



Ofgem Impact Assessment – Gas Transmission Exit Capacity Substitution and Revision Methodology AEP¹ Comments

The Association welcomes the opportunity to comment on this consultation. We have been fully engaged with the process during the development stage and are pleased that a number of issues we raised have been taken on board.

The Association recognises that National Grid has a licence condition to develop these methodologies for consideration and possible implementation by 1 April 2011. This timing will give clarity to parties in advance of the July application window which will provide the last opportunity to surrender initialised capacity with effect from October 2012. We also note Ofgem's view that it is minded to accept the methodology. We broadly accept that this methodology is now fit for purpose and in principle should deliver benefits through avoided investment. However we continue to have concerns regarding the impact on security of supply and operation of the gas and electricity systems. Any consequences and impacts may not be easy to anticipate at the current time and are therefore difficult to quantify in this assessment.

In section 1.9 the document notes the inter-relationship between spare capacity on the system and flexibility which may be made available, but also notes that NG does not rely on unsold baseline capacity to meet flexibility capacity needs, so Ofgem does not consider that substitution will impact on the availability of system flexibility. Given the statements above, this seems inconsistent; we would expect that a reduced amount of spare capacity on the system will reduce the available flexibility of the system. In the future the requirements for system flexibility or resilience either within day or day on day are likely to change, particularly with higher levels of intermittent electricity generation on the system, for which gas fired generation may be providing backup. At the current time it is difficult to say exactly how; when and to what extent, but we note NG is seeking support for investment for flexibility under the RIIO framework.² Whilst we acknowledge this is under scrutiny, it will need to be justified on a robust basis and may also be different to the flexibility available from spare capacity. We call for Ofgem to

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.

²<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=System%20flexibility%20on%20the%20NTS%20081210.pdf&refer=Networks/Trans/GasTransPolicy>

take a joined up approach to these issues, particularly as any benefits arising from exit substitution now will not materialise until well into the next price control period.

CHAPTER: Three - NGG Exit Capacity and Revision Methodology

Question 1: Are there additional aspects of the methodology that should be highlighted?

The Association considers that the description of the methodology covers the key issues well.

Question 2: Are the scenarios analysed appropriate and relevant to system development? If not, why not?

The scenarios presented are useful and informative and relate to areas of the country where incremental exit capacity may well be signalled, although more examples of less clear cut situations would have been informative as an aid to understanding of the investment vs. substitution decision making process. The south east example highlights the sensitivity of potential substitution opportunities to the forecast flows at Isle of Grain.

CHAPTER: Four – Assessment of the proposed methodology

Question 1: Do you agree with our assessment of the methodology (within the framework of the current licence).

We agree that the methodology as proposed meets the licence criteria.

Question 2: Are there any quantitative benefits that have not been included in our assessment?

The Association agrees that any quantitative benefits will arise from avoiding or deferring capital investment and that with substantial exit related capital investment possible in the next few years, some savings may be realised. However this depends on the amount of spare capacity in the network, about which there is very little transparency. If all incremental capacity requests can be met from existing capacity, as is the case in the north east and south east, high Grain flow examples then there will be no substitution made and no benefits. This again highlights the importance of the sensitivity to flow assumptions.

In the South East example it says that the low flow scenario is consistent with flows in recent years as at May 2010 which shows that there is no spare capacity so that investment or substitution is needed to meet any incremental signal. However flows at Grain have increased since the analysis was undertaken and whilst we accept they will not have reached the high flow level, nor may do so by 2014, a realistic example may

be somewhere in between, hence spare capacity somewhere between 0 and 300GWh/d, potentially sufficient for one or two 50GWh/d power stations.

The key points here are;

- The pivotal nature of existing spare capacity,
- Lack of transparency over spare capacity
- Sensitivity of any analysis to flow assumptions
- Lack of transparency over flow assumptions

These points coupled with NG's incentive to use substitution rather than spare capacity, to avoid increasing the aggregate exit baseline, whilst the industry would prefer to see the methodology applied and spare capacity allocated prior to substitution, creates a tension in the application of the arrangements. This places an important role on Ofgem in monitoring the application of the methodology and in doing so it must assure itself that the assumptions under-pinning any substitution proposal are reasonable. We consider that sensitivity to the flow assumptions would be a sensible issue to explore.

Question 3: Are there any qualitative benefits that have not been included in our assessment?

We agree with the qualitative benefits relating to the environmental and planning impacts.

Question 4: Are there any quantified costs that have not been included in our assessment?

We have nothing to add here

Question 5: Are there any qualitative costs that have not been included in our assessment?

The Association has expressed concerns regarding security of supply associated with the operation and interaction on the gas and electricity markets in its opening remarks.

In addition we have previously expressed concerns about delays in addressing ad-hoc capacity applications whilst substitution analysis is undertaken. We are often told that network analysis resource is limited within National Grid and this gives us concern about the company's ability to treat capacity applications as equitably as it should. We are working with National Grid to develop connections and capacity processes to give connecting parties more certainty in this regard.

11 March 2011

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