

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

Representative:	Laura Butterfield																														
Organisation:	National Grid NTS																														
Date of Representation:	24 July 2015																														
Support or oppose implementation?	0517 - Support 0517A - Qualified Support 0517B - Oppose																														
Alternate preference:	<i>If either 0517, 0517A or 0517B were to be implemented, which would be your preference?</i> 0517																														
Relevant Objective:	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 25%;">0517</th> <th style="width: 25%;">0517A</th> <th style="width: 25%;">0517B</th> </tr> </thead> <tbody> <tr> <td>a</td> <td>Positive</td> <td>Positive</td> <td>Negative</td> </tr> <tr> <td>aa</td> <td>Positive</td> <td>Positive</td> <td>Negative</td> </tr> <tr> <td>b</td> <td>Positive</td> <td>Positive</td> <td>Positive</td> </tr> <tr> <td>c</td> <td>Positive</td> <td>Positive</td> <td>Positive</td> </tr> <tr> <td>d</td> <td>None</td> <td>None</td> <td>None</td> </tr> <tr> <td>e</td> <td>None</td> <td>None</td> <td>None</td> </tr> </tbody> </table>				0517	0517A	0517B	a	Positive	Positive	Negative	aa	Positive	Positive	Negative	b	Positive	Positive	Positive	c	Positive	Positive	Positive	d	None	None	None	e	None	None	None
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e	None	None	None																												

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

As the proposer of MOD517, National Grid NTS fully supports the implementation of MOD517. As part of its Licence obligations, National Grid NTS must keep the charging methodology under review and as such raised MOD517 to amend the Supply Merit Order within the Transportation Model to align more closely to the current utilisation of supplies on the system. The Supply Merit Order proposed under MOD517/A/B would be amended to combine Liquefied Natural Gas (LNG) and Mid Range Storage (MRS) as one supply source, instead of placing LNG ahead of MRS, as these are both utilised on highest demand days.

MOD517A and MOD517B have the same Supply Merit Order proposed in MOD517. During the modification discussions and presenting the analysis of the system utilisation no alternatives to the proposed Supply Merit Order proposal were suggested. Both MOD517A and MOD517B only differ to MOD517 when it comes to the implementation method.

In addition to the amendment of the Supply Merit Order each alternative proposal introduces a number of new elements, which are detailed below:

- Two year lag on the implementation (MOD517A)
 - Whilst we support the Supply Merit Order, the implementation of the MOD517A solution would mean a delay in any change to the Merit Order. This means that the Supply Merit Order would not be as reflective of the recent supply patterns as it would be two years out of date.
- Average prices produced (MOD517B)
 - Whilst we support the Supply Merit Order proposed in MOD517B we do not support the overall solution.
 - After the change in charges that would take place once the Supply Merit Order change were implemented, amending the Supply Merit Order would not change the level of current volatility. This is because volatility is affected by a number of elements whereas MOD517 is only looking at the Supply Merit Order. It is our belief that to address volatility (as a whole), requires a wider review and should form part of a wider industry discussion if industry believe this is appropriate.
 - The average capacity prices (Entry and Exit) will be using prices for the current year and up to two previous years, and will in our view be less reflective with regards to what is happening in a specific year, as prices produced are not based on the specific years data inputs.
 - All other things being equal, should the averaging of charges result in lower charges than would otherwise be calculated, any commodity charges (TO and SO) used to reconcile revenue would be higher. Conversely should the averaging of charges result in higher charges than would otherwise be calculated, any commodity charges (TO and SO) used to reconcile revenue recovery would be lower. Therefore we believe that this needs to be discussed in a broader volatility discussion with the scope being far wider than just the updating of the Supply Merit Order used in calculating capacity charges (Entry and Exit).

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

National Grid NTS believes that the implementation of the Supply Merit Order should be at the earliest opportunity so that the charges are more reflective of the supplies utilised on the system.

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

There are no system development costs associated with any of the Modifications.

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

National Grid NTS is satisfied that the Legal Text delivers the intent of these Modification Proposals.

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.*

No

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

The current Supply Merit Order is based on an expectation of use of the NTS and is used in the Transportation Model in calculating the capacity prices (Entry and Exit). One attendee raised the 1:20 Peak Day mismatch between the model and the actual flows. Whilst we recognise this is another approach, we believe that using the flow data shows how supplies have been used on the NTS. Therefore, this serves as an effective utilisation measure and it forms a basis on which to propose this change. The data analysis does show that both MRS and LNG were utilised over the last five years. Therefore, we believe it is sensible to update the Supply Merit Order to reflect this. We will continue to keep the Supply Merit Order under review as we recognise that this could change over time and this may result in further updates to the Supply Merit Order.

Whilst we support the Supply Merit Order used in MOD517B, the application of average capacity pricing (Entry and Exit) to address volatility increases the scope of the change to have far wider impacts. As stated above, it is our view that this also negatively impacts the reflectivity of prices for a given year, due to using the data for previous years, to calculate the rates for the current year. Volatility is a broad subject and to address volatility effectively requires a separate industry discussion as there are a number of drivers that can cause volatility. After the change in prices that would happen once the Supply Merit Order were to be implemented, the Supply Merit Order change would not cause additional volatility.

There is no extra data analysis, all analysis was provided throughout the workgroups.