APPENDIX: DETAILED COMMENTS ON ERGEG'S REPORT

Below are listed additional, detailed comments by Centrica on ERGEG's June 2006 Report on the Transmission Pricing (for Transit) and how it interacts with Entry-Exit Systems.

Paragraph 10: it may be helpful to clarify this point. Our understanding of Article 32 in the 2003 Directive is that it does not in any way reduce or waive the general, over-riding obligations as regards non-discriminatory access charges – even as regards those transit arrangements which were concluded within the scope of the 1991 Transit Directive. (The last sentence of paragraph 10 appears, by implication, to leave some doubt in this regard.)

Paragraph 12: it is important to emphasise that the case of "pure" transit pipelines (unconnected with the remainder of the within-country transmission network) is totally exceptional. The point which is made in relation to Russian gas transit could be made much more generally, as indeed the first bullet point of this paragraph suggests. On a matter of detail, the TENP example (which appears within the sentence about Russian gas transit) actually concerns Dutch gas and is therefore just one example of the wider point.

Paragraph 13 (Table 1): The data here may be misleading due to the significant change in transit and imported volumes since the table was prepared. It is also misleading to exclude flows between neighbouring countries as these may reflect the largest element of transit volumes.

Paragraph 17: it may also be helpful to clarify the interpretation of Article 4.1(a) of Regulation 1775/2005, as regards the obligation to "offer services" on a non-discriminatory basis. Our interpretation is that obligations of non-discrimination are generally applicable to services offered and are not limited to offers made under new or renewed contracts.

Paragraph 19: one possible model is provided by the post-BETTA transmission arrangements in the British electricity sector. There are three transmission network operators in Great Britain (NGET, SPTL and SHETL) but NGET is the sole transmission system operator. A single set of entry/exit transmission charges exists across the system as a whole and each network operator receives the relevant entry or exit charging revenues from those entry/exit points which are located on their network. There are no separate entry/exit charges at transmission network interfaces such as the Scotland/England border.

Paragraph 23: we strongly welcome these suggested criteria as the application of the "pipeline-to-pipeline competition" argument in Europe seems to us much narrower than is sometimes maintained. We note that, even in the USA (where parallel transmission pipelines are far more common on major trunk routes), the vast majority of local distribution companies have access to only one pipeline. This must be the case in Europe to a far greater extent, since parallel pipelines are much less common (even in Germany) than they are in the USA.

Paragraph 26: we note that Article 16 (b) of Regulation 1775/2005 formally disapplies the Regulation where infrastructure is exempt from the RTPA provisions of the 2003 Directive. However, we also note Article 12 of the same and we suggest that (where such exemptions are accepted) ERGEG should encourage national regulators to consider exemption conditions which maintain other essential elements of the Regulation (e.g. transparency, non-discrimination and congestion management). We would encourage ERGEG to consider consistent application of these provisions and in particular the potential to split the market due to the preponderance of exemptions granted to new investment.

Paragraph 27: We are unclear why current variations between countries precludes a common solution. This should be challenged.

Paragraph 30: please see the remarks on paragraph 12, above. It would be useful to clarify that, on this basis, the pure distance-related criterion will very rarely be applicable. It is therefore important to provide a "route map" whereby distance-related transit conditions can over time be integrated into more widely applicable entry/exit transmission charging structures.

Paragraph 34: we are not convinced of the statement in the second sentence. While the move away from integrated (bundled) monopolies clearly has an impact on the information available to TSOs, we do not agree that the separation of entry and exit bookings *per se* has a material impact on a TSO's ability to judge whether bookings can actually be served. After all, a "notional path" booking (subject to distance-related charges) may bear no relation at all to actual gas flows on the system.

Paragraph 35: it would be useful to give further examples in support of the second sentence, as it is not entirely clear as drafted.

Paragraphs 37-39: care must be taken to ensure that these rules are not unduly prescriptive, especially in a transitional period. For example, the "open season" processes for transit capacity in The Netherlands and Belgium are structured very differently from the transmission entry capacity auction system in Great Britain. In particular the regulatory co-operation required to achieve the desired results (as stated in paragraph 39) need to be pursued expeditiously, particularly where activities in one market impact on charges and costs in others.

Paragraphs 41-42: provided that entry and exit capacity charges are properly designed, there should be no need for backhaul tariffs within such a system. Moreover, the underlying principle of separate entry and exit capacity bookings is that notional flow paths (whether forward or backward) are not defined. As such it would be useful to differentiate between backhaul flows within a network, and those volumes leaving a network at an entry point where the solution is clearly to apply an exit charge. As regards short haul tariffs, out general preference would be to minimise the number of exceptions to a general entry/exit charging structure. This might, however, need review in future if a consequence of applying entry/exit principles across very large (cross-border) market areas were an undue incentive to construct unnecessary "by-pass" pipelines over shorter distances.

Paragraph 43: The TSOs should be required to facilitate all types of capacity trading and to offer services to the market at least until it is fully functioning.

Paragraph 44: We do not support the mandatory use of bulletin boards, particularly where there is an efficient "Over the Counter" market in existence. The market rules should be sufficient to incentivise capacity holders who are not using their capacity to trade it.