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23rd December 2008

Mrs Fay Geitona
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Dear Mrs Geitona

Implementing the third energy package - ERGEG consultation E08-PC-33

Centrica welcomes the opportunity to respond to this important consultation. We have taken a close interest in the evolution of the third energy package, which we see as making a major contribution to the development of the internal energy market in Europe.

Outside our home market in Great Britain, Centrica's European activities are concentrated in the north west of Europe, primarily in Belgium and The Netherlands, and most recently in Germany. We also own a business in Spain. We are active in the regional gas market initiative in North West Europe and the electricity market initiative for France / UK / Ireland and monitor closely developments in the South-West and Central-West initiatives.

This response is on behalf of the Centrica Group of companies excluding Centrica Storage Ltd. After some preliminary comments, the structure of our response follows that of the consultation, although in a few cases we have gone beyond the specific questions in the consultation document to address other issues we consider should be taken into account at this stage.

General remarks

We would firstly congratulate ERGEG on the initiative they have taken in producing this consultation. It will be some time before the third package is implemented and its provisions are transposed by Member States, and in the meantime it is critically important that progress in developing the internal market is not delayed.

In particular, we fully support ERGEG's attempt to anticipate some of the work involved in creating future structures for code development, to complement what TSOs are already doing in preparing for the formation of ENTSOs in gas and electricity. ERGEG's work - offering a potential framework and approach for code development - is stimulating thought by all stakeholders and these carefully considered proposals will help the process of building consensus among the various interests.

Centrica generally endorses the detailed proposals put forward in this consultation. We highlight in bullet form below the main points from our response and then, in the main part of this document, we comment on each of the questions raised by ERGEG in the consultation. In our answers to certain questions, we have noted our understanding of what is being proposed and discuss relevant concerns, in order to provide greater clarity to our views.

Key points from this response:

- We support ERGEG's proposals on consultation.
- We believe the present Madrid and Florence Forums should continue to be the primary arena for plenary stakeholder debate; however these Forums should be enhanced / supplemented in order to be effective in code development.
- Ad hoc panels could be used in an advisory role on technical issues. We do not support a permanent stakeholder panel.
- A priority is to establish the organisational aspects of the Agency's work and its interfaces with the ENTSOs and national regulators. The resultant structures must be sufficient to attract high calibre staff.
- We are generally content with the proposed priorities and groupings of codes – every effort should be made to reduce the number of documents to be considered under comitology. However the need for binding rules on gas storage must not be overlooked.
- In addition to harmonisation of transmission access principles, steps should be taken on other elements to improve cross-border gas flows e.g. gas quality specifications, balancing, transparency requirements, capacity allocation mechanisms and open seasons.
- Further work should be done as a priority on the nature of the framework guidelines and codes, on the governance and modification processes and on enforcement and the sanctions underpinning the codes. In addition there is a need to consider the interface between European codes and national codes/rules.
- Representation in all stakeholder and executive (governance) processes should not be restricted to associations – individual companies must be permitted to play a full part.
- The existing Regional Initiatives will not reduce in importance – they will be a key building block in the emergence of the single market. However there is a need to ensure co-ordination between regions.

Detailed answers to questions

1. The Agency for the Co-operation of the Energy Regulators

A *Please comment on the **Consultation Arrangements** proposed in this paper (see Appendix 1 Annex 2) as a basis for the interim period and for later decision by the Agency as its own process.*

The arrangements seem to us to be a sound basis for consultation, in line with better regulation principles. We believe it is essential they are followed in this instance and - since these principles are far from being general practice in many Member States - we would encourage adoption of these processes by national regulatory authorities also.

The arrangements set out by ERGEG follow the current drafting of the third energy package. We would note that these arrangements may need to be reviewed if the final form of the legislation differs from the present text.

In practical terms, we can envisage in some cases the need for a two-stage process, with calls for evidence or workshops preceding formal proposals. There is also the possibility of using ad hoc panels to develop the more detailed aspects of a subject (*see our answers to 1 C and 2 B below*).

- B *Could the **forums (i.e. Florence, Madrid, London)** be further enhanced to allow stakeholders to make an effective contribution to the development of the single European energy market? How could this be done in a practical way?*

We agree it would be sensible to make use of existing forums as far as possible, rather than to have to establish some parallel structure for dialogue. We would expect Madrid and Florence to be a key focus for this work, which involves the stakeholders in those forums, including network users (shippers) and potentially major energy users (industrial customers) who often operate in more than one member state. We doubt there is a role for the London Forum, which is largely focused on the interests of residential/household consumers and consumer protection arrangements, where subsidiarity is the guiding principle.

However the current nature of the Madrid and Florence Forums may make it hard for them to be other than a plenary group for information sharing and progress monitoring. While both are important to ensure stakeholder buy-in, accountability and momentum, consideration will have to be given to ways of ensuring that detailed issues can be effectively progressed. To ensure that matters are not unduly delayed therefore, these Forums will need to be augmented e.g. through the creation of joint working groups or 'mini-forums' meeting between the dates of the main forums or some other dedicated structure.

Whichever approach is chosen, it will be essential that it allows individual stakeholders to make an effective direct contribution, since stakeholder representation within the Florence and Madrid Forums is generally channelled via the industry/trade associations.

- C *Could focused '**ad hoc panels**' of interested expert stakeholders assist the Agency in the development of regulatory policies? Should they be linked (though without full representation) to the **Florence, Madrid, and the new London Forums** to avoid the proliferation of consultation structures, ensure the effective delivery of stakeholder views and proper representation? Or should the ad hoc panels be organized independently of the Forums in close cooperation with energy consumer and network user representatives?*

As indicated above, while we believe it is important to avoid proliferation of structures, we recognise that new structures will have to be developed. However there must be a clear delineation of the roles of any body involved in the code development process, in particular to ensure that it is clear whether it is to be a means of soliciting general stakeholder input at an early stage of thinking (information), a group of experts appointed to provide expertise in a particular technical area (advisory) or a part of the formal decision-making process associated with the agreement of codes (executive).

Recognising that some areas will require specific expertise and/or consideration of detail, we support the creation of small ad hoc advisory topic-focused panels, which can help prepare initial proposals for subsequent consultation by the Agency. It is important to retain a flexible approach to the workload as it evolves, and thus certain panels may only have a short duration. We are strongly against the idea of a permanent stakeholder panel, since it seems to us to lead to it being seen as a representative decision-making body, usurping the role of the Forums or whatever other dedicated structures may be developed for this purpose. Members of ad hoc panels should be chosen for their knowledge and insight, not in order to represent stakeholder interests.

There is already some experience from the various regional initiatives of other ways in which 'ad hoc panels' could operate in practice. If a 'lead TSO' were identified for drafting a future code, for example, that TSO could well choose to create and work with an informal 'ad hoc panel' of interested experts, in the same way that such panels have been created for a number of projects with the existing GRIs/ERIs.

Ad hoc panels, by providing relevant expertise and depth, should be seen as helping to develop proposals for consultation; they do not avoid the need for public consultation or have a formal role in the governance (executive) process. Thus whatever the composition, responsibilities and formal reporting line of panels (to the Agency or to ENTSO), the proposals once prepared must be considered by stakeholders more widely, ultimately within the overarching remit of Madrid & Florence Forums.

As regards bodies that may be involved in the processes of stakeholder engagement and decision-making, we would again emphasise the importance of ensuring that individual companies are represented. While trade associations can be valuable in facilitating understanding of topics and reaching common positions among their members, they can proceed only on the basis of consensus, and this may limit the issues that can be discussed and what can be achieved. We therefore favour an approach which permits company representation in all stakeholder dialogue and decision-making. While this could appear unwieldy, we believe that interested and committed parties will readily emerge to support the process.

- D *Are proposed measures to ensure the **proper public accountability** of the Agency broadly adequate?*

We agree with the proposals in the consultation document in this area.

In the interests of transparency, would encourage the publication by the Agency of an annual report and work programme, which will also allow current and prospective stakeholders to understand more about the Agency's work. The use of a 'question desk' to assist with the resolution of difficulties or clarifications is also to be welcomed.

- E *What do you consider to be the **key elements** for the successful establishment of the Agency? What are the most important issues relating to the NRAs and their role within the Agency?*

We believe it will be essential to get the organisational aspects, rules of procedure etc resolved quickly in 2009, with minimal impact on existing work. Given the range of possible approaches and the interests of the various stakeholder groups, reaching swift agreement will be a major challenge. The longer discussion in this area, the more difficult it will be to maintain momentum on other initiatives in ERGEG's work programme.

A key dimension of this work is the development of operational arrangements both between national regulatory authorities and the Agency and also between the Agency and ENTSO.

We are pleased to note that both the above are priorities in the ERGEG 2009 work programme.

For the Agency to be successful it will need its own full-time good quality staff from the outset; such staff will of course have to be independent of national interests and to ensure continuity with policies developed by ERGEG. Given the Agency's role in the critical area of code development, the Agency must be properly and fully resourced for the task. This will call for experienced staff to oversee the creation, implementation and operation of codes and the establishment of considerable programme management skills (in-house, outsourced or most probably in combination) which will be essential for such a large scale code development programme. While we can understand that there may be concerns regarding the creation of undue centralised bureaucracy, experience to date with the Regional Initiatives suggests that in practice the main risks are likely to arise in the opposite direction i.e. undue reliance on senior people from national regulatory authorities squeezing regional work time out of already crowded 'day job' work schedules.

At Member State level, national regulatory authorities must be independent and fully empowered in line with the provisions in the third package. In the context of their relationship with the Agency and in their work on the development of regional markets, it is essential that national regulatory authorities are able to take a wider, pan-European perspective. The Agency's secretariat is the logical place from which a coherent cross-border overview should be developed and then communicated back to the relevant national regulatory authorities.

Finally, we would note that in our view regional market initiatives are best served when led by a single regulator, rather than being jointly owned. This also simplifies the interface between the Agency and regional initiatives.

2. Framework guidelines and European codes

- A *Are the proposed **priorities** for the codes and technical areas the right ones? If not, what should the priorities be?*
- B *Do you agree with our proposed approach **grouping** the technical areas into codes (see Appendix 2)? If so, what could the groupings be?*

Before answering these questions, we would like to comment on the nature of the framework guidelines and codes, as set out in paragraphs 26-30 and Appendix 2 section 3 of the consultation.

Nature of the framework guidelines and codes

Appendix 2 of the consultation document details the purpose of the 'framework guidelines', whereby the Agency sets out for each of the codes clear and objective principles relevant to that area, and the codes themselves, which are ultimately intended to become binding following a decision by the comitology committee. On this basis, we envisage each guideline being akin to ERGEG's current good practice guidelines (possibly shorter), whereas the codes are likely to be more detailed and prescriptive documents.

We strongly support this approach and would urge the fullest involvement of the Agency throughout the process, in order to ensure that the resultant codes are directed at an appropriate level, and are comparable as between gas and electricity.

The involvement of the Agency will also help ensure that regulators are able to anticipate issues which may arise at the interface between the European codes and individual national network codes/rules, an aspect which we believe has not been sufficiently considered at this stage. To be effective, the codes will have to be 'deeper' than the guidelines, and modifications to national codes/rules will therefore in all probability be necessary.

We note from paragraph 26 of the consultation that the codes are 'potentially binding'. In our view it is essential that the codes, once developed, are made binding at the earliest opportunity. If not, then not only is there the likelihood that compliance will be patchy and at a European level ineffectual, but the drive to create functioning regional and European markets will stall, those that were enthusiastic will lose heart and the potential gains for European consumers will not be realised. Experience to date of widespread non-compliance with non-binding ERGEG guidelines (e.g. GGPSSO) suggests that these concerns are entirely well-founded.

Sanctions

If the codes are to be binding, the question arises of how they will be enforced. While this aspect is briefly mentioned in paragraphs 40-41 of Appendix 2, it seems to us that this critical area requires further elaboration. Progress in the current regional market initiatives is frustrated because of non-compliance with existing guidelines, and timescales are unnecessarily lengthened while monitoring reports are produced and shortcomings discussed in European forums. If codes are to be binding, it has to be clear which regulatory authority is responsible for routine monitoring of compliance and that

authority must have readily available sanctions which can be quickly applied in cases of non-compliance. The regulatory authority should also be able to respond to complaints by stakeholders. Clearly, sanctions will have to be sufficiently robust to ensure that companies have the incentive to comply promptly.

Assuming that the Agency will be involved in enforcing the codes, enforcement rules should be defined and agreed at an early stage. This will provide regulatory certainty for all concerned. Leaving this until after the first problems arise could well mean that initial attempts at enforcement are challenged, which will delay and discredit the entire process. Again, we have real experience to highlight the risk of inadequate enforcement, e.g. with EU Regulation 1775/2005 on access to natural gas transmission networks. It is not clear to us that all Member States have laid down 'the rules on penalties applicable to infringements', or taken 'all measures necessary to ensure they are implemented', or notified those provisions to the European Commission as required under Article 13 of that regulation.

Modifications

Paragraph 27 of the consultation correctly recognises that the codes – once developed – will not be static documents, and this point was reflected in the recent ERGEG workshop supporting the consultation. It is clear that the Agency's role in this regard is therefore a dynamic one. Markets continually evolve, the regulatory framework changes and there is a need to review assumptions and expectations in the light of experience.

The chances of change are even greater if the codes contain some region-specific elements, which we see as inevitable given experience in the regional market initiatives. In time, the regions can be expected to converge – indeed the codes can be a vehicle for facilitating such convergence in an orderly fashion as we move towards a genuine single European energy market.

This points to a need for a formally established code modification process, albeit one which does not lead to radical changes to the original conception or introduce excessive regulatory risk. We therefore envisage a modification process being agreed, involving all stakeholders, setting out the necessary rules, checks and balances. While checks and balances need to be in place, it is important that the overall process does not become too bureaucratic; some 'fast-track' procedure for relatively minor changes would be desirable.

A practical example of which we are aware is that of the Uniform Network Code (UNC) governing access to natural gas transmission and distribution networks in Great Britain. Although the legal status of the UNC is somewhat different from that of the proposed pan-European codes under the third energy package, a number of the governance issues are similar and the UNC provides for an accelerated procedure in the case of code modifications considered to be 'urgent'.

Governance

The consultation is largely silent on the more general issue of the governance framework to underpin code development and subsequent modification, yet in our view, getting the right governance arrangements will be crucial to the successful development and implementation of codes and the future coherence and convergence of European markets.

Some Member States have relatively well developed governance frameworks and these can serve as a starting point. However we are not aware of any suitable arrangements on a pan-European basis.

At an industry level, there is the challenge of agreeing an EU framework involving different stakeholder groups, and the problem of balancing various positions and reaching a reasonable consensus. At a regional level, there may be differences on particular issues, and at Member State level too, we can readily appreciate that unanimity across all 27 States on certain topics will be hard to achieve. Rules and procedures will therefore need to be established to manage such conflicts, respecting the valid concerns of the minority while avoiding situations where progress is delayed by one country, region or stakeholder constituency.

It is essential that this aspect is carefully considered, debated and resolved. Once again, having a regional dimension may be an important part of avoiding codes which are either unduly restrictive ('one size fits all') or else insufficiently specific ('lowest common denominator') and such codes are more likely to gain acceptance. Investing time and resources in the governance aspect now and ensuring that all market interests are comfortable with the rules will pay dividends in the future, as participants will be more committed to making the governance arrangements work.

Turning to the questions concerning the specific proposals in Appendix 2 of the consultation document, we comment now on the consultation process, priorities and grouping of the topics to be considered.

Consultation process

Consistent with the above approach and our earlier comments, we echo the importance which ERGEG attaches to full consultation with all stakeholders, and the observance of regulatory good practice in this area. We note however the danger of duplication, especially in the initial phase when codes are being developed, if the process is that ENTSO consults on each code and the Agency consults subsequently. In our view, ENTSO should be responsible for developing and consulting on their own proposals, with the Agency carrying out consultation on the final proposals submitted to it by ENTSO. To avoid an unnecessarily bureaucratic and lengthy process, ENTSO should be encouraged to make use of stakeholder workshops and pre-consultation meetings to assist the development of their initial proposals, and they should also publish all non-confidential responses to their consultations, so that the Agency can see the extent to which stakeholder views have been taken into account. If this is done, it should be possible to reduce the time for final consultation by the Agency to a minimum.

It would be at the very least disappointing if all the code development work and process transparency were to be followed by a reluctance by the Commission to endorse the outcome. A key part of the consultation process must therefore be to ensure the Commission is given the fullest opportunity to make its views and concerns known at the earliest opportunity. A historical precedent worthy of consideration is the active participation of Ofgas (the then gas sector regulator in Britain) in the consultation process for developing the initial gas Network Code in the mid-1990s. This active participation was an important element of both successful code development and ensuring that the formal regulatory approval phase could be completed as rapidly as possible.

Priorities & Grouping

We understand and endorse the different priorities suggested by ERGEG for gas and electricity, within the overarching framework guidelines. We also support the idea of seeking to group the resultant codes to reduce the number of documents and to simplify the comitology process. It is neither wise nor realistic to envisage the development of as many as eleven separate codes in each sector. In the interests of ensuring adequate ENTSO resourcing, effective stakeholder participation and the overall co-ordination/coherence of the individual codes, we strongly believe every effort should be made to consolidate the eleven identified topics into a much smaller number of individual codes.

We note with concern that in gas, the subject of storage is not mentioned in the proposed prioritisation. It is stated in paragraph 35 that detailed work has already been done on storage and in paragraph 39 that storage (and LNG) is not among the '11 areas'. This leads to uncertainty whether these subjects can be incorporated in the process described. However we agree with ERGEG that the Commission should be encouraged to propose guidelines on these topics, as in our view it is essential that storage is given high priority within this process. Experience of widespread non-compliance with the GGPSSO clearly points to the need for a binding requirements to be put in place at an early date – and it would be to the serious detriment of effective European gas market functioning if this were relegated to the 'back of the queue' behind the eleven other areas and thus did not take place until (say) 2013 or later.

- C *Which aspects of market design or network operation should be fully **harmonised** across the Union through the first set of codes?*

Centrica has previously welcomed the work by ERGEG to harmonise the principles for transmission access tariffs and reinforce the general principles of cost reflective, non-discriminatory and transparent tariff methodologies. Harmonisation of principles and tariff structures is essential to improve cross border flows, as well as fostering the development of regional and pan-European markets for gas and electricity. When assessing methodologies and network access tariffs to be implemented, regulators should cooperate to minimise/eliminate unjustified divergent approaches and to ensure that an approach taken in one Member State does not negatively affect activities in neighbouring gas markets. This concern extends beyond the 27 Member States to adjoining countries.

In addition to a harmonisation of transmission access principles across Member States, steps should be taken on other elements to improve cross border gas flows, such as gas quality specifications, gas balancing, transparency requirements, capacity allocation mechanisms, open seasons etc. Harmonisation of approaches on these topics, at least at regional level, will be essential in the building of the internal market. Indeed it may be more productive to strive for harmonisation in these areas at regional rather than EU level. If that is true, it suggests the need for some involvement by the Commission at regional level, not least to ensure divergence between regions is minimised.

There are a number of important areas in which ERGEG has already signalled the need for pan-European harmonisation by developing its existing guidelines. Gas storage is just one important area; others include balancing (both gas and electricity), Article 22 exemptions for new infrastructure investment and the proper conduct of open seasons. Following the introduction of the 3rd energy package, we need to build on this good work by creating binding European rules, or minimum standards, as appropriate in these areas.

Finally it will be observed that our comments relate to what is essential to ensure effective network operation; none of the above involves harmonisation of 'market design' per se. U.S experience highlights the importance of avoiding ill-conceived or unduly prescriptive initiatives related to standard market designs.

- D *Annex 1 of Appendix 2 we describe the **content** of each area mentioned in the Commission's initial proposals. Do you think the description is complete? If not, what aspects should be elaborated within the areas?*

We agree with the general scope and content proposed for each of the areas specified by the Commission. For the avoidance of doubt, we see paragraphs 1 – 32 in electricity and paragraphs 33 – 54 in gas as a reasonable starting point for the development of the necessary codes, rather than prescribing precise terms of reference. As the Annex notes, the exact scope of each area will be affected by decisions on grouping of areas and the views of stakeholders as the codes take shape.

Notwithstanding the prioritisation process, we note that there will be a number of codes being progressed in parallel, and that prioritisation will mean some issues will be addressed in gas before electricity (and vice versa). It is important therefore that work is properly co-ordinated, and we would stress the need for having a clear project plan, together with a programme management process. Unless sufficient resources are devoted to this, stakeholders will fail to appreciate scale of task and the whole code development process could easily drift (Appendix 2 paragraphs 34 – 39 refer).

3. The ENTSOs and European energy regulators

- A *Are the **mechanisms** and observations outlined above – notably in relation to the interaction between the Agency and the ENTSOs (and CEER and GTE+ / ENTSO-E) adequate? Are there changes that should be considered for their improvement?*

As indicated earlier in this response, we agree with the importance of specifying interactions and interfaces clearly and support the work which ERGEG plans to do in this area in 2009. That said, we are embarking on a project where it is impossible to

comprehend at this stage all that may be required in order to respond to challenges along the way. For this reason, while broad relationships need to be clearly understood by all stakeholders, detailed mechanisms will need to evolve over time to take account of legislative changes and market developments.

The whole code development process is being considered before the third package has been finalised, and work will be undertaken before the package has been implemented in Member States. We support operating on an 'as if' basis. However, activities must take place in an atmosphere of trust, and it will therefore be necessary that actual or perceived TSO conflicts of interest are avoided in the period before the package's effective unbundling provisions (OU, ISOs or ITOs) are in place. Where vertically integrated undertakings are involved in the process, we propose that any parties representing the interests of TSOs during this interim period should formally declare they are acting without regard for the interests of other parts of the vertically integrated undertaking to which they belong.

4. Co-ordination of decisions at regional and European level

- A *Are the proposals in paragraph 69 to ensure the **regional level involvement of stakeholders** adequate? If not, how could they be further improved?*

In principle, we understand and support building on current market structures wherever possible. Where regional level involvement is necessary, these structures would logically be RCCs, IGs, Stakeholder Groups etc. as suggested in Appendix 3 paragraph 9. However in practice, we find it hard to see how the present regional market structures can be relied upon to ensure the stakeholder groups in different regions are co-ordinated. The difference between regions and the varying players involved in each means that what is entirely appropriate and pressing in one region may not be a priority in another. In addition stakeholder involvement differs between regions; in some, individual companies can be represented, in others membership is available only to associations, leading to an uneven representation of market participants across Europe.

Thus although these current structures will be increasingly valuable in enabling different perspectives to be pursued within a broadly common or convergent framework, they will not themselves guarantee full co-ordination between regions, and the general question of co-ordination between regions remains. Experience suggests that 'pivot' Member States (i.e. those belonging to more than one regional market) can play a useful role but it is not sufficient to rely on this mechanism alone.

The Agency and the ENTSOs must therefore play this key co-ordinating role, and to this end, we welcome ERGEG's plans for a new Regional Initiatives Group to ensure that regional approaches as they develop remain compatible with the overall European framework and that they support progress towards the single market. We are unclear on the composition of this group, but assume that TSOs will be fully involved. In addition we believe the new group is an opportunity for the EU Commission to be much more engaged in regional aspects of code development and implementation than they have been in the various energy Regional Initiatives to date.

- B *How do you envisage the **Regional Initiatives** operating after the entry into force of the 3rd package legislation? Will their role become less important, given the development of network codes at EU level?*

We do not believe that implementation of the third package legislation should necessarily mean a reduction in the importance of the regional initiatives at least in the short/medium term. We appreciate that the regional initiatives may be seen as an interim step in the development of a single European market. However for the foreseeable future, we believe the initiatives have a key role to play, as well as helping that market to emerge.

The third package, the structures which emerge from it and the work on code development will actually facilitate the regional initiatives e.g. by requiring greater transparency or other measures designed to foster the internal market. Moreover, the statutory nature of the third package code development is likely to increase the scope to

make progress at the regional level, as compared with the purely 'voluntary' character of the current regional initiatives.

Within the EU-wide framework which the third package will create, the regional initiatives can concentrate on the practicalities of establishing regional markets, defining arrangements that are sensitive to the circumstances of the present national markets, managing the evolution towards the regional market and finding solutions to the operational issues which become apparent once the emerging regional market becomes fully effective. The initiatives also have an important role to play in ensuring that the third package codes respect the various regional specificities and in proposing regional content, where appropriate, within those pan-European codes. However, as noted above, in order to further the emergence of the single market it will be important for ERGEG - and subsequently the Agency - to work with regional stakeholders to ensure coherence of approach and, as these markets develop, convergence of rules.

Finally, we would note that there may well be a need to review the borders/scope of the current regional markets, as progress is made. The present definitions derived from the physical interactions between areas at a point in time, and they will have to be reviewed in the light of future interconnection and convergence between areas. A first step in this direction might be to invite neighbouring or interconnected countries to join a regional initiative as an observer. It should also be recognised that it will become increasingly likely that Member States or areas will be covered by more than one regional market.

If needs of this kind become evident, it is better to recognise them sooner rather than later, so as to reduce the risk of duplication of effort in the present structure. Any moves to consolidate areas or regions will have to be accompanied by a rationalisation of the regulators involved. However the advantage is that it should reduce the resource costs of supporting multiple regions at both a regulatory and industry level.

Conclusions

Despite regulatory developments since the first and second directives, regional market initiatives and guidelines for good practice on a number of subjects, progress has been slow and it is clear that without the third package, realisation of a single European market is unachievable.

Successful implementation of the third package and the introduction of binding European codes within a common framework are necessary to address the 'regulatory gap'. They are vital enablers of the introduction of coherent and harmonised market rules, which are necessary to the emergence of regional markets, which in turn will converge towards the ultimate objective of a single internal market.

Centrica generally supports the proposals in this consultation document, which we believe are practical and achievable. In particular we see the proposals complementing and supporting the existing regional initiatives, allowing them to evolve in line with national and regional priorities within a coherent pan-European regulatory framework.

ERGEG's document emphasises the importance of *inter alia* consultation, expert input, public accountability, prioritisation and harmonisation, and we have responded to the specific questions raised in the consultation document, outlining our perspective on each topic. However we do not believe the proposals fully acknowledge two key (and difficult) aspects – the governance and modification arrangements which will apply and the way in which binding codes will interact with existing national network codes. We believe further work should be done at a relatively early stage on these, since we can anticipate that considerable debate will be necessary before a common understanding can be reached.

Nevertheless we are pleased that ERGEG has raised such a wide range of issues which must be considered in implementing the third package and for developing intelligent and realisable proposals. We trust that these comments and other input received as a result of this consultation will be constructive in the refinement of these proposals and a catalyst for further thought on issues not yet addressed.