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FINAL PROPOSALS FOR NATIONAL GRID'S SYSTEM OPERATOR INCENTIVES FROM 1 APRIL 2009 ARE PUBLISHED.

Energy regulator Ofgem has today (Friday) published final proposals on incentives for National Grid to operate the high pressure gas and high voltage electricity networks as efficiently as possible from April 2009.

Under the electricity incentives the regulator has proposed a target that is 19 per cent lower than the company's original forecast for operational costs. These costs are ultimately paid by customers. National Grid initially proposed that its costs for keeping the national network in balance should be £685 million in 2009-2010. Based on updated information and following consultation with industry and further discussion with Ofgem, National Grid has reduced this forecast to £555m. Ofgem's final proposal for an incentive scheme for National Grid is based around this lower forecast to protect the interests of customers.

These figures do not include National Grid's costs for managing constraints that restrict access to the network for electricity generators. These costs have been rising over the past few years. Constraints happen for various reasons including patterns of supply and demand on a given day and work to upgrade the networks which reduces the available capacity. National Grid is forecasting that its costs for managing constraints will rise to £258 million for 2009-2010. Ofgem wrote to National Grid last week requesting that it urgently reviews the arrangements to look at whether it can manage these costs more effectively.

In the gas incentives a key development is Ofgem's proposal of a tougher target for National Grid to reduce the impact the National Transmission System has on the environment. During its operations National Grid has cause to release methane, a potent greenhouse gas, and other pollutants from its compressors.

Following the introduction by Ofgem of an incentive to reduce these releases in 2008-2009, National Grid significantly lowered the amount of pollutants vented from some of its compressors. So Ofgem has proposed a lower target for 2009-2010, and a strengthening of the incentive to include the costs of other greenhouse gases used in the operation of compressors.

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1. Stakeholders have until 27 March to respond to Ofgem's final proposals. If they are accepted by National Grid the new incentives will be in place for April 1 2009.

2. 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. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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