



System Operators, Transmission
and Transportation System
Owners, Generators, Shippers,
Suppliers, Customers and Other
Interested Parties

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value for all customers*

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Dear Colleague

**National Grid Electricity Transmission and National Grid Gas System Operator
incentives from 1 April 2009**

On 27 February 2009 Ofgem published its Final Proposals Consultation in respect of National Grid Electricity Transmission ("NGET") and National Grid Gas ("NGG") System Operator ("SO") incentive schemes to apply from 1 April 2009. This consultation closed on 27 March 2009 and we received responses from six industry participants, with some respondents commenting on both the electricity and gas proposals. NGET and NGG have consented to the licence modifications proposed.

I would like to take this opportunity to thank those who responded to the Final Proposals Consultation and also to those who participated more widely in the development of the SO incentive schemes from 1 April 2009. We have considered the responses to the Final Proposals Consultation and taking those into account we believe it remains appropriate, subject to two minor amendments (one in relation to electricity and one in relation to gas, as set out in the Notices of Reasons), to direct the licence modifications to be made in line with those proposed. We have today issued the relevant directions.

However, a number of points were raised in the responses, relating to both process and the detail of the incentive schemes, that we believe should be considered along with the development of incentive schemes to apply from April 2010. We will be issuing an open letter in May that will provide further information regarding our views on some of the issues raised by respondents, the areas that we believe should be considered further by Ofgem and/or National Grid along with market participants and the process for taking the development of the schemes forward.

Should you wish to discuss any aspect of the SO incentive schemes in the meantime please contact Philippa Pickford (philippa.pickford@ofgem.gov.uk) or Lisa Martin (lisa.martin@ofgem.gov.uk).

Yours sincerely

Ian Marlee
Director, Trading Arrangements