

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:	Joel Martin
Organisation:	SGN
Date of Representation:	27/07/15
Support or oppose implementation?	0517 - Oppose 0517A - Oppose 0517B - Oppose
Alternate preference:	<i>If either 0517, 0517A or 0517B were to be implemented, which would be your preference?</i> 0517A
Relevant Objective:	a) Negative* <i>delete as appropriate</i> aa) None* <i>delete as appropriate</i> b) Negative* <i>delete as appropriate</i> c) Negative 517 Positive 517A and B. <i>delete as appropriate</i> d) None

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

SGN understand National Grid Transmission are required to maintain the merit order model to ensure the charging methodology, as detailed in Section Y of the UNC, is kept up to date and is reflective of costs incurred. As a result Modification 517 proposed changes to the merit order model to reflect shifts in transportation costs in relation to the utilisation of LNG import terminals and mid-range storage facilities.

All three Modifications propose changes to the merit order model, however they differ in relation to the implementation of the charges associated with the changed cost structure.

The original modification (517) would require changes to the exit and entry capacity tariffs to reflect the change in costs computed by the merit model at the next available opportunity. Mods 517A and B provide for the same changes to the merit order model, however provide a different solution to the implementation of the charges with 517A proposing a two year lag to the charge impact and 517B introducing a rolling average of the three most recent years of charges. From SGN's own analysis of the modified exit capacity charges resulting from the changes Mods 517, 517A and 517B would introduce the overall cost increase would be circa £1M per annum in the Southern Gas Network region with little or no impact in Scotland. As SGN would recover this cost increase via the "K" mechanism, this would require SGN to fund these additional costs across the two year 'lag' period.

SGN understand that the proposed changes to the merit order model may require further analysis to ensure that the proposed structure of the model accurately reflects the peak day security of supply requirement and whether the sources of gas (whether they be LNG or MRS) are accurately reflected in the model's structure. SGN would support further provision of cost information from National Grid Transmission and analysis of these costs to ensure the model remains cost reflective.

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

As per Modification proposals. SGN understand the implementation would be immediate with the normal notification periods being provided for a change in the tariff prices.

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

Insert Text Here

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.*

None.

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

None.