



**Open Letter Consultation on National Grid proposal to commence generating electricity at Gas Distribution pressure reduction sites**  
**Comments from AEP<sup>1</sup>**

The Association of Electricity Producers (AEP) welcomes the opportunity to comment on this open letter. The Association is generally supportive of the development of innovative ways of generating electricity and considers that in principle the proposed trial is an appropriate way forward. However we are mindful of the wide range of issues that need to be considered in a coherent manner, not least the potential operational and commercial consequences but also interactions with EU legislation and environmental objectives.

*Do respondents agree with NG's proposed environmental benefits associated with this technology?*

The Association recognizes that there would be environmental benefits from this technology if the trial proves successful. The magnitude of these benefits can only be assessed after the trial and once a methodology has been established to determine how much of the electricity generated is from geopressure as opposed to pressure that has been created by compressing the gas either on or offshore for transportation to the distribution network.

*Are there any potential benefits, costs or risks to consumers that have not been considered in this letter?*

It would appear that the potential direct cost benefits to customers are small since own use gas is only a very small component of LDZ shrinkage, and in turn this makes up only a tiny fraction of customer bills. Clearly further benefits could arise depending on how revenues are treated that arise from the allocation of rights to install such equipment.

Further indirect benefits may be seen by customers but these are less tangible and relate to minimization of climate change impacts and the cost effectiveness of this technology against others in meeting the CO<sub>2</sub> emission

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<sup>1</sup> The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

reduction targets, as customers will ultimately bear the costs of meeting these targets.

*Are there any other licence conditions that could be affected by NGG's proposal?*

It may be appropriate to review the elements of the incentives that relate to own use gas and provision of information regarding system operation in connection with the proposed facility.

*Should this kind of arrangement be ruled out as it has the potential to dilute the incentive on NG to operate either the transmission or distribution networks efficiently?*

The Association does not consider that this should be ruled out on these grounds. However it is essential that those incentives to operate the gas transmission and distribution networks efficiently are not undermined.

*Should NGG be looking at the opportunities to reduce pressures on the NTS to prevent the need for excessive pressure reduction at these sites?*

It is our understanding that the NTS operates at high pressures as an efficient means of transporting gas – indeed the new Milford Haven pipeline is expected to operate at higher pressures than existing parts of the network. That said NG is considering reducing the assured pressure at DN offtakes in the summer months where this would be efficient. Whilst we are aware that the UNC Modification Proposal 206 has been withdrawn we expect this issue to be progressed via a similar proposal in the future when all issues and consequences have been more fully considered.

*Given that NG also owns the England and Wales electricity transmission network, and is therefore not allowed to generate electricity itself, are there any concerns regarding this proposal from this perspective?*

There are issues arising from this proposal and NG's role in the joint venture that cause concern, not least the potential impact on efficient system operation, SO incentives and the potential for cross subsidies. It is also difficult to understand how this would fit with the proposed 3<sup>rd</sup> Electricity Directive, which if implemented as currently drafted clearly prohibits TSO's being involved in generation activities either directly or indirectly.

*Are there any other issues Ofgem should be considering in reviewing NGG's proposal?*

Ofgem should also be considering a methodology for determining how much of the electricity generated is determined to be renewable since only a proportion of the pressure of the gas will arise from the geopressure of the gas reservoir. Some of the pressure will arise from compression of the gas both on and offshore driven by fossil fuels. The development of this methodology is likely to be complex and technical but a transparent process for its development is desirable, to give the industry confidence in NGs role in this project.

*Should Ofgem be considering the proposal to reduce own gas for pre-heat using biomass generators separately from the proposal to convert the energy lost in depressurization into electricity using turbo-expanders?*

Looking forward it is possible that the two elements of this proposal could be considered viable stand-alone. From the information provided it is not apparent if the project is only viable as a package. It may therefore be appropriate to consider the proposals separately but recognize the interdependence in this case. It is also not clear to what extent the biomass generators have been oversized with respect to the heat required for pre-heat purposes. Hence a separate assessment may be appropriate recognizing this parameter.

*Are there any modifications to NGG's gas transportation licences that would be appropriate to safeguard consumers if the Authority grants the relevant consents?*

As mentioned above, the parts relating to incentives and information provision to ensure the efficient operation of the system overall and to facilitate Ofgem's role in monitoring this.

29<sup>th</sup> April 2008