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Transmission Charging Methodology Consultation Paper GCM06
Further Revision to Obligated NTS Entry Capacity Reserve Price Determination
Comments by Association of Electricity Producers

5 June 2007

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 comment on this pricing consultation paper. We provided comments on this issue in our response to GCM01 in November 2006, our views are unchanged.

The Association does not support the use of the forecast maximum supply rather than the obligated NTS entry capacity level in the transportation model for the determination of reserve prices. We consider this is inconsistent with the principles of the transportation model and will give rise to more volatile charges. We consider that stable and predictable charges are more consistent with the promotion of competition.

The use of forecast flow numbers would also introduce a degree of subjectivity into the price setting process which is contrary to the move from TRANSCOST to a transportation model.

Whilst we agree that in principle reducing charges at declining terminal should create an incentive to flow gas to those terminals we are unconvinced that this would cause gas to flow to a different terminal than that which is most logical. This is because we would expect any new fields or incremental supply to use existing offshore infrastructure which would also develop spare capacity as existing fields decline. Since allowed revenue remains constant this effectively leads to commoditisation of capacity charges and means that these incremental supplies would enjoy a cross subsidy from all other entry capacity holders if forecast flows were used to determine charges. Whereas the use of obligated entry capacity levels more closely matches the network capability and therefore should be more cost reflective of the investment that has taken place reducing the potential for both locational and temporal cross subsidies.