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Dear Sonia,

RE: Regulatory arrangements for the new Dutch-GB electricity interconnector

This letter sets out National Grid's view on Ofgem's proposal to grant BritNed Development Ltd ("BritNed") an electricity interconnector licence with Standard Licence Conditions 9, 10 and 11 suspended from operation and an exemption from Article 6 (6) of Regulation (EC) No.1228/2003.

National Grid is delighted that:

- Ofgem's initial view is the same as BritNed's, which is that this project is expected to have an overall positive impact on competition, security and diversity of electricity supplied to electricity markets in Great Britain and the Netherlands; and
- Ofgem is content that all of the relevant criteria for granting an exemption have been met and believes it appropriate to grant an exemption for 25 years from the date that the interconnector commences commercial operations.

We note in particular that in the consultation document Ofgem concludes that the investment proposed by BritNed "*....would not have any detrimental impact on competition under any circumstance*"¹, in para 2.12, that this investment does not "*...fit within the class of infrastructure developments that would be allowed to recover costs as part of the Transmission System Operator's remuneration...*" and that "*...upside returns would be capped by competitive pressures.*"

National Grid notes that Ofgem has indicated in paragraph 2.32 and 2.40 that it intends to monitor the exemption and would seek to modify the terms of the exemption should either:

- a) any concerns arise from the operation of the exemption; and/or
- b) developments in intraday trading arrangements arise.

On the face of it this approach appears sensible. However, should either of (a) or (b) occur, it is not clear what access arrangement Ofgem would advocate to be put in place as an alternative to those to be adopted by BritNed, especially given that BritNed's access arrangement mirrors that which would be deployed in any electricity interconnector subject to rTPA (which includes any supplementary provisions arising from associated guidelines). Therefore, National Grid's view is that neither (a) or (b) above should result in any change to the terms of the exemption proposed by Ofgem.

¹ Ofgem consultation 163/6 "Regulatory arrangements for the new Dutch-GB electricity interconnector." p8 para 2.7 5/9/2006

Responses to the questions

Question 1: Do you agree with our overall assessment that the exemption should be granted based on the examination of whether the exemption criteria have been met?

We support Ofgem's initial view that all the six exemption criteria have been met therefore the exemption should be granted to BritNed Development Ltd.

Question 2: Given the lack of clarity in the application surrounding the arrangements for dealing with the differences between the balancing periods in the markets in Great Britain and the Netherlands, do you have views on what the most appropriate form for such arrangements should be?

As the details of the arrangements of the intra-day trading system are still to be finalised, we do not have any views on the form of the arrangements at this stage. However, National Grid expects BritNed to comply with any binding guidelines that are implemented.

Question 3: Do you agree with the proposed scope and duration for the exemption, and the conditions for revocation?

We believe the duration of 25 years for the exemption reflects the forecast discounted payback period of the interconnector and the overall risk associated with a high degree of uncertainty of revenues over the life of the assets. Therefore, we agree the duration of 25 years for the exemption is appropriate and an exemption of such duration would not be detrimental to competition. We acknowledge that the conditions for revocation appear consistent with those included in other exemptions granted by Ofgem.

However, we consider that the definition of the interconnector by reference to a fixed quantum of capacity is flawed. This is because the physical capacity of the interconnector can be increased for short periods above the normal continuous level to accommodate additional flows, provided that such increases are balanced by running the cables for periods at reduced capacity levels. These periods of reduced operation would be necessary to cool the cables sufficiently prior to restoring the interconnector back to operation at its notional (normal) capacity levels. Damage to the cable during the periods of operation at a higher capacity is avoided by ensuring that the cables are operated within their normal thermal envelope at all times. Although the capacity enhancements for the cables effected by such short-run operation are small relative to the notional capacity of the interconnector it would be beneficial for both Dutch and GB consumers to have access to this enhanced capacity when demands are highest provided that what follows is a legitimate capacity reduction for periods while the cables cool sufficiently to keep them within their normal thermal envelope. In order to ensure this (by making it clear that the exemption applies to the entire interconnector), we believe that the definition of the interconnector should be amended to reflect the notional level of its capacity, i.e. that which could be achieved in continuous normal operation. This can be achieved by inserting the word "notional" before the word "capacity" in each place it occurs in the definition of "interconnector" in part A and the full description of the interconnector in part B of the Schedule to the Exemption Order.

We look forward to seeing Ofgem's final views on the matter in due course, but in the mean time should you wish to discuss any of the above comments, please do not hesitate to contact me.

Yours sincerely

Paul Whittaker
UK Director of Regulation