

SCHEDULE 8.1

CONNECT AND MANAGE DEROGATION REPORT IN RESPECT OF THE SPT - NGET INTERCONNECTION AND THE SPT-SHETL INTERCONNECTION

CONNECT AND MANAGE DEROGATION REPORT SUBMISSION BY SP TRANSMISSION LIMITED TO NATIONAL GRID ELECTRICITY TRANSMISSION PLC PURSUANT TO PARAGRAPHS 2 AND 3 OF STANDARD CONDITION D3 (TRANSMISSION SYSTEM SECURITY STANDARD AND QUALITY OF SERVICE) OF SP TRANSMISSION LIMITED'S ELECTRICITY TRANSMISSION LICENCE

1. A derogation dated 30th April 2007 relieving SP Transmission Limited (**"the Licensee"**) of its obligations under paragraph 1 of standard condition (**"SLC"**) D3 of the electricity transmission licence (**"the Licence"**) in respect of the circuits, referred to within that derogation, connecting the Licensee's system to that of National Grid Electricity Transmission plc (**"NGET"**), and any directly related circuits, was granted by the Authority due to inadequate power transfer capability.
2. The circuits, which connect the Licensee's system to the NGET system, provide a maximum winter Interconnection capability of 2,200MW. These circuits are shown schematically in Figure A3.4 of the National Electricity Transmission System Seven Year Statement. Works to upgrade the SPT-NGET Interconnection are underway, and a 2800MW capability is planned to be available by winter 2010/11. Further upgrades are planned and are in construction.
3. The circuits, which connect the Licensee's system to the SHETL system, provide a maximum winter Interconnection capability of 1,800MW. These circuits are shown schematically in Figure A3.4 of the National Electricity Transmission System Seven Year Statement. Works to upgrade the SPT-SHETL Interconnection are underway and a 3000MW capability is planned upon completion of the Beaulieu-Denny reinforcement. Further upgrades are planned.
4. Application of the National Electricity Transmission System Security and Quality of Supply Standard (**"the NETS SQSS"**) to the generation background detailed in the Construction Planning Assumptions referenced in Appendix 8 of the Licensee's connect and manage TO Construction Offer for Muaithebbel (reference SPR-ATOCO-187) (**"the TO Construction Offer"**) require a minimum capacity on both the SPT-NGET and SPT-SHETL Interconnections in excess of the capability which will be available upon completion of connection asset and Enabling Works detailed in the TO Construction Offer.
5. Consequently the Licensee has concluded that a Connect and Manage Derogation is required. This Connect and Manage Derogation Report has been prepared and

submitted by the Licensee pursuant to paragraphs 2 and 3 of SLC D3 of the Licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (“**the Act**”) to the Licensee.

6. Paragraphs 2 and 3 of SLC D3 of the Licence provide that the Licensee may submit a Connect and Manage Derogation Report to NGET as part of a TO Construction Offer where the Licensee determines, with reference to the connect and manage criteria, that: (1) it could not comply with paragraph 1 of SLC D3 at the connection date if it were to issue such a TO Construction Offer; and (2) such a TO Construction Offer would be inconsistent with the Licensee’s obligations under paragraph 1 of SLC D3.
7. Subject to acceptance by NGET of the Licensee’s TO Construction Offer and pursuant to paragraph 3 of SLC D3 of the Licence, the Licensee is relieved of its obligations under paragraph 1 of SLC D3 of the Licence with respect to the part of the system in column 1 of Table 1 set out in the Schedule (8.1) to this Connect and Manage Derogation Report for the corresponding period in column 3 of Table 1, from the corresponding obligation to comply with the design of the main interconnected transmission system criteria of the NETS SQSS set out in column 2 of Table 1. The impact assessment of the relief referred to in Table 1 is set out in Table 2 of this Schedule (8.1).
8. This Connect and Manage Derogation shall have effect from the last date of signature of the TO Construction Offer and shall remain in effect up to and including the date when the Licensee satisfies the requirements of paragraph 1 of the SLC D3, in relation to the Derogated Wider Works referred to within Appendix 3 of the TO Construction Offer and such works have been completed.
9. All terms and expressions in this Connect and Manage Derogation Report shall, unless defined within this Connect and Manage Derogation Report, have the same meanings, interpretations or constructions as set out in the TO Construction Offer.

Table 1 (of Schedule 8.1) - Relief Granted in respect of the Licensee's System

| 1 PART OF THE SYSTEM FOR WHICH RELIEF IS GIVEN | 2 NATURE OF RELIEF | 3 DEROGATION PERIOD | 4 DETAILED DESCRIPTION OF RELIEF GRANTED | | |
|---|--|---|--|--|---|
| | | | ISSUE | INTERIM SOLUTION | LONG TERM SOLUTION |
| <p>SPT-NGET Interconnection (NETS SYS Boundary 6)</p> <p>All circuits supported on the following overhead line routes:</p> <p>ZV Route: Strathaven 400kV Substation to the SPT-NGET Boundary</p> <p>ZA Route: Eccles 400kV Substation to the SPT-NGET Boundary</p> <p>SPT-SHETL Interconnection (NETS SYS Boundary 4)</p> <p>All circuits supported on the following overhead line routes:</p> <p>XL Route: Kincardine 275kV Substation to the SPT-SHETL Boundary</p> <p>TD Route: Denny 400/275kV Substation to the SPT-SHETL Boundary</p> | <p>National Electricity Transmission System Security and Quality of Supply Standard</p> <p>Section 4 - Design of Main Interconnected Transmission System Criteria 4.1 to 4.13 inclusive.</p> | <p>Definite.</p> <p>Effective until completion of the Transmission Construction Works set out in Appendix 3 Part 4.2 of the TO Construction Offer referred to in this Connect and Manage Derogation Report¹.</p> | <p>Under Planned Transfer plus appropriate Interconnection Allowance with intact system and ACS peak demand, and under conditions expected to arise in the course of a year of operation, with generation and demand background as per the Construction Planning Assumptions referenced in Appendix 8.3.2 of the TO Construction Offer referred to in this Connect and Manage Derogation Report, secured events may give rise to:</p> <p>Unacceptable overloading of primary transmission equipment;</p> <p>Unacceptable voltage conditions and insufficient voltage performance margins; and / or,</p> <p>System instability.</p> | <p>Application of pre-fault and / or post-fault constraints to generation in Scotland to permit compliance with NETS SQSS Section 5.</p> | <p>Transmission construction works as set out in Appendix 3 Part 4.2 of the TO Construction Offer referred to in this Connect and Manage Derogation Report.</p> |

¹ The completion of the Transmission Construction Works will be subject to change based on any change to the related dates set out in the relevant TO Reinforcement Instruction(s).

Table 2 (of Schedule 8.1) - Impact Assessment of Relief Granted in respect in respect of the Licensee's System

| 1 CONSUMERS | 2 SECURITY OF SUPPLY | 3 COMPETITION | 4 SUSTAINABLE DEVELOPMENT | 5 HEALTH AND SAFETY | 6 OTHER PARTIES AFFECTED |
|---|--|--|--|---|---|
| It will be the responsibility of the National Electricity Transmission System Operator to manage any generation constraints arising from this non-compliance while ensuring compliance with NETS SQSS Section 5, 'Operation of the Onshore Transmission System'. During the Derogation Period there may be an increase in generation constraints costs. | There will be no adverse impact on security of supply. | The connection of generating plant is consistent with the Licensee's Statutory obligation to facilitate competition in generation. | None. | There are no health and safety issues resulting from this non-compliance. | There are no other parties directly affected. |