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:	Julie Cox
Organisation:	Energy UK
Date of Representation:	22 July 2015
Support or oppose implementation?	0517 – Oppose 0517A - Oppose 0517B – Oppose
Alternate preference:	None
Relevant Objective:	**a)** not clearly positive or negative **aa)** not clearly positive or negative **b)** not clearly positive or negative **c)** not clearly positive or negative **d)** None

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

Modification proposals that affect charging often result in a re-distribution of charges either between types of customers or geographically. These modifications have the impact of increasing charges to customers in some areas whilst others see a small decrease or are relatively unaffected. When this occurs responses will reflect the commercial impact on a company. Since Energy UK represents a wide range of gas supply and gas generation interests we are not able to express a strong view for or against these proposals, rather we provide comments only.

There has been extensive discussions within the work group about the impact on the relevant objectives. Objectives a), aa) and c) relate to cost reflectivity and competition, with it being assumed that if cost reflectivity is improved then competition will also be better facilitated. We agree with this premise, but do not fully understand how the impact on objective c) is positive when the impact on objectives a) and aa) is recorded as

impacted not positive. However modifications 517A and B seem to provide additional arguments beyond cost reflectivity as to why competition may be enhanced.

In any event the focus of discussion seems to side with whether cost reflectively is improved by changing the merit order with 517A and B attempting to mitigate some of the impact of such a change. **The lack of any clear definition of what cost reflectivity is clearly creates a problem here.**

However it is well understood that the majority of the costs of the transportation system arise from building the network in the first place, the costs of moving gas around the system are a relatively small component of the total cost. Capacity charges are derived on a regional basis using the transportation model which creates geographically diversified LRMC values which are then adjusted, in the case of exit charges, to establish actual charges.

It has been recognised, since the transportation model was introduced that the charges created can be highly sensitive to changes in the data inputs. These proposals represent another instance of that issue, **with diverse impacts on customers' charges by location - which it seems difficult to justify since the underlying network remains constant based on past investment decisions.**

With respect to objective b) there are a number of developments in the transportation business to take into account, not only actual flows on high demand (not peak) days.

- EU Tariffs code due for implementation, by latest estimate in 2018
- Ofgem gas transmission charging review
- RIIO GD 1 settlement
- Affordability for customers – best achieved by stable charges

With respect to the main driver for these proposals, the observation that on high demand days storage as well as LNG has provided gas in recent years, data for this is clearly presented as evidence. However it is not possible to say whether the observed trends will continue nor what the split of supplies might be on an actual 1 in 20 peak day, the demand level that the system is designed to accommodate. In recent years demand has fallen far short of 1 in 20 peak levels. See further analysis at the end of this response which provides some further background on concerns about using a single day, the peak day in any year, to base decisions about further charging arrangements with widespread consequences. The table below presents data averages across the top 10 supply days in the year, for comparison against the single day analysis in the draft modification report.
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Year	LNG%	MRS %
2010/2011	22	4
2011/2012	17	10
2012/1013	10	10
2013/2014	8	6

2014/2015	10	10

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

If any of these proposals were to be implemented we consider that time should be allowed to ensure the normal publication of indicative and actual charges, no special shortened timescales should apply given the potential impact on customer charges.

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

Energy UK as a trade association will not face any direct costs, however the impact on our Members will depend on the location of their gas –fired generating assets and customer base. Members considering investing in new gas-fired generating plant will be particularly aware of the potential impact of the timing of any decision to provide user commitment for incremental capacity. Whilst those with gas customer supply portfolios will need to give careful consideration as to how charges are reflected in customer tariffs whilst attempting to avoid frequent changes in tariffs.

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.*

Yes, see the commentary below. **The data provide for the peak day in winter 2014/15 should be for the peak demand day not the peak supply day.**

Also an issue has arisen since the workgroup report was completed. **This is that the peak demand for the coming winter has fallen by 11%**[1]. This is a very significant fall in one year which will lead to an increase in both entry reserve prices and exit charges. We would like to see further exploration of drivers for this and impact on charges in combination with the 517 variants before a decision is taken in respect of this modification.

From the limited information available about this fall in peak demand it is not possible to determine whether this may exacerbate regional differences in charges or go some way to offset the impact of any change to the supply merit order. This needs to be further developed and understood by the workgroup before a decision can be made.

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

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

UNC Modification 517 – Additional Analysis around peak days

During workgroup discussions a number of Energy UK members **expressed concern over the use of data as a proxy for peak day data that whilst representing a 'peak' day within any year actually represented a demand level that was up to 200 mcm short of the 1 in 20 peak day demand level.** The latter is used for network planning and is the level against which any discussion on cost reflectivity should take place.

Energy UK requested that further analysis was undertaken to determine if the values presented in the workgroup report were representative of other high demand days in the respective years. This analysis was not thought to be necessary for the workgroup report. Energy UK has undertaken this analysis itself and presents the results in this annex.

In seeking to replicate National Grid's data clarification was sought as to the data sources used.

The following was provided;

Year	Date	Total (mcm) from Data Item Explorer data	LNG (mcm)	MRS (mcm)
2010/11	20/12/2010	438.35	76.08	16.52
2011/12	02/02/2012	414.04	77.43	50.19
2012/13	16/01/2013	391.74	30.17	65.76
2013/14	30/01/2014	326.66	8.06	43.26
2014/15	19/01/2015	364.06	38.99	24.08

Additionally NG advised that the peak day was identified from the respective Winter Outlook report for gas years 2010 to 2013. With the most recent winter 2014/15 being identified as 19/1/15 as a day of maximum physical supply in volume terms. Energy UK had identified a different maximum demand day in energy terms, (2/2/15 now confirmed in Winter Review and consultation document) but decided to proceed with analysis based on maximum supplies and other parameters in volume terms for consistency. [Note 2/2/15 is ranked 4th in supply terms]

Data was downloaded for M+15 values for physical supply, LNG supply, aggregate storage withdrawal and Rough withdrawal for the months October – March for each year (there were the following exceptions October 2010 was excluded due to missing data, D+1 data was used for storage for 2012/13). The MRS value was determined by difference from the aggregate withdrawal and Rough withdrawal due to the format of the LNG storage data it was excluded – (so this slightly overstates the MRS values on a few days).

The % from MRS and LNG was determined for all days, the top 10 supply days values are tabulated below:

	2010/11		2011/12		2012/13		2013/14		2014/15	
	MRS	LNG	MRS	LNG	MRS	LNG	MRS	LNG	MRS	LNG
Day 1	3%	22%	7%	19%	17%	8%	13%	2%	7%	11%
Day2	5%	23%	12%	19%	11%	18%	8%	11%	8%	10%
Day3	4%	21%	11%	17%	16%	10%	5%	4%	11%	11%
Day4	5%	22%	12%	18%	14%	7%	8%	6%	14%	11%
Day5	5%	23%	9%	17%	6%	19%	12%	5%	10%	11%
Day6	1%	22%	6%	20%	8%	15%	6%	5%	14%	7%
Day7	2%	20%	9%	15%	9%	7%	1%	19%	10%	11%
Day8	2%	22%	11%	15%	9%	5%	4%	3%	15%	11%
Day9	5%	22%	10%	16%	12%	10%	7%	12%	7%	10%
Day10	6%	18%	10%	13%	4%	4%	1%	13%	7%	11%
Average	4%	22%	10%	17%	10%	10%	6%	8%	10%	10%

This shows that it is unwise to use a single 'peak day' value as representative of the peak supply pattern for a given year especially when the supply or demand for that day falls far short of true 1 in 20 peak levels. 2012/13 and 2013/4 (when LNG was particularly tight globally) are particular examples here when the day 1 supply levels for LNG and storage were reversed on day 2. 2011/12 is also a year like 2014/15 when the peak supply and peak demand days are different. We note that using the average of the top 10 days shows a rather different pattern than that presented in the modifications.

Energy UK thinks that this new information should be discussed further at the workgroup before a decision can be made.

The following graphics present the % supply from MRS and LNG against demand for each winter. They clearly show the historical pattern changing over time but cannot be used to predict future supplies. The graphs also show that the maximum supply, in these years, from both LNG and MRS occurs away from the high demand days in each year – a quick check of the data shows this to hold in absolute volume as well as percentage terms. This indicates a more complex relationship between supplies and demand so is not representative of what supplies may be under actual peak conditions.