



System Operators, Transmission and Transportation System Owners, Shippers, Suppliers, Customers and Other Interested Parties.

Promoting choice and value for all customers

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Date: 31 March 2011

Dear Colleague,

National Grid Electricity Transmission System Operator Incentives

National Grid Electricity Transmission (NGET) is required under its licence to act in an efficient, economic and co-ordinated manner in performing its role. As the System Operator (SO) in Great Britain, NGET is also incentivised financially to operate the electricity system in the most economic and efficient manner. The current incentive scheme will expire on 31 March 2011.

As part of last year's incentive scheme, we required NGET to develop an appropriate methodology to allow a multi year SO incentive scheme to be applied from 1 April 2011. In setting that task, we recognised that this would be challenging but that there would be benefits from such an approach, which would be to the ultimate benefit of consumers.

While NGET has made substantial progress in this area, it has experienced delays. These delays have been principally associated with its proposed approach to constraint costs. Given the increasing importance of these costs in relation to the overall costs incurred by the SO (and ultimately by consumers) we have taken the view that it is not appropriate to put forward Final Proposals at this time.

We are currently working with NGET and we expect that it will complete the required analysis shortly. Following the satisfactory completion of that analysis, we intend to release our Final Proposals for public consultation.

If you would like to discuss any aspects of this letter please contact Ian McNicol (Senior Economist) at ian.mcnicol@ofgem.gov.uk.

Yours faithfully,

Ian Marlee
Partner, GB Markets