

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**

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| Representative: | Jeff Chandler |
| Organisation: | SSE |
| Date of Representation: | 22 July 2015 |
| Support or oppose implementation? | 0517 - Oppose 0517A - Oppose 0517B - Comment |
| Alternate preference: | <i>If either 0517, 0517A or 0517B were to be implemented, which would be your preference?</i> 0517B |
| Relevant Objective: | a) None for 517, 517A & 517B aa) None for 517, 517A & 517B b) None for 517, 517A & 517B c) Positive for 517B d) None for 517, 517A & 517B |

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

There is no industry definition of what is meant by cost reflectivity of charges. Without a clear definition the issue of whether a change to the supply merit order improves cost reflectivity and hence furthers the relevant objectives a) and aa) is uncertain.

The data supporting a change to the supply merit order is in itself inconclusive with the most recent year of data indicating a swing back to LNG supply in preference to MRS. This trend may be continued with industry commentators expecting an increase in LNG

to be delivered to Europe as projects from Australia and the USA are commissioned over the next 5 years.

SSE believes that mod 507B would introduce more stability in charges due to the averaging process and therefore this will enhance competition and relevant objective c). It is not sufficient just to have charges that are predictable because they can be predictably volatile. This is an issue we have with the current charging model which for a largely static network produces volatile charges. Volatile charges are not helpful for business planning, budgeting, offering long term supply contracts to customers and making investment commitments for CCGTs and therefore all impact detrimentally on competition.

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

Time should be allowed to permit the normal publication of indicative and actual charges.

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

If either 517 or 517A were to be implemented, Direct Connected customers will be impacted due to increases in charges. In some cases this will lead to an increase in annual costs of over 4300%. In-addition, those suppliers with customers in the South Wales area will need to give careful consideration as to how the proposed increase in charges will be passed through.

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.*

We note the recent publication by National grid that peak day demand has been reduced by 11 %.¹ This is a material drop and will impact on entry and exit charges. We consider further analysis of mod 517 and the alternatives is required before a decision can be made because further impact on regional charging differences has not been investigated.

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

Not applicable.

¹ <http://www.gasgovernance.co.uk/sites/default/files/RMSEC%20notice%20for%20Oct%202015%20inc%20IPs.pdf>