



Ofgem update consultation on NTS flexibility capacity AEP¹ Comments

The Association welcomes the opportunity to comment on this consultation, we provide comments against the specific questions below.

CHAPTER: One – Flexibility capacity on the NTS

Question 1: Do you agree with our definition of system flexibility?

NGG describe flexibility capacity as the capacity, inherent in the system, used to manage gas supply and demand mismatches without compromising safety or security of supply. We agree with this definition as it stands but consider it is also important to reflect on different timescales over which this is considered.

Flexibility capacity on the NTS has been the subject of much discussion and is something of an emotive topic, but has generally referred to the capability of the system to manage linepack fluctuations arising from aggregate mismatch between supply and demand within day. In the broadest sense day on day or seasonal fluctuations in supply and demand locations may also be considered as utilising system flexibility but this may be better considered as *resilience* of the system to manage supply from and demand to varying locations on the NTS. We consider clarity over these two forms of flexibility capability and their distinction from linepack would be helpful and could avoid misunderstandings in future discussions. However we must be mindful that ultimately the transmission system consists of pipes and compressors, the configuration and use of which creates or facilitates a number of physical or commercial constructs, including; entry and exit capacity, pressure, linepack, within day flexibility and day to day resilience. Essentially the physical and commercial aspects are inter-related and can substitute for each other.

Question 2: Do you agree with our view that the ability to vary gas flows on entry and exit is valued by Gas Distribution Networks (GDNs), Transmission Connected Customers (TCCs), Aggregated System Entry Point (ASEP) operators and gas shippers?

¹The 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.

We consider that in many cases the ability to vary flows is necessary to meet demand fluctuations and to support the realities of the competitive market in the UK.

CHAPTER: Two – System flexibility drivers and indicators

Question 1: Do you agree with the system flexibility indicators developed by NGG?

The Association agrees that these indicators are useful in providing transparency and a record of supply / demand fluctuations and NG's balancing behaviour. However we consider they must always be assessed in combination, since no single indicator 'tells the full story'. The indicators should also be considered in the appropriate context at the time, including market parameters and NG's incentive framework. Whilst we recognise that there is a considerable amount of raw data available via data item explorer, it may be helpful if the data used to generate the graphs was also published, as it is for the Ten Year Statement, to enable parties to undertake their own analysis.

Question 2: Do you consider that the system flexibility indicators are capable of identifying future system flexibility investment needs?

As stated above we consider the indicators provide a good record of the chosen parameters, but caution must be taken in extrapolating any trends identified. Account will need to be taken of changes in the market environment which may make simple extrapolation of trends misleading. For example energy efficiency may reduce DN capacity and flexibility, back up for intermittent wind generation may be met by other sources, including greater interconnection, smart grids etc. Also developments in forecasting and modelling may make forecasting calm periods more precise with longer lead times which would help the gas system accommodate demand changes more easily than short notice changes.

Question 3: Do you agree with our high-level analysis of the factors likely to affect future gas flows on the NTS? Are there important trends which we have not considered?

The flexibility workshops identified a number of external influences which are also reproduced in diagram 4 of the consultation document. We think this broadly covers the range of influences on gas flows on the NTS. In addition it may also be necessary to consider what is driving these changes; eg European legislation, Electricity Market Reform in the UK etc.

CHAPTER: Three – Prevailing exit flexibility capacity arrangements

Question 1: Do you agree with Ofgem's representation of how shippers and TCCs manage their NTS exit flow variation requirements?

Yes

Question 2: Do you have any views on the effectiveness of the existing UNC Offtake Capacity Statement (OCS) process applying to GDNs' NTS exit (flex) capacity bookings and do you consider that the UNC adequately supports shippers flexibility capacity needs?

The Association is not aware of any of its members' requests for within day flow changes being rejected by NG, therefore it would seem that the UNC adequately supports their shipper's needs.

The AEP is not best placed to comment on the OCS process but have concerns at increasing levels of DN flexibility bookings and whether these are fully justified.

Question 3: Would it be appropriate for NGG to consider investment to provide GDNs with incremental exit flexibility capacity?

We understand historically (pre-DN sales) that flows from the NTS into the DN were largely expected to be flat except at high demand level levels when some NTS flexibility is used. It would be useful to know whether these flow patterns have changed since DN sales and to better understand what has driven the changes whether this is DN interruption reform (with increased flexibility required to serve increased firm bookings) or movement in capacity bookings in response to DN incentives. We also understand that DNs book NTS exit flexibility to meet their 1 in 20 requirements, with this in mind we reviewed the actual exit flexibility utilisation in Dec 2010 as this month contained 6 of the top 10 gas demands ever recorded. We found that the highest utilisation of 17.51 mcm on 15Dec did not occur on one of these highest demand days, but as this figure includes flexibility utilisation by other demands it is not possible to determine how much was actually used by the DNs and whether their bookings are an accurate representation of what they actually need.

It is possible that investment may be necessary in certain locations to relieve 'flexibility constraints' but consideration will need to be given to each project on a case by case basis, also examining the likely duration of any constraint and determining the most appropriate solution overall across the NTS / DN interface.

CHAPTER: Four – Next steps in the flexibility debate

Question 1: Do you agree with our view of the principles and objectives which should apply to the further development of the system flexibility capacity arrangements on the NTS?

The Association supports Ofgem's principles of proportionality and evidence based policy in the flexibility capacity debate. This should deliver an efficient and not overly complex regime to support the competitive market in customers' interests. In this regard

we continue to have concerns over the appropriate definition and design of a flexibility product or service which may lose the current diversity benefits of managing flexibility in aggregate across the system.

Question 2: Do you agree that it would be appropriate to introduce an obligation on NGG to report on system flexibility indicators under the RIIO-T1 framework?

The Association would like to see NGG continuing to report these system flexibility indicators in the future and for it to develop further indicators where appropriate. If an obligation under the RIIO framework is the best way to achieve this then we would support that so long as the reporting does not simply become a routine activity with little interpretation or development.

Question 3: Do you agree that it would be appropriate for NGG to justify any system flexibility investment proposals under RIIO-T1 with reference to flexibility capacity system indicators and specific RIIO-T1 output measures?

We agree that ideally NG should be able to link investment proposals with the indicators and their future trends but would like to emphasise caution in extrapolating current historic trends. In any event given the transparency provided by the indicators the industry will be better informed than at previous points in the flexibility debate.

We agree that ideally investment should deliver tangible outputs, but would be wary of the development of outputs simply to provide a metric for investment outputs, particularly where such outputs are then linked to products sold to Users. Baselines are supposed to be an output measure of network capability but in reality are commercial capacity benchmarks which have brought benefits in terms of certainty over the amount of capacity available but have also led to consequences in respect of charging and substitution. Furthermore we are aware that investment in pipeline infrastructure has taken place in the past to provide east – west supply flexibility or resilience, but so far as we are aware this did not provide additional capacity rather enabled NG to continue to meet its obligations to develop a network to meet 1 in 20 demand from a range of supply sources.

We consider this is the current challenge, where apart from specific projects Users do not necessarily need additional services over and above those they already have, eg capacity, pressure etc. However NG is suggesting that investment is needed to continue to meet these services as a result of changing supply sources.

Question 4: Do you agree that the commercial and use of system charging arrangements should reflect any costs imposed on the system by NTS users“ needs to vary entry and exit flows?

In principle we support cost reflective charging, indeed this is a primary requirement of the charging methodology. The challenge will be to identify the relevant costs and to target them appropriately. With the current capacity booking arrangements and entry / exit model rather than point to point transportation this will not be a simple task and will need to be subject to an impact assessment.

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Association of Electricity Producers
Charles House
5-11 Regent Street
London
SW1Y 4LR
Tel: 020 7930 9390
Fax: 020 7930 9391
Email: jcox@aepuk.com

www.aepuk.com