



**Distribution Networks Pricing Discussion Paper DNP04 – Proposals
for LDZ Exit Capacity Charges
Comments from AEP¹**

The Association welcomes this discussion paper which will begin to provide some clarity over how NTS exit capacity charges are recovered from DN connected customers.

1. *Should LDZ Exit capacity charges be based on a flat rate pence per kWh per day rate in the same way as the NTS Exit Capacity charges are now or should some alternative be considered.*

The Association agrees that this is the most appropriate means of recovering NTS charges as it reflects the way in which those charges are currently collected and would be cost reflective.

2. *Should LDZ Exit Capacity charges be applied by offtake, by Exit zone or by network. Should they be included in the existing LDZ system charges or should some other alternative be considered.*

The Association agrees with the commentary in the discussion paper. There is a trade off to be made between an idealised scenario where each DN supply point is mapped to a specific NTS offtake and a more averaged approach which takes into account that the mapping may change over time. However it would be helpful to understand the order of magnitude of the implementation costs where each DN supply point is mapped onto an offtake and how charges may be influenced by changes in the mapping before this option is dismissed

Given the potential for high implementation and ongoing costs and impact on charge stability and predictability that an offtake mapping approach would have we would favour exit charges being applied by exit zone. We consider this strikes the right balance between cost reflectivity without completely diluting locational charging elements as would be the case if charges were applied across a whole network.

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.

We consider that other approaches such as scaling existing charges of including the NTS costs as LDZ costs would be even less costs reflective.

We welcome in section 3.3 - recognition that the total recovered through the LDZ capacity charges will be based on the total amount paid to the NTS taking account of interruptible contracts which should reduce the amount of NTS exit capacity required. This should lead to unit charges being lower than for the corresponding NTS exit capacity charge. We also consider that DN's understanding of diversity of loads should contribute to this effect.

3. *Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ Capacity Charges in October or should no change be sought until the industry has some experience of the operation of the new regime.*

Given that DNs make capacity booking well in advance expectations that indicative and actual NTS exit charges will be more stable as they will be based on baseline capacities in the transportation model, a review once there has been some operational experience may be the best approach. Anticipated changes as per NTS GCM 16 which defines the source for supply data and hierarchy for supply demand matching may also contribute to more stable charges.

4. *Should we introduce a separate 'K' for the LDZ Exit charges, for the purposes of setting the level of charges.*

We believe that the introduction of a separate 'K' would be appropriate to ensure under/ over recoveries are paid or received in the same proportions in which they arose either by a flat rate charge or one relating to SOQ.

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