



24 November, 2006

**Consultation on the Exit Capacity Release Methodology Statement (ExCR) to support implementation of the Enduring Gas Offtake Arrangements**  
**Comments from the Association of Electricity Producers**

*The Association of Electricity Producers (AEP) is the UK trade association representing electricity generators. It has some 90 members ranging from small firms to large, well-known PLCs. Between them they represent at least 90 per cent of the transmission connected generating capacity and they embrace nearly every generating technology used in the UK. Many member companies have interests in the production and development of renewable energy where the government has set ambitious targets for development over the next decades.*

The Association welcomes the opportunity to provide comments on this proposed methodology statement.

We recognise that this methodology statement will operate in the context of the enduring offtake arrangements, if approved, and the price control and incentive framework yet to be agreed. The comments we provide are in the context of the current proposals noting these are yet to be finalised. We also provide comments on a number of issues that we consider relevant to the release of flat and flexible capacity but are not directly addressed here.

*User Commitment and Lead Time*

The Association considers that user commitment models may reduce the risk of stranded assets emerging on the network and that the magnitude of the user commitment is a feature of such a model. However we also consider that other elements are equally as important, including the process by which commitments are made and the default lead time for incremental capacity requests. These parameters together will determine whether user commitment models achieve their objective of reducing the risk of stranded assets emerging on the network. We emphasise this point here as the default lead time for offtake related investment is still under discussion between Ofgem and National Grid. If this were to increase beyond that currently proposed then this itself may give rise to inefficient investment decisions. This is because of the potential mismatch between the lead-time NG requires (from initial enquiry to delivery of capacity) and the lead-time in which CCGT plant can be built, from the point in time at which the developer definitely decides to proceed with the project. In reality there is alignment of the timescales where significant capex is committed for both NG and power station developers, approximately two and half years prior to delivery, with both parties incurring a smaller proportion of the total project cost prior to this time. However the commercial regime operating along side this introduces a timing mismatch which may lead to developers having to commit to making a user commitment for capacity in order to develop options for CCGT development which may not all proceed. We consider that if the default lead-time is

increased beyond the 38 months currently proposed that approaches including a two-stage commitment are developed to ensure that restrictions imposed by the commercial regime do not exacerbate the mismatch with the physical reality of pipeline construction and plant development.

National Grid proposes that the user commitment should be four years of NTS exit capacity charges, however it does not explain why it has chosen this value. Its main concern is that the value of any investment made following such a user commitment should be reflected in its asset base. It is reasonable that NG should expect this so long as it invested efficiently. We refer to our comments above in connection with lead-times and emphasise the potential mismatch between the commercial regime and physical works. It would be unfortunate if the new commercial regime and incentives were to have a detrimental impact on the ongoing dialogue between NG and CCGT developers that is a feature of the current regime such that capacity is delivered when required, by bilateral agreement, taking account of any delays in development.

The Association notes the recent decision in respect of Marchwood and that previously in respect of Langage, such that the user commitment should be one years NTS exit capacity charges. In reaching these decisions Ofgem reflected on its shallow connection policy and determined that neither project was any more risky than an average project of this type. It was also important for there to be a consistent approach between existing capacity holders and new capacity holders. We therefore challenge the appropriateness of NG's proposed four year commitment, as this is clearly inconsistent with Ofgem's previous decisions. It is not clear to us why the commitment should need to change to this extent at this point in time, is there a perception of increased stranded asset risk? Are all projects now considered to be four times more risky than previously? We also wonder why it is now more appropriate to treat new and existing connections differently when in the past Ofgem considered they should be treated in the same manner, particularly in the context of Ofgem's desire to treat all offtake points in the same way to avoid undue discrimination.

The Association is also concerned that at a time when significant investment in new generating capacity is required that these changes do not seem to facilitate those investment decisions.

#### *Options for discharging the user commitment*

The Association recognises that option 1 has the benefit of simplicity, but considers that option 2 would be preferable as it allows users to discharge the commitment earlier should NTS exit capacity charges rise after the initial commitment is made.

Further consideration also needs to be given to the potential changes to the charging methodology that may apply from October 2010. These are discussed in GCD01, 02 & 03. These consider not adjusting NTS exit charges to recover allowed revenue, the introduction of an exit TO commodity charge to recover such revenue and the introduction of charges relating to flexible capacity. We suggest that for any commitments made prior to October 2010 based on scaled NTS exit capacity charges for a bundled product that all exit related TO charges (including those for flexible capacity and TO commodity) should be offset against the user commitment

amount. Clearly for commitments made after October 2010 then this will not be necessary.

#### *ARCA's*

This document makes no reference to ARCAs as a means of securing incremental offtake capacity whilst modification 116 does, the implications of this are not clear.

#### *Release of Flexibility Capacity.*

The Association has some concerns that in some zones / regions the incumbent DN will have little competition for flexibility as there are few other offtakes and this might lead to some offtakes obtaining flexibility at very different rates to other offtakes. However at this stage we accept that this is a pragmatic starting point and that the effects of the zonal / regional allocation process could be reviewed after the first allocations process.

We note that NG proposes to give five years notice of any change to the allocation of exit points to zones, and zones to areas. We support this approach.

#### *Flexibility Capacity Quantities*

The Association recognises that these zonal, regional and national maxima need to be set and published at a point in time prior to the first long term allocation process. We are unclear as to whether the best place for these values is the licence or this document. It would not seem sensible for the numbers to appear in both documents as that would require a dual change process to update the values.

We are aware that extensive analysis was undertaken to arrive at these values, but we wonder whether the analysis should now be updated based on the outcome of the recent long term auctions of entry capacity which provided signals for investment at some entry points and should have narrowed down the range of possible outcomes that could prevail in 2010. We think it would also be helpful if NG could provide some thoughts on when and how it would update these values in the future and how it could make this process more transparent to the industry.