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ERGEG

By email: [regional\\_initiatives\\_progress@ergeg.org](mailto:regional_initiatives_progress@ergeg.org)15<sup>th</sup> January 2010**ERGEG – Safeguarding the move to a single EU energy market.  
Regional Initiatives Progress Report : November 2009**

Dear Sir, Dear Madam

I refer to your November 2009 consultation on the progress of the ERGEG regional initiatives.

This response is on behalf of the Centrica group of companies excluding Centrica Storage Limited.

Centrica supports the work of ERGEG in the regional initiatives, which contributes to the development of energy liberalisation across the European Union. Our experience of the gas regional initiative (GRI) is through the North West (NW) region, within whose working groups Centrica has actively participated. Our experience of the electricity regional initiatives (ERI) is primarily within the France-UK-Ireland (FUI) region. Although Centrica is active in the wholesale markets within the Central West (CW) region we have not actively participated within this regional initiative.

Our response to the consultation follows the structure of the questions raised by ERGEG in its document.

We look forward to working with ERGEG within the regional initiatives as they progress. I trust that you find this response from Centrica 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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## **ERGEG Regional Initiatives Progress Report November 2009**

### **Introduction**

The regional market initiatives have been fundamental in building cross border cooperation and regional development as we move from national markets to a single European market.

Whilst voluntary progress has been achieved across many areas, challenges remain which will require regulatory, legal and operational changes.

The third energy package will bring more cohesion to European market liberalisation. This includes the obligation for more regional cooperation between markets; the establishment of both ENTSO and ACER, who in turn will facilitate greater coordination of the TSOs and the national regulatory authorities; and the development of pan European network codes in a number of areas, which should facilitate greater regional and European harmonisation.

For competition to develop across Europe, reforms at national level are required in addition to the voluntary arrangements delivered under the auspices of the regional initiatives. These national reforms must support regional initiatives as well as address constraints specific to the national markets themselves. Of utmost importance is that national laws, rules and processes conform not only to the law but also to the spirit of European market liberalisation and market competition.

We have set out our responses to the individual sections of the consultation below.

### **A. ERGEG Gas Regional Initiatives**

Our experience of the gas regional initiative (GRI) is through the North West (NW) region, within whose working groups Centrica has actively participated.

#### **A.1. *From your point of view, what is the main achievement of the Gas Regional Initiative process?***

In general, the GRI process has facilitated accelerated progress on certain issues at a regional level. Progress has been based to date on a "voluntary" process in anticipation of the third package and tailored to the specific priority needs of the three gas regions. There has also been a direct benefit and a favourable indirect impact via the impact of the GRI on other parallel processes, such as Open Seasons for network investment.

Opportunities from the GRI model have also led to constructive dialogue between regulators, TSOs and network users on the detailed problems stakeholders face and on finding practical solutions. This type of dialogue is no longer possible in the Madrid Forum.

Turning specifically to GRI NW, the most important direct achievement to date has been a significant improvement in transparency around the regional transmission systems. In some areas the online publication of the data needed by network users has gone beyond existing legislative requirements.

GRI NW has also launched a short term capacity pilot at Bunde-Oude and has produced a much clearer understanding of the cross-border investment process and the steps which need to be taken to improve it.

#### *Investment in new infrastructure*

- A.2. *Do you consider that Gas Regional Initiatives (GRI) projects have effectively contributed to cross-border investment processes? What kind of improvements would you expect?*

Among the significant indirect benefits of the GRI NW are the recent examples of co-ordinated cross-border Open Seasons within the region – specifically Fluxys/GRT-Gaz and GTS/GUD. Further improvements in the effectiveness of cross-border investment processes could be achieved by implementing the recommendations of the 2009 Investment project (presented at the recent Stockholm SG meeting); by compliance, at a regional level, with the ERGEG Guidelines for Good Practice in Open Seasons (GGPOS); and by improving aspects of the GGPOS.

#### *Capacity allocation and congestion management*

- A.3. *What lessons do you draw from GRI projects in the area of access to cross-border capacity? Do the current GRI projects on capacity allocation harmonization meet your expectations?*

Apart from the co-ordinated open season examples of good practice mentioned above, the progress made by GRI NW in this respect to date is perhaps less impressive than in other areas. The principal lessons appear to revolve around three issues:

- the links between shorter term capacity access and transmission charging structure (e.g. relative over-charging for interruptible and/or short term firm capacity);
- the question of TSO incentives to secure and release additional (un- or under-used) capacity back to the market; and
- the need, in some Member States, for legislative changes to facilitate a more open, effective and harmonised approach to capacity access.

In addition, there is clear evidence that additional firm capacity could be made available. This is an important topic for the forthcoming consultation on congestion management framework guidelines.

A.4. *Would there be real benefits if, at this stage, the GRI tried to seek better coordination at a cross-regional level? How do you value the experience acquired with the capacity projects in the regions? What type of projects should be developed in the future?*

The principal priority thus far is cross-border co-ordination, initially between Member States within the same region. Inter-regional cooperation will be required to achieve the objective of a single European gas market. It is not always necessary for each cross-border or regional project to be exactly the same, instead the focus should be on achieving the same results but in a flexible manner to facilitate later, greater coordination.

In the future, regional projects will take place within the context of an emerging EU legislative framework – i.e. Framework Guidelines leading to binding ENTSO network codes to be adopted via comitology.

Cross-regional co-ordination has already occurred in specific instances where it is particularly relevant. For example, GRT-Gaz has participated in two recent co-ordinated cross-border open season processes, one within and one outside the NW region, to which a certain commonality of approach was both necessary and desirable. We are strong advocates of such co-ordinated cross-border Open Seasons and of compliance with GGP OS across all GRI regions.

Another area we would welcome more regional and cross-regional projects is improved and dynamic modelling by TSOs as well as improved measures to increase firm capacity such as oversubscription combined with TSO capacity buyback.

#### *Transparency*

A.5. *What would you expect to be the contribution of the GRI to transparency going forward? Do the current projects in the three regions meet your expectations?*

GRI NW has secured major improvements in transparency during 2009. By common consent, the initiative now passes to the EU level – specifically, to the process whereby binding transparency guidelines are to be adopted via comitology, as an Annex to the existing EU Gas Regulation 1775/2005.

Whilst the NW Phase 1 transparency project provides a good example of what can be achieved, we are disappointed about the lack of progress on Phase 2 within the NW region, where additional improvements could have been achieved. Where appropriate, TSOs should be given regulatory approval to recover additional efficiently incurred costs to support the transparency improvements required by users.

A.6. *How could this work help to ensure that the requirements of the 3<sup>rd</sup> Package are met in a consistent way across the three gas regions?*

GRI has, during 2009, anticipated many (but not all) of the agreed third package requirements as regards transparency in gas transmission systems. Indeed there is no inconsistency with those requirements. The practical experience of securing favourable change within GRI NW can only help to inform the design and implementation of wider EU transparency guidelines.

The process of quarterly progress reports, with clear target dates for implementation and regular stakeholder meetings helped provide users with confidence that progress was being made and where delays were occurring these were being investigated by regulatory authorities and substantiated by TSOs. The GRI NW transparency project also appeared to show evidence of sharing best practise between TSOs e.g. examples of implementation methods for smaller TSOs in Ireland and France.

#### *Interoperability and Hub development*

A.7. *What further action would you expect from the GRI in this area in order to contribute to interoperability and hub development?*

Hub development per se is not something which can be mandated, since it must be market-driven. GRIs can and do address the framework conditions necessary to facilitate and support such development. Key examples of elements that can underpin interoperability and hub development include greater transparency; investment in enhanced cross-border capacity; more effective market access to capacity that already exists (including on a shorter term primary and a secondary market basis).

With the exception of transparency, which has passed to the EU level, these should in our view continue to be the priorities of the GRI NW.

A.8. *From your experience with the Regional Initiatives, what are the main obstacles to reach harmonisation regarding interoperability at a regional level?*

Other than the factors mentioned above, constraints arise in the areas of:

- non-harmonised gas quality specifications (e.g. the tighter upper Wobbe limit in the GB system, but also other examples and at other interconnection points); and
- non-harmonised approaches to gas balancing, driven in part (but only in part) by the different characteristics of the national gas pipeline systems.

These issues must be addressed if greater interoperability and hub development are to take place.



## *Security of Supply*

- A.9. *Should security of supply be more clearly considered as main driver within the GRI? Should specific actions be developed in this area?*

The security of supply regulation currently under discussion encourages regional coordination as a means to plan for and manage security of gas supplies. Where Member States decide to coordinate activities, carry out regional assessments and plans, the geographical borders of these regions are unlikely to correspond to those of the GRI regions.

The main focus of the GRI should be to support an efficiently working gas market. Nonetheless, a number of GRI initiatives will also benefit gas supply security. For example supporting network expansion and reinforcement, making more efficient use of existing capacity, or improving transparency. However on balance our view is that this issue is best addressed primarily at an EU (and, of course, at the Member State) level.

- A.10. *How can the regions of the GRI take into account and develop measures contained in the European Commission's proposal for a Regulation concerning measures to safeguard security of gas supply?*

The first priority, in our view, is to agree at the EU level a final text for that regulation which is generally recognised to be appropriate and coherent.

Progress already made in GRI NW to enhance transparency, together with wider EU improvements as regards gas storage agreed to via GSE, is likely to contribute positively to supply security.

Significant new commitments to (cross-border) transmission investment have already been made within the NW region. For the future, when designing open season processes and (in particular) triggers for investment decisions, regional TSOs and regulators should have regard to agreed EU supply security criteria – e.g. when judging the extent to which investment costs may be “socialised” and recovered via the regulated asset base.

## **B. ERGEG Electricity Regional Initiative**

Our experience of the electricity regional initiatives (ERI) is primarily within the France-UK-Ireland (FUI) region. Although Centrica is active in the wholesale markets within the Central West (CW) region we have not actively participated within this regional initiative.

- B.1. *From your point of view, what is the main achievement of the Electricity Regional Initiatives process?*

The ERI process has facilitated progress on a number of issues at a regional level. All regions have focused on the same three priority areas of

congestion management, market transparency and balancing exchanges and progress has been achieved in many regions.

Within the ERI FUI region some useful progress has been made in the last three years, particularly in improving the auction arrangements for the UK-France Interconnector (IFA). However, the region has three significantly different wholesale markets linked by relatively little interconnection capacity and will need considerable commitment from all stakeholders, particularly the regulators, for progress to be made towards further market integration in the required timescales, including market coupling.

Whilst changes have been made on congestion management for the IFA, how curtailment of capacity has been managed in the event of congestion has not been entirely transparent, and this would benefit from increased scrutiny.

Significant improvements have been made in cross border balancing on the IFA interconnector, where the interim TSO to TSO balancing process has been implemented, and there is also more visibility of capacity being offered to users in each auction.

The TSO-TSO balancing solution has however exacerbated active constraints in the GB System and these need to be analysed and addressed before full sign off and implementation of the enduring solution.

#### *Capacity calculation*

- B.2. *What should be the framework conditions for having flow-based capacity calculation based on a common grid model implemented in practice?*
- B.3. *What do you believe should be the short- and long-term goals for a regional approach to capacity allocation?*
- B.4. *Do you consider transparency requirement for capacity calculation sufficient? If not, what do you need additional data/information for?*

For intra-regional, inter-regional and European harmonisation to succeed a consistent form of capacity calculation would be beneficial. Capacity calculation is important not only for capacity allocation and congestion management but most importantly for safety considerations. At this stage, we do not have answers to the specific questions raised in the consultation on this subject.

#### *Capacity allocation*

- B.5. *What practical steps should be taken at an inter-regional level to ensure an efficient and harmonised approach to capacity allocation in the 1) long-term; 2) day-ahead; and 3) intraday markets?*

Greater harmonisation on an inter-regional level will require great care to ensure that the benefit of steps already undertaken within the various ERI are not lost. Progress must be continuous. The work to be undertaken by ENTSO

in the network development plans and network codes will assist further harmonisation between regions.

*B.6. What are the future challenges in ensuring that allocation mechanisms across all timeframes can work together?*

Managing the different market arrangements will be a major issue. In the FUI region alone the French, Irish and GB market models are significantly different. If a more integrated market is to be achieved, work will be required to align wholesale markets more effectively. This may be difficult, as liquidity is concentrated at different timescales in the three markets.

Expected increases in the number of interconnectors involving the region will alter the cross border flows of electricity within the FUI region but also raise questions on how to bring about further harmonisation with the CW region.

Additional planned interconnectors between GB and the Republic of Ireland may similarly require solutions on how to deal with yet further integration between the All-Island market and the GB market.

The introduction of the BritNed interconnector will provide further impetus to explore and resolve the issues associated with moving towards full market coupling of the GB and All-Island markets with that of the Central-West market, which is due to introduce market coupling this year.

*B.7. Do you consider that achievements by different regions towards a harmonised set of rules at regional level for long-term capacity allocation merit further work or should there be more emphasis put on inter-regional harmonisation (considering that this may impede short-term regional progress)?*

Whilst more work may be required in some regions, it is important that this is done in such a way that inter-regional integration does not suffer delays. The end game is harmonisation of the whole EU electricity market.

*B.8. Do you think that extending the geographical scope of existing auction offices is advisable/feasible?*

We have no response to this question at present.

*B.9. Do you agree with price market coupling as the target model for day-ahead capacity allocation?*

In principle we agree, but as identified in response to A6 above the different market arrangements across the FUI region means a pragmatic approach will be necessary to bring the markets closer together and the differences in market design should be progressively addressed, either through harmonisation or, where this is not cost-effective, via solutions which can overcome design differences without imposing unreasonable costs.



It is essential that any planned implementation of day-ahead market coupling is assessed carefully for its compatibility with existing market arrangements. As became evident when market coupling was introduced at the Danish-German border in autumn 2008 and failed, such a project should not be introduced in such haste as this can undermine its success.

#### *Balancing*

*B.10. How important do you consider further development of cross-border balancing solutions? Which model do you consider appropriate and efficient?*

Whilst work has progressed in some regions, this is not true at all borders. Further development of cross border balancing solutions is important for market integration. The work of ENTSO in developing a new network code on balancing following the third energy package will therefore be an important step.

#### *Transparency*

*B.11. Do you share ERGEG's view that significant progress in transparency has been reached thanks to the ERGEG Regional Initiatives? What steps should be taken in order to enhance transparency further?*

Yes, although some issues remain in the FUI Region, namely the need for a clearer, more detailed methodology for pricing bids and offers.

In general, significant progress has taken place through the ERI project. More will also occur following the implementation of the third energy package and its requirements. These include the direct impact of a new network code by ENTSO on transparency, and the indirect impact of many other elements such as transmission unbundling, greater powers for national regulators, the ENTSO 10 year network development plans and outlook reports. We also understand that the Commission is continuing its efforts to improve transparency of fundamental data across the energy markets.