Commentary on example WWU and NTS charges in response to action 0201

Introduction

Wales and West Utilities (WWU) have modelled the impact on large in all exit zones using the AQs and SOQs used by NTS in their response to this action.

Three scenarios have been modelled:

1. MOD0517;
2. MOD0517 with a change in WWU's exit capacity allowances for formula years 17/18 and 18/19, this is considered a rational response to the material impact of the change which would result in WWU requesting a compensating allowance adjustment; and
3. MOD0517A.

The following assumptions have been used:

1. A year is based on the regulatory year, i.e. from 1st April XX to 31st March XY
2. All prices are at nominal prices
3. The WWU prices assume that the NTS prices under Mod 0517 are be implemented in October 2015 with no further changes to these prices in subsequent years. The implementation in October 2015 results in a partial effect on WWU charges in 2015/16, with only October 2015 to March 2016 affected, 2016/17 onwards will receive a full year's impact from the increased NTS Exit Capacity Charges.
4. Prices are based by:
    a. Exit Point for the given site for NTS
    b. Exit Zone for the given site for WWU (with Zonal prices based on a weighted average for that zone).

Results are presented as graphs and are shown separately for Mod 0517 and Mod 0617A.

MOD:0517

Appendix 1 presents the comparison over the RIIO pricing period (i.e. from 2014/15 through to 2020/21) under 0517. Each chart presents a single NTS price over the period for the scenarios:

1. MOD0517; and
2. MOD0517 with a change in WWU's exit capacity allowances for formula years 17/18 and 18/19, this is considered a rational response to the material impact of the change which would result in WWU requesting a compensating allowance adjustment.

Disparity in timing of the impact between NTS directly connected and LDZ connected cusotmers

Owing to the lag in changing LDZ prices there is a discrepancy in prices between customers directly connected to the NTS and an identical customer connected to the LDZ in WWU's area.

Volatility

Where WWU amends allowances in line with the increased costs (the rational response), the impact of the T+2 true up on WWU customers is that MOD0517 presents increased volatility of prices with three distinct periods:

1. an initial period where prices fall (as prices are set by allowed revenue collection which is currently set to decrease);
2. Then rapidly increase as the effect of the cost is included in increased allowed revenue in T+2, plus the effect of the True Up where costs exceeded revenue in T
3. Then a fall as the T+2 pass through no longer carries on (as allowances have then been adjusted to collect revenue in line with costs).

This effect is most dramatic within all but zone WA2.

MOD:0517A

Appendix 2 presents the comparison over the RIIO pricing period (i.e. from 2014/15 through to 2020/21) under 0517a. Under this scenario, there is:

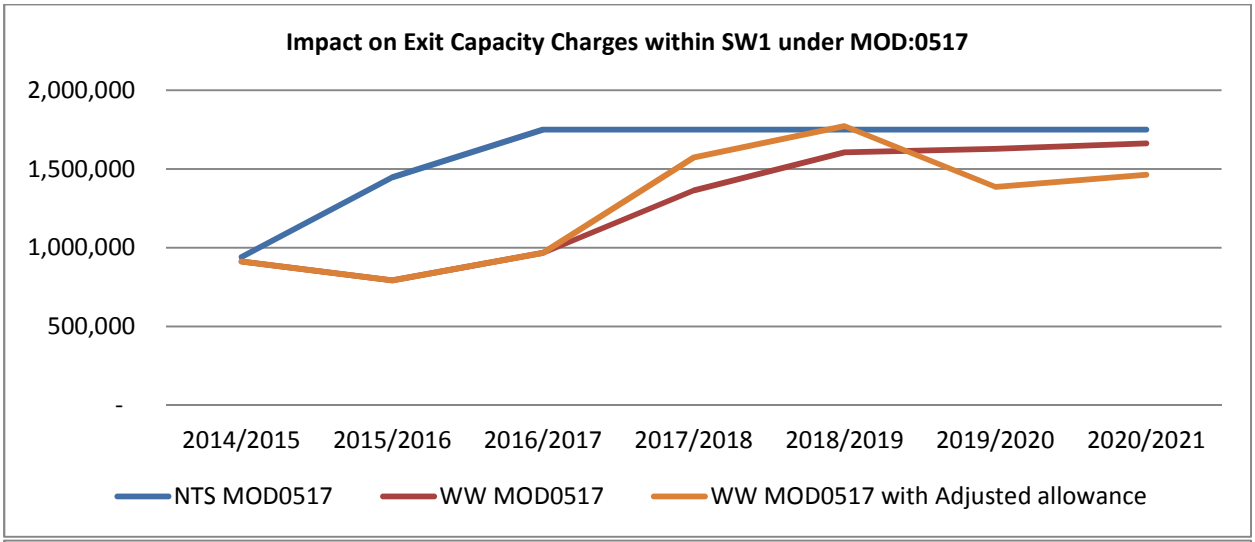
1. improved synchronisation between the effect of an NTS customer and a WWU customer resulting in a reduction in the disparity witnessed under MOD:0517; and
2. Reduced volatility as a result of allowances being amended prior to the price change taking effect for Wales and West (minor volatility still remains within WA1).

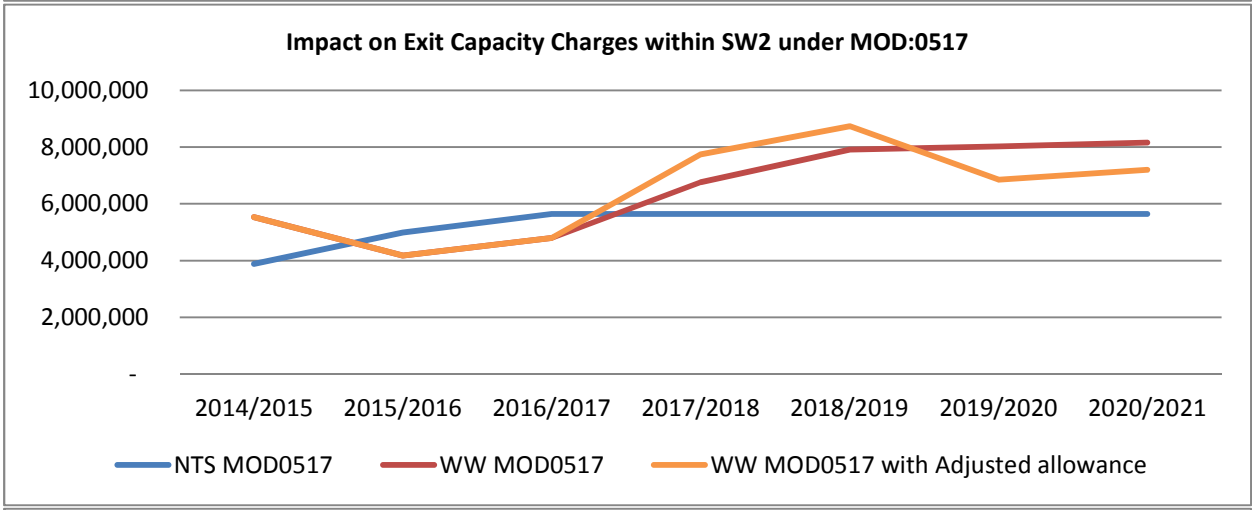
Conclusion

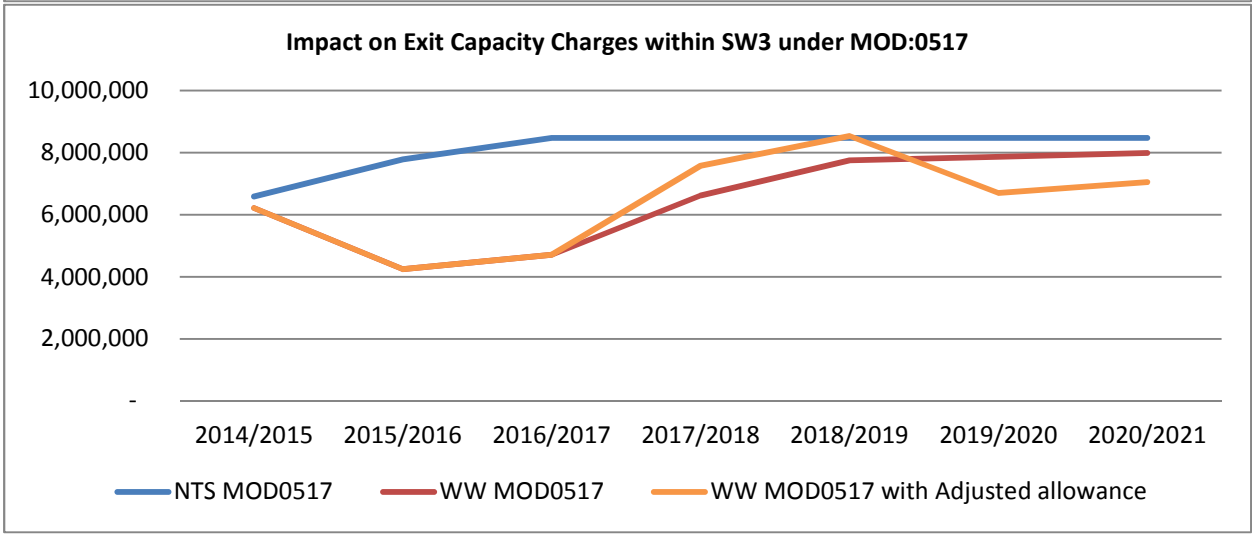
The purpose of this action was to compare the path of prices for a customer connected to the NTS with the path of prices for customer with identical AQ and SOQ connected to the LDZ. This may be important for power stations that compete with each other if differences in when their charges change has a material impact on their commercial decisions.

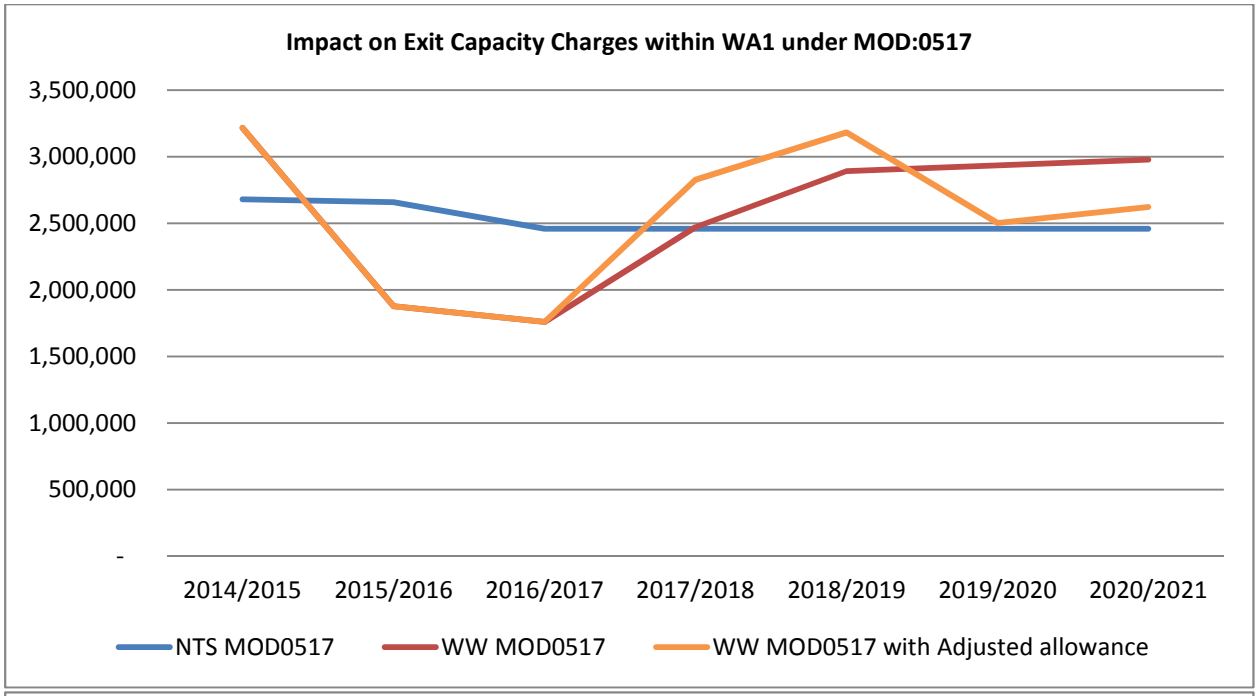
This graphs demonstrate that MOD0517, when compared to MOD0517a results in a greater volatility for WWU pricing, and a clear disparity in the impact of the change on an NTS customer, when compared to a WWU customer.

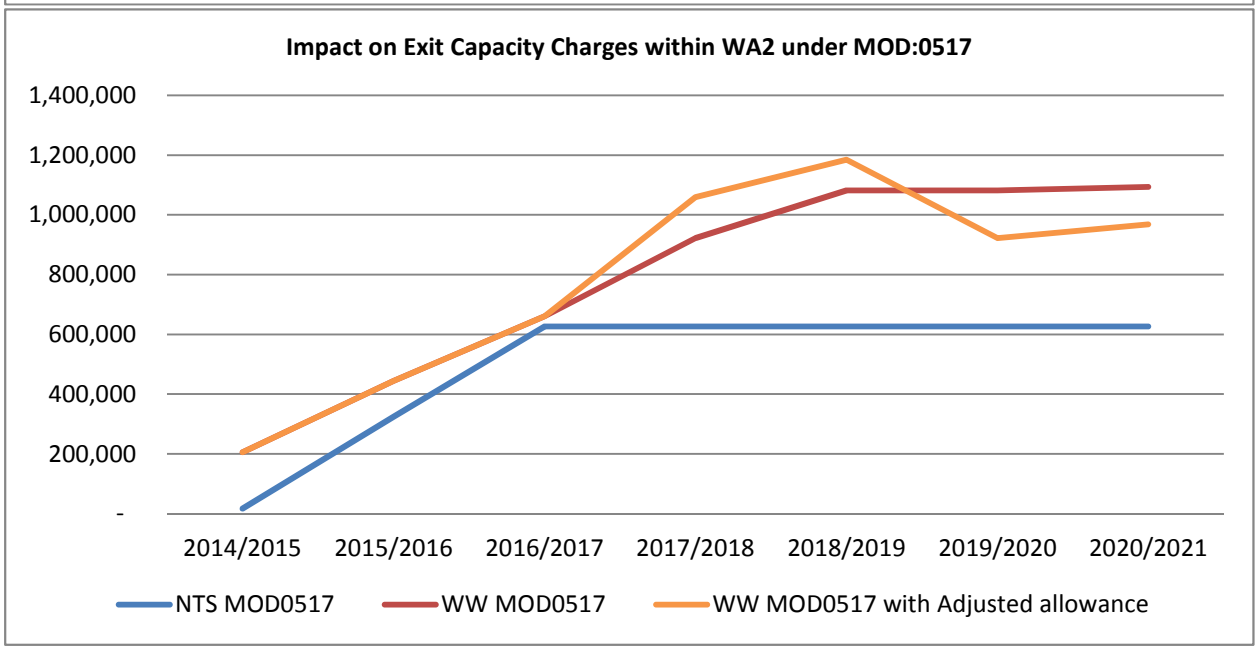
Appendix 1 – MOD:0517 for ACTION 0201



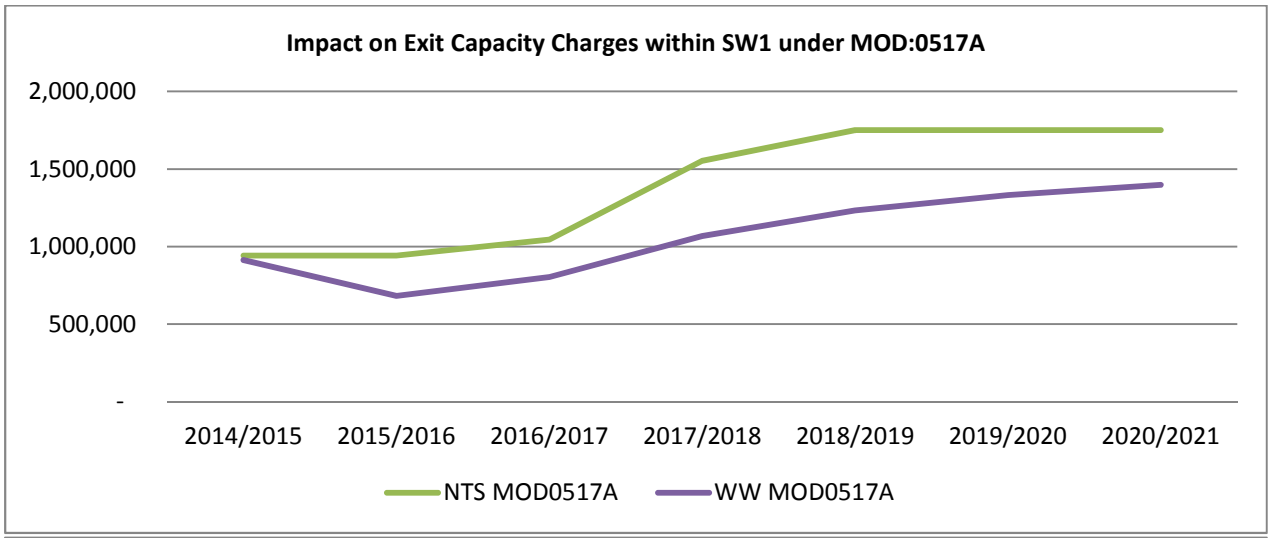


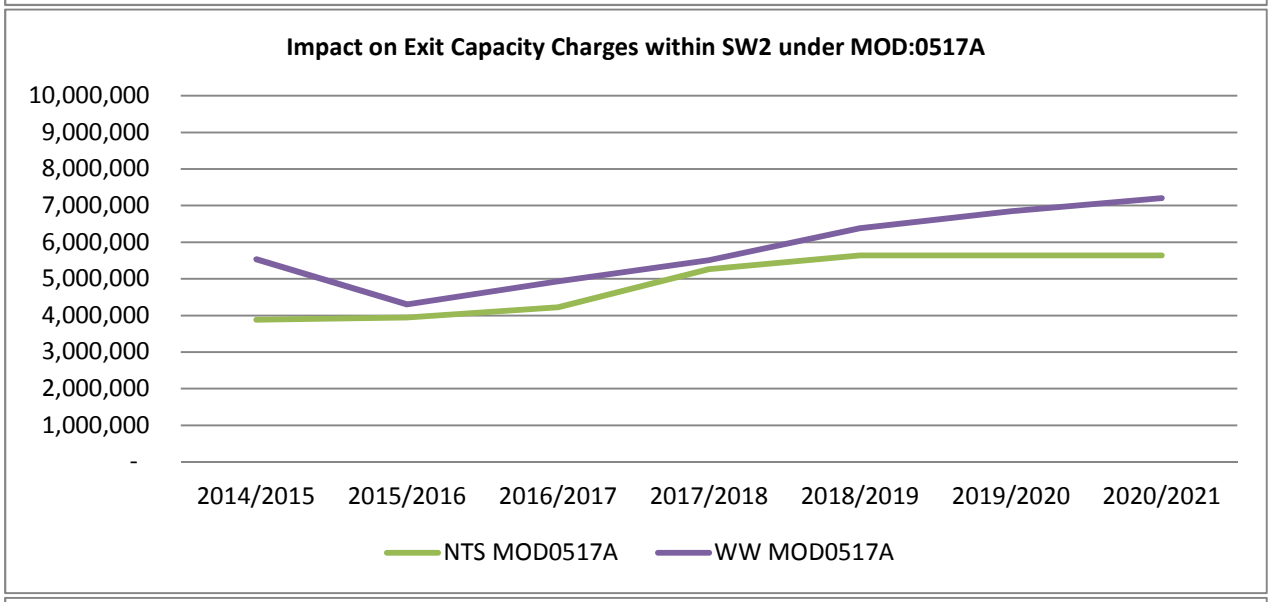


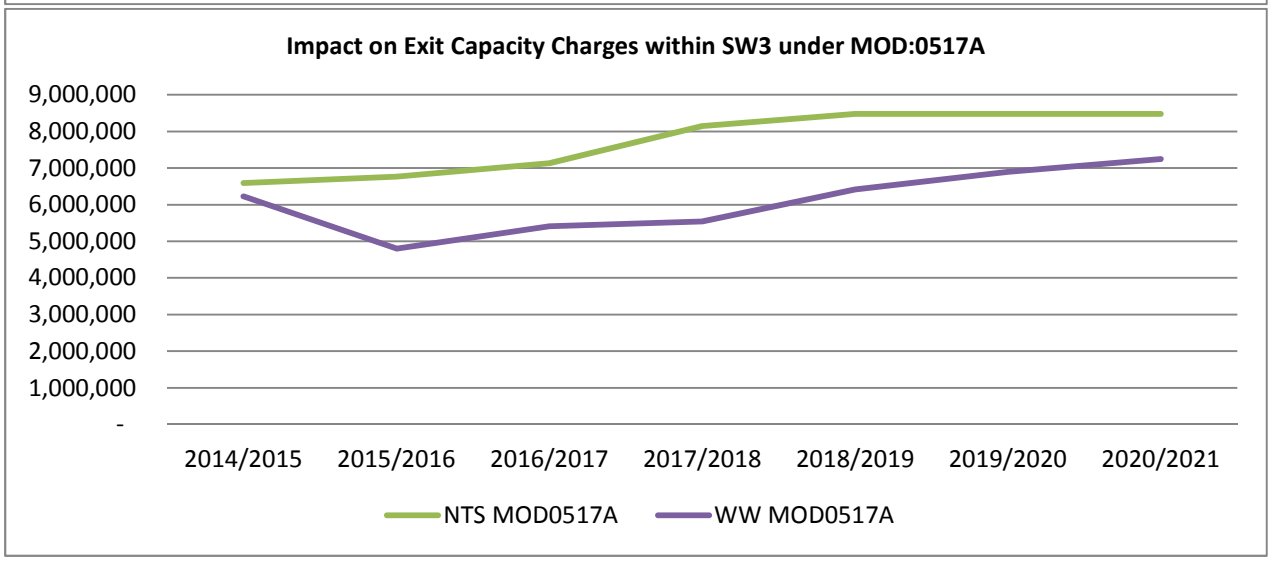

Impact on Exit Capacity Charges within WA1 under MOD:0517
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
2020/2021
NTS MOD0517
WW MOD0517
WW MOD0517 with Adjusted allowance

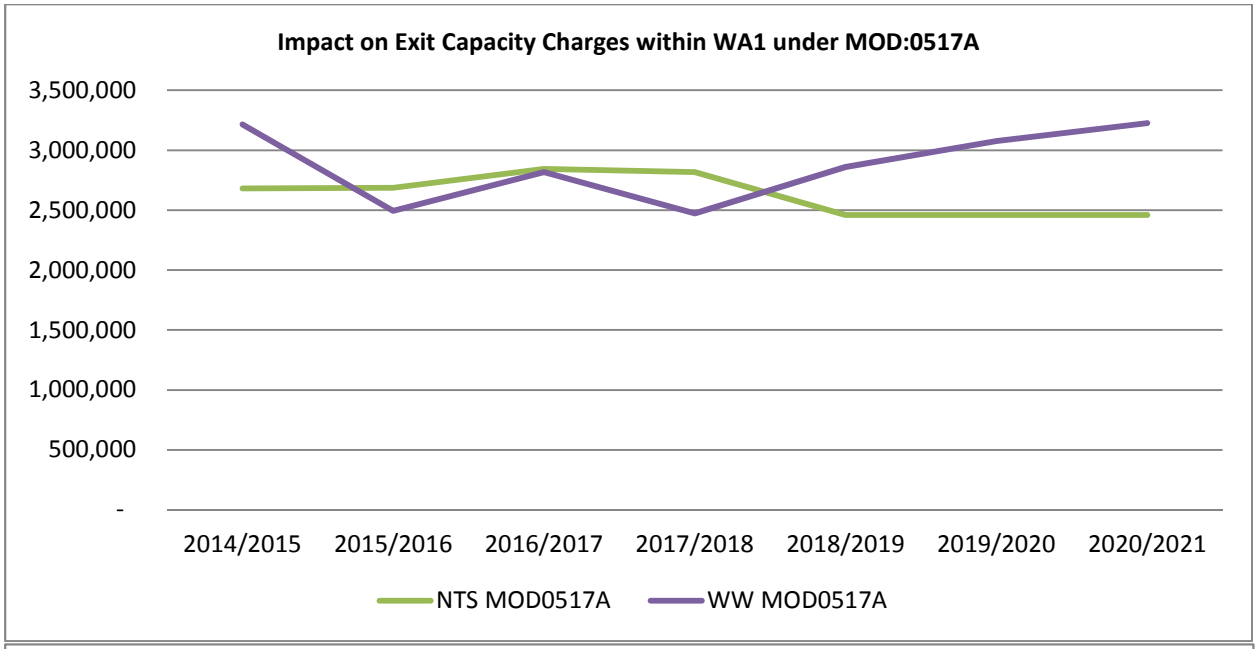

Impact on Exit Capacity Charges within WA2 under MOD:0517
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
2020/2021
NTS MOD0517
WW MOD0517
WW MOD0517 with Adjusted allowance

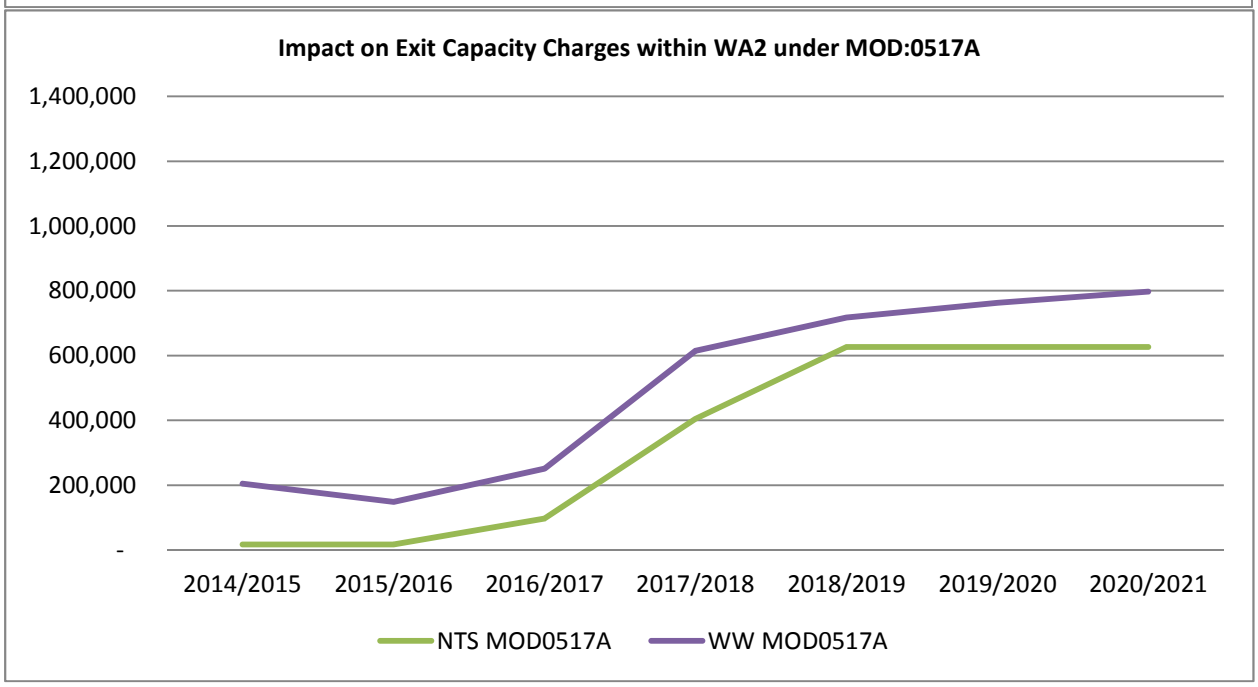
Appendix 2 – MOD:0517A








Impact on Exit Capacity Charges within WA1 under MOD:0517A
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
2020/2021
NTS MOD0517A
WW MOD0517A


Impact on Exit Capacity Charges within WA2 under MOD:0517A
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
2020/2021
NTS MOD0517A
WW MOD0517A