

ERGEG

By email: gastransparency@ergeg.org

26 November 2010

Dear Sir, Dear Madam

Re: ERGEG Public Consultation on Existing Transparency Requirements for Natural Gas

Centrica Energy welcomes the opportunity to respond to this consultation issued by ERGEG on transparency requirements for natural gas. This response is on behalf of the Centrica group of companies excluding Centrica Storage Limited.

We understand that the conclusions of this consultation will form the basis of advice to the European Commission as part of its forthcoming work on a Regulation for Energy Market Integrity and Transparency.

We support the principle of transparency and the role that improved transparency can play in the development of a liberalised competitive market. Harmonisation and consistency of data provision are essential for the development of the internal market. Access to fundamental data on regulated assets is a clear requirement for the efficient functioning of the system and for the development of cross border trade in Europe. As regards access to information about non-regulated elements of the value chain, we would urge caution that the desire for overarching transparency does not unnecessarily or inadvertently impact commercial practices and operations and the investment climate, all of which could have knock on effects on the objectives of security of supply and climate change policies.

Centrica is active in the European electricity and gas markets, primarily in North-West Europe. Its gas activities are focused on the market of Great Britain where it supplies gas to end-user customers, is a storage capacity user and holds capacity at the Isle of Grain LNG terminal. Centrica holds gas transmission capacity in GB, its associated interconnectors and in North West Europe. Centrica also has gas production capacity in the UK, Dutch and Norwegian Continental Shelf. In addition, Centrica is

active in the wholesale gas markets in Germany and the Benelux region.

The structure of our response is in five parts: gas transmission networks, gas distribution networks, gas storage facilities, LNG terminals and gas production.

If any element of our response is unclear or you require further detail of any of our comments or suggestions, please do not hesitate to contact me.

Yours sincerely,

Carys Rhianwen
European Regulatory Manager

Email carys.rhianwen@centrica.com

Tel +44 (0)7799 566325

ERGEG Public Consultation on Existing Transparency Requirements for Natural Gas

Introduction

Centrica Energy welcomes the opportunity to respond to this consultation issued by ERGEG on transparency requirements for natural gas. This response is on behalf of the Centrica group of companies excluding Centrica Storage Limited.

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The structure of our response is in five parts: gas transmission networks, gas distribution networks, gas storage facilities, LNG terminals and gas production.

Part 1 – Gas Transmission Networks

The transparency requirements on transmission network operators (TSO), once the agreed rules of the third package and the new transparency annex to the Regulation are taken into consideration, are already extensive.

We would welcome monitoring by the regulatory authorities to assess compliance with these extensive obligations to ensure the correct and timely implementation. In time a review report, similarly to what has been carried out in the past by ERGEG on some of its Good Practice Guidelines, could also be a useful benchmarking exercise and highlight any gaps in the transparency obligations.

Our comments in this section focus first on a few areas where we believe the transparency rules (from the Annex to Regulation 715/2009) could be further enhanced or clarified, and second on new areas where there are currently no such provisions. All paragraph references relate to the Annex in the Gas Regulation 715/2009.

Existing transparency requirements

Gas day

The term 'gas day' is used more than once in the Annex to the Transmission Regulation, but is not defined. We believe it would be beneficial for it to be defined to aid comprehension of system users.

Paragraph 3.1.1 – Form of publication

Where information is updated outside of a regular publication timetable, it would be useful for there to be a pro-active notification of this by TSOs to system users/the market, rather than relying on users searching the relevant websites.

Paragraph 3.1.2 (m) – Technical capacity

This section requires the TSO to set out a detailed and comprehensive description of the methodology and process, including parameters and assumptions, used to calculate technical capacity. This therefore enables different definitions to be used by different operators. We believe that it would be useful to have a consistent definition of technical capacity by all TSOs.

Paragraph 3.2 (3) – Exemption when there is no contractual congestion at network points

In 3.2 (1) of the Gas Regulation Annex, the minimum set of relevant network points is established. However under paragraph 3.2 (3) certain points are exempted from having information published. This includes points of connection between TSO and DSO where there is no contractual congestion. Given that congestion is not necessarily a permanent feature of network points, it is unclear why these points should be exempted at times when they are not congested. This could mean that information about some points is only provided at certain times, giving an incomplete view of the network when there is no congestion.

Paragraph 3.3 (4) - Gas quality

Whilst in paragraph 3.1.2 (c) on the network code or standard network conditions, the TSO is obliged to publish the gas quality parameters for each relevant network point in both gross calorific value and Wobbe index, this detailed requirement is not fully replicated in paragraph 3.3 (4). In the latter the TSO is asked only to publish actual gas quality in either gross calorific value or Wobbe index. We strongly believe that information should be provided using both of these units. In the GB market there is a tighter Wobbe limit than in Continental markets. Publication of the GCV alone will not be sufficient to alert system users of potential problems with the Wobbe index from gas which can be imported/transported between transmission systems. As gas is being imported and transported across longer distances, the quality is changing from the levels historically seen and knowledge of this is important to ensure a safe and secure operation of gas market systems.

Paragraph 3.4 – Interconnection points

The term 'interconnection point' should refer to connections between any two TSOs and not just between two national TSO or between a TSO and an interconnector operator, thus including points between TSOs that may be located within the same Member State.

New transparency requirements

Future network tariffs

In 3.4 (6) of the Annex to Regulation 715/2009, the TSO is obliged to provide user friendly instruments for calculating tariffs. One area where we believe additional transparency would be beneficial for network users is on the future path of transmission tariffs. This would aid system users when

forecasting network costs and contributing to public consultations on the development of tariff methodologies or tariff levels.

Network code modification process

From time to time, network codes need to be amended to take account of new legal or regulatory provisions or in recognition of changing network or market circumstances. It would therefore be useful for system users to have information available on the network code modification rules. This would aid them if they believe that changes should be made to existing code arrangements, for example due to market developments, and wish to know more about how to propose such a change.

ENTSO-G network codes

As new information transparency elements are identified through the ENTSO-G network code development process, we would expect these to be made binding and included within the transparency annex of the Gas Regulation.

Part 2 – Gas Distribution Networks

We believe that going forward the principles relating to transparency that apply to transmission systems could benefit distribution systems. It is a wide area (as can be seen in the detailed provisions for transmission networks in the Annex to the Gas Regulation) and would merit further consideration within a separate consultation process, with which we would be happy to engage.

The rules governing the format of information provision could mirror in so far as possible those already in place for transmission networks.

Among the areas that may benefit from consideration are firstly data on the use and availability of capacity, and secondly the individual components constituting distribution network tariff formation. Some work has already commenced in the GB market improving transparency of gas distribution tariffs (price controls) and this could be used to build upon. This could include work on the future path of tariffs, providing long range information that can be useful for network users when considering investment decisions.

Part 3 – Gas Storage Facilities

Unlike TSOs, there are fewer legally binding transparency obligations on storage system operators (SSO). More are contained within the voluntary Guidelines for Good Practice for Storage System Operators (GGPSSO), and we would welcome these becoming legally binding.

For storage facilities based information, it must be recognised that some facilities may be partially and/or temporarily exempted from having to provide access to third parties as per the provisions contained within the Gas Directive. The information publication rules must recognise and adhere to the level of access for the particular facilities. This issue is not currently overtly recognised or addressed within this consultation process.

We have identified only two areas that we believe merit particular attention.

Gas volumes

One area of information that should be required even for facilities that are not required to offer third party access relates to the volume of gas in storage as well as inflows and outflows into the national transmission system. Aggregated at system level, this data is invaluable for system users and system operators alike when assessing the system reliability, in particular for balancing and security of supply purposes.

Congestion management and anti-hoarding

Whilst details of the storage capacity allocation mechanisms are required to be published by the SSO (article 17.2 of the Gas Regulation), the rules on anti-hoarding and congestion management must only be contained within contracts (article 17.3). We believe that congestion management rules should similarly be transparently developed and be published to ensure consistent application across all storage users.

For storage, the use-it-or-lose-it (UIOLI) rule established in Gas Regulation 715/2009 is for unused capacity to be offered at least on a day ahead and interruptible basis. We are concerned that in some Member States the UIOLI rule is being applied on a firm rather than interruptible basis across all users, without full assessment of the circumstances. We believe that the value of storage is sometimes realised only on a within day basis and that storage users may thus wish to re-nominate capacity usage on a within day basis. We therefore do not support the use of firm UIOLI without the provision of a reserve price save to address proven instances of market abuse by those in a position of market dominance.

Requiring SSOs to publish their congestion management and anti-hoarding rules, combined with data on usage would thus enable storage users and monitoring authorities to better understand and react to concerns of anti-hoarding.

Part 4 – LNG Terminals

Compared to TSOs, and similar to SSOs, there are only a few areas where there are legally binding transparency obligations on LNG system operators (LSO). More are contained within the voluntary Guidelines for Good Practice for Third Party Access for LNG System Operators (GGPLNG), and we would welcome these becoming legally binding.

As for storage facilities, it must be recognised that some LNG terminals may be partially and/or temporarily exempted from having to provide access to third parties as per the provisions contained within the Gas Directive. The information publication rules must recognise and adhere to the level of access for the particular terminal. This issue is not currently overtly recognised or addressed within this consultation process.

When considering transparency obligations for LNG terminals, the fact that there is less harmonisation in access rules than there may be for gas networks is sometimes raised.

We recognise the benefits of harmonisation within certain aspects of LNG operations, such as terms and conditions of products and services, however we would not wish to see this general objective lead

to too rigid standardisation across all service aspects. We understand that some LNG importers are considering such suggestions, which we do not fully support because they could lead to unnecessary investment. Two examples of areas where we do not believe harmonisation or standardisation is beneficial are ship approval and LNG composition.

The ship approval process should be left to the individual LNG terminal and subject to adherence to the relevant health and safety legislation in place for the relevant jurisdictions.

LNG composition is determined by the downstream network gas quality limits, gas blending equipment, LNG weathering and terminal design. These considerations are different for every terminal, for example the Wobbe index limits are tighter in the GB market than in mainland Europe.

Part 5 – Gas Production

Currently there are no requirements at EU level for publication of gas production operations, whether legally binding or on a voluntary basis. National requirements differ greatly between Member States.

The introduction of any information obligation for gas production would differ in its impact on Member States not only because there are variations in the current national requirements but also and perhaps more importantly because of the wide variation in the level of gas production across the EU Member States.

Proposed Transparency Rule

Member State usage of gas may be provided in three ways: domestic gas production, pipeline imports and LNG imports. In our opinion, the best model for information transparency should aim for a coherent approach across all three methods of gas supply.

Thus our proposal is that data should be published for gas flows measured by TSOs at system entry points across the EU, with a de minimus exemption for points with volumes below 10mcm/d. This data should be provided in real time, or as close to real time as possible. This level of detail can be applied equally to gas from the EU's own domestic production, from pipeline imports and from LNG imports to give a complete European picture. The same level of detail can be provided to create a national picture by including flows crossing Member States borders and flowing into or out of the gas system from storage facilities. This model aims for a consistent information provision on gas flows into and out of the national gas system regardless of its origin or destination.

The current arrangements in the GB market set this standard and can provide a model for other EU countries. In our opinion, bringing the rules in all Member States up to this high standard, should be the first and foremost objective. In this we support the solution put forward in the response to this consultation by the trade association Oil & Gas UK.

Gas and Electricity Differences

We are aware that some market participants are likely to advocate that information should be provided on a much more granular level, by field for example, stating that this would be consistent with requirements to publish electricity generation data by generation station. We do not agree with this granularity of data because there are fundamental differences between the two fuels.

The main difference is the speed at which the two fuels travel: electricity travels close to the speed of light whilst gas travels much more slowly at about 50km/h in a high pressure transmission pipeline. This requires electricity systems to be balanced instantaneously, whereas the gas balancing regime is most often established as a daily balancing regime. The timeframe consideration is also evident in the pricing and settlement process, which is considerably shorter for power markets. The fact that gas can be stored (in separate storage facilities or as linepack within the pipeline system) further supports the longer duration gas balancing regime.

Another difference between gas and power is the distance between source and destination, which is considerably longer for gas production. Electricity generation is located relatively close to the supply market. Gas supplies can and do travel very long distances and due to the speed at which it travels this can mean a long time between production field and final consumption, even when both are located within the same jurisdiction. For example on the UK Continental Shelf, gas can take one or two days from the offshore well head to the entry points into the national gas transmission system, from which it can take another few hours to reach the end user.

A final key difference between the gas and electricity system is the gathering type system by which gas from various different sources are gathered together into a large pipeline which then delivers gas into the transmission system. It is not unusual to have substitution arrangements between different sources within a gathering system, so that a reduction of flow from one source can be compensated by another. This helps ensure that the national transmission system does not suffer when there is a planned or unplanned outage in gas production.

Clearly we do not believe that gas producers should be permitted to take unfair speculative advantage from privileged outage information before (if it is significant enough) it is released to the market, nonetheless we believe that they should be allowed to cover their own short position.

In our opinion the most important consideration when assessing the level of granularity or point at which gas flow information should be published is the impact or likely impact on the gas system in terms of reliability for balancing and system security purposes, both of which contribute to the price formation process. This objective can be met by the provision of data according to the proposed transparency rule set out above, where information should be published at transmission entry point basis.