

Commentary on example WWU charges for Modification Proposal 0517A

Introduction

Wales and West Utilities (WWU) have modelled the impact on typical customers in both the WA2 (Wales South), and SW1 Exit Zones within each of the following bands:

1. Domestic – a customer with usage less than 73,000kWh;
2. A small inc, a customer within the usage range of 73,000kWh and 730,000kWh;

We have provided analysis for all five WWU Exit zones (WA1, WA2, SW1, SW2, SW3) for

3. Large, a customer exceeding 730,000kWh usage.

These impacts have considered four scenarios:

1. Current Prices - Assuming MOD0517 is not implemented, this model utilises the ‘October 2015 indicative values - Exit Price (p/kWh/day) - October 2015 – Original’
2. MOD0517;
3. 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
4. MOD0517A.

The model has used the ‘Option 3’ NTS Exit Capacity Charges as published 8th December 2015. These prices have been assumed to 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 in 2015/16, with only October 2015 to March 2016 effected, 2016/17 onwards will receive a full years impact from the increased NTS Exit Capacity Charges.

Insight – Domestic and small inc customers

For domestic (tables 1 and 2) and small I&C (tables 3 and 4) the impact of the changes in NTS exit capacity charges is out-weighted by planned increases to the overall bill, reflecting that exit capacity is a relatively small component of the total bill.

Insight – Large customers

For the indicative large I&C (tables 5 to 9) which we envisage to be a power station or similar load there are several considerations arising from the impact of the change:

Impact on the Exit Capacity Charge

Looking at Mod 0517 and Mod 0517 with allowance increase in 17/18 and 18/19 we see that in 15/16 and 16/17 charges increase relative to current prices in WA2 and SW1 and decreases in the other three Exit Zones. The reason for this is that although the effect of the new NTS capacity charges does not affect WWU's allowed revenue in these years the DN's charging methodology uses those charges to apportion WWU's charges to each exit zone in order to recover its allowed revenue. Therefore, WWU's existing charge base is apportioned using the new prices. For WA2 and SW1 exit zones this results in an increase for 15/16 and 16/17 as their share of the charges has increased. Other exit zones such as SW2 and SW3 where the NTS exit capacity charges has risen but by less than the weighted average see a fall in charges in these years. WA1 where the NTS exit capacity charge falls also sees a fall relative to current prices.

An additional complication is that since the new NTS charges come in halfway through the formula year means that the apportionment in 15/16 is based half on existing and half on new prices. From 16/17 the apportionment is 100% based on new prices.

This effect is an unforeseen consequence of DNs having the two year lag introduced under RII0 GD1 as a result of Ofgem's decision on Volatility and Predictability. The DN charging methodology states that the current NTS exit capacity charges will be use to apportion the

NTS exit capacity costs between customers. To remove it would require a change to DN's charging methodology by means of a UNC modification.

Increased Pricing Volatility

Mod 0517 with an allowance adjustment is more volatile than Mod 0517A with an allowance adjustment. For WA2 and SW1 Mod 0517 with adjustment charges peak in 18/19 slightly more than 10% above what they would be under 0517A with adjustment and then decline. For SW2 and SW3 the effect is nearly 18% and 16% respectively. The peak is caused by the catch up mechanism in the DN's charging methodology. In contrast the path under 0517A with adjustment is smooth as the delayed increase in prices is offset by a planned adjustment in allowances.

Competition between a customer connected directly to the NTS and those on the LDZ

Under MOD0517 with Allowance adjustment, an LDZ connected customer would receive a pricing benefit as compared to a similar customer directly connected to the NTS. This situation arises because a directly connected customer to the NTS would experience a price rise from 2015/16 (directly after the implementation in October 2015), whereas those connected to the LDZ would experience a delayed increase to 2017/18 due to RIIO price formula adjustment in T+2. Under 0517A with adjustment both LDZ and NTS directly connected customers would see the price changes coming in 17/18 which would mean that they move more in line with each other.

WWU is discussing with NG NTS about providing comparable figures for this indicative customer if it was directly connected to the NTS.

These between year effects may materially affect competition between power stations that are in the same geographical location but one is connected to the LDZ and one is connected to the NTS.

Tables 10 to 14 show the NTS exit capacity charge element that contributes to the charges in tables 5 and 6, isolating the effect of the change in NTS Exit Capacity Charges on the large customer.