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to customers*

Mark Ripley  
Regulatory Frameworks Manager  
National Grid Electricity Transmission plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Your Ref:  
Our Ref:  
Direct Dial: 020 7901 7487  
Email: [ian.marlee@ofgem.gov.uk](mailto:ian.marlee@ofgem.gov.uk)

13 November 2009

Dear Mark

**Information Provision for System Operator Incentive Scheme from April 2010: formal information request under paragraph 14 of standard condition C16 of NGET's transmission licence**

In Ofgem's open letter of 28 May 2009, in relation to National Grid System Operator incentives from April 2010, we discussed our view that continuing to develop what are predominantly annual incentives schemes is sub optimal as such arrangements do not incentivise NGET and NGG to take a longer view of SO costs. We went on to state that we expected NGET to develop options for a two year electricity incentive scheme.

We are therefore disappointed that your proposals for a two year incentive scheme contained in your Initial Proposals Consultation document published on 5 November are incomplete. In particular, we consider that a forecast of constraints costs for 2011/12 should have been included as part of this consultation. Without such a forecast, we consider that it is extremely difficult for industry participants to form a view on the appropriateness of a two year electricity incentive scheme.

Given the above, we require NGET to provide its best estimates of the following in respect of constraint costs:

- ◆ **A forecast of within Scotland constraint costs for the period 1 April 2011 to 31 March 2012;**
- ◆ **A forecast of Cheviot constraint costs for the period 1 April 2011 to 31 March 2012; and**
- ◆ **A forecast of England and Wales constraint costs for the period 1 April 2011 to 31 March 2012.**

Included with this information should be the following (in respect of the estimates above), as set out in the Appendix to my letter of 3 September:

- ◆ **clear information regarding the relevant and potential cost drivers associated with different system operation activities as well as other**

- factors that could materially impact on the costs in the near future;  
and**
- ◆ **clear information regarding the key assumptions/scenarios that have been considered and how these influence the results/conclusions.**

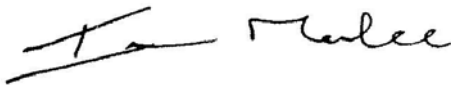
The Authority<sup>1</sup> is requesting this information pursuant to paragraph 14 of Standard Condition C16 of NGET's transmission licence, in order to set appropriate incentives in respect of NGET's operation of the electricity transmission system. We consider this information to be important in order for Ofgem to gain a fuller understanding of the likely costs that NGET will face.

The Authority requires that the information be provided to Giuseppina Squicciarini ([Giuseppina.Squicciarini@ofgem.gov.uk](mailto:Giuseppina.Squicciarini@ofgem.gov.uk)) and to [soincentive@ofgem.gov.uk](mailto:soincentive@ofgem.gov.uk) by 5pm on Friday 11 December. This information should also be published on the NGET website as an addendum to the Initial Proposals 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.<sup>2</sup>

Please contact Giuseppina Squicciarini on 020 7901 7366 if you would like to discuss any aspect of this letter further.

Yours sincerely



**Ian Marlee**  
**Partner, Trading Arrangements**

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<sup>1</sup> 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.

<sup>2</sup> 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.