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Wednesday 5 July 2006

NOTICE OF INCOME ADJUSTING EVENTS PROPOSED BY NATIONAL GRID ELECTRICITY TRANSMISSION UNDER THE 2005/06 SYSTEM OPERATOR INCENTIVE SCHEME

On 30 June 2006, National Grid Electricity Transmission (NGET) submitted notices to Ofgem of two proposed income adjusting events (IAEs) relating to the March 2005 – April 2006 System Operator Incentive Scheme.

An IAE is an event or set of circumstances which affects the system operator's costs. Under its transmission licence NGET has three months after the close of the incentive scheme period to propose IAEs and to ask the Authority to adjust its balancing costs accordingly.

NGET is asking for a total 2005/06 balancing cost adjustment of **£35.77 million** to reflect additional costs it says it has incurred, comprising of two separate factors:

- Transmission constraint costs within Scotland and between Scotland and England – totalling £30.18 million (£18.54 million and £11.63 million respectively).
- Frequency response costs of £5.59 million resulting from licence modification CAP047. NGET uses frequency responses to balance the constantly changing high voltage of the transmission network.

The Authority now has three months to decide whether each of these factors constitutes an IEA and to determine the amount of the allowed income adjustment.

The non-confidential parts of NGET's notices have been published on Ofgem's website. This information note is simply to inform interested parties of the proposed IAEs – the Authority will launch a public consultation process in early August 2006 to help it reach a decision, A final decision should be published in late September 2006.

Although the consultation will not be published until August, Ofgem wishes to raise this issue now so that interested parties will have time to consider their response.

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Notes to Editors

1. Details of the events, or circumstances, that NGET consider gave rise to the two proposed IAEs are included in each notice submitted by NGET, the non-confidential parts of which have been published on Ofgem's website at www.ofgem.gov.uk

2. If the Authority determines that each stated event, or set of circumstances, constitutes an IAE, it may give rise to an income adjustment totalling up to £35.77 million to NGET's Incentivised Balancing Costs (IBC) for 2005/06. NGET has indicated that based on the current

reconciliation data, approval of all proposed IAE amounts would reduce its IBC for 2005/06 to £391.5 million (from £427.2 million), compared to a scheme target IBC of £377.5 million.

The Authority will determine whether the stated events, or circumstances, constitute IAEs. Where an IAE is determined to have occurred, the Authority will consider whether the income adjustment sought by NGET ensures that its financial position and performance is, insofar as is reasonably practicable, the same as if that IAE had not taken place, and if not, what allowed income adjustment would secure that effect.

3. The Authority has three months from the time it receives notice of the proposed IAEs to make a determination. The three month period in relation to the proposed IAEs notified by NGET concludes on 30 September 2006. If after three months the Authority has not made a determination on any or all of the proposed IAEs, the income adjustment proposed in the notice will be applied. However, this is not the case where the Authority considers that the supporting evidence provided is insufficient to enable the Authority and market participants to fully assess the IAE to which the information relates.

Within this 3 month period, the Authority will consult with interested parties on whether the events outlined by NGET constitute an IAE – with respect to each of the proposed IAEs – and if so, how the costs should be treated. The consultation document is expected to be published in early August 2006. Following consideration of responses received, the Authority expects to publish its decision in late September 2006.

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, Utilities Act 2000 and the Energy Act 2004.

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