

**Cross- border framework for transmission network infrastructure**

**A response by Centrica plc**

**1. Introduction**

Centrica is an electricity supplier in its home market of Great Britain and through its subsidiaries in Belgium, The Netherlands, Germany and Spain. In addition we are active in traded power markets in Europe. We are keen to see the fulfilment of the internal energy market in electricity (and also in gas), which we see as improving security of supply and market efficiency.

Regulation 1228/2003 and the revised implementation guidelines focus on the cross-border management of what exists. While the EU seeks to promote further development & reinforcement of cross-border infrastructure - including via concessionary financing of projects deemed to be of particular community interest - there seems to be no co-ordinated planning framework for this.

We therefore support ERGEG initiatives to address barriers to the realisation of the internal market, in this case proposals to develop and facilitate cross-border trade.

**2. Infrastructure**

A large part of the consultation is devoted to the physical side of cross-border trade, in particular consideration of the present arrangements for provision of transmission network infrastructure and the lessons which may be learned from recent case studies.

Since Centrica does not have any network infrastructure assets, we have no first-hand experience of the problems associated with building and construction authorisations and permissions, and we do not propose to comment directly on this aspect. However, as ERGEG acknowledge at section 3 of the consultation, current projects have experienced delays, which have in part been due to problems with building and construction authorisation and permissions. We would therefore support the proposal that such authorisations and permissions should include the possibility of seeking the independent views of national regulators and/or ERGEG on the significance of such projects to the development of pan-European transmission networks and security of supply.

**3. Incentives**

It is not automatically the case even in a national market that the right incentives exist for new transmission infrastructure. Much depends on the presence of the necessary price signals; there is also the need for an appropriate 'regulatory contract' with the TSO. It is therefore a matter of great concern that (as noted in para. 82) very few TSOs respond to price signals where congestion occurs or are subject to baseline incentives for the provision of quality standards. This must be urgently addressed by national regulators and ERGEG.

Once this regulatory framework is in place, the TSO should have an interest in improving the functioning of the national network, although – as noted at para. 83,

this must be done in an effective and non-discriminatory manner, which requires proper and robust unbundling under suitable regulatory oversight, ready access to infrastructure on non-discriminatory terms and measures against hoarding.

#### **4. Cross-border market**

As the consultation paper makes clear, the motivation to improve the functioning of the national network is unlikely to be present where cross-border infrastructure projects are involved, where there may be little or no obvious benefit to the national market and where the regulatory 'reward' for such investment is unclear. Para 79 observes that "a TSO is not generally obliged to take into account the need to optimise transmission capacity available in neighbouring systems, and co-ordination regarding emergency planning may also not be fully mandated". Also "TSOs are subject to few direct obligations to exchange relevant information related to planning systems or related to efficient congestion management".

As a minimum first step therefore, we see a need for ERGEG and/or national regulators to require the publication by TSOs of coherent and co-ordinated medium-term plans for network expansion, which should include provision of information on available capacities at borders. This could form part of the current ERGEG-TSO dialogue on the regional electricity markets, and would complement the kind of joint regulatory work – common monitoring activities, consultations and publications – envisaged in the ERGEG Guidelines on Information Management and Transparency in Electricity Markets (August 2006).

The "regional 7 (or 10) year statement" concept has been discussed/proposed within the GRI for N/NW Europe. We envisage something on the lines of the current annual statement produced by NGET in Britain - setting out a longer term perspective on demand, generating capacity and (inter alia) the network development/investment plan which is foreseen to be necessary.

Provision of such information should in turn lead to encouraging TSOs to plan future investment in collaboration with their neighbouring TSOs. This would require neighbouring national regulators to ensure that their regulatory contracts provide the necessary reward for such investment.

At a operational level, we would also support more intensive co-operation between TSOs concerning energy planning, outages and congestion management.

#### **5. Regulatory framework**

Regulatory co-ordination of this kind would in most cases require modification of the current duties and responsibilities of national regulators, so that they take account of the interests of EU customers in general, rather than just being focused on the needs of customers in their own member state. We see no political problem in this - the growing interdependency of national markets means that network disruption in one member state readily and rapidly leads to supply difficulties in neighbouring states. Thus there should be a mutual interest in ensuring the market functions efficiently, both at the planning and operational level.

However there are a number of regulatory problems to be addressed, in particular what cost allocation mechanisms should apply in the case of cross-border infrastructure? We see ERGEG as the natural focus for such activity, building on the initial work reflected in Regulation 1228/2003.

## 6. Conclusions

What is increasingly evident (and demonstrated in this consultation paper) is the urgent need in electricity - and indeed in gas also - for a regional or pan-European approach to infrastructure planning and network investment, to reflect the critically important role of transit and cross-border connections. We welcome ERGEG's focus on this, and generally support the views of ERGEG advanced in this paper.

In particular, we would support construction authorisations and permissions including the possibility of seeking views of national regulators and/or ERGEG on the significance of such projects to the development of pan-European transmission networks and security of supply. We see a limited need for new regulatory powers or competencies for this purpose, other than introducing a duty of national regulatory authorities to have regard for EU customers more widely.

We see an urgent need for ERGEG to facilitate the development of appropriate price signals and 'regulatory contracts' with TSOs, to improve investment and resolve congestion within national markets.

We see a major need for new mechanisms, probably under TSOs and overseen by ERGEG, to be introduced to enable closer co-ordination across networks and between national markets. This should include:

- Co-ordinated medium-term planning and joint-TSO investment
- Co-ordination between neighbouring national regulators regarding the treatment of such investment, and the development of suitable cost allocation arrangements
- More intensive co-operation between TSOs on operational planning, outages etc.

In our view, much can be achieved by building on the current regional market initiatives in electricity, which provide the opportunity and framework for such work.