



GCD06 – Supply and Demand Balancing Rules in the Transportation Model
Comments from AEP¹

The Association welcomes NG progressing these issues and providing the opportunity to consider some of the issues in this discussion paper.

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 which may bear little resemblance to actual peak day supplies.

However it is not apparent from the information presented that any of the groupings are particularly better than other groupings. This may be because the presentation of average and standard deviation data actually masks the swings seen at individual offtakes. Hence it may be helpful to undertake additional analysis on a few specific points where swings have been seen in the past to see how the various groupings impact charges here. Furthermore it may also be necessary to artificially increase demand so that all bands of supply are required. This would then help to assess which groupings are most resilient to a range of scenarios.

With respect to supply availability we would have reservations over averaging supplies over a number of years as this may be too detrimental on cost reflectivity.

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.

With respect to data sources its may be best to use a combined approach as suggested; utilizing TYS for beach flows but capability for other supply sources. Capability would be difficult to assess for beach flows given declining production levels, whilst using TYS forecasts for other supplies would be prescribing where supplies may be expected to flow from which again may bear little resemblance to actual flows on peak day.

March 20, 2009