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By E-mail: fg_gasbalancing@ergeg.org

Dear Sir/Madam

Gas Balancing Rules on European Gas Transmission Networks Draft Pilot Framework Guideline

Centrica welcomes the opportunity to comment on the ERGEG pilot Framework Guideline on gas balancing rules. As a supplier and shipper in the EU networks, with gas production, wholesale trading and energy retail activities, we are pleased that ERGEG has chosen gas balancing as a priority topic for the code development process.

This response is on behalf of the Centrica Group of companies excluding Centrica Storage Ltd.

Problem identification, scope, definitions, purpose, policy objectives and compliance

Question 1: Do you agree that the problems identified in the problem identification chapter are the main ones? Are there additional problems that should be addressed within the gas balancing pilot framework guideline?

ERGEG has correctly identified the main problems relating to gas balancing across the European gas transmission systems. Balancing of dedicated gas interconnectors e.g. with one entry and one exit point may be less complex

Additional issues that should be addressed include:

- the need to ensure that TSOs are able to obtain the information they need from connected gas systems, in particular from EU distribution network;
- a recognition that there may be a possibility of market dominance when applying market-based solutions in some systems and NRA's will need the ability to use appropriate tools to mitigate against this;

- the approach to be taken to dedicated gas interconnector pipelines, where it may not be practical and/or necessary to incorporate all the elements of the FG Balancing.

Question 2: Do you agree with the scope (section 1) and objectives (section 3) of this pilot framework guideline? Are there policy issues that should, but are not currently addressed by the draft document?

Centrica agrees with the objectives of the pilot framework guideline.

With regard to scope, we would welcome further detail on the extent to which dedicated gas interconnectors which are normally classified as gas transmission systems should be required to meet all the requirements of the FG.

The scope currently includes arrangements for cross-border balancing: whilst this could be a long term objective for several systems, it might be more practical to leave the development of more detailed proposals in this area to a later iteration of the EU network code.

ERGEG and the NRAs should also consider how they will ensure that DSOs provide TSOs with the information they need, given that the Framework Guideline and resulting Network Code does not place binding obligations on DSOs.

Question 3: In your view, should the European network code for gas balancing lead to an amendment of national balancing rules? If so, how detailed should the European target model be?

Existing rules will need to be changed where they do not comply with the European network code. However, there should be some flexibility to avoid unnecessary changes to well functioning systems. A degree of flexibility will also be needed to accommodate local technical characteristics, provided that these do not undermine the objectives of the FG balancing.

Question 4: Do you agree with the approach of defining a target model for the network code and allowing interim steps subject to NRA approval?

Yes. Interim steps are a necessary practical measure to facilitate a timely agreement and implementation of the European Network Code and to avoid moving at the pace of the least developed systems. It is important that the possibility to move from an interim step towards the target model is regularly reviewed by the NRA. This FG Balancing should set a formal timetable for regular reviews of any balancing regime that has not met the target model; for example every 3 years, with a report sent to ACER setting out the possibility for progression towards the target model.

We would suggest that the “best practise” for implementation of the EU gas balancing code at national/local system level would be for the target model to be written for the

local code first, and then for the interim steps to be set out in code. This will give all stakeholders regulatory clarity on the path to implementation and help ensure all stages are coherently designed.

Question 5: What timescale is needed to implement the provisions in the target model outlined in Part II after the network code is adopted? Is 12 months (as in section 10) appropriate or should it be shorter or longer?

It will be difficult to set a fixed timescale on adopting the target model as the balancing systems in TSOs' networks are at very different stages. It would be more appropriate to set a deadline by which the NRA could have first reviewed the prospects for implementing the target model in a TSO's network and agreed appropriate target dates with the TSO in consultation with market participants. 12 months could be an appropriate timescale for this process.

Question 6: Should the pilot framework guideline be more specific regarding the purpose and policy objectives for network codes (section 3), in particular areas including nomination procedures?

More work could be done on nomination procedures, although the FG Balancing may not be the most appropriate place.

Question 7: With reference to section 3 (proposed policy objectives), do you have comments on how Article 21 of the Gas Regulation 715/2009 should be reflected in the gas balancing network code?

The FG Balancing is largely reflective of Article 21 of the Gas Regulation 715/2009. The gas balancing network code, which is expected to be more detailed, could focus on the effective and user-friendly delivery of the data required by the Gas Regulation to support balancing.

The role of network users and TSOs

Question 8: Is it necessary to have a harmonised approach to the network user and TSO roles regarding gas balancing?

There should be a clear understanding of the roles and responsibilities of the network user and TSO and these should be harmonised in principle, noting that the extent to which the TSO may need to be active in maintaining system balance and the mix of methods use may vary between different systems according to specific technical and market characteristics.

Question 9: What are your views on the proposals for the target model to be reducing the need for TSOs to undertake balancing activities?

We agree that the emphasis should be on the TSO being the residual balancer. A successful implementation of the target models is would probably lead to a reduction in the need for TSOs to undertake balancing activities in its role as residual balancer; however this should not be a goal in itself.

The TSO should be given incentives by the NRA to incur residual balancing costs in an efficient way.

Question 10: Is it appropriate for the target model to impose within-day constraints on network users? If so, should such constraints be imposed on all network users or only on certain groups of network users? If within-day constraints should only be imposed on certain groups of network users, which ones are these? How could this be justified?

Centrica believes that the target model should be daily balancing with an end of day cash out and that this should not include any penalties based on the network users' position within day.

Within-day constraints as mentioned in Paragraph 6.4 of the draft FG Balancing would be better placed as an interim model. As an interim model this could be used to reflect recent positive developments in some Member States which have allowed daily balancing to be created for small users. The ultimate target should remain daily balancing for all users.

Question 11: Is balancing against a pre-determined off-take profile a useful interim step?

As for Paragraph 6.4 on within-day constraint penalties, it is possible that this could be a useful interim step. A range of interim steps should be possible in order to allow for choice of the most appropriate model for the market in question.

Question 12: Should TSOs have the option to sell flexibility provided by the gas transmission pipelines system (linepack) subject to the NRAs' approval? If so, should this be mandatory?

TSOs could be given this option subject to the NRA's approval, but this should be balanced against the benefit to the overall market of the TSO using flexibility from linepack to support its balancing responsibilities.

Question 13: Should the target model enable TSOs to provide tolerances to market participants for free or should this be an interim step?

The target model should be for network users to balance without the use of tolerances. On the other hand, tolerances can be a useful part of an interim step, either to compensate for lack of liquidity for flexible gas products or to help network users adjust to a new regime.

TSO obligations on information provision

Question 14: Are there any additional information requirements that you believe should be included? In particular, should the pilot framework guideline oblige TSOs to provide information beyond the requirements set out in the revised Article 21 and Chapter 3 of Annex 1 to Regulation (EC) No 715/2009 (as recently approved through comitology)? If so, please provide details?

We believe that Article 21 and Chapter 3 of Annex 1 of the Regulation largely meet the requirements for information provision. The FG could underline the need for effective implementation of these measures and the gas balancing code could expand on the method of implementation in more detail e.g. ensuring delivery in a user friendly way.

Question 15: What are the benefits and disadvantages of TSOs providing network users with system information?

Timely, accurate and comprehensive information about system status helps users to respond more efficiently to supply and demand, supporting both the secure operation of the system and the most cost effective supply to end users. Network users need timely and accurate information about their own position for the same reason. Overall, this should help minimise the degree to which the TSO needs to be active in balancing the system.

Question 16: What are the costs of TSOs providing network users with system information? How do these compare against the benefits and/ or disadvantages?

This question is best answered in detail by TSOs and Regulators who may be verifying the cost information; however we do not believe the costs are prohibitive

Balancing periods

Question 17: What are your views on our assessment of the policy options?

The IIA considers three policy options: an hourly system; a daily system and a cumulative system. Balancing against a predicted within-day profile is mentioned as an interim step towards daily balancing.

ERGEG provides a reasonable summary of the both the advantages and problems associated with each system. As mentioned in answer to Question 10 we believe the application within day constraints which attract penalties should not form part of the target daily model, but could be a valuable interim step.

Question 18: Are there relevant additional policy options on balancing periods which have not been considered in this section? Should these be considered going forward?

The paper does not refer to cumulative system (e.g. Dutch model) here. This could be accommodated as a legitimate interim step, perhaps with the addition so an automatic end of day cash out to facilitate alignment with neighbouring daily models.

Question 19: Is it necessary to harmonise balancing periods? If so, what are the benefits of a regional or pan-European harmonised balancing period? If not, why is it not necessary? Please explain your answer.

A harmonised balancing period is preferable as it simplifies cross-border trade and reduces barriers to entry.

In addition harmonising balancing periods, and the regime in general, will remove incentives for shippers holding cross-border capacity to transfer imbalances from one system with a stricter regime to a neighbouring system with more benign regime. Where this occurs on a regular and material basis it can make it hard for the TSO in the more benign system to facilitate efficient balancing of its own system.

Question 20: If you agree with a harmonised balancing period, what do you consider is the appropriate length of the balancing period?

Centrica is in favour of the gas day as the target model for a harmonised balancing period.

Question 21: Do you agree with the target model? (Please explain your answer).

Centrica agrees with the first paragraph of the target model 6.3, but believes the concept of within-day imbalance charges as set out in 6.4 should form part of an interim model.

Question 22: What would be the costs of implementing the target model in (and beyond) your Member State or balancing zones(s) (as the case may be)?

The target model in 6.3 is already operational in the British gas market therefore the costs should be minimal. Other aspects of the FB balancing could potentially lead to IT changes but this is best answered by the TSO.

TSO buying and selling of flexible gas and balancing services

Question 23: Do you agree with our assessment of the policy options?

The IIA considers four policy options which are procurement through 1) gas wholesale market 2) a stand-alone balancing market or platform 3) periodic tenders and 4) long term contracts and/or direct access to flexibility. We agree with ERGEG's assessment of the policy options.

Question 24: Do you agree with the target model? (Please give reasons). If so, what do you consider are the benefits and disadvantages of the target model?

We agree that the target model should be for the TSO to buy and sell gas in the wholesale gas market on an equal footing with network users. However, balancing platforms that can only be used by the TSO to buy/sell gas from network users should be considered as an advanced interim step.

Question 25: What are the costs of implementing the target model in your Member State?

This model is already operational in the GB market.

Question 26: What interim steps, if any, may be needed in your Member State or balancing zone(s)?

The target model is already operational, so no interim steps are needed.

Question 27: Is it appropriate for balancing platforms to be part of the target model subject to NRA approval, even where markets are sufficiently liquid to enable TSO procurement on wholesale markets?

Balancing platforms should be seen as an advanced interim step. The preference should be for the TSO to procure on the wholesale market, which could be designed to allow market participants to offer locational gas to the TSO.

Question 28: Is it appropriate for TSOs to procure balancing services on the wholesale market and/or or is appropriate for these to be procured on the balancing platform? Should TSOs be permitted to reserve long-term contracts for flexible gas and/ or associated capacity for this purpose?

Whilst the target model should be for the TSO to procure balancing services on the wholesale market, the other options could be used as interim steps. If a lack of liquidity means that the TSO, with the agreement of the NRA, needs to reserve long-term contracts then care needs to be taken that this does not prevent network users from getting access to the flexible gas they need.

Question 29: In your view is it possible in your market to reduce TSOs' reliance on long-term products? If so, how may this be best achieved?

This has already been achieved in the GB market.

Elsewhere in the EU, effective implementation of the 3rd Package should facilitate an improvement in wholesale market liquidity which would enable most TSOs to reduce reliance on long-term products to a minimum.

Imbalance charges

Question 30: Do you agree with our assessment of the policy options?

The IIA identifies three policy options for imbalance charges: 1) charges based on efficiently incurred TSO procurement costs on market-based mechanisms 2) charges based on an administered price and 3) charges based on a cost proxy (e.g. basket of wholesale prices).

We broadly agree with ERGEG's with the assessment of the policy options and believe that the target model should be for imbalance charges to be based on marginal prices in the local balancing market.

We would welcome a clear statement being added to the FG text at the start of this section underlining the important principle that imbalance charges should be market based wherever possible.

Question 31: Do you agree that methods for calculating imbalance charges should be harmonised? If so please explain what the benefits may be. If not, please explain why not.

The main objective should be to achieve the target model in Member States i.e. for imbalance charges to be based on marginal prices in the local balancing market.

Question 32: What are your views of the target model? In particular, please provide your views on:

- Whether an imbalance charge should be applied when TSOs do not take balancing actions;**
- What the imbalance charge should be based on, if it is applied when the TSO has not taken a balancing action, whether imbalance charges should be dual or single priced;**
- Whether imbalance charges should be based on the marginal price.**

We generally agree with the target model, in particular for imbalance charges to be based on the marginal price. The imbalance system should incentivise individual shipper balancing, therefore it would normally be appropriate for an imbalance charge to be applied even if the TSO has not taken a balancing action. Also a small uplift could be applied in case a system average price is used to generate an imbalance charge in the absence of any TSO balancing action that day. Centrica generally favours a dual priced system.

Question 33: What would be the costs and benefits of implementing your preferred options in your Member State?

There would be no additional costs as the system is already implemented.

Question 34: What are your views on the interim steps in the document?

The interim steps accurately reflect the practical options that should be open to TSOs.

Cross-border cooperation

Question 35: Are there any other relevant policy options on cross-border cooperation that should have been included in this section?

See answer to 36.

Question 36: Do you agree with our assessment of the policy options in this section?

ERREG has provided a good summary of the main policy options have been highlighted, however we question whether it is appropriate to incorporate all the objectives set out in the IIA in the FB Balancing at this stage. For example 9.4 and 9.5 may be more appropriate for a later iteration of the Network Code. On the other hand we would support the more general requirements in 9.1, 9.2 and 9.3 which encourage the merging of balancing zones where technically feasible and economically reasonable and require consultations and progress reviews by the TSOs and ENTSOG respectively.

Question 37: Are Operational Balancing Accounts (OBAs) useful to deal with steering differences? Should the network code make it mandatory on TSOs to put in place OBAs?

Yes. OBAs are an example of where inter-TSO cooperation be of benefit to the wider market and should be included in the network code.

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We hope that this response has been helpful. If you would like any further clarification please do not hesitate to contact me on +44 7979 567785 or helen.stack@centrica.com

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Yours sincerely,

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