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FAO Ian Marlee
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Ofgem
9 Millbank
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20th November 2009

Dear Ian

AEP response to Project Discovery Energy Market Scenarios Consultation

Thank you for the opportunity to respond to your Project Discovery Energy Market Scenarios consultation. As you are aware the Association of Electricity Producers represents generating companies in the UK with our membership comprising a wide range of technologies utilising fossil, nuclear and renewable sources of energy. Members include the largest through to some of the smallest UK electricity producers, many of whom are actively seeking to invest for the future. This consultation response has been compiled following discussions at our Electricity and Gas, Electricity Networks, Electricity Trading and Environment Committees.

Our comments are as follows: -

The project's focus on the next 10 to 15 years may be understandable in that it is a timescale which is meaningful for most people, but, as Ofgem is aware, the industry must invest against a much longer time horizon.

The Association welcomes the attention that Ofgem has given to the impact of government policy, including that relating to future security of supply – this is naturally of great public interest. Although members must always question whether the present market arrangements are able to cope with the current public policy agenda, they are not convinced that any radical change is required at present. There may be significant changes such as the closure of coal-fired plant to meet the air quality agenda and the drive to meet the EU renewable energy target, but, overall change will be incremental.

We welcome particularly the attention that Ofgem has given to the huge level of investment required and the impact on customers' bills – from the new investment itself and the impact of the low carbon agenda.

The Association asked Ofgem to discuss Project Discovery with us and we were sorry that you were not able to accept our invitation. We reflect that a meeting might have clarified a number of issues, such as uncertainty about references to 'policy responses' in the report (it was not always entirely clear that Ofgem was referring to government policy); lack of information about the modelling; whether future flows over the Britned and Irish interconnectors were factored in; a somewhat negative tone in relation to nuclear power and a lack of clarity about the role of the demand side.

There are references in the report to other initiatives on the issues raised and we wonder whether, as this work is taken forward, there might be opportunities to integrate Ofgem's work with that of DECC, National Grid etc. This, perhaps more holistic, approach could even result in some cost savings.

We have some particular concerns about Project Discovery's references to gas. The report notes that gas will continue to form an important part of the fuel mix for generation in the future and that import dependency will increase dramatically, potentially exposing the country to greater risk of supply shocks. Yet we note that none of the scenarios is consistent with the government's Low Carbon Transition Plan which suggests a gas demand of 66bcm in 2020 and hence reduced import dependency. Also, with respect to import dependency, the report seems to assume that all seasonal and peak swing comes from LNG and storage with interconnectors being unresponsive. This is inconsistent with National Grid's Ten Year Statement 2008 and could bias all scenarios toward LNG dependency. In the context of this project, or, by another process, Ofgem should also consider in more detail the risks to security of gas supply arising from gas quality issues which may curtail imports via IUK and BBL in the timescales of this report. We are aware that this issue has resurfaced only recently and probably after the bulk of the modelling work was completed but it has been an identified risk for at least three years.

We hope that Ofgem will engage with the industry as this work develops and the industry shapes its investment plans for what we continue to believe will be a diverse mix of low carbon generating technologies.

If you have any enquiries regarding this response please feel free to contact Barbara Vest, Head of Electricity Trading on 07736 107 020

Yours sincerely

David Porter OBE
Chief Executive
(By email)