



System Operators, Transmission
and Transportation System Owners,
Generators, Shippers, Suppliers,
Customers and other Interested Parties

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

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Dear Colleague

National Grid Gas System Operator Incentives from April 2012

On 1 March 2011, Ofgem published its Final Proposals consultation in respect of National Grid Gas (NGG) System Operator (SO) incentive schemes to apply from 1 April 2011. In that document, we highlighted that there were a number of incentive schemes that are due to expire on 31 March 2012.¹

On 17 May we published an open letter² in which we set out our initial views on the schemes and the next steps for setting them. NGG subsequently published an initial consultation on the SO incentives from 2012³. In that document they set out a process whereby they would, following consideration of the responses, issue a further consultation before submitting their report to us.

As set out in our open letter, our intention is that the gas SO schemes that expire in 2012 will be rolled over to run from 1 April 2012 until 31 March 2013. The NGG (and NGET) SO incentive schemes that are due to run from 1 April 2013 are being developed as a part of a separate process. We published a consultation on the broad principles for these schemes in June⁴ and will publish a further paper on these later this year. We will consult stakeholders fully whilst developing these schemes, including publishing a formal consultation on our proposals, over the course of the next year.

In June 2011 the Government laid before Parliament draft regulations required to implement the Third Gas and Electricity Directive. Amongst the proposed changes is an

¹ At the time that these schemes were set the TO's price control was also due to expire on 31 March 2012. The current price control is now being rolled over to March 2013 to enable the new price control set under the RIIO principles (RIIO-T1) to be implemented from April 2013.

² This letter can be found on our website:

<http://www.ofgem.gov.uk/Markets/WhlMkts/EffSystemOps/SystOpIncent/Documents1/Open%20letter%20rolloverB.pdf>

³ The consultation can be found on the NGG website; <http://www.nationalgrid.com/NR/rdonlyres/BAD3B297-9FC1-4431-A272-4A515C86F6BC/47586/SOIncentivesfromApril2012FirstConsultationDocument.pdf>

⁴ This consultation can be found on our website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=244&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent>

amendment to the procedure for modifying energy company (including NGG) licences. The new procedure requires that changes to licences will need to be published prior to implementation substantially earlier than is currently required. As the Directives are due to be implemented in the next few months we expect that the changes to NGG's licence to implement SO incentives from April 2012 will need to follow the new procedure. This means that the statutory licence change modification consultation will need to be published by 5 January at the latest.

In response to the change in the licence modification process we have taken the opportunity to reassess the process for implementing the gas incentives. We have considered how the process can be improved to ensure that the new timescales are met, Ofgem's views are shared with the industry earlier in the process and to ensure that stakeholders have an opportunity to feed into the development of the incentives. We are also conscious that the process should be proportionate to the "rollover" nature of the project which was set out in our open letter and was endorsed in responses to it and NGGs' first consultation.

We are therefore streamlining the process, which will now consist of the following steps:

- We are holding a **stakeholder workshop on the afternoon of 12 October 2011** to give interested parties an opportunity to comment on our initial views on proposals for the incentives;
- We will consider NGG's and stakeholders' views in developing our final proposals;
- We will consider written submissions by stakeholders received on or before Friday 21 October; and
- We will publish our Final Proposals along the proposed licence changes in December 2011.

Stakeholders should be aware that the proposals we will present on 12 October will relate only to the rollover of the NGG SO incentive schemes identified in our 17 May letter and the workshop discussion will focus on these.

The workshop will be held between 1pm and 4pm at our London office (9 Millbank). Anybody who is interested in attending the workshop should notify Mathieu Pearson (mathieu.pearson@ofgem.gov.uk) as soon as possible and in any event by 5 October 2011.

Yours sincerely

Martin Crouch
Partner