



11 October, 2006

**Pricing Discussion Paper PDDN01 – Interruptible Charging Methodology**  
**Options for UNC Mod 0090**  
**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 pricing discussion paper. We provide comments to the specific questions posed in the discussion paper.

*Question 1.*

The Association's view is that different approaches will be favoured by different types of customers. We expect that our members with generating or CHP sites connected to the distribution networks will be able to determine the cost and risk to their business of offering interruption services to DNs. These customers would favour an open tender approach – option 2. However smaller customers may be less able and willing to undertake such a bottom up cost assessment particularly for a time period beginning at least three years from now. Such customers may prefer to consider simply whether a certain fee for being interruptible is acceptable or not, or they may simply opt for firm transportation.

We also appreciate that there could be merits in setting upper limits in an open tender approach, but consider that if there were to be competition for interruptible services this could be distorted by setting such limits. Alternatively these values could theoretically be sufficiently attractive to firm sites to offer interruption. However in reality we do not expect this to be a likely outcome.

As it is not clear how these approaches could work in parallel, the DNs and Ofgem, in its impact assessment, will need to consider how each approach will affect participation and balance this against the efficiency of the outcome. For example an administered approach might attract more participants but the outcome may be less efficient than an open tender approach that may attract fewer participants but the DNs may secure the necessary interruption at a lower price than under the administered approaches.

### *Question 2*

We agree that customers will need to undertake some kind of cost evaluation whichever approach to interruptible charging is adopted. We would expect these to be more sophisticated and therefore more resource intensive for the tender approaches as opposed to the administered price approach. It is possible that under the administered price approach customer may seek to replicate the discounts they currently have against NTS and LDZ capacity charges.

### *Question 3*

Varying levels of price for interruption between zones should be the expected outcome and should reflect the avoided investment costs under an administered approach and / or competition in the offers for interruptible services in a tendered approach.

However there should be consistency between the zones and networks in the methodologies used for determining where constraints would occur and how investment costs are determined.

### *Question 4*

We consider that participants should be able to choose the appropriate option / exercise fee.

### *Question 5*

We consider that customers face more risk in offering multiple year interruption contracts and therefore should enjoy a risk premium for doing so. Clearly longer duration contracts are also of benefit to DNs as this provides certainty over investments or their deferral over a longer period. It is not clear from the business rules whether DNs can take account of this in determining which offers it accepts. It appears that each year is considered in isolation. Clearly if an offer was made for five years the offering party should also indicate whether it was willing for this to be broken down into shorter durations or whether it is only valid for the full period.