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to customers*

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1 April 2008

Dear Duncan

**Report on the volume of transmission losses: formal information request
under paragraph 1 of standard condition B4 of NGET's transmission licence**

As you are aware, during the process of setting the 2008/09 System Operator (SO) Incentive Scheme which was implemented on 1 April 2008, the Authority¹ raised significant concerns regarding the continuing increase in the level of transmission losses.²

As part of that process National Grid Electricity Transmission (NGET) provided the following actual and forecast data for transmission losses.

Year	2004/05 ³	2005/06	2006/07	2007/08 ⁴	2008/09
GWh	4452	5588	6102	6500	6900

In our Final Proposals consultation document for the 2008/09 SO Incentive Schemes,⁵ we outlined our concerns regarding the continuing increase in the level of

¹ Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority (the "Authority"), the regulator of the gas and electricity industries in Great Britain. Ofgem's primary aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority was established by the Utilities Act 2000 and its powers are provided for under the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998, the Utilities Act 2000, the Enterprise Act 2002 and the Energy Act 2004. The terms "Ofgem", "we" and "the Authority" are used interchangeably in this letter.

² Transmission losses for each settlement period being the difference between the quantity of electricity delivered to the GB transmission system and the quantity taken from the GB transmission system during that settlement period.

³ These transmission losses relate only to the England and Wales system.

⁴ These transmission losses relate to seven months of actual losses plus five months of forecast.

⁵ National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April

transmission losses and that NGET has no explanation for this rising trend. We noted the increasing burden that transmission losses are imposing on end-users and the sustainability implications of the continuing increase in their level.

The Authority considers it vitally important that NGET fully explains the rising trend in the volume of transmission losses. We are therefore requesting NGET to carry out an investigation into the causes of the recent increases in transmission losses and to report its findings to interested parties.

We require NGET to provide the Authority with a report on the level of transmission losses by 5pm on 30 June 2008. This report should include:

- ◆ details of the steps that NGET has taken in order to understand the reasons for the continuing increase in the level of transmission losses;
- ◆ details of the major factors, and the magnitude of their individual effect, responsible for all transmission losses;
- ◆ if NGET has failed to fully explain the factors responsible for transmission losses:
 - the reasons why NGET has failed to fully explain these factors; and
 - details of the additional steps that NGET proposes to take in order that they can be fully explained;
- ◆ where NGET has ascertained the causes of transmission losses:
 - the steps NGET proposes to take to reduce the level of transmission losses; and
 - the steps that NGET considers should be taken by other parties to reduce the level of transmission losses;
- ◆ a revised forecast of transmission losses for 2008/09, drawing on and consistent with, the findings from the investigation;
- ◆ any other information that NGET considers to be appropriate to its investigation.

The Authority is requesting this report pursuant to paragraph 1 of Standard Condition B4 of NGET's transmission licence, in order to inform its work in developing the SO incentive scheme. As you are aware, the target for the losses component of the 2008/09 electricity external SO incentive scheme has been divided into quarterly data. Should the findings of NGET's report suggest that this data should be adjusted, we will consider changes to the losses target via an industry consultation.

Please note that a failure to comply with this information request may result in the enforcement of the relevant licence condition and the imposition of a financial penalty.⁶

We would expect NGET to publish this report on its website. Should NGET consider that information that it has obtained during its investigation is of a confidential nature and should not be published then this should be provided to the Authority as an appendix to the report, including details of why NGET considers that the information is confidential.

2008: Final Proposals Consultation', Ofgem, 27 February 2008.

⁶ Under section 27A of the Electricity Act 1989 where the Authority is satisfied that a licence holder has contravened or is contravening any relevant condition, the Authority may, subject to section 27C, impose on the licence holder a penalty of such amount as is reasonable in the circumstances of the case.

Please do not hesitate to contact me if you would like to discuss any aspect of this letter further. Please note that this letter will be published on the Ofgem website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kersti Berge'.

Kersti Berge
Head of GB Markets