



Response to Ofgem Consultation Paper

***Update consultation on Transmission System (NTS) flexibility
capacity***

on behalf of

AES Ballylumford Ltd

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Prepared by

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Introduction

AES Ballylumford Limited (“AES BL”) (formerly Premier Power Limited) welcome the opportunity to respond to the Ofgem consultation on a update consultation on National Transmission System (NTS) flexibility capacity. We are currently a Shipper on the SNIP pipeline and Ship gas through Moffat.

Summary

At the moment the NTS Exit (flexibility) capacity product is booked, under the rules of the UNC, by Gas Distribution Network (GDN) operators in order to vary the rate at which they exit gas from the NTS relative to the steady rate implied by their NTS Exit (flat) capacity bookings. NTS Exit (flexibility) is only available to GDNs and is not booked by shippers in respect of other NTS exit points. The right to vary flows in respect of other exit points is incorporated within their NTS Exit (flat) capacity bookings, subject to the terms of the customer’s Network Exit Agreement (NExA). In respect of the Exit capacity regime, Moffat is considered an NTS exit point (but not a GDN) and therefore shippers do not book NTS Exit (flexibility) capacity in respect of Moffat.

The consultation makes the point that a variety of NTS users value the right to vary flows, considers factors which may affect demand for flexibility in the future, and seeks views on the ways flexibility should be funded and paid for if incremental flex capacity is needed.

Our position is as follows :

1. We are not aware of flexibility becoming scarce but accept that in view of the potentially significant changes forecast over the next decade it is prudent to monitor flexibility and identify potential future constraints.
2. The system flexibility indicators are considered reasonable and provide a mechanism to highlight areas for further investigation but should not be considered in isolation but rather considered in the context of the wider environment.
3. Similarity system flexibility indicators can be used to compliment the justification for investment decisions but investment decisions must be supported by a detailed outline of the system flexibility need and a robust cost/benefit analysis incorporating the range of solutions. The solution should also be proportional to the need.

Comments on the specific provisions are provided below.

Questions

CHAPTER: One

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

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?

Qu. 1. – Yes. Our understanding is that there is no indication that flexibility is becoming scarce based on the ongoing monitoring of flexibility usage undertaken by National Grid. We accept that the potential changing supply and demand patterns referred to in the document may alter the balance of flexibility supply and demand, but we believe that an attempt should be made to quantify this before the industry is asked to consider solutions.

Qu. 2. – Yes, if there is a shortage of system flexibility. It is our belief that National Grid’s monitoring and reporting regime has not indicated any significant shortages of system flexibility. We would hope that this is not a further attempt to develop a flex product similar to that considered previously at time of UNC0195AV. It has to be noted that there would considerable complexity in the treatment of Exit points with multiple Shippers.

CHAPTER: Two

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

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

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?

Qu.1. – Yes, they appear to be adequate for system operation at present. Further investment may be required to improve on these indicators. a much fuller explanation of National Grid’s proposed plans is required if the industry is to make an informed judgement on the matter. This should include full details of existing flexibility availability and usage, the reasons why National Grid believes additional flexibility needs to be provided, and details of the projects and costs associated with doing so.

Qu. 2. – Where these indicators highlight a possible problem, a study should be carried out to look at all the alternatives to mitigate that problem prior to investment taking place and all parties consulted. Investment may be postponed if improved information flows could take place between system Electrical grid Operators for example (for discussion).

Qu.3. – Commodity prices will have an impact, exchange rates etc. Further detail to be given on National Grid’s spending plan.

CHAPTER: Three

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

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?

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

Qu.1. – yes , we believe that there is complexity and costs associated with introduction of a commercial product that involves continuous flow monitoring and recording into what is otherwise broadly a daily-based regime. In particular, now that the extension of flexibility allocation to entry points is being contemplated, the practical difficulties of establishing shipper level within-day entry flows should be acknowledged.

We are, however, pleased that Ofgem considers that the principles of proportionality and evidence based policy should inform the flexibility capacity debate. In our view this should include consideration of the implementation and ongoing operating costs and the practicalities of any proposed solution.

We would not support solutions involving a flexibility product of the type considered previously. We are not persuaded that flexibility can be disaggregated or unbundled from the primary peak day capacity product – in our view flexibility forms an integral part of system utilisation rights and the primary product is of little use without it.

Qu.2. – No comment

Qu.3. – No comment

CHAPTER: Four

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?

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?

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?

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?

Qu.1. – our concern is that National Grid’s monitoring and reporting regime has not indicated any significant shortfall of system flexibility and this may be further attempt to develop a flex product similar to that previously rejected at Moffat.

Qu.2. – yes, we believe the rules on product acquisition and usage considered previously would be unworkable at multi-shipper offtakes having dependent downstream jurisdictions, such as Moffat. A flexibility product of this type would also have adverse impacts both in terms of physical operations at Moffat and the potential additional costs imposed on the downstream markets, arising through the construction of rules which afford no certainty on the availability, price or exposure associated with the product. Indeed, imposition of a flexibility product could serve to actually generate an artificial flexibility shortage as users seek to offset exposure by acquiring product quantities in excess of physical needs.

Qu.3. – yes, there should also be further discussion to look at reasons behind any flagging of an indicator to determine if investment is really necessary or can other means of mitigation be put in place.

Qu.4. – we think Multi-Shipper offtakes should not be subject to such a charging regime due to complexity and cost.

Conclusion

At the moment the NTS Exit (flexibility) capacity product is booked, under the rules of the UNC, by Gas Distribution Network (GDN) operators in order to vary the rate at which they exit gas from the NTS relative to the steady rate implied by their NTS Exit (flat) capacity bookings. NTS Exit (flexibility) is only available to GDNs and is not booked by shippers in respect of other NTS exit points. The right to vary flows in respect of other exit points is incorporated within their NTS Exit (flat) capacity bookings, subject to the terms of the customer’s Network Exit Agreement (NExA). In respect of the Exit capacity regime, Moffat is considered an NTS exit point (but not a GDN) and therefore shippers do not book NTS Exit (flexibility) capacity in respect of Moffat.

Reasons for not having a flex product

- flexibility is system wide (not just an exit) issue
- Excessive implementation and operating costs to shippers
- No strong evidence that scarcity of flexibility is imminent

Instead a regime of flexibility usage monitoring and reporting has been instituted by National Grid.

Given the difficulties in establishing shipper level within day flow rates, particularly at entry points and multi-shipper exits, it may be appropriate to consider whole exit or entry point based solutions for flexibility management tools, rather than shipper based approaches.