

Charles Hendry MP
Minister of State
Department of Energy and Climate Change
3 Whitehall
London
SW1 2AW

30 September 2011

Our ref: lm/mp/hn

Dear Charles

Report on the enduring 'Connect and Manage' grid access regime

Ofgem was invited to monitor and report back on the impact of the enduring 'Connect and Manage' grid access regime. We sent our first report on 1 April 2011 and I now attach our second report, which covers the period April to September 2011.

As I noted when we reported in April, the regime was fully implemented only on 11 February 2011 and it would therefore be premature to draw firm conclusions about the impact of the new arrangements.

There has been ongoing connections activity in the six months since our last report. Some new projects have approached National Grid for connection, whilst others have chosen not to proceed with proposed projects, to reduce capacity or to connect later. As such the overall number of projects that have been offered earlier connection remains broadly the same as when I wrote to you in April. That is, 73 large generation projects, comprising approximately 26GW, have advanced their expected connection dates. Around 76 smaller scale projects, totalling around 300MW have also benefitted.

So far, only a small volume (86MW) has actually connected to the system. Whilst physically connected, not all are actually generating. In addition, many of the connected projects are smaller projects; and it is not always possible for National Grid to identify

their individual impacts at a transmission level due to metering arrangements. National Grid has not therefore identified any positive impact on carbon savings at this stage, nor any negative impact on the costs of operating the transmission system.

However, as we highlighted in our last report, National Grid has forecast the potential for additional operating costs as a result of Connection and Manage. You noted in your response to my last letter that there are actions that can be taken to address these costs, and urged Ofgem and National Grid to continue to consider the full range of options available. As you are aware, the Authority has approved funding for a significant amount of network investment over the coming years. Our report gives the latest progress on funding decisions, which are a critical step towards delivering wider grid investments necessary to accommodate new generation, including renewables.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Lord Mogg', written over a printed name.

Lord Mogg

(seen and authorised for signature by Lord Mogg)

cc: Chris Huhne, Secretary of State