

Appendix 2 – Utilita CONFIDENTIAL Response to consultation question A6.5 on the Default Tariff Cap

Question A6.5: What are your views on the necessity and size of an additional allowance for shaping and imbalance costs? Please provide evidence to support this.

Utilita believe an additional allowance for shaping and balancing should be included. This can considerably affect a supplier's final weighted average cost from their initial hedge cost, and is almost certainly detrimental. Assuming the initial hedge is set at seasonal-normal demand, and demand is strongly correlated with wholesale prompt prices, a supplier will typically be selling length at a loss or purchasing for over the initial hedge price, with either scenario driving the hedge price up.

Utilita has calculated its specific initial hedge price and final wholesale price, aggregated by fuel and year, for the last two calendar years to demonstrate this impact. It must be noted that these numbers are indicative of the scale of the uplift only; there will be significant variability between years that is not necessarily reflected in an analysis of a short period, and the allowance should be forward looking and consider likely future, rather than historical, costs of shaping and balancing.:

Power			
Period	Type	WACOE £/MWh	Movement
2016/17	Initial Hedge	[X]	
2016/17	Final Position	[X]	[X]
2017/18	Initial Hedge	[X]	
2017/18	Final Position	[X]	[X]
Total	Initial Hedge	[X]	
Total	Final Position	[X]	[X]

Gas			
Period	Type	WACOG p/th	Movement
2016/17	Initial Hedge	[X]	
2016/17	Final Position	[X]	[X]
2017/18	Initial Hedge	[X]	
2017/18	Final Position	[X]	[X]
Total	Initial Hedge	[X]	
Total	Final Position	[X]	[X]