



## **GCM16 – Supply and Demand Balancing Rules and Supply Source Data** **Comments from AEP<sup>1</sup>**

The Association welcomes NG progressing these issues and providing the opportunity to comment to this consultation document and the previous discussion paper.

### Proposal One

We appreciate the challenge and tension between generating charges that are both cost reflective yet are also predictable and relatively stable. From an exit perspective it is always difficult to comprehend volatility in charges at specific points when there are no significant changes in the local infrastructure or supply demand conditions. It has been identified that these often occur when LNG storage is required to make the supply demand match and this may effectively be switched on and off year on year depending on the supply / demand assumptions used.

We consider that in general the grouping of supplies may help to dampen the swings in charges that have been seen in the past. This also seems intuitively more appropriate than prescribing a rigid hierarchy, and there being a merit order within that supply type, which may bear little resemblance to actual peak day supplies. We therefore agree that a change to the current methodology is appropriate, and would be more transparent to parties seeking to undertake their own modeling and replicate charges. The scaling of all supplies in the last required group also seems like a better approach.

We are however disappointed that NG has not stress tested the options as we suggested in our response to GCD06. It is therefore difficult to assess based on any evidence whether option 3 or 9 would be more robust under a wider range of scenarios than those presented. The data presented shows option 3 and 9 giving the same results, presumably because all demand scenarios were matched by supply utilizing mid range storage or short range storage. A comment is provided that option 9 *may be more appropriate at lower demand levels or where available supply is significantly higher than demand*. This has not been demonstrated but we agree that this is probably right. At lower

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<sup>1</sup> 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.

demand levels where a supply demand match does not require mid or short range storage option 3 would require that all other supplies including beach are scaled equally, whereas option 9 would only scale the last group. The latter would seem more likely to reflect actual peak day supplies, and be more consistent with NG's planning approach. On this basis we support the proposal to use the groupings as listed and scale the last group by an equal percentage.

#### Proposal Two

The Association continues to support this combined approach as we did in our comments to GCD06. Utilising TYS forecasts for entry points with indigenous production, since capability may overstate likely flows and capability (capped at the obligated level) at other entry points.

We also agree that new entry points should only be included once they are under construction and from the year they are due to be operational.

May 15, 2009