

The Company Secretary
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direction issued to National Grid Electricity Transmission ("NGET") by the Gas and Electricity Markets Authority pursuant to paragraph 3 of Special Condition AA5I of NGET's electricity transmission licence

1. This Direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 3 of Special Condition AA5I (Requirement to conduct a Supplementary Review to develop and undertake a Scheme of Work to facilitate continuing development of a longer term balancing services activity restriction on external costs) (the "Condition") of NGET's electricity transmission licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act") to NGET (the "Licensee").
2. NGET's System Operator ("SO") incentive scheme that was implemented from April 2011 contained a number of developments and improvements compared to previous SO incentive schemes. However, it was recognised that further improvements were required in order to aid the development and implementation of longer term SO incentive schemes to be implemented from April 2013.
3. The Authority therefore placed the Condition in the Licensee's Licence requiring the Licensee to undertake a Supplementary Review that would facilitate the development of longer term SO incentive schemes. The Supplementary Review included the Licensee developing its modelling of transmission constraints in respect of the flow of electricity onto and over the national electricity transmission system, specifically progression from the use of a model based on the transfer capability of boundaries between geographical areas of the national electricity transmission system towards the use of a nodal model which represents the capability of the assets comprising the national electricity transmission system (the "nodal model").
4. At a meeting on 29 March 2012, representatives of NGET and the Authority agreed that as a result of the complexity associated with the development of a nodal model and the timescales involved with the submission of NGET's Business Plan as part of the development of an SO incentive scheme to be implemented from April 2013 work on this particular aspect of the Supplementary Review should be suspended.
5. The Authority hereby directs, pursuant to paragraph 3 of the Condition of the Licence that the Licensee shall not undertake the development of the nodal model part of the Supplementary Review.

Dated: 14 May 2012

Martin Crouch

Partner, European Wholesale

Signed on behalf of the Authority and authorised for that purpose by the Authority