Ofgem Consultation
Determining Revenue Drivers for South East Exit Capacity
AEP[1] Comments

The Association welcomes the opportunity to respond to this consultation. Please see below for comments on the specific questions in the consultation document.

CHAPTER: Three
Question 1: *Do you agree with NGG's proposed approach of introducing a 'banded' revenue driver to meet generic CCGT incremental capacity demand in the South East?*

Yes in principle we think this is a good idea where there are multiple projects in close proximity. However we are finding it difficult to identify five potential CCGTs in the South East, particularly given that Barking and Coryton already have revenue drivers agreed. From a review of NG's Seven Year Statement and other publicly available information we can only identify 4 possible projects and those do not seem to tie up in terms of incremental size with available data.

We did consider whether the revenue drivers already set should be reviewed given the likely overlap in the required investments and since incremental capacity under the revenue drivers set for Barking and Coryton is yet to be signalled, meaning assumed capacity and flow is set to zero for analysis purposes. It is quite possible that signals for these projects may occur before, after or not at all, any signals for the projects included for these revenue drivers. We consider a joined up approach with the potential new projects would make sense, given the likely commonality in investment required.

We subsequently learnt that NG is considering this. Such an approach may enable revenue drivers to more accurately reflect investment by NG where there are interacting projects and ensure that revenues recovered through SO charges for five years more closely reflect investment costs and are therefore reasonable.

Question 2: *Do you agree with NGG's proposed approach of introducing a separate revenue driver to meet potential storage site demand for incremental capacity in the South East?*

[1]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.

In principle this would make sense but only where there is no overlap in the potential investments. As we are uncertain of the location of the five possible CCGTs it is difficult to comment on this. However we think that two of these may be near to the Wash. If this is the case and investment is required to provide capacity for these two then we are struggling to understand how there is no overlap in the required investments to meet CCGT capacity and capacity for the storage projects at Bacton. The assumptions are that incremental supplies come from St Fergus, Teesside and Barrow. A review of NTS pipeline routes shows that all pipelines from the North pass close to the Wash en route to Bacton, hence we would assume there to be some overlap in the investments required for CCGTs in that area and for the storage projects at Bacton. Furthermore if reinforcement is needed north of the Wash then there may be overlap with investment required to support CCGTs around the Thames Estuary.

Question 3: *Do you agree with the proposed 50 GWh/day increments used in modelling the banded CCGT revenue driver?*

The Association considers that NG is probably best placed to comment on this given that ideally the breakpoints should reflect decision points in reinforcement projects, e.g. incremental pipeline diameters or additional pipeline length. In this context 50GWh/day increments seem reasonable to us, we also note that there are not large variations in the values between the bands.

Question 4: *Do you agree with the network modelling approach adopted by NGG?*

Broadly yes, we think this is mostly consistent with approaches used previously although it would have been helpful for the consultation document to be more explicit about this. We are uncertain whether previous determination of revenue drivers have treated interactive and non-interactive points differently although we believe this may be a feature of the exit substitution methodology.

Question 5: *Do you agree with the data input modelling assumptions adopted by NGG?*

Mostly, but we are not clear as to why different assumptions are being used for DN and DC offtake points although in practice the values may be similar since the DC forecast 1 in 20 peak demand is the diversified value rather than the undiversified value. We agree with Ofgem that more transparency is required in determining which points are interactive and which are not if this methodology is to form the basis for a generic revenue driver methodology.

Also whilst we accept that some kind of simple assumption needs to be made concerning incremental supply sources, this should exhibit some consistency with NGG's investment appraisal process. Whilst this may be less of an issue for an individual CCGT project, given its size; it is more significant for a storage project of the size quoted especially where analysis is being performed against a 400mcm/d scenario. We have reservations over the 'northern triangle' assumption here. There may not be sufficient incremental gas, or prospects of such gas, in these locations to make this a 'sensible' assumption. We consider a 'sense check' is needed. Whilst we acknowledge this may make the future development of a generic methodology more challenging it is necessary to ensure revenue drivers are set at an appropriate level and do not lead to customers funding five years worth of revenue for NG via SO charges that bear little resemblance to the actual work that would be undertaken by NG.

Question 6: *Do you agree with the 400 mcm/day demand forecast assumption for modelling the storage site reinforcement requirements?*

Yes this seems reasonable, although no data on injection rates at current fast-cycle storage facilities has been provided to determine a benchmark. In any event there may be benefits in such an assumption in providing network resilience to supply / demand fluctuations.

CHAPTER: Four

Question 1: *Do you agree that adopting the unit cost assumptions used by NGG in its TPCR4 rollover business plan submission is appropriate for deriving the revenue driver values?*

Yes.

Question 2: *Do you agree that it would be appropriate to incentivise NGG to seek a contractual solution, where feasible, to meet the South East incremental capacity signals?*

Yes, absent an ex-ante adjustment we are unclear as to how NG would have any incentive to seek contractual solutions.

We would be happy to discuss these issues further, to do so please call Julie Cox on 01782 615397.

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