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Dear Ian

National Grid Electricity Transmission plc (“NGET”): Balancing Services Activity Revenue Restriction – Managing the impact of power flows across the Anglo-French Interconnector (the “IFA”) during a critical electricity transmission outage during engineering weeks 33 to 45 of 2010.

I am writing to you in the context of development of the supplementary provisions of the charge restriction conditions set out in Special Condition AA5A (Balancing Services Activity Revenue Restriction) (the “Condition”) of NGET’s electricity transmission licence. This letter deals with events that will constitute a “material change”¹ as provided for in paragraph B1b) of Part B of Schedule A to the Condition.

The 2010/11 Incentivised Balancing Costs (IBC) target² as at 1 April 2010 is based on the assumption that 2,000MW will be exported to France over the IFA during the outage on the Littlebrook – Tilbury 1 circuit (the “outage”). The costs of managing constraints in England and Wales will be reduced in the event that Expected Physical Flows (as defined below) are lower than forecast during the outage period.

The Expected Physical Flow will be calculated for each applicable hour of day D over the “planned outage period”³ as the sum of the Long-Term Mid Channel Nominations (determined following the Long-Term Mid Channel Nominations gate closure at 08:30 D-1) and Daily Mid Channel Nominations (determined following the Daily Mid Channel Nominations gate closure at 13:00 D-1), expressed in terms of the flow from GB to France⁴. For the avoidance of doubt, nominations relating to flows from France to GB shall be treated as negative numbers, but if the summation of nominations (expressed in terms of the flow from GB to France) is a negative number, this shall be treated as zero.

To that end, NGET has proposed that the IBC target should be adjusted downwards by way of a direction from the Authority if the material change as described in this letter arises. The material change anticipated by NGET is defined by variations in Expected Physical Flows over the IFA from those forecast by NGET, taking into account the availability of the IFA, as set out below.

¹ This is referred to as a change to the “volume in the specified key variables from those assumed by the licensee when developing its forecasts” in the Condition.

² As defined in Special Condition AA5A

³ The planned outage period is Monday 16 August 2010 until Friday 12 November 2010.

⁴ Long-Term Mid Channel Nominations and Daily Mid Channel Nominations are taken to have the meaning given in the IFA Access Rules Issue 7.0, available on the National Grid Website.

The outage is currently scheduled to begin in engineering week 33 of 2010 and the circuit is due to be commissioned back into service in engineering week 19 of 2011. A temporary engineering solution is due to be installed in engineering week 45 of 2010 to allow more flexible network configuration. The volume and direction of power flows over the IFA has a significant influence on the costs of managing constraints in the Thames Estuary area and the impact during the period prior to the commissioning of the engineering solution is heightened due to the volume of constraint action required.

The volume and direction of flows over the IFA are driven by the spread in power prices between the UK and French markets. Forward spreads currently indicate that 2000MW, the maximum volume, will flow from the UK to France during the outage period prior to the commissioning of the temporary engineering solution referred to above. However, changes to market conditions in either area may lead to a smaller volume of exports or indeed power flowing to the UK from France.

In the event that the Expected Physical Flows are lower than the volume assumed in the forecast, NGET accepts that this constitutes a material change and that the Authority will direct a reduction to the MT_t and IBC_t parameters in Schedule A to the Condition by subtracting an amount in accordance with the following:

Each daily reduction will be calculated as follows:

Average Expected Physical Flow (GB to France)	Daily reduction
$0 \leq X \leq 2,000 \text{ MW}$	$\pounds 340,000 - \pounds 170/\text{MW} \times X$

Where X is derived from the average Expected Physical Flow (in MWs) calculated for each day Monday to Friday, over EFA blocks 3, 4 and 5⁵, for the planned outage period. The total reduction will be the sum of the daily reductions for each of the 65 days of the planned outage period.

NGET will calculate the appropriate reduction to the MT_t and IBC_t parameters after 12 November 2010.

NGET will provide the Authority with such information as the Authority may require in order to enable it to direct an appropriate adjustment. Such information shall be provided by 30 November 2010.

Yours sincerely

[By e-mail]

Paul Whittaker
UK Director of Regulation

⁵ As defined at Schedule A of Special Condition AA5.