



UNC 0751 – supporting analysis

February 2021 NTS CMF

About Waters Wye Associates



Waters Wye Associates (WWA) is a dynamic, independent energy consultancy specialising in the economic, regulatory and technical of the UK electricity, gas and renewable markets

- We are commercially driven and work in parallel with our clients to understand and deliver their business needs.
- Our mission is to deliver tangible benefits to our clients in all projects we undertake.

UNC 0751 Solution Overview



To cap the payable prices of LT capacity (Annual and QSEC) at the price at in the Gas Year of assignment inflated by CPI

- $\text{CPI Inflation} = (\text{Month cap prices published CPI} / \text{Month cap allocation CPI})$
- $\text{Price cap} = \text{CPI Inflation} * \text{Cap price allocation at allocation}$
- Floor (minimum) price is the capacity price at the time of assignment.

Supporting analysis

Impacts of pre 1 Oct 2020 bookings



Price capping will be applied to all LT allocations made after 5 April 2017

- A number of QSEC bookings were made between 5 April 2017 and 1 October 2020
- These bookings were made under the previous charging regime, employing the LRMC methodology
- Capping the prices of these products will have a greater impact on NGG TO collected revenues than products acquired after 1 October 2020

Analysis performed by WWA & Storengy identifies these bookings and using assumptions around prevailing prices and CPI calculates the individual price caps and revenue ramifications

Analysis Assumptions



New charging regime was implemented on 1 October 2020 with QSEC bookings made out to 2034

- Future prevailing entry capacity prices are assumed to be at the level set for GY 20/21 – 0.0717 p/kwh/d
- For storage entry points the GY 21/22 price is discounted by 80% (following implementation of UNC 0727 – 0.0226 p/kwh/d
- CPI across the entire period of the bookings is assumed to be 2.4% p.a which is consistent with historical levels. This is split to 0.6% across each quarter

Notes:

- We believe the future prevailing prices are likely to be lower than assumed, as NGG allowed revenues are reduced and Existing Contracts expire (as indicated by NGG's price forecasts)
- Bookings held from Q4 2021 onwards are considered
- The price cap does not apply to RRCs, so the overall capacity price payable by entry points may well be impacted

Analysis

Total Revenue impacts Q4 2021 – Q3 2034



ALL AUCTIONS		% increase from Base Price
Total Revenue Base Price	£41,324,084.42	
Total Revenue PS Price	£343,489,578.23	731.21%
Total Revenue Capped Price	£48,644,495.32	17.71%

Analysis

Annual Revenue impacts Q4 2021 – Q3 2034



Gas Year	Base Price Revenue	Capped Price Revenue	PS Revenue	Difference (PS - Capped)
2021	5,836,786	6,325,667	36,444,341	30,118,674
2022	5,368,504	5,957,620	36,192,980	30,235,360
2023	5,401,812	6,136,074	35,051,342	28,915,267
2024	5,554,471	6,457,442	32,332,266	25,874,824
2025	4,829,844	5,745,755	30,761,086	25,015,330
2026	4,537,599	5,526,787	28,507,974	22,981,187
2027	4,271,504	5,327,157	24,960,733	19,633,576
2028	4,146,886	5,296,669	24,021,570	18,724,901
2029	635,619	835,520	12,403,418	11,567,899
2030	228,147	304,925	9,261,942	8,957,017
2031	55,551	76,198	7,966,082	7,889,885
2032	233,572	333,805	33,494,226	33,160,421
2033	223,791	320,877	32,091,618	31,770,740

Analysis

Average Daily Revenue impacts Q4 2021 – Q3 2034



ALL AUCTIONS	Q4 2021 – Q3 2034	% increase from Base Price
Average Daily Revenue Base Price	£12,227.93	
Average Daily Revenue PS Price	£107,949.81	782.81%
Average Daily Revenue Capped Price	£18,380.05	50.31%

Analysis Observations



- Revenue increases between Base Prices to Daily Prices show the extraordinary increases in costs for shippers who bought capacity during the period
- Price capping analysis shows an increase in revenue collected from shippers compared to daily prices
- Price capping will result in revenue under-recoveries over the period of around £295m (ranging from £8m/yr to £33m/yr)
- We anticipate the under-recovery identified from price capping will be greater than actual, as future entry charges are likely to be lower than current levels
- In certain cases there is a possibility that capacity acquired will not be maintained, due to shipper voluntary discontinuation. In these cases, price capping will reduce the likelihood of this outcome

Our leadership team



Lisa Waters

Founding Director

Lisa is an economist with over 20 years' experience in the energy sector. She has worked for the Energy Intensive Users Group (EIUG), independent gas supplier V-is-on gas and Dynegy. Prior to entering the energy sector, Lisa worked at the CBI. Lisa leads on electricity sector work, though she also has a detailed knowledge of the UK gas market.

Lisa is currently an industry expert on the Imbalance Settlement Group under the BSC. She has significant lobbying experience, including giving evidence to Select Committees in the Commons and Lords, and representing EU gas customers at the Commission's Regulatory Forum meetings.



Nick Wye

Founding Director

Nick is an economist with over 20 years' experience in the energy sector. Earlier in his career, he has worked for TotalFinaElf Gas and Power, a gas producer, a trader, a supplier, an independent pipeline owner/operator and has experience of working at all levels of the supply chain including offshore projects, gas shipping issues and end user supply. He has also been involved in asset deals, both in the power and gas markets, in the UK and continental Europe.

His work on the boards of several European trade associations and committees has given him an in-depth knowledge of most European markets. Despite his knowledge of the power sector, Nick leads on gas market projects and has considerable expertise in gas storage.



Gareth Evans

Director

Gareth is an astrophysicist with over 15 years' experience in the energy and financial sectors. He began his career at Elexon, working subsequently for Total Gas & Power and UBS, where he helped to inaugurate its European power and gas trading, overcoming the associated regulatory and compliance issues.

As a result he has direct knowledge of the entire supply chain for both UK and European power and gas markets, plus experience of dealing with all their relevant stakeholders, including regulators, suppliers, shippers, generators/producers and European bodies.

Gareth Evans is chair of ICoSS, which is the trade body for independent non-domestic retail energy suppliers.

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