Price Multipliers

ECRG, 26th January 2010

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Introduction - Price Multipliers

- Currently all entry capacity prices are expressed as a daily rate equal to 1/365th of the annuitised long run marginal cost (LRMC), with the exception of the daily capacity prices where discounts apply.
- Price Multipliers could apply such that each product was priced based on a multiple of the prevailing calculation
  - This is equivalent to dividing the annuitised LRMC by a duration of less than 365.
    - The cost of making capacity available annually is the same irrespective of whether the capacity is sold on a daily, monthly, quarterly, or annual basis.
  - Daily prices could be set as a multiple of monthly prices and monthly prices could be set as a multiple of quarterly prices.
- Price Multipliers are not new (within the NTS Charging Methodology) and daily capacity was initially priced at 4 times the annual daily rate.

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Setting Multipliers – Peak v Average Sales Ratio

- The following table shows the maximum and average capacity procured in each auction type over the 2008/9 formula year
- If the maximum capacity bought drives the cost incurred then the ratio of the maximum to the average would create a multiplier that would collect the level of revenue implied by the maximum.
  - E.g. if the maximum quantity bought is 10 units but only five units are bought on average over the year then a price multiplier of 2 (=10/5) would result in the revenue recovered from the units bought matching the cost of the maximum.

Capacity Procurement (2008/9 Formula Year)	**Average (GWh/day)**	**Maximum (GWh/day)**	**Ratio (Max/ Average)**
QSEC	4,358	5,710	1.31
MSEC	1,223	1,751	1.43
RMSEC	170	516	3.03
DADSEC	79	217	2.76

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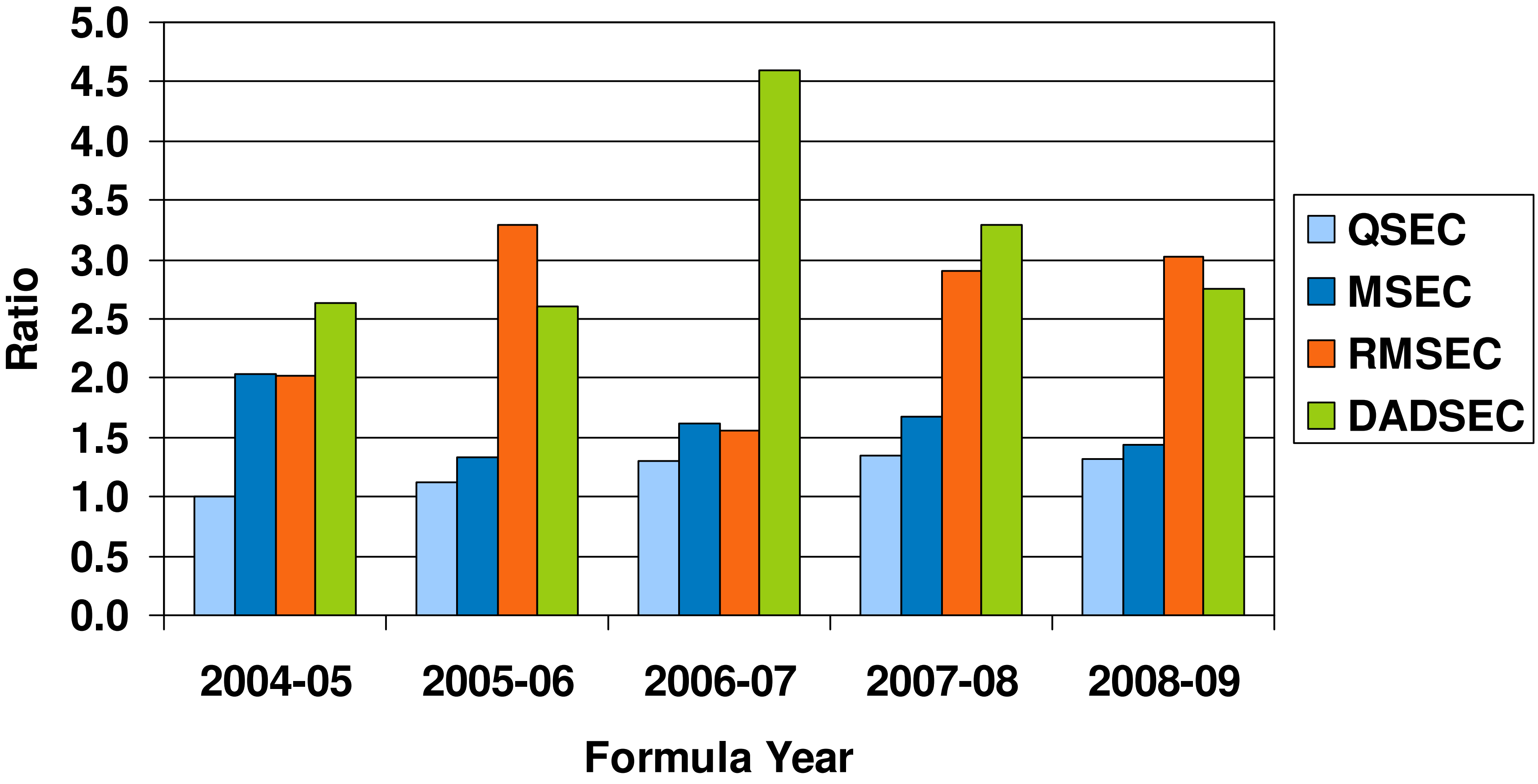
Ratio of Maximum to Average Capacity Procured by Auction Type



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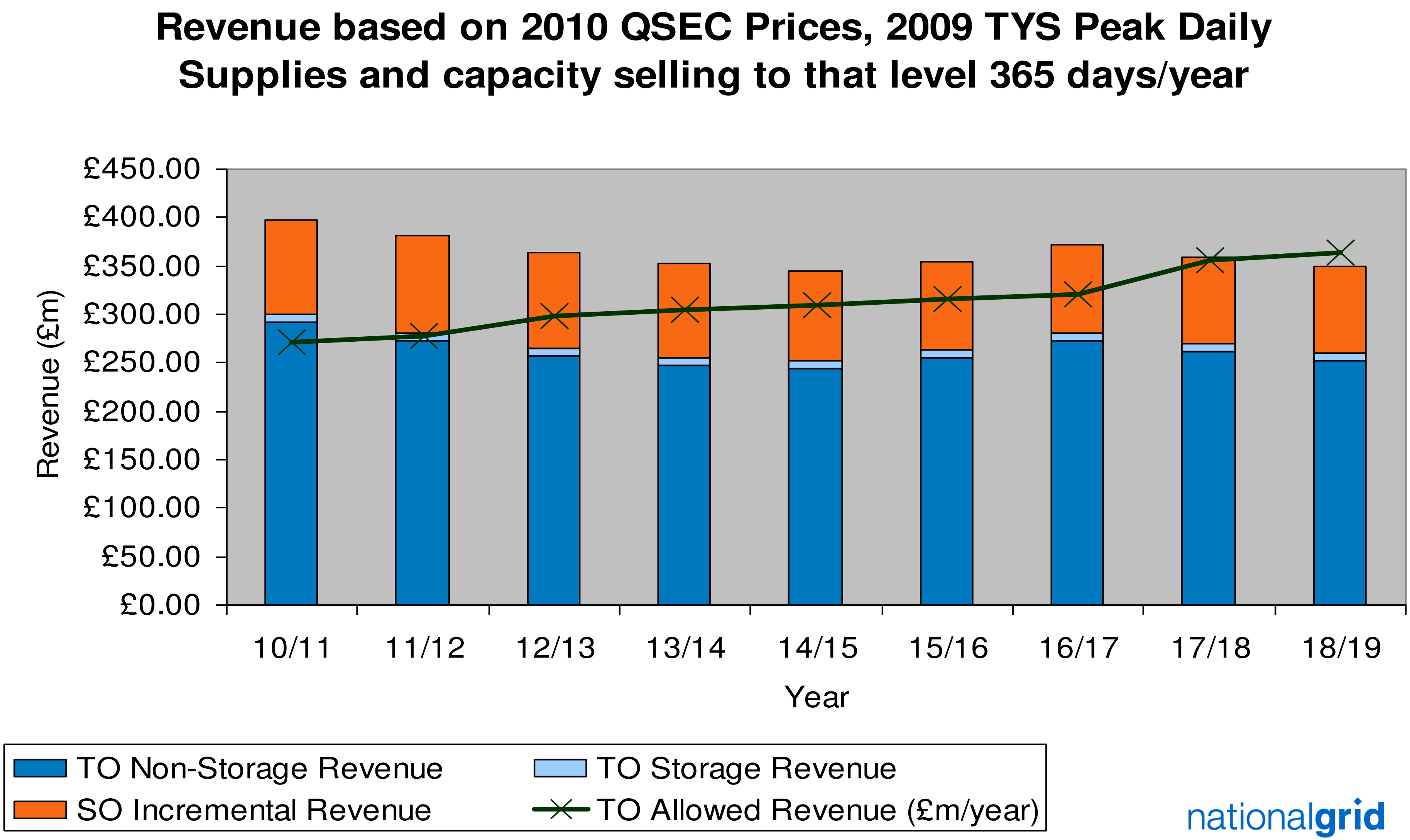
How does this compare with adjusting for allowed revenue?

- Request from 4th ECRG meeting to consider adjusting for allowed revenue.
- Issues
  - AMSEC, RMTTSEC & DSEC auctions could be adjusted for TO allowed revenue in the relevant year but which year should QSEC P0 prices be adjusted for?
  - Should price be adjusted taking into account previous QSEC/AMSEC revenue?
  - Fixed additive adjustment (Exit Capacity approach) or multiplier?

Implies Revenue from Peak Supplies (TYS Forecast)



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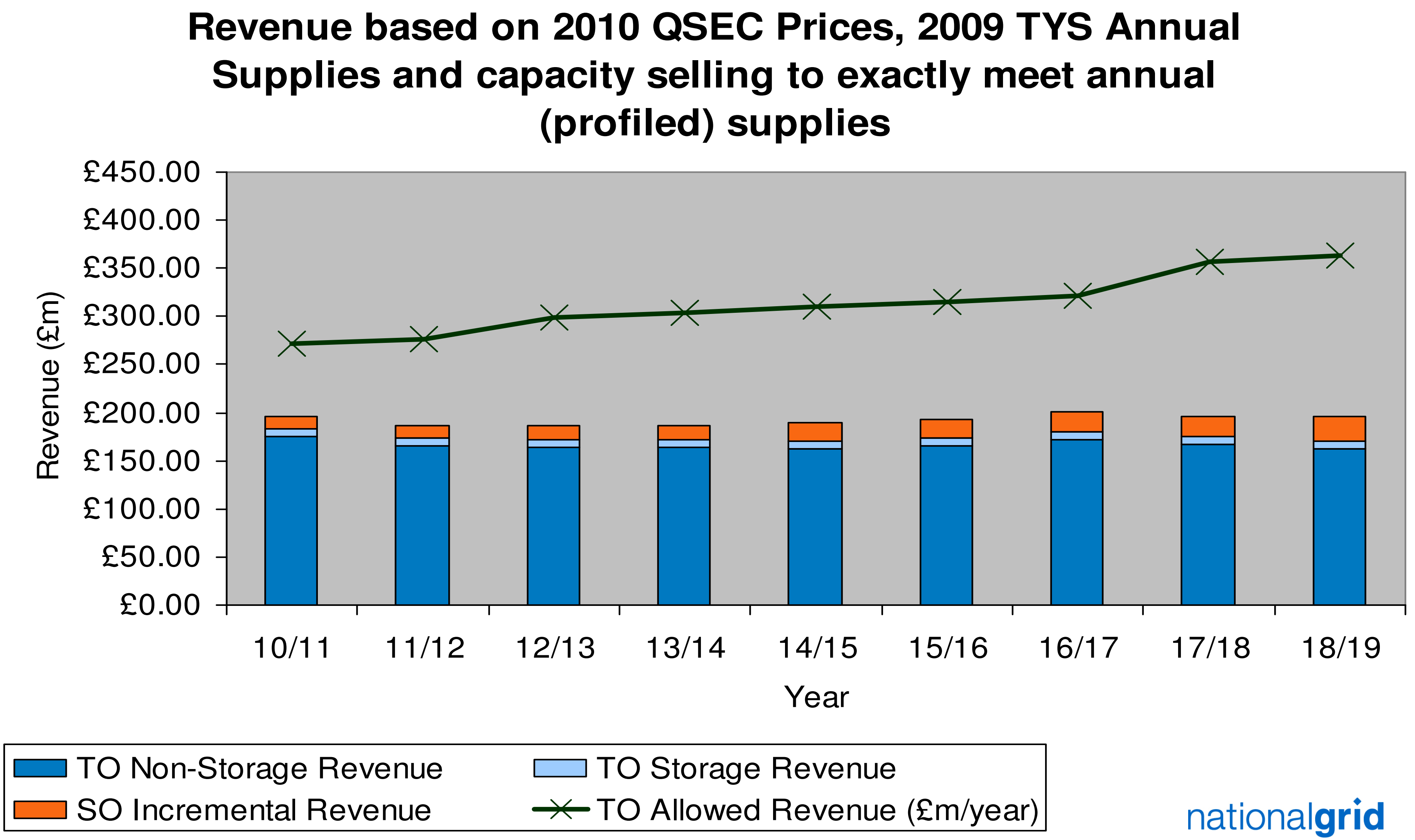
Implies Revenue from Annual Supplies (TYS Forecast)



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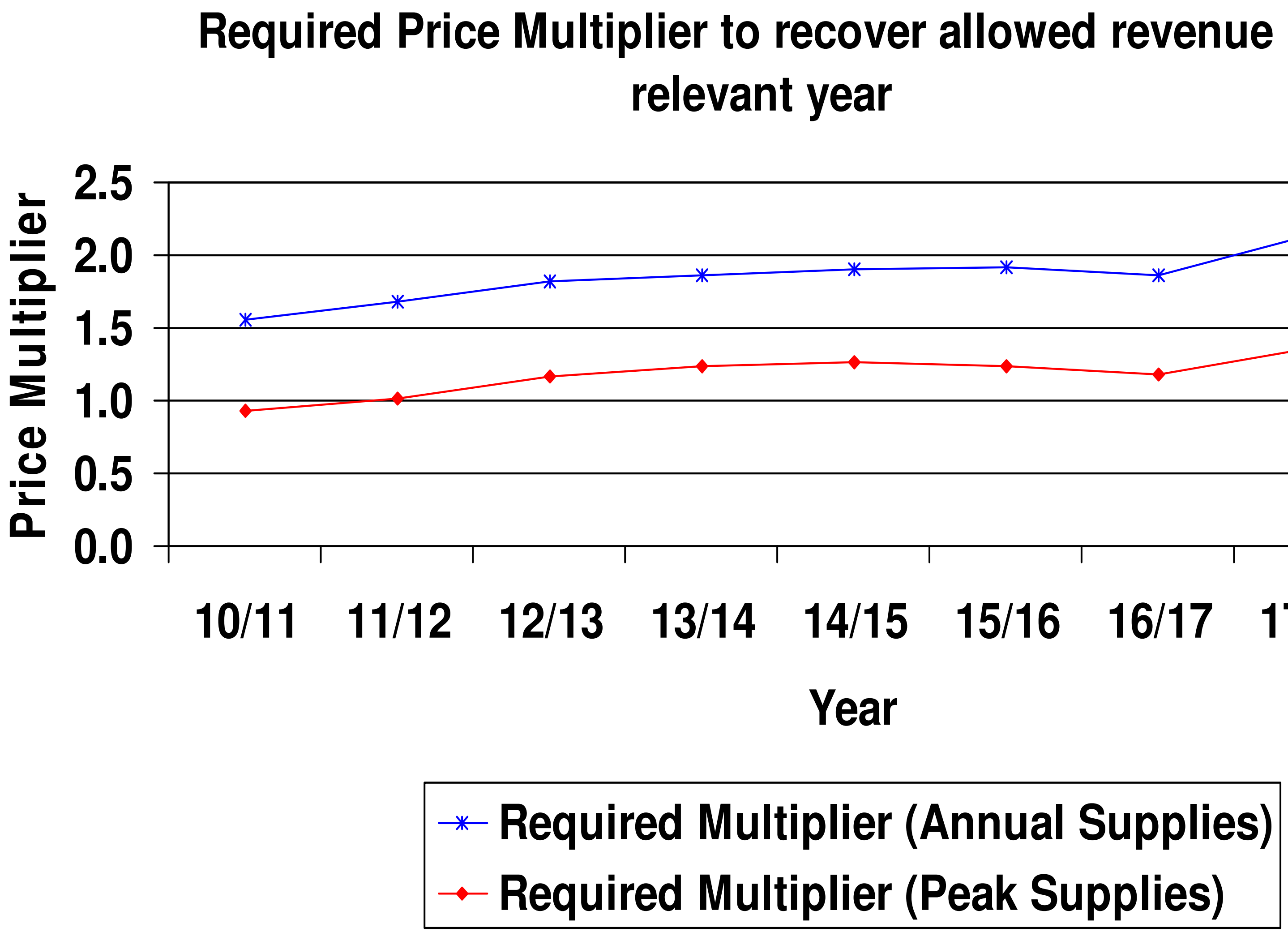
Implied Price Multipliers



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