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*Promoting choice and
value for all customers*

Your Ref:
Our Ref:
Direct Dial: 020 7901 7487
Email: ian.marlee@ofgem.gov.uk

Date: 31 March 2009

Dear Mark

Information provision for 2009/10 System Operator Incentive Scheme: formal information request under paragraph 14 of Special Condition C5 of National Grid Gas (NGG)'s gas transporter licence

The Authority¹ has today issued a Direction modifying NGG's licence to implement the System Operator incentives scheme which will apply from 1 April 2009.

We require NGG to provide the following data items:

- **A Monthly data pack** (in accordance with the table accompanying this letter); and
- **A Quarterly report**, to be submitted 5 weeks after the end of each quarter of the year commencing 1 April 2009, including:
 - **A general System Operator report:** providing qualitative analysis of NGG's System Operator performance during the quarter concerned including:
 - an overview of its performance against each incentive;
 - a discussion of any changes to market conditions which may be affecting the System Operator's costs / role;
 - an explanation of any significant changes in System Operation costs/ actions; and
 - if, based on actual year to date information and forecast outturn for the remainder of the year, NGG is expecting to hit the cap/ floor for any incentive, an indication of this.
 - **Unaccounted for Gas (UAG) incentive**
 - an outline of activities undertaken by NGG during the quarter concerned and an outline of the activities NGG is considering in respect of UAG;
 - an indication of the costs associated with these activities;

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.

- a view as to the likely effects that these activities may have on UAG; and
- proposals for any actions that should / could be taken by other parties for the purpose of reducing UAG.
- **OM Contestability:**
 - an update on actions taken by NGG regarding gaining HSE approval of any non-HSE approved OM providers.
- **Incentives from April 2010:**
 - an update on actions taken by NGG regarding the development of initial proposals (and its proposed next steps) for incentive scheme(s) to operate from April 2010. This should include details of the progress made by NGG with respect to the specific issues flagged in Ofgem's final proposals document including:
 - review of CV Capping arrangements;
 - development of an incentive for fugitive emissions;
 - development of an intra-day linepack trading scheme; and
 - consideration of the need for, and appropriateness of, a maintenance incentive.

The Authority is requesting this information pursuant to paragraph 14 of Special Condition C5 of NGG's gas transporter licence, in order to monitor effectively NGG's procurement and use of system management services and its performance against its incentive schemes.

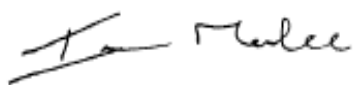
The Authority requires that the information set out in the table be provided to Alessandro Rubino (alessandro.rubino@ofgem.gov.uk), to Richard Hall (Richard.hall@ofgem.gov.uk) and to soincentive@ofgem.gov.uk.

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 penalty².

Ofgem may also require information on an ad hoc basis as and when it is needed. NGG should also continue to bring to the attention of Ofgem any information or data which it considers is important to the efficient, economic and co-ordinated operation of the GB transmission system.

Please contact Alessandro Rubino (020 7901 7311) or Richard Hall (020 7901 7089) to discuss any aspect of this letter further.

Yours sincerely



Ian Marlee
Director, Trading Arrangements

² Under section 30A of the Gas Act 1986, where the Authority is satisfied that a licence holder has contravened or is contravening any relevant condition, the Authority may, subject to section 30C, impose on the licence holder a penalty of such amount as is reasonable in the circumstances of the case.