

# 0517A

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



We are asking panel to consider this modification proposal at short notice to avoid unnecessarily delaying modification proposal 0517

**Proposer:** Wales & West Utilities

**Panel Date:** 18<sup>th</sup> December 2014

# Background



*Please use bullets to summarise what in the UNC is wrong and creating problems*

- Following Exit Reform in October 2012 Distribution Networks incur Exit Capacity costs from NTS and recover the costs from Shippers
- One of the principles of RIIO energy network regulation is the application of a two year lag to changes in Allowed Revenue. This is there to allow industry to plan for any material changes in costs to them
- Ofgem's previous decisions on proposed GDN charges, recognise the importance of predictability and stability of prices
- NTS/ Network charges need to be cost reflective but material changes must allow time for customers to plan for the impacts
- The changes proposed in the NTS Merit Order are material in WS, SW and SE LDZs
- If no time lag is included within Mod 517, there will be a material and immediate cost impact to direct NTS connected loads that are connected within WWU zones
- Mod 517 without a time lag would introduce a level of distortion in competition between sites directly connected to the NTS and those that are not

# Why change?



*Please use bullets to summarise what in the UNC is wrong and creating problems*

- Exit Capacity costs arising from the change to the Merit Order are reflected in charges to supply points which are directly connected to NTS in the year which they occur
- Whereas the costs arising from the proposed Merit Order change will not be reflected in supply points connected to the Distribution Networks until two years later
- This leads to a distortion of competition between NTS direct connects and LDZ connected supply points and to more volatile GDN charges

# Options



*Please use bullets to summarise what options have been considered to fix the identified problem. Is a UNC modification the only route?*

1. Change merit order and implement in the following October and March – 0517 approach
2. To introduce a notice period between changing the Merit Order and changing charges to address unintended consequences - 0517A approach

# Solution



*Please use bullets to briefly outline the solution contained within the modification.*

- To introduce a notice period for this NTS change in the merit order
- This would provide visibility to industry so that it can plan for the change
- A notice period would also allow time for GDNs to apply to Ofgem for a change in their allowances which would address the unintended consequences
- If the Merit Order was changed and indicative prices published by June 2015 the NTS Entry Capacity charges would change in April 2017 and the NTS Exit Capacity charges would change in October 2017
- This modification proposal **only** applies to this change and does not seek to introduce a notice period for any future changes

# Recommended Steps



*Please use bullets to summarise the recommended steps. Please indicate how long you think the assessment process should last and if self-governance should apply or not.*

- The Proposer recommends that this modification should be: *(delete as appropriate)*
  - Not subject to self-governance because it is likely to impact commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes
  - Sent for Workgroup assessment to develop the modification and report to January 2015 panel in line with the timescales for 0517