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to customers*

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-Non confidential version for publication-

Dear Alan

**Information Provision for 2009/10 System Operator Incentive Scheme:
formal information request under paragraph 14 of standard condition C16 of
NGET's transmission licence**

Thank you for meeting with us on 14 April 2009. My team and I found the meeting to be very useful in setting out the information requirements for this work area going forward this year. I would like to take this opportunity to thank your team for the work that they have put in to improving information reporting to Ofgem.

Further to that meeting and following the implementation of the 2009/10 System Operator (SO) Incentive Scheme on 1 April 2009, this letter constitutes a formal information request under paragraph 14 of Standard Condition C16 of NGET's transmission licence, with regard to the information to be provided by National Grid Electricity Transmission (NGET) in respect of its procurement and use of balancing services.

As the external balancing costs incurred in the period 1 April 2009 to 31 March 2010 are covered by an agreed SO Incentive scheme, we require NGET to provide the following information in respect of external balancing costs and volumes for the period 1 April 2009 to 31 March 2010:

- ◆ Weekly cost data pack as specified in section a) of the attached table;
- ◆ Monthly cost data pack as specified in section b) of the attached table;
- ◆ Monthly volume data pack as specified in section c) of the attached table;
- ◆ Monthly "Hot Spot" reports: to be generated where balancing costs or volumes for an individual component or for IBC overall varies substantially from the forecast. The report should specify details of the variation and a commentary on why this may have occurred. The report should be provided three weeks after the end of the month in which the variation has occurred;
- ◆ Quarterly presentations to Ofgem (on dates to be agreed between Ofgem and NGET) summarising:
 - the main events in cost and volume terms occurred during the previous quarter;
 - Any hot spot reports that have been generated during the quarter;

- Information from NGET in the event of certain material changes which affect or may affect the availability of ancillary services as referred to in NGET's licence;
- A report on steps taken by NGET with respect to developing proposals for (an) incentive scheme(s) to apply from an agreed date in 2010, including any measures taken with respect to, but not limited to:
 1. Developing proposals for longer term incentives, including consideration of whether it is appropriate to include separate targets for summer and winter;
 2. Improving the accuracy of the new NIA index;
 3. Developing robust proposals for an index for Reactive Power costs;
 4. Consideration of unbundling certain components of the incentive scheme;
 5. The effects of increasing levels of renewable generation (particularly wind generation) on balancing costs.

The Authority¹ is requesting this information pursuant to paragraph 14 of Standard Condition C16 of NGET's transmission licence, in order to monitor effectively NGET's external balancing costs and its performance against its incentive scheme. As discussed at the meeting on 14 April, this information covers a wider range of variables than that provided by NGET over the past two years. We consider this information to be important in order for Ofgem to gain a fuller understanding of the different drivers behind each aspect of NGET's incentivised operating costs.

The Authority requires that the information be provided to Alessandro Rubino (alessandro.rubino@ofgem.gov.uk) and to soincentive@ofgem.gov.uk, in accordance with the appendix to this letter.

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.²

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

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 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 contact Alessandro Rubino on 020 7901 7311 if you would like to discuss any aspect of this letter further.

Yours sincerely

Ian Marlee
Director, Trading Arrangements