

## Representation - Draft Modification Report 0517/A/B

### 0517 - Review of the Supply Matching Merit Order in Setting Capacity Charges

### 0517A - Review of the Supply Matching Merit Order in Setting Capacity Charges and Timing of Resultant Price Changes

### 0517B - Review of the Supply Matching Merit Order in Setting Capacity Charges, Rolling Average to Reduce Volatility in Annual Charges

Responses invited by: **24 July 2015**

<b>Representative:</b>	Graham Jack
<b>Organisation:</b>	British Gas Trading Limited
<b>Date of Representation:</b>	23 July 2015
<b>Support or oppose implementation?</b>	0517 - Oppose 0517A - Oppose 0517B – Oppose
<b>Alternate preference:</b>	<i>If either 0517, 0517A or 0517B were to be implemented, which would be your preference?</i> 0571B
<b>Relevant Objective:</b>	a) Negative aa) Negative b) Negative c) Negative d) None

**Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)**

We do not support these modification proposals because the analysis of supply patterns on which they are based is inadequate and unsound. Capacity charges are meant to be established on the basis of 1-in-20 peak day demand conditions. None of the proposals has sought to reasonably assess what a credible supply scenario might look like under 1-in-20 peak day demand conditions and we therefore cannot agree that they further the relevant objectives. We note with concern the dramatic effect the proposals will have, if implemented, on capacity charges in the west of the country with some charges likely to

rise by between 4,000% and over 8,000%. This concern has been acknowledged and partially addressed in the alternative proposals that have been raised. However, the underlying lack of analysis for modelling supply flows on a 1 in 20 peak demand day holds true for all three modification proposals so each of them is fundamentally flawed in our view. The consequences for consumers, especially large ones, of implementing any of these proposals could be very serious and to implement any of them on the basis of insufficient analysis would not be creditable.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

We do not support implementation.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

None.

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes.

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

Please refer to the concerns stated above and below.

**Please provide below any additional analysis or information to support your representation**

On the face of it, the original proposal (0517) looks simple and yet the effect of it on capacity charges in the west of the country is significant. The impact on large consumers in particular could be very serious for their businesses. The impact on cash flows for Wales & West Utilities might also be serious if proposal 0517 prevails. The Workgroup has recognised these concerns and developed alternative proposals that try to soften the impact of the original proposal.

Capacity charges tend to be volatile. This volatility can make it difficult for shippers to efficiently manage their portfolios and can have very serious consequences for large consumers in particular. It can also be bad for attracting new development and investment because User Commitments, based on capacity charges, become unstable and something of a lottery.

The challenge should be for National Grid to explore alternative charging models that provide an acceptable balance between cost-reflectivity and stability in charges, thereby providing good investment signals for both National Grid and consumers.