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Dear Steve

Pricing Discussion Paper PDDN01
DN –Interruptible Charging Methodology Options for UNC Mod 0090

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the specific questions raised in the above Pricing Discussion Paper.

Views are sought in particular on the issues shown below:

1. Which of the three main approaches outlined in Section 5 is favoured?
2. Given that shippers/consumers will need to determine their own value for interruptible rights to some extent under all the approaches, are the shipper's/consumer's costs for the tendered price approaches significantly greater than for the administered price approach?
3. The varying level of operational requirements and competition for interruptible rights in some zones could lead to greatly differing levels of price achieved for interruption rights in different zones, Is this seen as a potential drawback or as an appropriate outcome?
4. What are respondents preferences for the structure of the option and exercise scheme outlined in Section 6?
5. If interruption rights are offered for multiple years ahead, say for years 4 to 8 from the time of the purchase, this may lead to infrequent purchases and so put extra emphasis on achieving the best outcome possible at each purchase time. To what extent does the frequency of purchases of interruption rights impact on the decision about the method chosen to purchase them? If rights are purchased for 5 years, or longer, does this justify the possible extra complexity in the tender-based purchasing methods outlined, and potentially extra decision-making costs for respondents, since the decisions reached on who has interruptible rights and at what price have a more significant impact?

1. SSE prefer an Open Tender method of offering interruptible services to a DNO.

It is our belief that all customers will need and want to calculate the opportunity cost of providing an interruptible service to a DNO irrespective of the tender mechanism. Because customers should always value their own interruptible services we do not believe that the Open Tender method is more costly or complex than other methods. Further we believe the other methods that introduce caps or predefined increments will artificially constrain the market and will not allow true cost discovery.

2. The administered prices for the next price control period are not known at this time. Also the value of the interruptible services will vary depending on the value of the product that will potentially be interrupted. As a result SSE has not been able to compare the administered prices with the preferred Open Tender cost.

3. SSE believe that the differing level of costs across the network should be reflected in the tendering process.
One would expect the operational requirements and competition for interruptible rights to differ across the network. This is because the network is not uniform across the UK. If consistency is sought then the zones and DNs should have been divided to be as similar as possible. Clearly this would not be economic nor physically possible. Therefore, the tender offers should reflect the physical circumstances, in the same way as new connection costs to the network are dependent on the part of the network chosen for connection. To attempt a capping structure for some DN interruptible services may be deemed as discriminatory and not consistent with how other aspects of the network are managed. Also any capping would potentially bias events, such that investment does not occur because interruptible services have been artificially capped.

4. The payment for offering interruptible services will be split between option fees and exercise fees. The option fee will be paid regardless of use (exercise). The Option fee should be sufficient to recover the costs involved in investing to provide a back up fuel service. The exercise fee should then be sufficient to compensate the opportunity cost of the interrupted process or use of a substitute fuel. Taking this into account it is unlikely that a single value would adequately reflect different customers requirements. Therefore, customers should be free to select what they consider to be an appropriate split for their costs. The level of complexity introduced by this should be well within the abilities of a DNO to manage.

5. SSE believe that offering longer duration contracts is inherently more uncertain and therefore exposes the customer to more risk. As a result longer duration contracts should expect to command a risk premium when compared with shorter duration contracts. In- addition if a longer duration contract was offered it is anticipated that it could only be accepted as a whole and not by selecting individual periods.
Further, in support of the answer to question 1, SSE do not believe that the tender methodology adds materially to the costs incurred by a customer when determining what the value of the interruptible service is.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
Energy Strategy