

## 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>	Richard Pomroy
<b>Organisation:</b>	Wales & West Utilities
<b>Date of Representation:</b>	7 <sup>th</sup> July
<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>  0517A
<b>Relevant Objective:</b>	<b>a)</b> Negative for 0517, 0517A and 0517B <b>aa)</b> None for 0517, 0517A and 0517B <b>b)</b> Negative for 0517, Positive for 0517A, Negative for 0517B <b>c)</b> Negative for 0517, Positive for 0517A, Negative for 0517B <b>d)</b> None for 0517, 0517A and 0517B <b>e)</b> None for 0517, 0517A and 0517B

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

We do not support any of the modifications for two key reasons. We have a third that only applies to 0517B.

Modification Proposal 0517 was predicated on the reliance of storage rather than LNG on cold winter days. Data initially provided for the period 2010/11 to 2013/14 supported this. During the course of the workgroup two principal points arose which undermine the argument for change.

1. One member of the workgroup strongly and repeatedly stated that the modelling used in setting charges on the NTS should be based on flows expected on a 1 in 20 Peak Winter Day rather than on flows on the coldest days each winter. On reflection we believe that this principle is correct and since none of the three proposals meets this requirement, we cannot support any of them. This means that in our view all three proposals are negative for relevant objective (a). We do however, acknowledge the difficulty in modelling using this approach.
2. The most recent data for 2014/15, released at the final workgroup meeting, has not continued the trend experienced in 2010/11 to 2013/14. This casts doubt on the suitability of the revised usage assumption fundamental to justification of the merit order change. This also means that all three proposals are negative for relevant objective (a).

Regarding 0517B we note that Ofgem's decision letter on Modification Proposal 0282 (changing from 95/5 capacity commodity split for GDN charges to 50/50) mentioned the need for robust analysis of data. We do not think that the analysis reaches this threshold. We also believe that smoothing prices should be a matter for licence rather than the UNC.

WWU raised 0517A to mitigate the immediate and very significant adverse effects on WWU's customers that 0517 would cause. We believe that 0517A reflects the impacts of changes in the way distribution charges work introduced in RIIO GD1 and hence the two year lag proposed by 0517A supports relevant objective (b). It also supports relevant objective (c) both by reducing the volatility of LDZ charges and the adverse effect on competition between sites directly connected to the NTS and those connected to WWU's LDZ caused by the delay between lags in the charges being seen between NTS directly connected customers and LDZ connected customers; however neither of these outweighs the failure with respect to the over-riding objective (a). Although 0517A used the same charging model as used for 0517 this does not necessarily mean that WWU believes that it is the correct approach. That issue is one for NTS to address and WWU has neither the expertise nor resource to propose detailed changes to the models used by NTS.

WWU's preference is for none of the modification proposals to be implemented because we believe that they are all negative for the principal objective (a). If one is to be implemented then 0517A is preferable to the other two as it is positive for subsidiary objectives (b) and (c).

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

The modifications could be implemented immediately with the charges coming in as stated in the legal text.

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

0517 would require WWU to fund approximately £12M in additional working capital by October 2018 owing to WWU being unable to pass on the increase in NTS exit capacity

charges to customers immediately as the new charges would exceed the amount allowed for these charges in WWU's RIIO GD1 price control. This would mean that WWU would only be able to recover these charges by operation of the "k factor" which operates with a two year lag.

WWU will not experience any adverse working capital impact impacts from 0517A.

**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.*

No

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

Not applicable