly imbalances once the relevant gas allocations are available.
  - In a market with daily balancing, there may be a concern that the introduction of both balancing tolerances and imbalance pooling could erode proper incentives for shippers to balance their own portfolios.
  - As market-based mechanisms are developed for gas balancing, the need for tolerances should be reduced but the introduction of greater flexibility of imbalance pooling/trading should be considered. Ex post trading of daily imbalances is allowed in Great Britain, where there are no balancing tolerances, without eroding balancing incentives on gas shippers.
- Tolerance levels and tolerance services – we support ERGEG’s recognition that tolerance level and services should vary depending on the level of system and market development. They may have a value during the introduction of market competition but should not be an enduring arrangement once markets are liberalised.
- Market information and transparency of balancing arrangements – in addition to the information listed in Annex 2, we would suggest that information on actual and forecast levels of linepack be made available to market participants as well as data on the amount of gas in storage. This is especially important in markets where the TSO and/or shippers will be using linepack and storage to help in their balancing activities.

- Balancing costs and incentives for the TSO – as stated above on penalty charges and imbalance charges, we fully agree that a TSO’s balancing activities should be revenue neutral. We do not agree with the statement made in §1.28, and reiterate our response to the first consultation that we do not believe that a TSO should be prevented from accepting bids and offers for balancing gas.
- Harmonisation of balancing rules – we consider that differences in neighbouring gas balancing regimes do impact the development of competition, and we are encouraged by ERGEG’s suggestion that regulatory authorities and TSOs should endeavour to harmonise balancing regimes, to streamline structures and levels of balancing charges in order to facilitate regional co-operation between Member States in this area. We would therefore welcome the inclusion of cross-border harmonisation as part of the current regional markets initiatives.
- Consultation – we strongly support the use of consultation in the introduction of new or revised market rules, including those governing gas balancing.

To reiterate, we support the publication of these Good Practice Guidelines for Gas Balancing by ERGEG and encourage market authorities to implement these within their jurisdictions.

I trust that you find this response helpful. Please do not hesitate to contact me if you would like to discuss any issue raised in further detail.

Yours faithfully,

**Carys Rhianwen**  
Upstream & European Issues Manager

[carys.rhianwen@centrica.com](mailto:carys.rhianwen@centrica.com)

Tel. +44 20 8734 9354

Mobile. +44 7979 566325