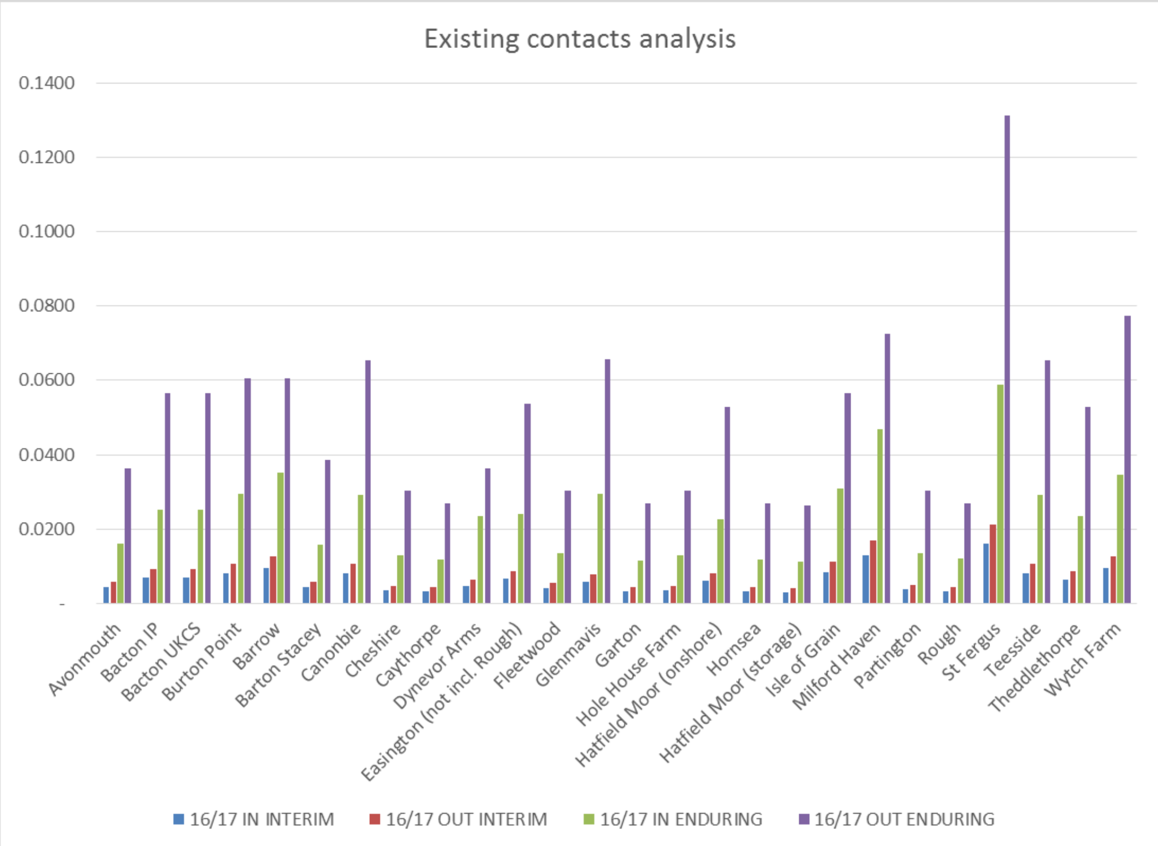
Existing Contracts in the Reference Price Methodology

There has been some discussion in workgroups as to whether existing contracts – volumes and prices, should be taken off entry allowed revenues and FCC values before or after running the model to determine reference prices. Mod 621 and currently all variants take the existing contracts out before the model is run, this leads to relatively higher capacity charges for new capacity bookings.

In the enduring period it is expected that the FCC value will be substantially lower than in the transition period when it is the obligated capacity level. This means that in the enduring period the FCC value minus existing bookings will be much smaller than it is in the transition period. Hence there will be less capacity to recover the allowed revenue minus revenue from existing capacity from.

Simple Analysis using model V1.4.4

16/17	FCC = Obligated	FCC = Historical flows
Existing contracts Excluded	OUT INTERIM	OUT ENDURING
Existing contracts not excluded	IN INTERIM	IN ENDURING



This shows the rather extreme impact of excluding the existing contracts particularly in the enduring period, whilst accepting the impact will be less in the enduring period due to reduced levels of existing contracts and revenues associated with them. I suggest this issue requires further investigation to explore the current approach of excluding existing bookings from the CWD methodology. Arguably, the significant addition of costs to new contracts is a significant distortion compared with legacy capacity holders and is discriminatory. A more fair approach may be to include existing capacity contracts when the CWD methodology calculates reference prices.

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