

**Industry & Regulation  
Centrica**

3<sup>rd</sup> August 2006

To: ERGEG  
By email: [balancing-integration@ergreg.org](mailto:balancing-integration@ergreg.org)

Dear Sir, Dear Madam

**Ref. ERGEG Guidelines for Good Practice for Electricity Balancing Markets  
Integration**

I refer to your June public consultation on Guidelines for Good Practice for Electricity Balancing Markets Integration (the Guidelines). On behalf of Centrica, I wish to make the following remarks.

We support ERGEG's aim in developing the Guidelines to improve the integration of balancing markets across European markets. Competitive and properly linked balancing markets are a key development in the move to a single internal market. The creation of a more level playing field for all market participants will, we believe, encourage market competition and ultimately benefit customers.

In addition to our activities in our home market of Great Britain, Centrica and its affiliates is also active in the electricity markets in Belgium, the Netherlands, Germany, Spain and France. We thus support ERGEG's attempts to level the playing field across the EU.

A key issue for the liberalisation of energy markets is to ensure that all market supporting mechanisms, including electricity balancing mechanism, are based on fair, non-discriminatory and transparency principles. In stating this, the Guidelines are to be encouraged. However we would have anticipated that the Guidelines contain more detail to aid market participants, TSOs and regulatory authorities in the implementation of new or enhanced balancing arrangements. The high level nature of the Guidelines as they currently stand may not result in the introduction of robust and effective balancing rules. In certain sections of the document, such as efficiency and competition, ERGEG list a range of current practices or options whilst also stating that harmonisation of these rules should be introduced. Nonetheless it does not attempt to analyse the current practices or state a preference for any one particular option. The regimes across the EU do not have

to be mirror images, but at border points there should be conversion. Without a strong lead and common minimum standards, harmonisation will not occur.

ERGEG states at the outset that the Guidelines are restricted to procurement of manually activated power reserves excluding intra-day markets and ancillary services, as well as automatically activated power reserves. We disagree with this, and cannot find any justification for such a distinction. Not only does this open the issue to different classification across different Member States, but also many procurement contracts will include elements of manually and automatically activated power reserves which cannot be separated. The rules underpinning all balancing arrangements should be consistent.

Were ERGEG to develop Guidelines that permit perceived technical restrictions as defined by individual TSOs or individual Member States to limit the creation of true market based mechanisms, the full benefits of balancing market integration will not materialize.

For instance in some Member States, TSOs preclude the participation of some market users from the balancing market through the imposition of unilaterally established rules that have no real justification. This then is a barrier to entry and competition. We believe that there should be a single set of criteria applied to users of a network irrespective of whether they are connecting generators, suppliers or traders in the balancing market.

Another example is the supposed requirement to reserve interconnector capacity by the TSO for balancing purposes. We do not agree with this. The general conservative nature of TSOs may lead to excessive reservation of capacity which in turn may result not only in inefficient use of capacity but also to extreme market reactions. If market participants do not make full use of interconnector capacity themselves to participate in balancing activities then it is likely that the balancing regime in that particular Member State offers insufficient incentives to do so. Furthermore where cross border capacity is not being fully utilised by market participants, it should be available to the TSO were it required for balancing activities through the implementation of robust UIOLI rules. If such rules are not in place, it is not only the balancing markets that suffer but the development of cross border trade and competition.

The integration of balancing markets is an extremely positive step from a trading perspective as it will require increased co-operation of national grid operators, thus improving the integration of European markets in general. We would favour the “TSO to TSO” model, which requires the development of TSO cooperation.

ERGEG has already produced Guidelines on Information Transparency in the Electricity Markets to which we provided commentary. We would echo those comments here, by affirming the importance of equal access to information across all market participants. Furthermore the level of information available to balancing participants in some Member States is not always sufficient thus increasing the cost and risks of participating in the electricity markets. Equally standardisation of settlement periods, pricing mechanisms etc. are key to enable greater harmonisation in the balancing markets. One additional piece of information not listed in the table included in the Guidelines refers to public information on the technical characteristics of generation stations, which can help market participants in their balancing decision making. Information asymmetry builds market distortions and does not benefit competition.

A final comment is on the definition of imbalance arrangements and pricing. IN Great Britain these are separated into two categories. Firstly there are imbalance costs targeted to the individual network user to balance their own position in as much as possible. Secondly there are balancing services use of system charges that reflect the residual balancing activities carried out by the TSO and whose costs are then smeared across all system users. This distinction is not reflected anywhere in the Guidelines.

Markets may also be distorted where the incentives to resolve imbalance positions are such that market participants are not able to respond to the signals. Regulators should remain vigilant to the creation of market distortion in the design of the imbalance arrangements. Regulators should also be vigilant to the abuse of market power within the balancing markets, as in other areas of the electricity markets.

To reiterate, we support the publication of these draft Good Practice Guidelines for Electricity Balancing Market Integration by ERGEG. We would strongly suggest that the revised Guidelines should be issued to public consultation to provide market participants with an additional occasion to comment, prior to being presented at the Florence Forum. In addition we would encourage all regional market initiatives recently launched by ERGEG to include balancing arrangement at the core of their work programmes, and for this work to be made public.

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 further detail.

Yours faithfully,

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