

External BSIS 2009/10

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Overview of process

Initial Proposals Published on 27th November

Industry Workshop December

Bilateral meetings/discussions December & January

Comments received back by 9th January

Revised forecasts to Ofgem in January and February

On-going discussions throughout this time

Revised forecasts incorporated Ofgem and industry feedback

National Grid's Final Proposal Report published 27th February

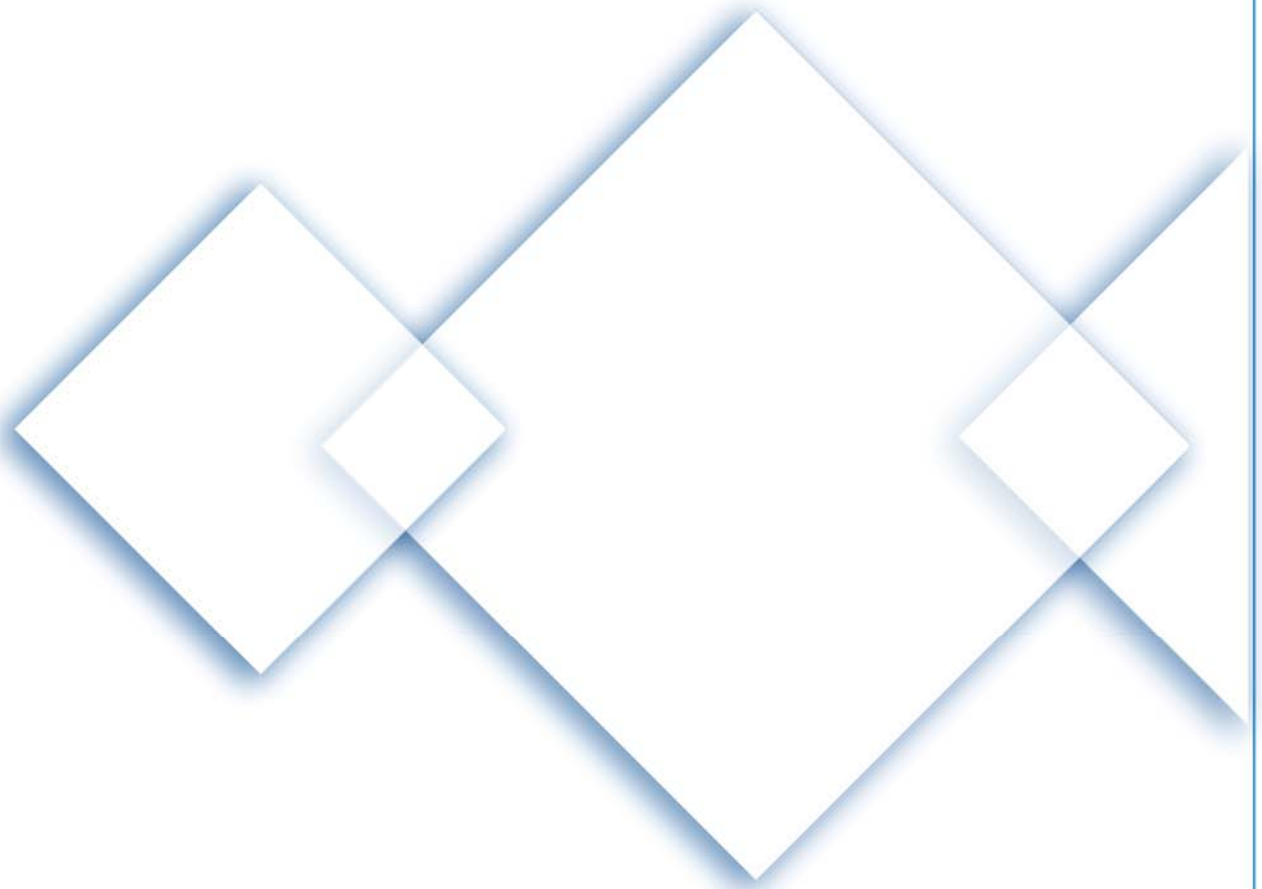
Ofgem's Final Proposal published 27th February

Consultation closed on 27th March

Consultation Responses – Cost Drivers and Assumptions

Cost Drivers and Assumptions

- ◆ General agreement with the cost drivers
- ◆ Did not agree bias towards 2008/9 in development of 2009/10 assumptions e.g. weighting
- ◆ Market length assumptions
- ◆ Power and fuel prices seemed on the high side



New NIA

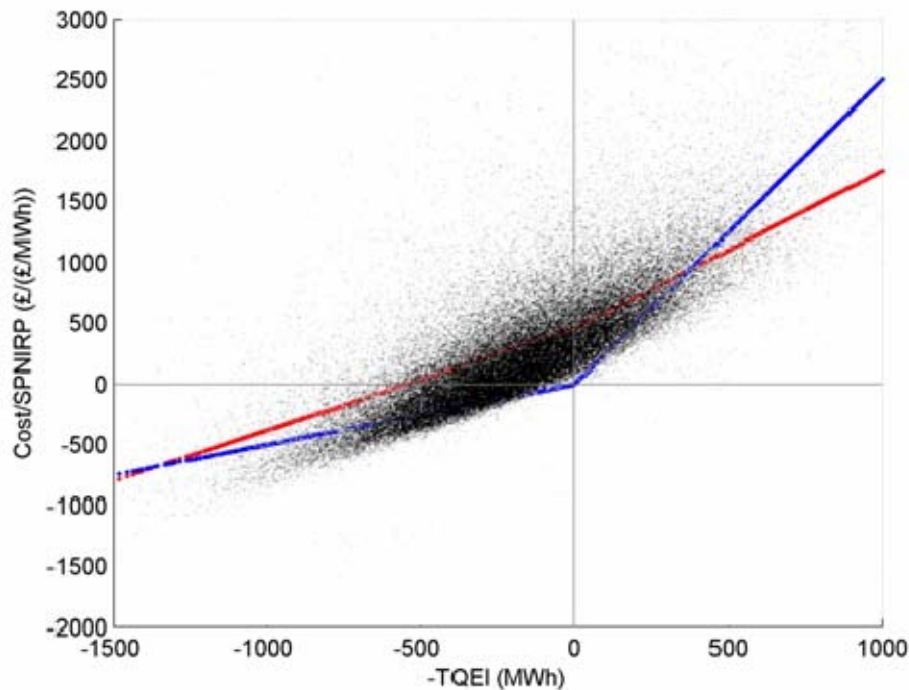
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New Net Imbalance Adjustment

NIA is the Net Imbalance Adjustment

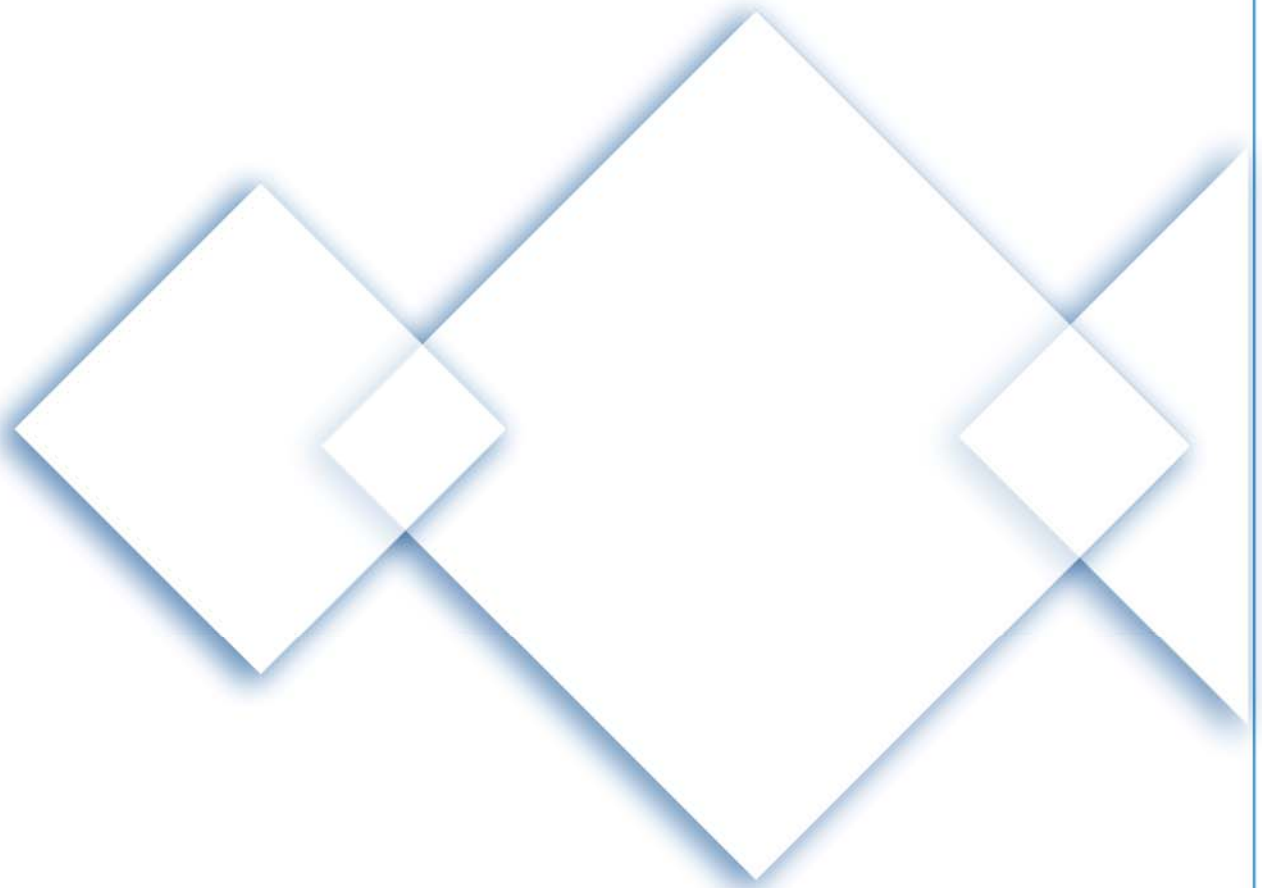
- ◆ Designed to remove National Grid's exposure to the market's error with respect to energy balancing
- ◆ Calculated from market length multiplied by an energy reference price



- NIA - New NIA

New NIA is a better fit than NIA

- ◆ NIA has an R^2 of 58%
- ◆ New NIA has an R^2 in excess of 70%
- ◆ Even at a balanced market National Grid incurs costs which are recovered through New NIA
- ◆ Very short market no longer over compensated
- ◆ Very long market compensation as good as current



Comparison of Forecasts

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Initial Forecast vs Final Forecast

	1		2
All Categories £m	Initial Forecast	Change (Vs 1)	Final Forecast
Energy Imbalance	-16	-32	-48
Margin	430	-130	300
Op. Reserve+BMSU	337	-125	212
STOR	93	-6	88
Eng + Margin	414	-162	252
Constraints	307	-49	258
CST - Cheviot	161	-22	139
CST - Scot.Int	81	-11	70
CST - Eng.Wales	65	-15	50
Footroom	7	0	7
Fast Reserve	69	3	72
Response	216	-19	197
Reactive	83	-27	56
Blackstart	21	0	21
Unclassified BM	18	0	18
TLA	0	0	0
BM+AS General	3	2	5
Reconciliation	0	0	0
UIOLI	21	-1	21
Sub-Total	1158	-252	907
NIA	-167	73	-94
Total (NIA)	991	-179	813
New NIA	-402	110	-292
Total (NEW NIA)	756	-142	615

Summary of changes:

- ◆ Wholesale Prices updated
- ◆ STOR tender round received
- ◆ Updated outage plans
- ◆ Reactive volume updated in line with latest demand forecast
- ◆ Revision of weightings across historical data

Changes to Margin

The cost of synchronising additional units for Margin has the most significant change between the Initial and Final forecasts

This represents feedback from Ofgem and the Industry combined with the experience of Winter 2008/9

This resulted in:

Lower wholesale and fuel prices

Revisions to the factors used to convert these to BM prices

Updated assumptions regarding the volume of actions

Also feeds through into Constraint Costs

Wholesale Prices

Initial Forecast

	UK BSLD £/MWh	PKS £/MWh
Q209	60.60	73.10
Q309	60.00	72.40
Q409	64.60	76.00
Q110	67.80	85.30

Final Forecast

19/01/09	UK BSLD	UK PEAK
Quarter 2 2009	£46.80	£56.75
Quarter 3 2009	£45.80	£56.25
Winter 2009/10	£53.18	£65.50

Latest View

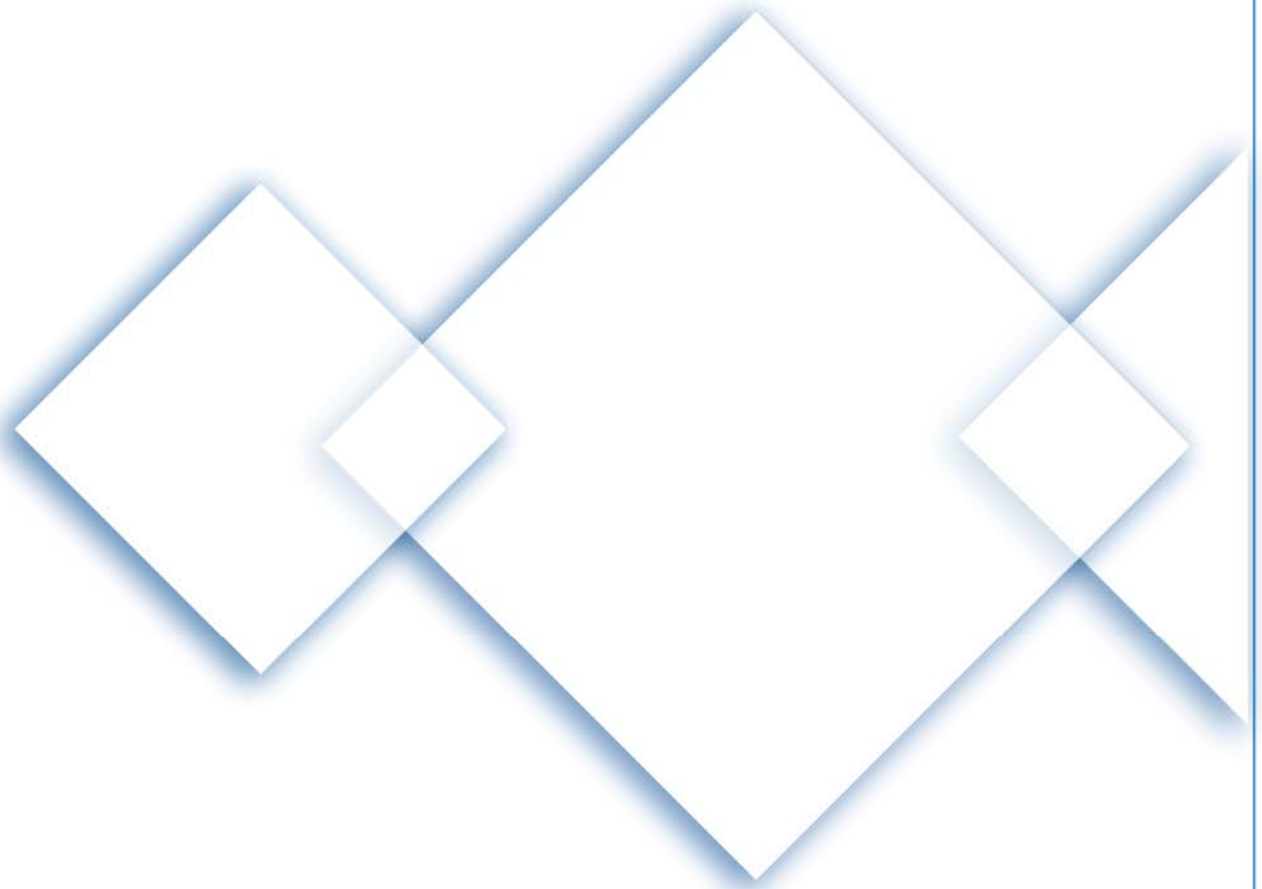
09/03/09	UK BSLD	UK PEAK
Quarter 2 2009	£36.00	£43.35
Quarter 3 2009	£36.50	£44.88
Winter 2009/10	£46.20	£57.90

Latest View

	2		3
All Categories £m	Final Forecast	Change (Vs 2)	Latest View
Energy Imbalance	-48	7	-41
Margin	300	-26	273
Op. Reserve+BMSU	212	-27	185
STOR	88	0	88
Eng + Margin	252	-20	232
Constraints	258	-10	249
CST - Cheviot	139	-3	136
CST - Scot.Int	70	-2	68
CST - Eng.Wales	50	-5	45
Footroom	7	0	7
Fast Reserve	72	-1	72
Response	197	-9	188
Reactive	56	-8	48
Blackstart	21	0	21
Unclassified BM	18	0	18
TLA	0	0	0
BM+AS General	5	0	5
Reconciliation	0	0	0
UIOLI	21	0	21
Sub-Total	907	-47	860
NIA	-94	17	-77
Total (NIA)	813	-30	783
New NIA	-292	51	-241
Total (NEW NIA)	615	4	619

Between the Final Ofgem forecast the March QPR the following occurred:

- ◆ Wholesale Power Prices Updated to latest quoted values
- ◆ Margin and BM response volumes reduced



BSUoS Forecast

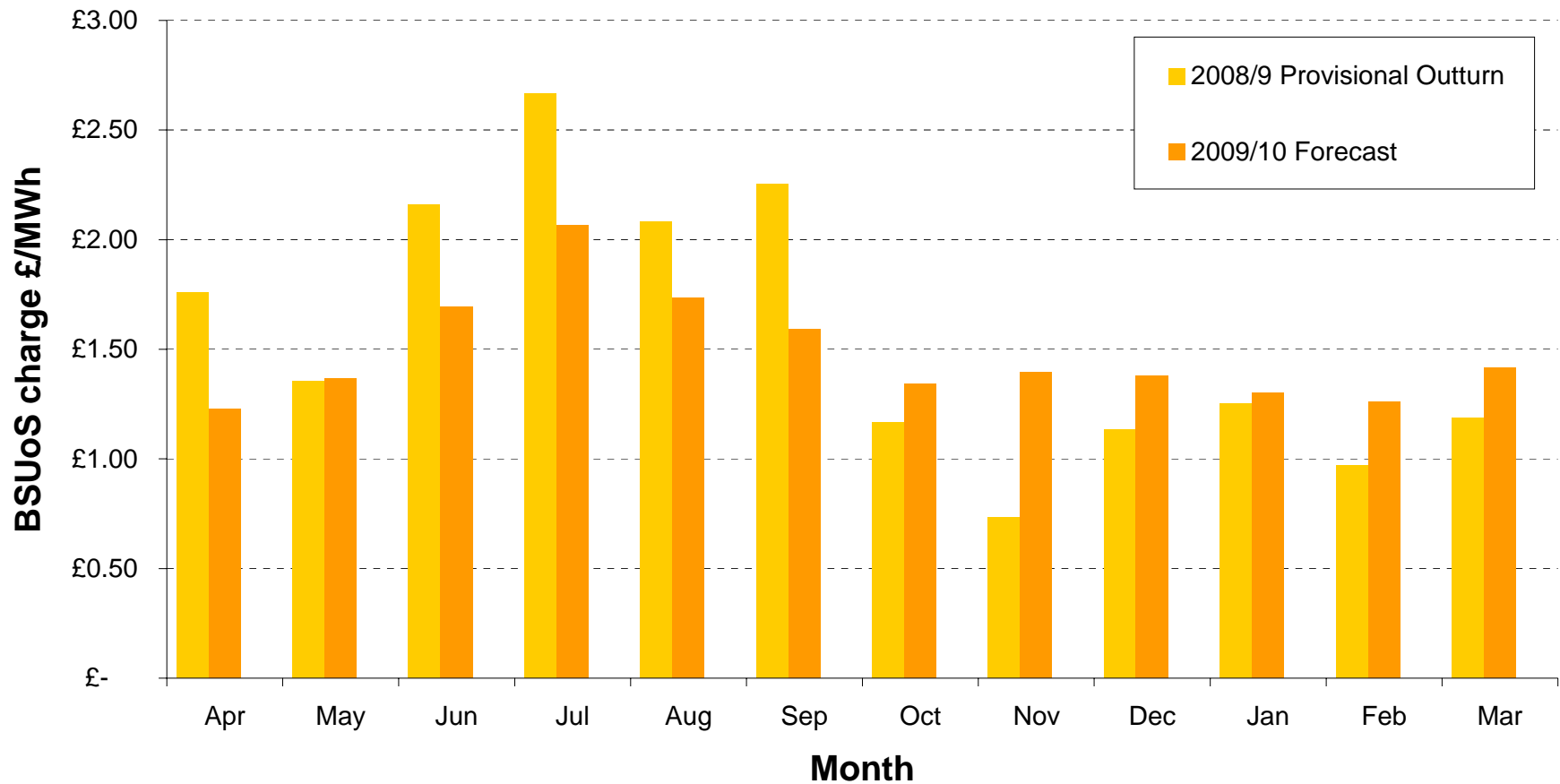
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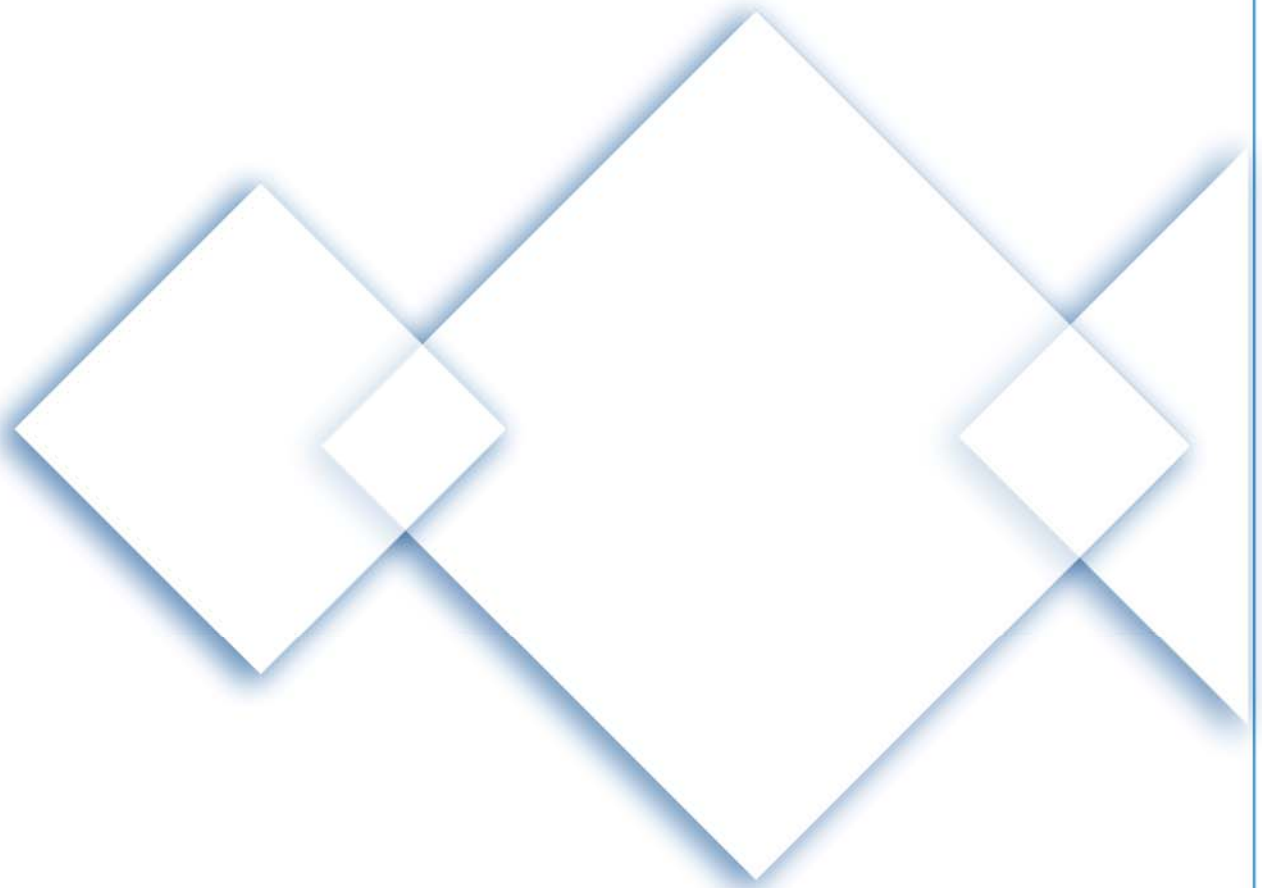
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Associated BSUoS Forecast

Central forecast is for £1.47/MWh (based on latest view of demand and BSIS)

Forecast Monthly BSUoS 2009/10





Constraints

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Constraint Cost Drivers

an increase in the volume of outages

- ◆ **A number of these being construction outages across critical constraint boundaries to connect new generators**
- ◆ **A higher percentage of volume unable to be resolved by inter trip schemes, due to the location of the constraints**

an increase in outages occurring after the October clock change

- ◆ **Implying higher replacement costs**

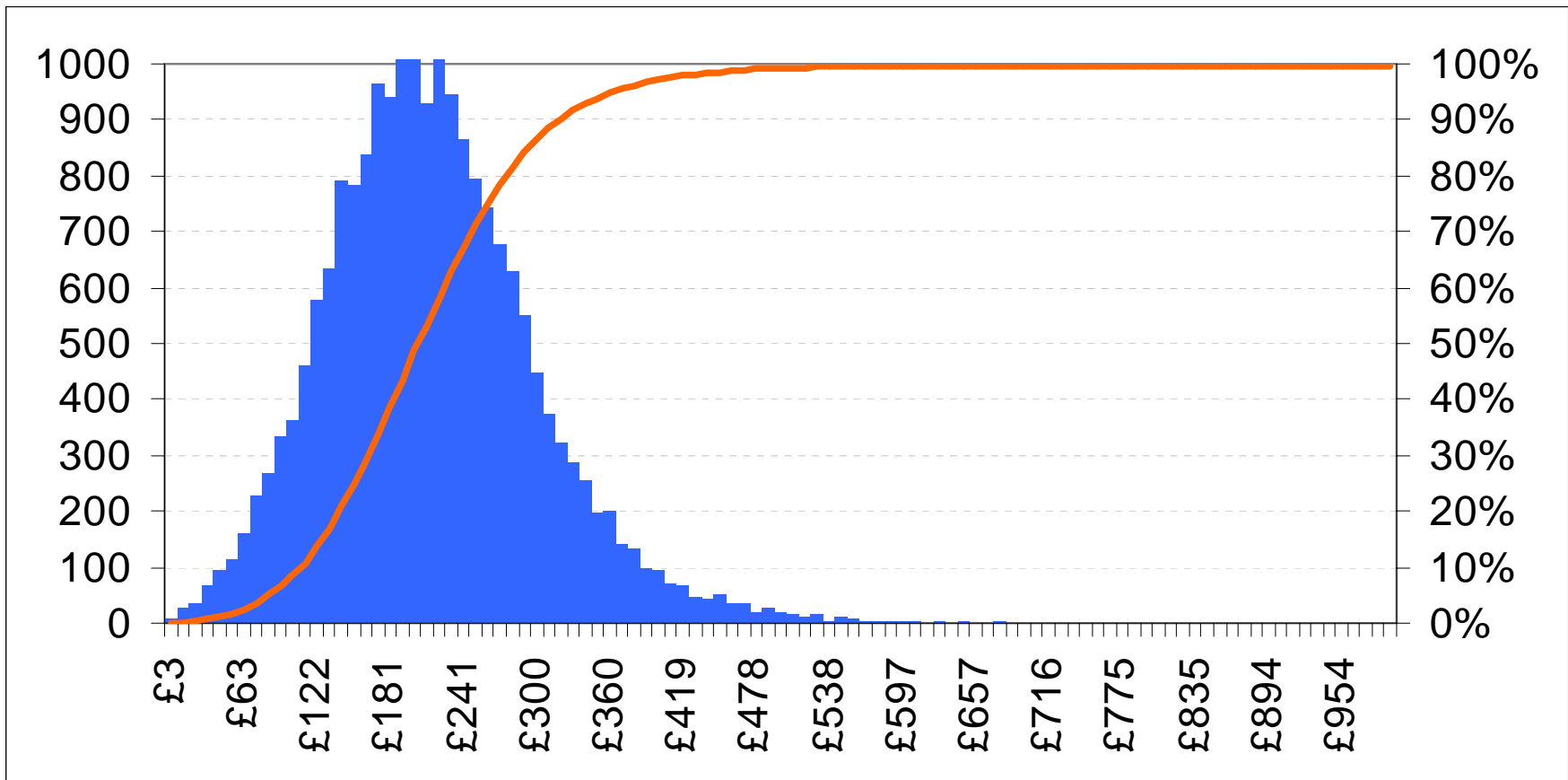
800MW of new wind generation

- ◆ **A significant proportion of which is located in North Scotland.**

This includes the use of the most economic methods available to manage the constraint volumes

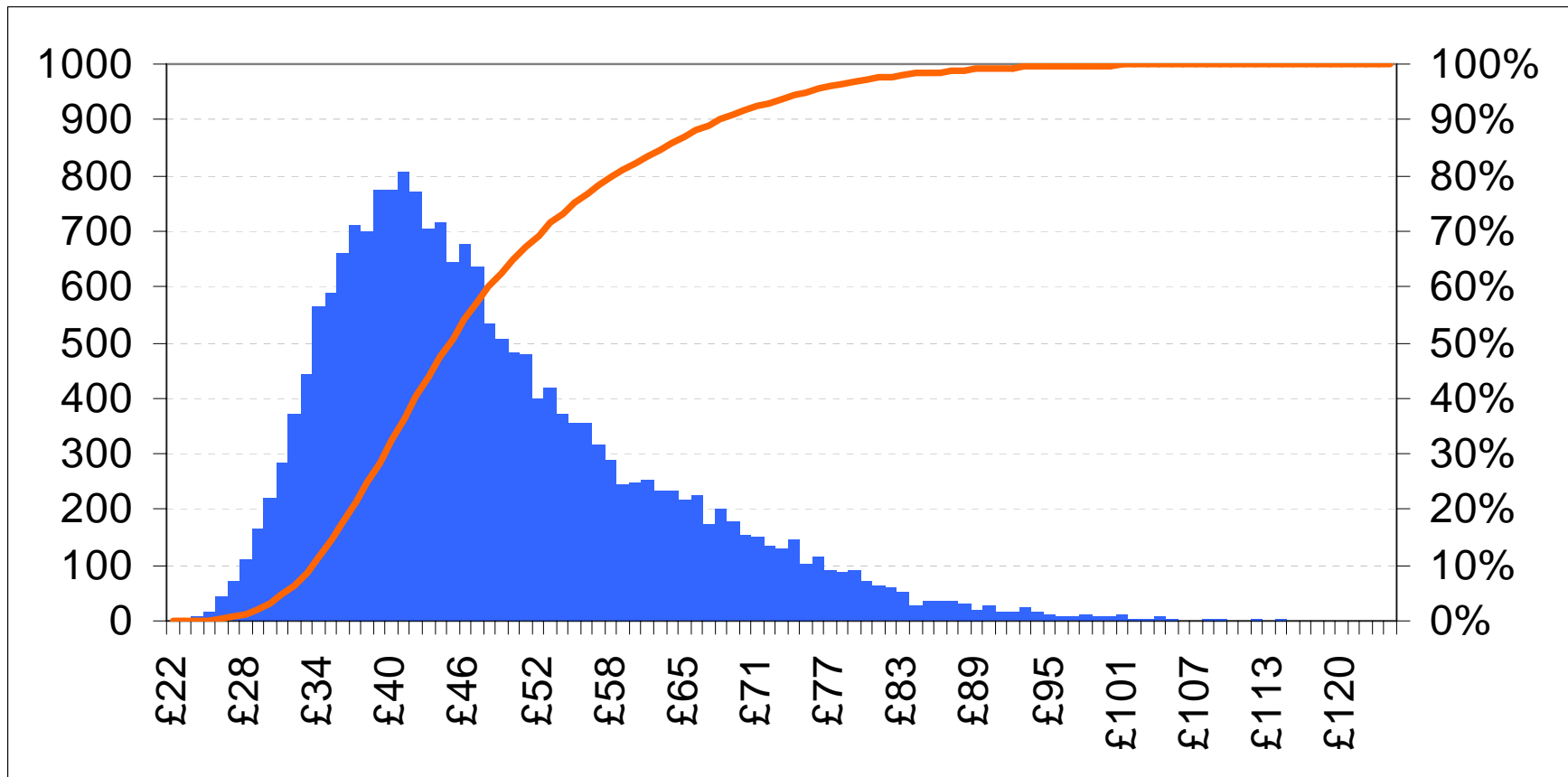
Scottish Constraint Forecast

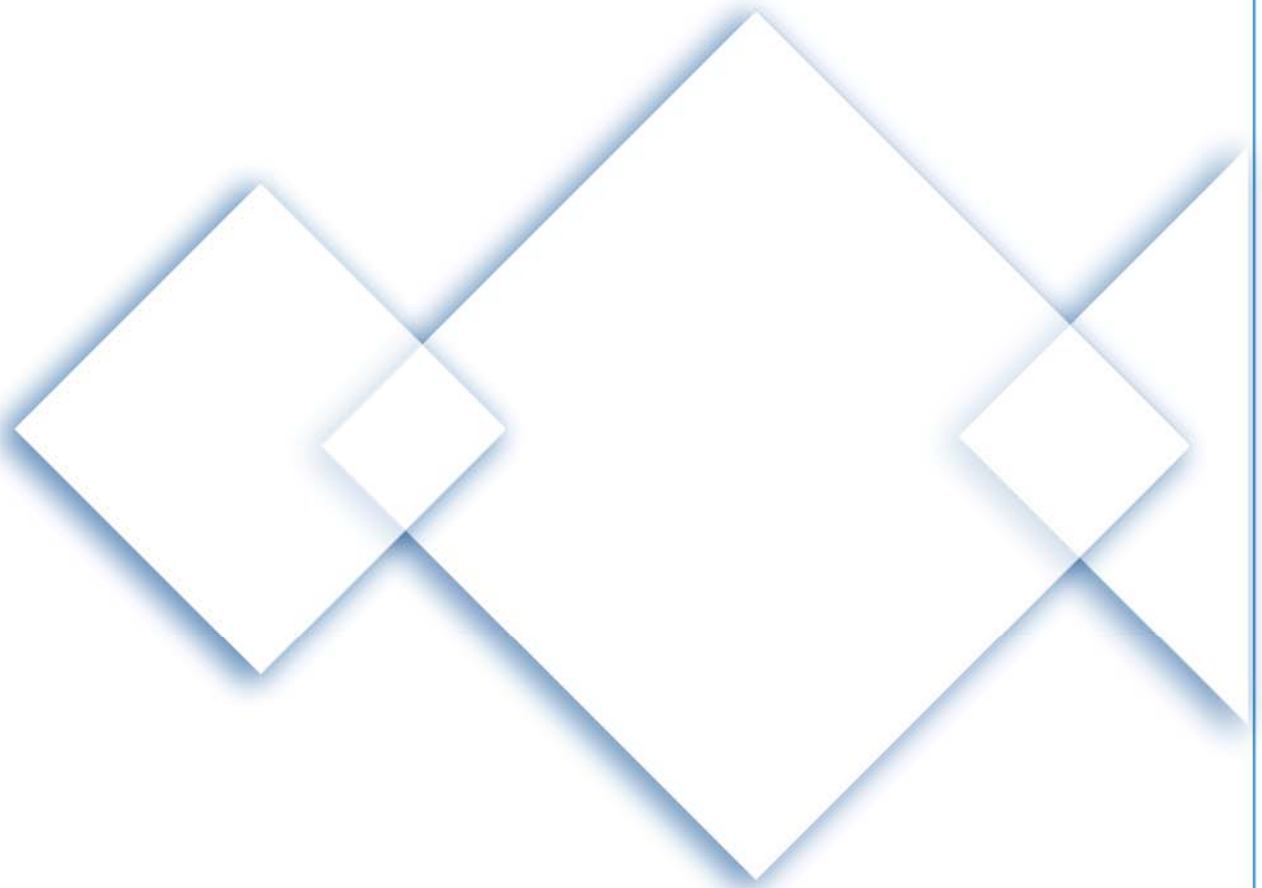
Central forecast for Scottish constraints is £204m (P10=£109m, P90=£313m)



England & Wales Constraint costs

Central E&W constraints forecast is £45m (P10=£33m, P90=£68m)





Use It or Lose It

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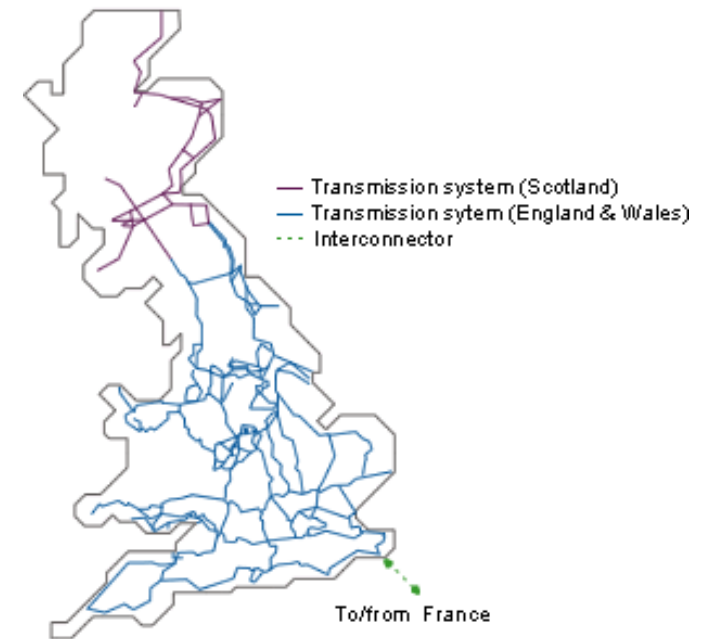
“Use It or Lose It”

EU driven changes to operation of the French I/C

Reduced ability for SO to manage capacity and hence flows

Increased costs - £21m initial estimate due to an increase in constraint costs

Latest view is arrangements will go-live July 09



IFA Access – Use It or Lose It

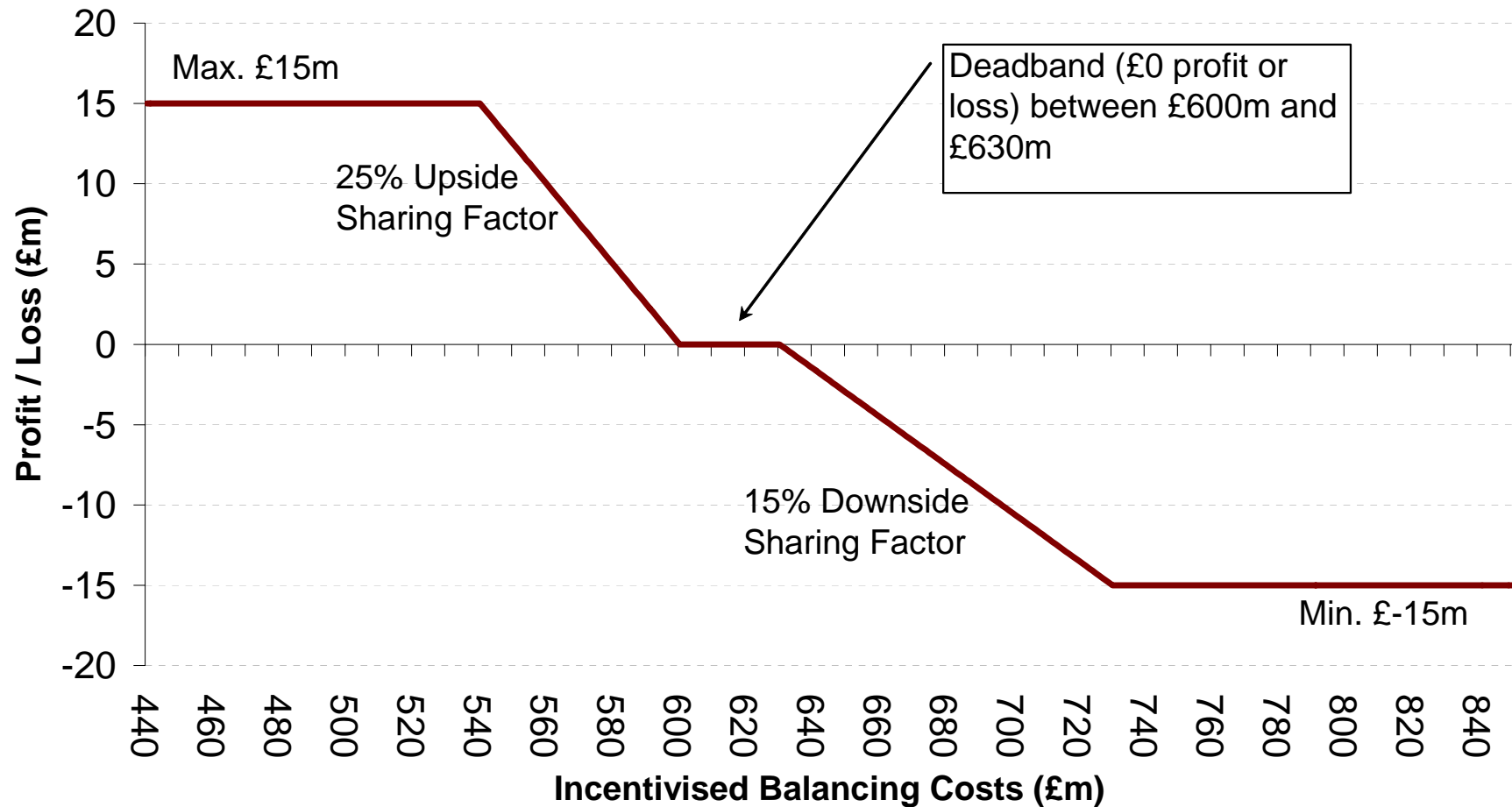
What it means for BSIS –

- ◆ Use of Oil fired generation in the South of England rather than forward trades over the French I/C
- ◆ This is much more expensive, hence the expectation of higher costs
- ◆ Ofgem have stated in their final proposals:

“the use of an automatic downward target adjuster in the event that there is a material change to NGET’s assumptions regarding the availability of balancing services is a sensible method of dealing with the UIoLI IFA issue and other changes to the availability of commercial ancillary services providers”

Scheme Proposal

Proposed 2009/10 Balancing Services Incentive Scheme



Summary

Constraint Costs remain a sizeable proportion of the forecast

Scheme Target to be reduced if there is a material change to the costs forecast from UoLI or other changes to the availability of commercial ancillary services providers

NEW NIA to be used

Does not include provisions for any changes arising from Ofgem's open letter to National Grid (17-Feb-09)