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value for all customers*

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Date: 30 March 2010

Dear Paul

**Agreement of what constitutes a "material change" in the volume of the specified key drivers and the associated costs of such material change under Schedule A (Supplementary Provisions of the Charge Restriction Conditions) of Special Condition AA5A, Part B (Terms in the balancing services activity revenue restriction), Paragraph B1 b).**

Subject to responses received to Ofgem's "National Grid Electricity Transmission System Operator Incentives from 1 April 2010: Final Proposals Consultation",<sup>1</sup> the Authority is expecting to direct a modification to National Grid Electricity Transmission's ("NGET") transmission licence to take effect retrospectively from 1 April 2010. If the changes are directed to Schedule A of Special Condition AA5A of NGET's transmission licence, paragraph B1 b) of Schedule A will confer a power on the Authority to direct a reduction to  $MT_t$  and the parameters shown in the  $IBC_t$  columns of the table included in paragraph B1 a). Under the terms of that paragraph, the Authority can direct a lower value (an "automatic adjustment") following a relevant "material change" in the volume of the specified key drivers from those assumed by the licensee when developing its forecasts. Under the terms of Schedule A, NGET and the Authority will agree the relevant material change and the associated costs of such material change prior to 1 April 2010.

For the purposes of the proposed paragraph B1 b) of Schedule A of Special Condition AA5A, I confirm that the Authority agrees that the events described in the letters you sent to me dated 25 March 2010, which are appended to this letter, entitled "National Grid Electricity Transmission plc ("NGET"): Balancing Services Activity Revenue Restriction – Managing the impact of power flows across the Anglo-French Interconnector (the "IFA") during a critical electricity transmission outage during engineering weeks 33 to 45 of 2010" and "National Grid Electricity Transmission plc ("NGET"): Balancing Services Activity Revenue Restriction – Managing the impact of the volume of generation connecting in Scotland on constraint costs" will constitute a material change for the purposes of issuing a direction pursuant to Schedule A, Part B, paragraph B1 b); namely:

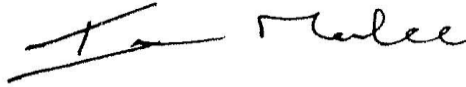
- changes in the expected physical flows across the IFA during the outage on the Littlebrook – Tilbury 1 circuit;
- reduction in the capacity of generation connecting in Scotland from the forecast capacity.

<sup>1</sup> The consultation period for which closes on 12 April 2010.

Further, I confirm that the Authority agrees that the consequential adjustments to the  $MT_t$  and  $IBC_t$  parameters shall also be as set out in your letters.

We would remind NGET of its statutory obligation to operate the system in an efficient, economic and co-ordinated manner and that this obligation extends to the circumstances specified in the letters referred to above.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Marlee', with a horizontal line drawn underneath the name.

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