

Lesley Nugent
Office of Gas and Electricity Markets
70 West Regent Street
Glasgow
G2 2QZ

Andy Balkwill
Regulatory Policy Manager

Andy.balkwill@uk.ngrid.com

Direct tel +44 (0)1926 65 5988

Direct fax +44 (0)192665 6520

Mobile +44 (0)7836 230 714

www.nationalgrid.com

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Our Reference NG/APB

Dear Lesley,

Request for derogation from standard condition C14 (Grid Code) ('SLC C14') of the electricity transmission licence of National Grid Electricity Transmission plc – 167/08.

National Grid Electricity Transmission plc ("NGET") welcomes the opportunity to respond to this consultation. NGET considers that Ofgem acted appropriately and pragmatically in granting the time limited derogation ('the derogation') to it on 11 November 2008. NGET does not consider that any question of discrimination arises from the circumstances surrounding this limited grant of derogation because NGET's actions were consistent with other situations where Grid Code compliance issues have arisen in relation to other system users. In addition, by applying for the derogation, NGET has ensured the issue is transparently handled.

Background

It is not uncommon for there to be outstanding compliance issues to resolve as part of the commissioning process for new connections to the GB Transmission System. Compliance issues can also develop during the operational life of a customer's plant. NGET's preferred approach is to seek to resolve the issue with the customer concerned while in parallel seeking a relevant (usually time limited) Grid Code derogation to cover any extended period during which the compliance issue remains to be resolved.

NGET is aware of the timescales that Ofgem normally requires for assessing requests for derogation and always seeks to comply with these. NGET regrets the late identification of the Grid Code non-compliance in respect of the Grain LNG demand connection and any difficulties that this has presented for Ofgem. We are reviewing our compliance processes to try to understand whether changes are needed so that such a situation can be avoided in future.

However, where NGET becomes aware of such an issue at short notice, its options are limited. Where the identified Grid Code non-compliance is assessed to be material, commissioning must be delayed since to do otherwise could risk the security of the transmission system, increase operating costs, or have an adverse impact on customers. But where the impact of the non-compliance is less severe,¹ we will seek derogation from the relevant sections of the Grid Code to provide a period for the User and NGET to resolve the compliance issue. This is a public process and identifies the issue

¹ i.e. where there is likely to be no adverse impact on system security, the cost of operating the system, or on Users or consumers etc.

transparently to the industry and gives participants the opportunity to comment. If the derogation is granted, commissioning can commence without either NGET or the customer being in breach of the Grid Code or NGET breaching its Transmission Licence. This is NGET's preferred approach: it is proportionate, pragmatic, and consistent with our broader Licence objectives because it facilitates competition, it does not impose increased costs or risks on the system and does not adversely impact on other system users. NGET's actions in the case of the Grain LNG demand connection were consistent with the above approach and with its treatment of other customers with Grid Code compliance issues.

Review of LFDD Requirement

Ofgem has asked NGET to review the current and future requirements for Low Frequency Demand Disconnection (LFDD). NGET's initial findings (to be presented to the Grid Code Review Panel on 5th February 2009) are that it remains of the view that the LFDD capability is an important tool to assist in arresting a falling system frequency due to a serious imbalance between generation and demand and therefore the requirement for it should continue to be specified in the Grid Code.

However NGET notes that, in future, further instances may arise where the application of LFDD under OC6.6.6 to a connection could have a detrimental effect on system security. Potential approaches to address this include:

1. Continue with the current arrangements

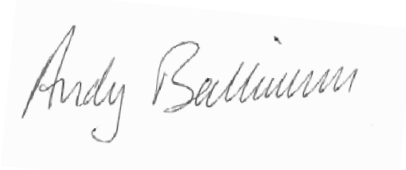
The appropriate party(ies) apply to Ofgem for a Grid Code derogation in respect of the LFDD requirement setting out the reasons for the request in accordance with Ofgem's Guidance on licence derogation requests. Ofgem then consult on the matter, the industry respond providing their views and ultimately Ofgem decides on the terms of any derogation to be granted (if any); or

2. Grid Code amendment

NGET would work with the industry to develop changes to relevant sections of the Grid Code (including probably OC6.1.6 and OC6.6.6) to define criteria for relaxing the requirement for the installation of LFDD equipment in appropriate circumstances. Any proposals to change the Grid Code would follow the normal code governance process including industry consultation with Ofgem ultimately deciding if they should be implemented. This approach should reduce the likelihood of derogation requests in this field although it may not avoid them altogether.

We would be happy to discuss any of the above points with you, or provide further information.

Yours sincerely,



Andy Balkwill

Cc P Whittaker