



**Comments in respect of  
Consultation on initial proposals on transitional incentive schemes  
supporting the offtake arrangements**

19 October 2005

The Association of Electricity Producers welcomes the opportunity to comment on this consultation document. Whilst the majority of CCGTs are connected to the NTS our Members also have interests in gas fired plant connected to the distribution networks. We therefore have an interest in both the NTS and DN incentives to ensure they operate in a manner consistent with customer interests.

*NTS Incentives*

The Association is broadly happy with the arrangements for securing NTS exit capacity in the transitional period, and to the extent that the current ARCA regime meets the needs of direct connects both existing and new consider that incentives are not required in the transition period. We agree that it would be more appropriate to consider incentives, output measures and unit cost allowances for both exit and entry at the time of the price control review to allow for a more coherent holistic approach.

However we have concerns that the proposed ARCA arrangements as recently consulted upon by National Grid NTS may increase the risk faced by parties seeking to secure incremental capacity and that this risk may need to be mitigated by incentives on National Grid NTS to ensure capacity is provided in a timely manner. In particular the proposed ARCA arrangements gave National Grid NTS a unilateral option to defer the date on which capacity was made available with no compensation for the affected parties. We would like to see this option for deferral removed from the ARCA.

*DN Incentives*

The Association is concerned that the licence requirements concerning 1 in 20 demand and the proposed incentives judged against targets set several years in advance may not be consistent since the licence conditions regarding capacity planning are judged on outturn network use rather than against forecast. It is appropriate that DNs should be encouraged to provide as accurate forecasts of capacity requirements as possible whilst not over requesting capacity so that charges to DN connected customers do not rise unnecessarily. However it is also possible that events out with DN influence or control could cause the actual capacity required to be at variance with forecast target level. Such events could include significant one off connections or interruptible to firm switching. In such circumstances it would seem that the DN might be penalised for not forecasting

these events, but it is not clear how this might then reflect on consumers and whether capacity might be withheld or lead times imposed. The differences in the 1 in 20 level requested by DNs and as calculated by Ofgem seem to underline these uncertainties in setting target levels several years in advance.

With respect to the reference price we agree that the outturn price would seem to be the most appropriate price to use in that it relieves the DNs from carrying price risk which they cannot readily offset at a time when there may be substantial rebalancing of charges. However we are unclear as to how the DNs are supposed to plan to manage their capacity requirements across their exit zones when the price which may drive this will be uncertain. Similarly we are unclear as to why targets are being set for each exit zone which may inhibit capacity optimisation across exit zones when a target for each LDZ would permit this to occur and may allow a more efficient outcome.

15 day interruption incentive – we agree that this should be reviewed at the time of the next distribution price control review.