

Response by Centrica Energy & British Gas Trading Limited July 2005

Monitoring of the implementation of the Guidelines for Good Practice for Gas Storage System Operators (GGPSSO)

Section1: open background questions

*The objective of the monitoring of the GGPSSO is to find out whether and how the GGPSSO have been implemented. Questions addressing the actual compliance with the GGPSSO are presented in Section 2. However, the monitoring should also provide an overall view of the effectiveness of the GGPSSO. Therefore, the questions presented in Section 1 are designed to assess **how** the GGPSSO have been implemented and in particular whether the GGPSSO could be improved.*

1.1 Do you believe implementation of the GGPSSO by SSOs has been effective?

SSOs in Great Britain are already largely compliant with the requirements of the GGPSSO. Any specific areas of non-compliance will be highlighted in our responses on individual storage operators.

On the Continent, we have seen only limited evidence of implementation of the GGPSSO. Access to storage on a competitive basis remains a barrier to entry in many markets. Some SSOs refer to the GGPSSO on their websites and a few have made changes e.g. BEB is publishing prices for standard units. Lack of transparency makes it difficult for prospective users to assess fully the extent of implementation in the major EU energy markets. We are particularly concerned about the level of implementation where there is no or little separation between the SSO and the affiliated supply or trading companies.

Implementation of the GGPSSO must also meet the spirit of the Guidelines, which require that TPA services are offered in way that facilitates competition and trade (section 3.1).

1.2 Apart from storage services, do you have sufficient access to other sources of flexibility in order to meet your commercial needs (e.g. hubs, production flexibility, import flexibility, long-term contracts, balancing market)? Can these other sources of flexibility be considered as effective substitutes to storage?

In the UK, all the mentioned sources of flexibility are available to suppliers and compete with each other as substitutes for storage. The competition between these alternative sources is reflected in forward wholesale market prices and UK storage has to be priced to compete i.e. the cost of storage is set by the wholesale gas market. The forward market e.g. the differential between summer and winter prices also provides market signals as to the need for investment in storage.

By contrast, in Continental Europe the summer winter price differential does not exist, because there is an undue influence of the oil price due to the long-term contractual linkage.

Access to alternative sources of flexibility is either very limited or where it does exist not a sufficient substitute for storage to meet suppliers' needs. This can be attributed to the absence of liquid wholesale markets, difficulty in obtaining transportation capacity and in particular a lack of short term services.

Lack of access to capacity on the Continent could limit import flexibility to the UK.

1.3 Please indicate if the adoption of the GGPSSO has had a positive impact on TPA services (GGPSSO requirements on “Necessary TPA services”, chapter 3)?

In the UK the GGPSSO has not led to any substantive change because those service providers already meet most of the requirements of the GGPSSO. Those SSOs that previously provided a good range of services e.g. Scottish and Southern and Centrica Storage Limited, continue to do so.

For those Continental storage services where capacity is booked out for several years there is no real practical improvement to the storage services available to third parties and it remains extremely difficult for new entrants to access storage on the Continent.

1.4 Please indicate if the adoption of the GGPSSO has had a positive impact on storage capacity allocation/congestion management procedures (GGPSSO requirements on “Storage capacity allocation and congestion management”, chapter 4)?

On the Continent, the vast majority of storage appears to be already booked under existing, often long-term, arrangements. Some storage operators still claim to be 100% sold out for the next 20 years. There appears to have been very little allocation of capacity to new entrants.

Due to lack of transparency it is difficult for third parties to judge the full impact of the GGPSSO on capacity allocation. For this reason, ERGEG or the EU Commission should investigate the extent to which capacity is actually being allocated to third parties, in particular since the implementation of the second Gas Directive.

The less than 3 shipper rule (Section 6.2) means storage capacity information is not available for many facilities.

1.5 Please indicate if the adoption of the GGPSSO has had a positive impact on transparency. Would you say that as a user, you are provided with sufficient and timely information in order to gain effective and efficient access to storage facilities? What data would you like to see published? Why would you need this additional information (GGPSSO requirements on “Transparency”, chapter 6)?

There has been some improvement in information transparency, but users lack confidence in the accuracy and validity of information. The lack of publication of historical information is giving an inherent advantage to bundled incumbents.

Some capacity information has been placed on storage operators' websites, but this is often very high-level information and we do not know how often this information is updated. There are examples of SSOs stating that information is not being given because they do not have more than 3 storage users.

We are not convinced that capacity information provided in Continental Europe meets the requirements of Sections 6.1-6.2 in terms of being published in a timely and meaningful manner. For example, one website states that capacity information is only indicative.

Full implementation of Section 6 is essential. One element that will be particularly important to users in NW Europe under current supply/demand conditions is the publication of weekly inflows and outflows (Section 6.5 b). This will help ensure market prices accurately reflect supply and demand and avoid undue volatility from speculation about aggregate storage levels.

Once you have a daily traded market, user-friendly and non-discriminatory access to accurate short-term information (daily and within-day) becomes essential. Other additional information requirements may become apparent once the guidelines are fully met.

All storage operators should be encouraged to provide transparent information whether operating under regulated or negotiated TPA, and even those exempted from TPA, should all be encouraged to provide as much information transparency possible as the market develops.

- 1.6 In nTPA, if the main commercial conditions including the prices for standard services are published, is there consistency between your contract and these published conditions (GGPSSO requirements on “Tariff structure and derivation”, chapter 7)?**

In the UK Scottish & Southern, Transco LNG and Centrica Storage Limited all provide standard contracts with published conditions. Scottish & Southern does not publish prices.

Of the Continental Storage Operators we have looked at, more than 50% publish standard contracts on line. However, there are indications that the final terms may vary between different storage users in a way that could lead to discriminatory access.

- 1.7 Please indicate if the adoption of the GGPSSO has had a positive impact on secondary trade of storage capacity (GGPSSO requirements on “Secondary market”, chapter 9)**

We are not aware of any improvement on the Continent despite the fact that several SSOs have published bulletin boards for secondary trading. The lack of secondary trading could be attributed to restrictions caused by other market conditions e.g. difficulty in access to transmission capacity.

- 1.8 Do you believe that there is a conflict between the requirements of the GGPSSO and national legislation that will materially affect either your interests or your ability to comply with the GGPSSO (GGPSSO Scope and Objective)? Please specify the nature of such conflict**

There need not be any conflict.

In some Member States, a conflict exists with 4.1 to 4.3, where national regulations or requirements result in storage access being limited to those market participants that can demonstrate evidence of existing retail supply contracts.

- 1.9 If you have entered into a new storage contract after the adoption of the GGPSSO (18 March 2005), do you believe that there is a conflict between the requirements of the GGPSSO and certain clauses of your contract (e.g. publication of certain data, day-ahead release of non-nominated injectability and deliverability)? Please specify the nature of such conflict**

Not applicable for Centrica Energy/British Gas Trading Limited.

- 1.10 Do you believe there are gaps in the GGPSSO? How could the effectiveness of third party access to storage be improved?**

With reference to gaps in the current GGPSSO:

- a) We would like to see a specific requirement to provide daily information.
- b) The “less than 3 shipper” exemption for publication of information should be removed.

SSOs must be able to demonstrate implementation to both users and regulatory authorities. Thus, transparency of measures to ensure non-discrimination is essential. SSOs need to demonstrate sufficient separation and the implementation of compliance programmes mentioned in Section 5 of the GGPSSO. For example, the code of conduct for staff should be published.

Proper enforcement of the GGPSSO, in a way that meets the spirit of the Guidelines, will be key to improving effectiveness of third party access. If all SSOs do not implement the guidelines fully then the EU will need to give them legal force.