IFA – Trading Experience

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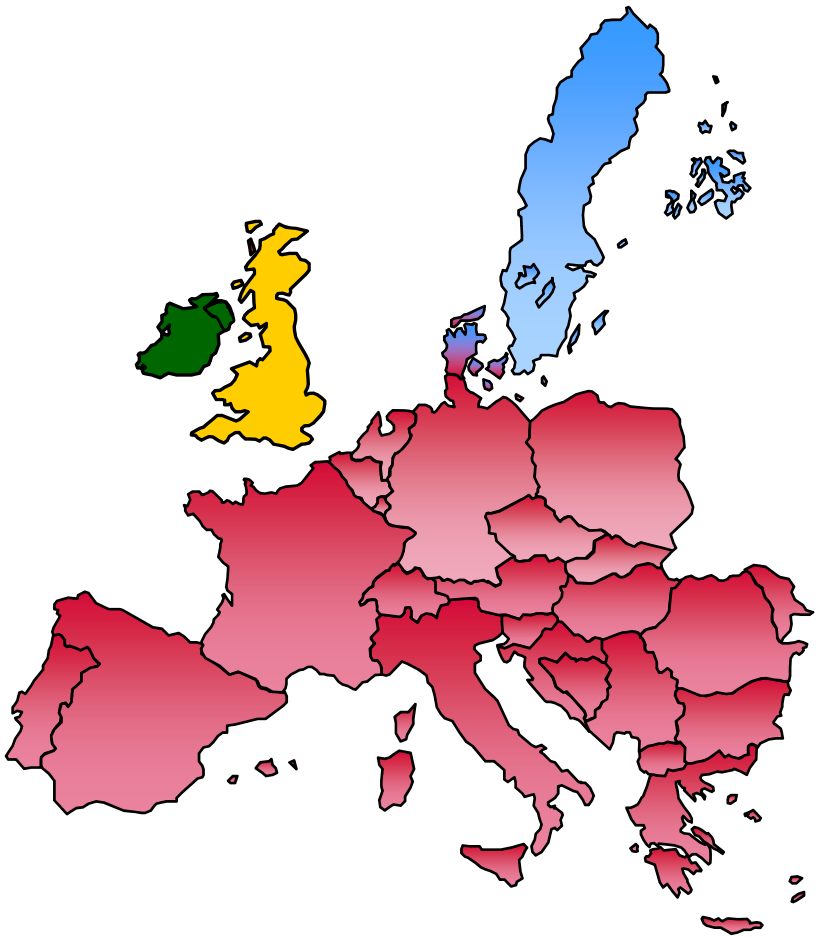
The Markets Countries of UCTE (Union for Co-ordination Transmission Europe)



- Countries within UCTE co-ordinate transmission across national boundaries
- UK does not sit within this group.
- Therefore any of these markets may influence flows on the Interconnector
- In reality, France and Germany are the major influences on UK-France Interconnector flows although Spain is increasingly influential becoming an important market.

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Differences in GB and European Markets

- GB market based on continuous trading up until gate closure. Brokered market (voice and screen) and electronic platform
- France and Germany dominated by Power Exchanges. Daily day ahead auction model dominates liquidity. Limited liquidity after 10:00
- National Grid have to take a view on likely generation patterns in GB, combined with GB-France Interconnector flows – limited opportunity to trade post 10:00

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Differences in GB and European Markets

- Price differentials are usually driven by “fundamentals” i.e. cost/types of generation, demand and supply match

- Germany in particular can bring a lot of volatility to the markets due to high level of wind generation. This can effect up to 15GW of capacity. Also relies on hydro generation from Switzerland

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Differences in GB and European Markets

- France is a net exporter (increasing less though) across most European interconnections, however nuclear availability is the major influence. French price is strongly correlated to German price

- UK markets are often led by gas prices, particularly when they are at high levels

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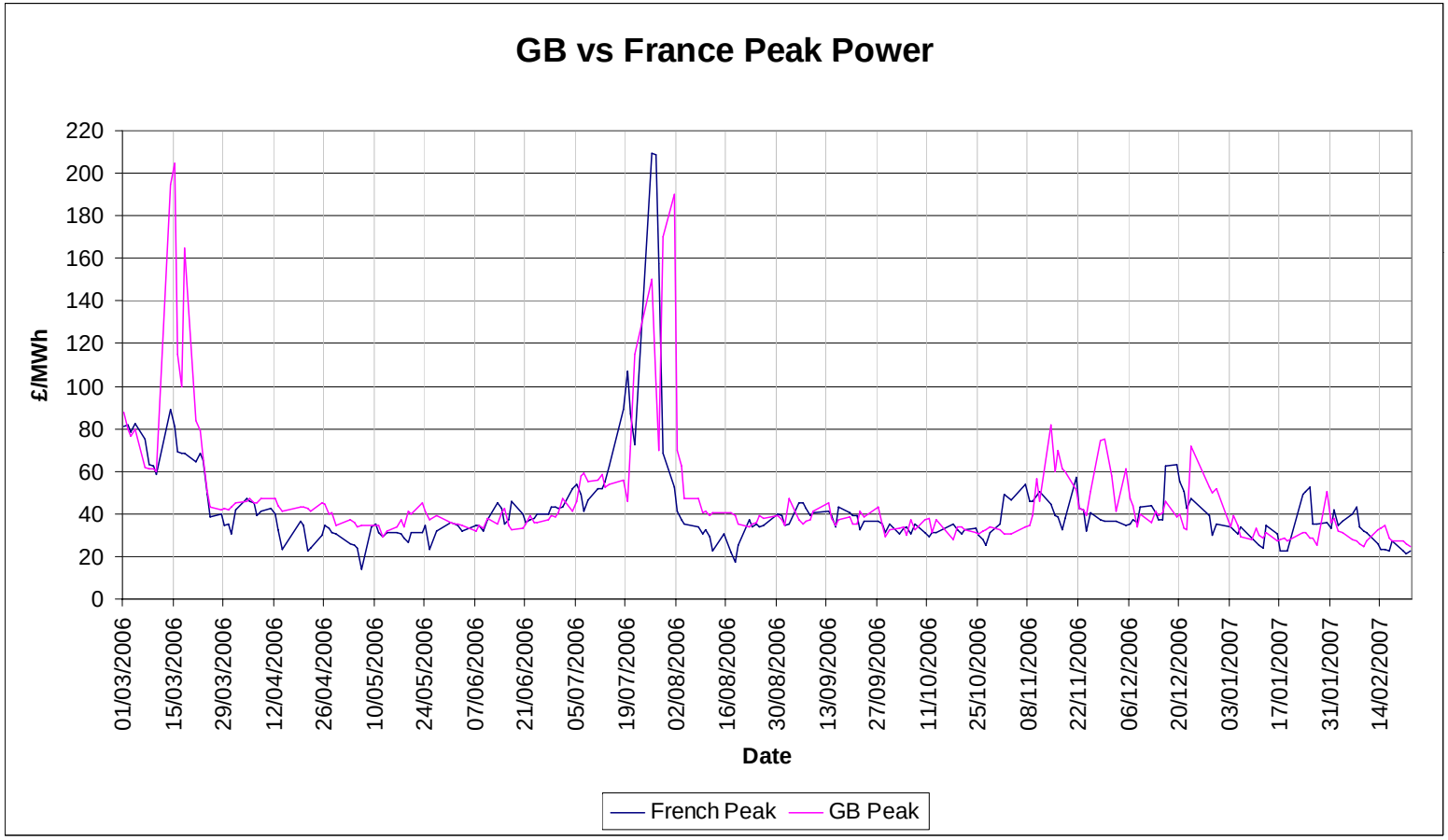
Peak (07:00-19:00) GB-France price



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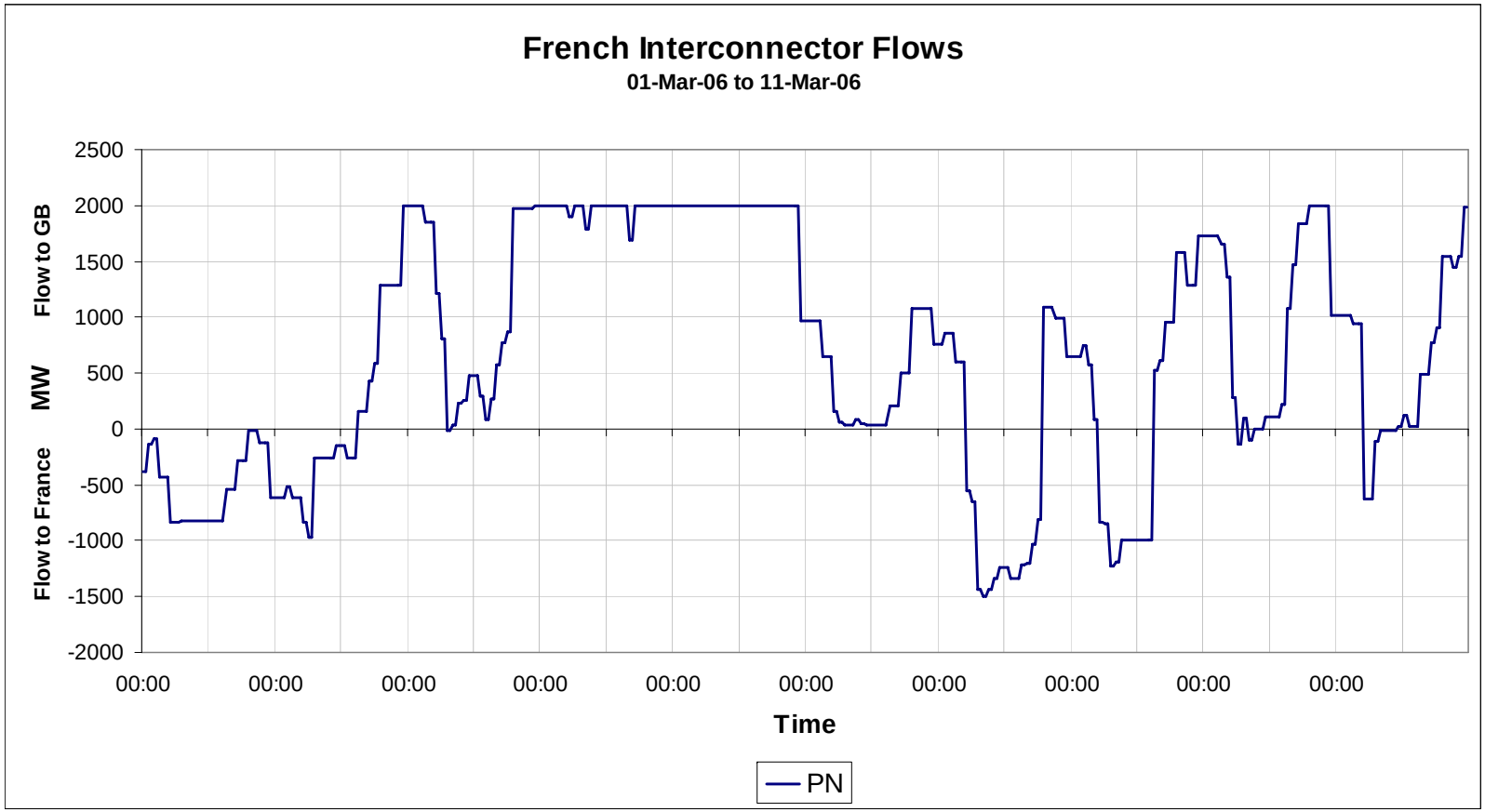
GB-France Transfer Volatility



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Who do NG trade with?

- National Grid cannot trade in its own right as we hold no capacity. Have to achieve flows by proxy i.e. will trade with any counterparty who holds capacity and has sufficient credit worthiness
- The number of potential counterparties has increased in recent years and has tended to move away from “physicals” towards “speculators”. This has tended to increase volatility

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Who do NG trade with?

- Significant players include Barclays, Merrill Lynch and Total Fina Elf. Significant physicals are RWE and EDF and EON
- Physicals have gradually withdrawn, to be replaced with speculative trading companies. Interconnector flows are increasingly driven by economics

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Why trade day ahead?

- If we do not achieve an appropriate flow on the Interconnector there are limited opportunities “intra-day” to change the flow (other than CM&B service)
- Financially beneficial to “lock” flows in day ahead – typically traded power 50-70% cheaper than CM&B service price
- Also traded volumes are firm – RTE can withdraw CM&B at short notice
- French market only allows 6 gate closures intra day (13:00 onwards D-1). This limits opportunity to optimise flows post day ahead

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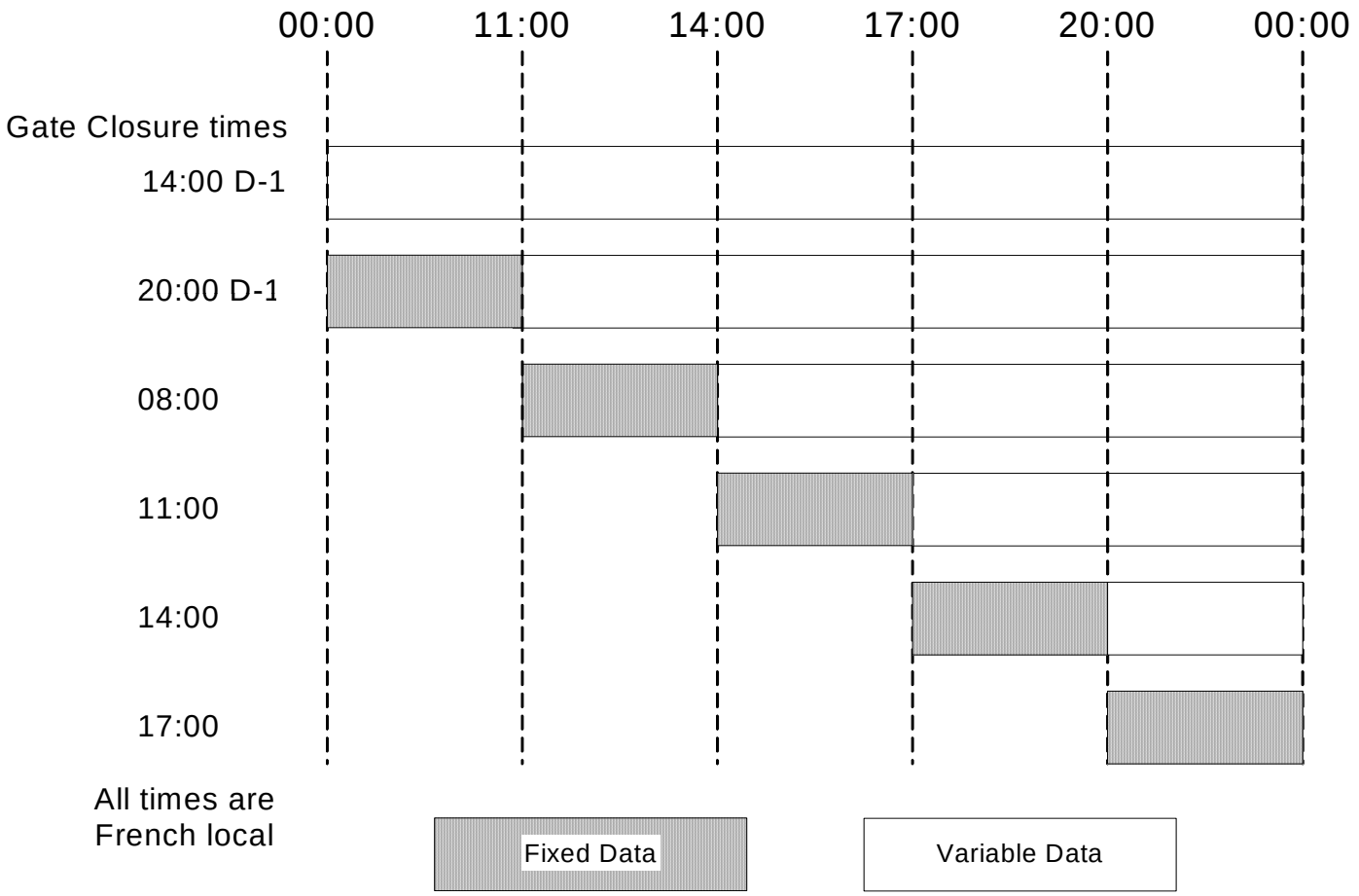
French Intra-day gate closures



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Conclusions

- Trading on I/C is often difficult and can often end up paying significant premium to market
- However, trading forward is generally more cost effective than using CM&B
- Often very difficult to predict eventual flows due to “one shot” auction process in Continental markets.
- Increasing volatile transfers – likely to increase when continuous trading market introduced into French market

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