

European Regulation
Centrica

14th December 2007

To: ERGEG
By email: gasconvergence@ergeg.org

Dear Sir, Dear Madam,

Ref. ERGEG Public Consultation on “Gas Regional Initiative Coherence and Convergence”

Centrica welcomes the opportunity to contribute to ERGEG’s October consultation on the coherence and convergence of the gas regional initiatives.

Centrica is a strong advocate of European energy market liberalisation, a key stepping stone of which is the development of regional markets. In addition to our activities in our home market of Great Britain, Centrica’s existing European gas activities are concentrated in the north west of Europe in the Benelux market area and more recently in Germany.

Centrica considers it important to review progress of the regional initiatives in this way on a periodic basis. It is an important step to ensure that the existing work in the three regional initiatives can be progressed further, leading to the development of a true internal market in Europe.

To date, Centrica has only been involved in one of the three regional initiatives for gas, namely the north-west region.

Our response follows the structure of the consultation document itself.

1. General

Question: Do you agree that there is sufficient consistency in the common priorities that are being looked at across the three regional to ensure that no real barriers are being created for the future integration of the regions? If not, please explain why?

Question: Given the factors outlined above, do you agree that the issue of coherence and convergence within regions rather than between regions is more important as a first step in gas? If not, please explain why.

Question: Do you think there are similarities and/or interactions between the electricity and gas sectors that should specially be taken into account when assessing the coherence and convergence level among regions? Please specify which similarities and/or interactions that should be taken into account.

The list of priorities identified in the gas initiatives is common across all three regions, however it is interesting how the solutions have differed between the regions. It is clear that the presence of national based models may make it more difficult to establish regional based solutions from the outset as the existing market and regulatory structures may first need to be adapted.

Hence, the South-South East group appears to have been the most successful when measured against practical regionally based outcomes and results compared to the other two regions. The markets in the North West region are fairly well developed already. Meanwhile, whilst the intention of MIBGAS is obvious, the rate of progress in the South region has been very slow, and in addition France will not be covered by MIBGAS.

As a first step towards a European market, it is evidently easier to work in regional level initiatives. It is certain that cooperation between transmission system operators is easier and faster at this level than if an attempt was made to coordinate such an initiative across the entire European Union.

Nonetheless it is important not to lose sight of the longer term objective of a European gas market. For this to advance, it is important that lessons learned are shared across all markets, that best practice identified at regional level is progressed to the benefit of all at European level. One good example would be the wider implementation of the 'memorandum of understanding' initiative developed in the North-West region, which is discussed in more detail in section 6 of the consultation.

Yet other developments within the regional initiatives would benefit from a wider implementation by transposition into European wide guidelines, either in the form of ERGEG Guidelines for Good Practice, which are voluntary and non-binding or perhaps made binding by the Commission through the form of a Decision Note.

It would also be beneficial if lessons learned within the framework of the electricity regional initiatives could be captured and used within the gas regional initiative. To date progress has been faster in the electricity market

than in gas; whether this is due to the smaller size of the groups, the understanding that security of supply is enhanced through interconnectivity, or the willingness of players to work together is unclear. What is evident is that the 'blocking' of solutions by legacy or incumbent market players has slowed down progress in the gas market. An example is the removal of legacy capacity holdings on electricity interconnectors in favour of explicit auctions and even implicit auctions (day-ahead market coupling). In the gas market however, as noted in the consultation document, there are legal issues with capacity auctions in some Member States such as Germany. From a policy viewpoint it is unclear how this causes difficulty for gas but is permissible in electricity.

Whilst the end goal of a European market is understood, the roadmap for the regional initiative is as yet unclear, not only how to bring together the disparate regions in due time but also how to include those Member States not currently covered by the initiatives.

2. Interconnection and capacity

Question: Do you think that the approaches being taken across the three regions towards interconnection and capacity are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently?

The South-South East region is developing a much more regional approach than the other two regions where work has been tackled on a per-border basis. Plans for a regional entry exit system and a one stop shop for bookings are clear evidence of this.

Whilst it is hopeful that solutions from one region can be extended to the other regions, automatic convergence cannot be guaranteed. Even within regions there have been problems implementing solutions discussed within the group. For example there have been legal difficulties in Germany at a fairly late stage in the process aiming to establish gas capacity auctions in the North West region.

In the longer term, it is worth considering a regional entry-exit system in the North West region, as has already started in the South-South East region. However we believe that the first priority is the harmonisation of charging structures and methodologies across existing transmission systems. In particular, point to point based tariffs make cross border harmonisation of transportation capacity products and bookings very difficult. A first step to resolve this is the implementation of an entry exit tariff system throughout the European Union. It is likely that the common ownership of transmission assets across Member States (e.g. Gasunie, GTS, BEB) will highlight in time the somewhat arbitrary nature of entry exit charges levied at national borders. This could trigger greater harmonisation of charging methodologies.

The goal of a one stop shop for capacity booking is also a longer term objective in the North West region, although we advocate a number of steps in that direction. The first is the harmonisation of open seasons conducted on either side of a national border, as previously set out in our response to an ERGEG consultation on guidelines for open season procedures. Centrica also supports the EFET objective of a coordinated or bundled cross border transportation and capacity offering, the basis for the pilot project proposal for cross border day ahead capacity auctions on the Germany-Netherlands and Germany-Denmark borders.

Projects in the South-South East and the South regions relating to transparency of interconnection and capacity information would undoubtedly benefit the markets of other regions. A standardised bulletin board would be helpful in that transmission system operators could identify and replicate best practice across their regions. Similarly coordinating investment plans for interconnectors would increase transparency of information across the markets concerned. This is captured in the third package proposals with a requirement to prepare annual European wide summer and winter outlook reports and joint regional 10 year plans to be updated every other year. Some network operators already set out public information on the status of construction projects, and it is a practice that we strongly support. We would welcome the publication of standard information, including such detail as pipe diameter, maximum operating pressure and compressor direction and capacity.

3. Transparency

Question: Do you think that the approaches being taken across the three regions towards transparency are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.

Question: Do you think there would be benefits in rolling out the note on "less than 3" to the other regions? If so, are there any regional differences that should be taken into account?

The approach on transparency appears similar in all three regions, with the focus being on monitoring against existing requirements and identification of missing data.

Transparency is a good example of where work done at a regional level to set a best practice template can easily benefit the wider European market. There is little by way of regional specificity in the deliverables and this therefore appears to be a topic with clear inter-regional consistency.

We would strongly encourage the introduction of the "less than 3" paper across the EU. As this paper simply sets out a process for assessing and implementing the less than 3 rule which is already established by law, we do not believe that there are regional differences that need to be taken into

account. We would welcome its transposition into a set of Guidelines to be used by all national regulatory authorities.

4. Interoperability (including gas balancing)

Question: Do you think that the approaches being taken across the three regions towards interoperability (including balancing) are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.

Question: Will the development of a regional entry-exit system in the South-South East region lead to any difficulties of convergence with other regions at a later stage. If so, how could these be overcome?

The North West region has focused on national regulatory powers and coordination plus another workstream on balancing; the South-South East group is focusing on IPA and OBA; whereas the South group seems to still be studying potential interoperability problems. This is the area where there appears to be the least consistency across the three regions. This in itself should not be a cause for concern for the purpose of the regional market initiatives was to identify the priorities within each region and not merely to implement regional based solutions for European problems.

Given that the entry-exit transmission model has not yet been adopted in all national markets, it is as yet unclear how the development of a regional entry-exit system in the South-South East may lead to convergence with other regions at a later stage.

5. Development of gas hubs

Question: Do you think that the approaches being taken across the three regions towards the development of gas hubs are sufficiently consistent to avoid creating problems for the integration of the three regions in the future? If not, please give specific examples of what could be done differently.

Question: Do you think that the more regional approach to developing hubs in the South-South East region will lead to any difficulties of convergence with other regions at a later stage? If so, how could these be overcome?

Regional hubs have been advanced in the South-South East region. Although MIBGAS has been put forward within the South region, these proposals do not include the French market and only cover the Iberian peninsula. In the North West region where national hubs are already in place, the approach is different.

Centrica believes that the first priority is to see greater liquidity emerge at national hubs. Some national authorities have already launched projects to

address some of the obstacles incurred, e.g. the DTe recently reported on developing the TTF and the Dutch wholesale gas market.

Regional, or at least cross border, hubs should emerge in due time with the lessening of physical and contractual congestion across borders. The growth in common ownership across systems, as with Gasunie/BEB, may also lead to developments in this area.

6. Other issues

Question: Would there be benefits in the MoU being rolled out across the other two regions – or are there adequate arrangements already in place? If it was rolled out, would there be any barriers to doing so and how could they be overcome?

We would support the wider implementation of a memorandum of understanding (MOU) between regulators at regional level and also at EU level. For regional markets to develop successfully it is essential that regulators work closely together. We are concerned that the South-South East region may have by-passed the national regulators with too many of the responsibilities for implementation being attributed to the network operators and market participants. If regional markets are to emerge in a coherent way, regulatory coordination - potentially within the framework of a MOU/MOUs – is vital, especially in the absence of binding guidelines and industry rules.

We would support more work by national regulators and Member States in pushing through compliance with the various Good Practice Guidelines. The regional markets would be a good platform for this, as potential solutions could be discussed via the development of best practice standards.

7. Conclusion

The regional market initiative has been a good stepping stone to the creation of an internal energy market in Europe. Regional cooperation has served as a good platform in which to share experience and develop best practice guidelines. The rate of development has differed across the three regions, and has also differed from that seen in the electricity regional initiatives. It is important that momentum is kept and that further progress is made on the identification and implementation of solutions.

We believe that some of the subjects discussed would now benefit a wider audience by implementing these documents as EU level guidelines, whether binding or voluntary.

It is important that progress made in the regional markets is reviewed on a periodic basis and lessons shared across Europe. This may lead to a review of

priorities and the adoption or adaptation of solutions originally designed in a neighbouring region. As time evolves it will also be important for ERGEG and market players to develop a European roadmap to aid for further convergence.

In the meantime, Centrica will continue to participate in the regions in which it has business operations, where it can actively contribute to the debate.

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 more detail.

Yours faithfully,

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