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Dear Ian

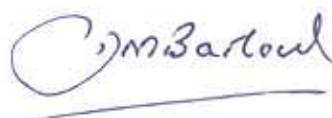
RE: LCNF - The Northern Isles New Energy Solutions Project

Further to the telephone conference of 30th of July between SHEPD and NGET. By signature of this letter both parties confirm National Grid's role as a partner in its capacity as the GB System Operator to Scottish Hydro Electric Power Distribution's bid to secure funding from the Low Carbon Network Fund for the Northern Isles New Energy Solutions (NINES) project.

It was agreed that there is relevant learning and application from the proposed Shetland Project to the mainland GB system. It was noted that although the size of the Shetlands network in relation to GB is small and that system dynamics are therefore very different, an understanding of the behaviour and performance of the entities connected to it will provide an ideal insight into how renewable generation and demand response might behave on the GB mainland given the right control environment, market arrangements and incentives. The potential areas of interest and learning are detailed in the attached document.

Both parties agree to share information and keep the other's information confidential and provide the necessary resources to develop the understanding and knowledge gained in the NINES project in relation to the GB system. It was further agreed that both parties would provide the resources to achieve the aims of the project at their own expense.

Also included is a copy of the OFGEM submission Pro Forma for the Low Carbon Network Fund, in addition to returning a signed copy of this letter would you please complete Table 21 of the proforma to confirm National Grid's role as one of our partners for the project.



Mike Barlow
System Manager
Scottish Hydro Electric Power Distribution



Ian Welch
R&D Strategy Manager
National Grid