

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:	Charles Ruffell
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	23 rd July 2015
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 aa) Negative b) Negative c) Negative d) None

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

During discussions on GCM 16 – Supply and Demand Balancing Rules and Supply Source Data that introduced the current merit order approach, we expressed concerns that there was a risk of introducing extreme price volatility at exit points close to the supply group sitting on the boundary of where demand and supply is balanced. Such price volatility caused by changing supply/demand input assumptions in the Model has been evident on a number of occasions, including significant locational price impacts driven by the incremental change being proposed under 0517. Arguably, 0517A and 0517B have been raised to ameliorate the adverse impacts of 0517, which result in a

step-change in capacity costs for some Users. We are not convinced that a sufficiently robust analysis has been undertaken to justify the proposed changes.

We accept that there will always be a trade-off between cost-reflectivity, volatility and predictability of charges. Our preference would be for a more fundamental review of the Transportation Model to consider options available to mitigate some of the extreme price volatility observed. One option could be to further restrict the number of supply groups as earlier analysis presented under GCM16 showed that this could limit the scope of price volatility in a network characterised by increasingly unpredictable physical flows.

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

We do not support implementation of any of the proposals.

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

Changing the Supply Merit Order as proposed will create significant regional changes in the level of charges faced by Users. The actual impact will depend on the geographical distribution of company portfolios.

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.*

The proposal to change the Supply Merit Order was based on observation of the recent winter supply utilisation patterns of MRS and LNG. These patterns have reversed in the latest winter. We do not support a piecemeal approach to changing the Transportation Model. We agree with comments that any supply analysis should be on the peak demand day and none of the proposals do this. Please also see other comments above.

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

None.