

Phil Collins
Policy and Support Manager

phil.collins@uk.ngrid.com
Direct tel +44 (0)1926 656143
Direct fax +44 (0)1926 656605
Mobile +44 (0)7917210735

www.nationalgrid.com

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Dear Industry Participant,

Revisions to GB Queue Management Methodology

Ofgem/BERR's Transmission Access Review (TAR) – Final Report dated 26 June 2008 stated that, given the current delays in connection timescales, urgent steps should be taken to connect new generation more quickly to the GB transmission system. The TAR Final Report set out that an “Interim Connect and Manage” approach should be adopted. The purpose of this letter is to advise industry participants of the actions National Grid intend to take in the coming months.

Adopting an “Interim Connect and Manage” approach would mean that an early connection date may be offered to projects that currently hold planning consent and where this offer can be objectively justified by an appropriate cost benefit analysis. It is envisaged this approach will require better management of the existing queue, sharing of capacity, release of additional capacity by the System Operator and, where the transmission licensees have identified an opportunity and there are benefits in doing so, seeking derogation from the minimum requirements of the GB Security and Quality of Supply Standard (GBSQSS) to allow some generation to connect ahead of system reinforcements.

The TAR Final Report estimated that this revised approach could allow 1GW of generation to connect earlier than they otherwise would.

The GB Queue Management Methodology that National Grid published in February 2008 is being updated to allow for the early connection of all projects and will also include “Interim Connect and Manage”. The front end of the queue management process will remain the same; developers will still be expected to express their interest in an earlier connection date through the quarterly reporting process. In light of the adoption of “Interim Connect and Manage”, it is now even more important that developers inform National Grid of the status of their project and their ability to advance as it is this information that will allow National Grid and the Scottish

transmission companies to determine whether a user is eligible for an earlier connection date.

It will not be possible to apply “Interim Connect and Manage” to all projects even if they do have consents; each case will be considered and a decision will be made regarding the balance of costs and benefits resulting from connecting or providing access for a project. National Grid is therefore keen to discuss options with developers that may reduce the costs (such as local constraints) resulting from projects connecting.

As a result of additional projects getting connected under the revised GB Queue Management regime there may be increased network constraints. This may result in higher levels of constraint costs incurred by National Grid. The TAR Final Report noted that Ofgem needs to be satisfied, particularly in the case of derogations, that the early connection of generation can be objectively justified. It also noted that in coming to a decision as to whether derogations are justified to accelerate connection, Ofgem will assess the costs, which are largely constraints costs, and benefits mainly from lower carbon emissions, as well as other relevant factors.

Time Limited GBSQSS Derogations

As one of the short term measures identified in the TAR Final Report, National Grid, as the GBSO, and the Scottish transmission companies will be looking at using time limited derogations from the GBSQSS as a means of connecting a greater amount of new generation to the transmission system. As noted above, each of these derogations will have to be assessed by Ofgem and will take into account the Authority’s statutory duties and also appropriate costs and benefits including reduced carbon emissions. This approach is only intended to be used as interim solution pending enduring reform.

National Grid working with the Scottish transmission companies will identify opportunities to use derogations from the minimum standards in the GBSQSS to allow the user to connect to the system ahead of system reinforcements. If it is found that it is potentially viable then the request will be submitted to Ofgem for consideration. If it is judged that a time limited derogation is highly unlikely to be approved by the Authority then the derogation request will not be submitted, however National Grid intends to keep Ofgem informed of progress in identifying opportunities to use derogations. National Grid is keen that the “Interim Connect and Manage” process should not result in a ‘derogations free for all’ and that any projects advanced should have a beneficial impact.

CAP150

As part of the better queue management envisioned under the “Interim Connect and Manage” regime National Grid will be looking to robustly implement the rights given to them under CAP150 (Capacity Reduction). National Grid intends to start with projects due to connect in the next few years and then continue to work through the queue. The long term access capacity released will be available for other projects to advance into.

All progress that is being made by National Grid with regard to connecting future generation will be reported to the industry and the Authority through a generic quarterly update, which will soon be available on National Grid's website, called "Connecting for the Future". It is envisaged that this document will satisfy the industry's desire for information on actions being taken with regard to queue management by:

- providing information regarding the contracted background including the planning status of projects in the queue and the renewable/non-renewable mix of those projects,
- showing the full extent of the issues i.e. the number of projects that have successfully achieved planning in comparison to those which have not, and
- outlining any recent changes within the industry that may have an effect on the GB Queue along with details of any progress that has been made through the optimisation process.

National Grid believe that this initiative, partnered with their user seminars which are scheduled for September, will keep the industry up to date with any developments that are made with regard to facilitating future connections to the GB transmission system.

Next Steps

National Grid will shortly issue a revised draft GB Queue Methodology in order to seek views on the detail of this methodology to ensure they are clear and transparent. National Grid also understand that Ofgem are going to consult on the proposed changes to the guidance they currently provide for seeking derogations.

Yours sincerely

Phil Collins