Spare Capacity

ECRG 26th January 2010

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What is Spare Capacity

- Spare System Capacity ~ Capability:
  - Un-used physical capability in an individual pipe or a sub-network i.e. series of connected pipes?
- Or
- Spare Entry Capacity
  - Commercial

Spare System Capacity ~ Capability

- Transcost approach
  - Leads to unstable prices
  - Highly influenced by network configuration (discretion of the analyst) and therefore
    - Not transparent or replicable
  - Prices no longer reflect costs that have been incurred (Licence obligation) so not appropriate for Exit prices
    - Not an issue for Entry reserve prices under the Licence but what about the EU Regulations?)
- Transportation Model approach used previously for Electricity Transmission
  - Reduced line lengths (75%) were included in the Electricity TM to represent spare capacity in the south west – but removed as part of BETTA.
  - Reduction might be viewed as arbitrary and identification of path lengths to reduce is either arbitrary or involves complex network analysis hence
    - Not transparent or replicable

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Spare Entry Capacity

- What is Spare Entry Capacity?
  - Un-utilised Entry Capacity at an ASEP?
    - We don't know this until after the day and hence is of no value with regard to forward charge setting
  - Baseline Entry Capacity less forecast entry flows?
    - This was the GCM06 proposal which was vetoed
    - Using forecasts is the only way to take into account 'spare capacity' in investment timescales
    - Forecasting becomes contentious
    - Potentially undermines TBE
  - Unsold Obligated Entry Capacity?
    - This is what we sell in every auction at every ASEP

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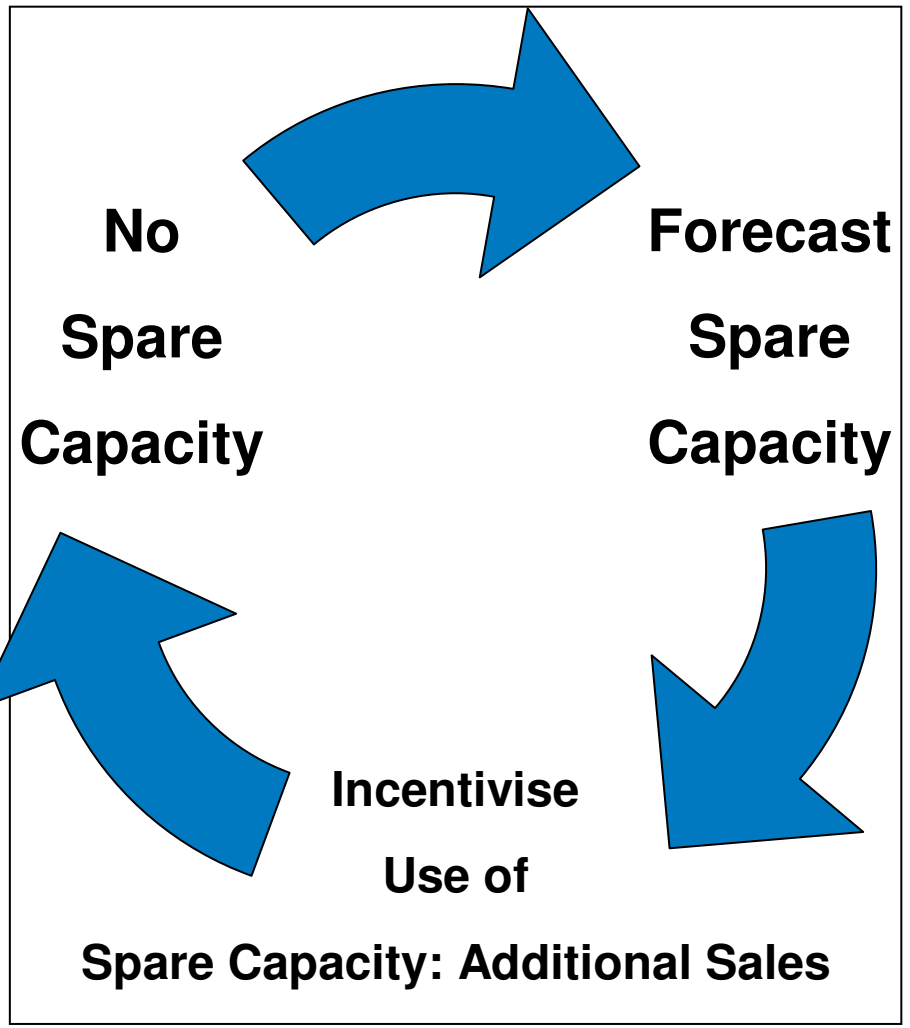
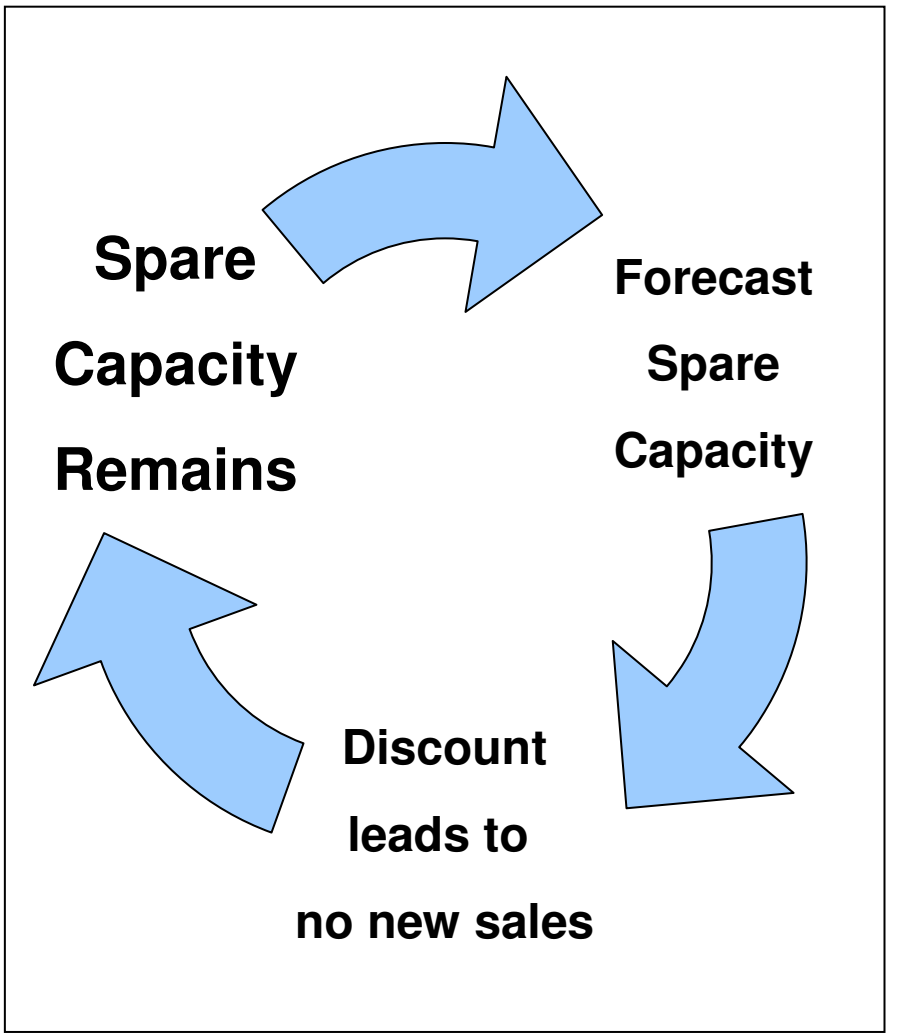
Forecast Loop





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Forecast Loop Outcome

- Success – Increased 'Spare' Capacity Sales
  - Discounts for additional capacity

  …but discounts for capacity that would otherwise have been sold

  … new sales would need to outweigh discount otherwise

  …cross subsidy from other Users

  - Capacity utilised is in excess of the forecast

  …the forecast is incorrect

- Failure – No increase in 'Spare' Capacity Sales
  - Discounts for capacity that would otherwise have been sold

  … cross subsidy from other Users

  - Capacity utilised similar to the forecast

  …the forecast is viewed as being correct

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Spare Capacity Conclusions

- We have not identified a useful forward looking definition of Spare Capacity for charge setting purposes other than that based on a forecast
  - Proposing using forecasts in the charging model led to accusations of manipulation and pollution of the TBE process and unstable pricing
  - GCM06 did not gain support from the industry for this reason
- Should we be focusing on incentivising the use of existing capacity within investment timescales?
  - i.e. obligated entry capacity ~ P0 QSEC prices
- We must be mindful that any capacity discounts will lead to TO Entry Commodity increases unless new sales outweigh the discounts
- Substitution may provide an appropriate solution to maximizing the use of 'spare capacity'
- The QSEC economic test for incremental capacity may provide an appropriate incentive to connect at existing ASEPs with unsold capacity rather than connect at new ASEPs.

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