

25th June 2012

By email

Dear Sir / Madam,

RE: Centrica response to Acer's Framework Guidelines on Electricity Balancing

Centrica Energy welcomes the opportunity to respond to this consultation issued by ACER on the framework guidelines on electricity balancing. This response is on behalf of the Centrica group of companies excluding Centrica Storage Limited.

Centrica is a leading participant in electricity and natural gas markets in Great Britain. The company is engaged in the competitive sectors of the electricity sector: through its subsidiary British Gas in the retail sector, and through Centrica Energy in the electricity generation and wholesale trading markets. Within the generation sector our activities include gas fired generation, renewable generation primarily through the development of renewable wind energy and nuclear generation through a joint venture with EDF. Centrica is also present in gas and power markets in certain North American markets.

Below are our responses to the questions posed in the consultation. If any element of our response is unclear or you require further detail of any of our comments or suggestions, please do not hesitate to contact me on 00 44 (0) 7789 579169 or at Ricky.Hill@centrica.com.

Yours sincerely,
Ricky Hill
Senior Analyst

1. Do you consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common *merit order list* for *balancing energy*? Do you support the use of the pay-as-cleared principle?

Centrica does not consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common merit order list for balancing energy. Rather, it is more important to have standardised products such that a clear price stack can emerge. We do not support the use of the pay-as-cleared principle. No rationale has been put forward in the framework guidelines for the adoption of pay-as-cleared at the EU level and we do not believe it should be prescribed at this stage. This would mark a significant change in GB which uses the pay-as-bid principle and whilst it is a suitable methodology for balancing energy bids and offers, it is unlikely to be suitable for other short notice products which may be highly diverse and regionally specific.

2. Do you think the “*margins*” should not exceed the reserve requirements needed to meet the security criteria which will be defined in network code(s) on System Operation?

Centrica believes that the simplest solution would be for TSOs to share all bids and offers regardless of their price. It is not clear that a significant amount of cost or resource would be saved by not sharing ‘margins’. The concept of not sharing ‘margins’ would inevitably lead to a subjective view of where the cut-off should be in terms of non-sharable and sharable bids and offers and would ultimately reduce transparency of the market arrangements.

3. Do you support to aim at similar target models for *frequency restoration reserves* and for *replacement reserves*? Do you think a distinction should be made between manually-activated and automatically-activated *frequency restoration reserves* in terms of models of exchanges and/or timeframes for implementation?

We believe that it is more difficult to develop target models for reserves given that there is often an availability payment as well as payment for the energy. As such, this type of service is better suited to longer term contracts. We believe that it would be more difficult to develop a target model for automatically-activated frequency restoration because there may be very little energy flowing from the provision of this service.

4. Do you support the timeframes for implementation?

Given the complexity of developing a common grid model for balancing, the proposed 5 to 7 year timeframe for implementation seems appropriate.

5. Do you consider regional implementation objectives as relevant milestones which should be aimed at in these framework guidelines on electricity balancing and the Electricity Balancing Network Code(s)?

Yes, regional implementation objectives would appear to be the best method for developing a pan-European market for balancing. It is more achievable to first ensure that a number of regional initiatives for balancing are developed and functioning before merging them into a pan-European market. This paradigm appears to be successful in the development of pan-European market coupling. Although the pan-European CACM code will not be implemented until 2014, 13 markets are due to be coupled within the NWE region by the end of 2012.

6. Do you consider important to harmonise *imbalance settlement*? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?

In our opinion the Framework Guidelines should call only on the minimum harmonisation needed to pursue the objectives of cross border and market integration issues. One area of particular concern to Centrica is the requirement (outlined in section 5.2) to deliver a balanced schedule at the day-ahead stage and the legal incentive (as opposed to the financial incentive) for BRPs to necessarily be balanced in real time. We believe that paragraph 5 of this section should be removed. In the situation where intraday liquidity is very poor (as is the case for many European markets – even at day ahead) it is often difficult for BRPs to balance even when presented with appropriate balancing signals from the TSOs. This may be due to other BRPs being unable / unwilling to balance in such short timescales or due to the fact that BRPs' internal supply/demand forecasts differ significantly from the TSO derived data. In this instance a more cost effective solution is likely to be for BRPs to carry imbalanced positions to cashout.