



*Promoting choice and value for
all gas and electricity customers*

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Email: ian.marlee@ofgem.gov.uk

Date: 31 March 2010

Dear John

Information provision for 2010/11 System Operator Incentive Scheme: formal information request under paragraph 14 of Special Condition C5 of National Grid Gas's gas transporter licence

On the 30 March 2010 the Authority¹ issued a Direction modifying National Grid Gas (NGG)'s gas transporter licence to implement the System Operator (SO) incentives schemes which will apply from 1 April 2010. As seven of NGG's SO activities will be covered by distinct incentive schemes from April 2010, we require NGG to provide us with the following information:

- **A Monthly data pack**, to be submitted four weeks after the end of each month of the year commencing April 2010, provided in a spreadsheet in accordance with the table accompanying this letter;
- **A Monthly report**, to be provided one week after the end of each month of the year commencing April 2010, providing a qualitative summary of NGG's SO performance during the month including (but not limited to):
 - flagging any expected substantial variations in cost or incentive performance against the incentive targets;
 - details of any expected substantial variation and a commentary on why this has occurred e.g. changes to market conditions, a one-off event etc;
- **A monthly presentation** to Ofgem (on dates to be agreed between Ofgem and NGG) to highlight the main points relative to NGG's SO performance over the month;
- **A Quarterly report**, to be submitted five weeks after the end of each quarter of the year commencing April 2010, 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;

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.

- an explanation of any significant changes in System Operation costs/actions; and
- **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 undertaking in respect of UAG;
 - an indication of the costs associated with these activities;
 - 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.
- **Incentives from April 2011**
 - An update on actions taken by NGG regarding the development of initial proposals (and its proposed next steps) for an Operating Margins (OM) incentive scheme and an Environmental incentive scheme, to be in place from April 2011.
- **Incentives from April 2012**
 - An update on actions taken by NGG regarding any relevant work on incentive schemes to be in place from April 2012.

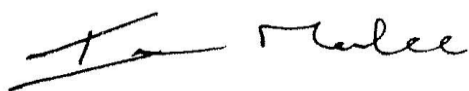
The Authority is requesting this information pursuant to paragraph 14 of Special Condition C5 of NGG's gas transporter licence, in order to monitor effectively NGG's procurement and use of system management services and its performance against its incentive schemes.

The Authority requires that the information set out in the table be provided to Socrates Mokkas (Socrates.Mokkas@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 Socrates Mokkas (020 7901 7304) to discuss any aspect of this letter further.

Yours sincerely



Ian Marlee
Partner, 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.