

Further clarification on the impact of Use it or lose it changes on the interconnector on balancing costs

To comply with the Constraint Management Guidelines a number of changes are planned to be implemented on the sale of England/France interconnector capacity from summer 2009. The introduction of Use It or Lose It rules will remove the current ability to trade on the interconnector pre GB gate closure to manage constraints in southern England, as the effect of such a trade can no longer be guaranteed to alter flows on the interconnector.

Without the facility to trade on the interconnector to resolve constraints then costs will increase in line with the incremental costs of the alternative actions, a significant proportion of which will involve the warming and dispatch of low merit generation in the south.

Within our initial forecast of constraints costs of £65m within England and Wales, we have assumed an 'as normal' ability to trade on the French interconnector as a tool to resolve applicable constraints. To highlight the impact in the change of rules on interconnector capacity, we have forecast the incremental cost of using alternative actions to manage these constraints. This has been forecast to increase constraint costs by £21m.

These forecasts are very sensitive to interconnector flows and generation patterns. For example, this summer, the French Interconnector has been flowing into GB for the majority of the time and hence constraint costs in southern England have been very low. We are forecasting higher flows to France next year which will result in the need to take more actions than in 2008/9 to manage constraints.

A more detailed explanation on the impact of Use it or lose it changes on the interconnector on our costs can be found from page 42 of the appendix to the NGET System operator Incentives Initial Proposals. The link to this document can be found here:

<http://www.nationalgrid.com/NR/rdonlyres/51113012-5979-4630-AC34-E57750E47411/30036/ElectricitySOIncentivesInitialProposalsConsultatio.pdf>