



*Promoting choice and
value to customers*

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19 July 2011

Dear Mark

Methodologies for determining Modelled Target Costs and the transmission losses reference price in respect of the balancing services activity revenue restriction

As required by Paragraph B2(a) of Schedule A to Special Condition AA5A: Supplementary Provisions of the Charge Restriction Conditions of National Grid Electricity Transmission's (NGET) transmission licence, NGET has established the following methodologies (the methodologies) for determining Modelled Target Costs and the transmission losses reference price:

- a methodology for determining the ex-ante or ex-post treatment of modelling inputs;
- a methodology for the modelling of constraint costs; and
- a methodology for the modelling of energy costs.

We note that NGET consulted on these methodologies and that it received no responses to its consultation. We also note that NGET made a number of minor amendments to the methodology for the modelling of constraint costs – these minor amendments improve the language used within the document and address an issue identified as part of the verification process that NGET undertook with respect to its constraint cost modelling calculations.

The Authority has reviewed the methodologies and agrees with those that have been submitted. Please find attached copies of approval for the three methodologies.

Yours sincerely

Ian Marlee
Partner, GB Markets

**APPROVAL OF METHODOLOGY FOR DETERMINING THE EX-ANTE OR EX-POST
TREATMENT OF MODELLING INPUTS**

Whereas:

(a) National Grid Electricity Transmission ("NGET") holds a licence to transmit electricity treated as granted under section 6(1) of the Electricity Act 1989 as amended;

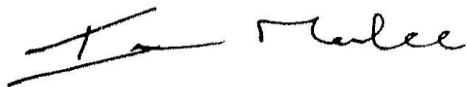
(b) Paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence requires NGET to establish a methodology for determining the ex-ante or ex-post treatment of modelling inputs as approved by the Gas and Electricity Markets Authority (the "Authority");

(c) NGET has prepared a methodology as the basis for determining the ex-ante or ex-post treatment of modelling inputs; and

(d) NGET has submitted the methodology annexed hereto as the basis for determining the ex-ante or ex-post treatment of modelling inputs to the Authority for its approval pursuant to paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence,

NOW the AUTHORITY, for the purposes of paragraph B2(a) of Schedule A to Special Condition AA5A, hereby approves the methodology prepared by NGET as annexed hereto as the basis for determining the ex-ante or ex-post treatment of modelling inputs. This approval shall be in force until 31 March 2013 and shall lapse on expiry of such period unless NGET seeks to revise the methodology and the Authority approves the revised methodology before 31 March 2013.

Dated: 19 July 2011

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

SIGNED on behalf of the Authority and authorised for that purpose by the Authority by
Ian Marlee, Partner, GB Markets

ANNEX 1

METHODOLOGY FOR DETERMINING THE EX-ANTE OR EX-POST TREATMENT OF MODELLING INPUTS

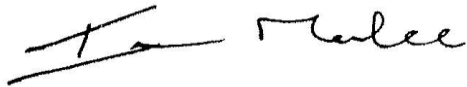
APPROVAL OF METHODOLOGY FOR THE MODELLING OF CONSTRAINT COSTS

Whereas:

- (a) National Grid Electricity Transmission ("NGET") holds a licence to transmit electricity treated as granted under section 6(1) of the Electricity Act 1989 as amended;
- (b) Paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence requires NGET to establish a methodology for the modelling of constraint costs as approved by the Gas and Electricity Markets Authority (the "Authority");
- (c) NGET has prepared a methodology as the basis for the modelling of constraint costs; and
- (d) NGET has submitted the methodology annexed hereto as the basis for the modelling of constraint costs to the Authority for its approval pursuant to paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence,

NOW the AUTHORITY, for the purposes of paragraph B2(a) of Schedule A to Special Condition AA5A, hereby approves the methodology prepared by NGET as annexed hereto as the basis for the modelling of constraint costs. This approval shall be in force until 31 March 2013 and shall lapse on expiry of such period unless NGET seeks to revise the methodology and the Authority approves the revised methodology before 31 March 2013.

Dated: 19 July 2011



SIGNED on behalf of the Authority and authorised for that purpose by the Authority by
Ian Marlee, Partner, GB Markets

ANNEX 2

METHODOLOGY FOR THE MODELLING OF CONSTRAINT COSTS

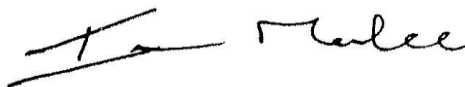
APPROVAL OF METHODOLOGY FOR THE MODELLING OF ENERGY COSTS

Whereas:

- (a) National Grid Electricity Transmission ("NGET") holds a licence to transmit electricity treated as granted under section 6(1) of the Electricity Act 1989 as amended;
- (b) Paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence requires NGET to establish a methodology for the modelling of energy costs as approved by the Gas and Electricity Markets Authority (the "Authority");
- (c) NGET has prepared a methodology for the modelling of energy costs; and
- (d) NGET has submitted the methodology annexed hereto as the basis for the modelling of energy costs to the Authority for its approval pursuant to paragraph B2(a) of Schedule A to Special Condition AA5A of NGET's transmission licence,

NOW the AUTHORITY, for the purposes of paragraph B2(a) of Schedule A to Special Condition AA5A, hereby approves the methodology prepared by NGET as annexed hereto as the basis for the modelling of energy costs. This approval shall be in force until 31 March 2013 and shall lapse on expiry of such period unless NGET seeks to revise the methodology and the Authority approves the revised methodology before 31 March 2013.

Dated: 19 July 2011



SIGNED on behalf of the Authority and authorised for that purpose by the Authority by
Ian Marlee, Partner, GB Markets

ANNEX 3

METHODOLOGY FOR THE MODELLING OF ENERGY COSTS