

John Hayes
Minister of State
Department of Energy and Climate Change
3 Whitehall
London
SW1 2AW

15 November 2012

Our ref: Im/mp/ab

Dear Minister,

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

In 2010 Ofgem was asked to monitor, and report to the Secretary of State, on the impact of the enduring 'Connect and Manage' grid access regime. This is my third such report, which covers the period from August 2011 until August 2012.

During this period, the total number of Connect and Manage connection agreements for large generation projects has increased from 73 to 125, with a total capacity of 30,106MW. Connection dates have been brought forward by an average of 6 years under Connect and Manage compared to the previous arrangements. Small embedded projects have also benefited with a total of 104 projects having signed agreements with a total capacity of 491MW.

The number of generators connected to the system has also increased from 20 to 49 with a total capacity of 620MW. Since my last report, National Grid has been able to provide constraint costs for large generation projects that have connected under Connect and Manage agreements. In total, the six large generation projects connected have resulted in actual constraint costs of £4.4m up to 31 August 2012. We will continue to monitor these costs. In addition National Grid has told us that these large generation projects have resulted in 214,745 tonnes of carbon being saved.

National Grid's forecast for constraint costs continues to show that these will, overall, increase from 2012-13 to 2019-20. Forecast constraint costs due to Connect and Manage for 2012-13 are £41.4m, rising to £95.7m in 2013-14. However, work on major reinforcements to the transmission system continues to progress through the funding provided under the current price control arrangements, and the transmission companies are planning a substantial programme of investment under the new transmission price control, RIIO-T1. These works, alongside other policies we are implementing as part of RIIO-T1, will have a significant impact on reducing constraint costs attributable to Connect and Manage.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'I Lomas', with a stylized flourish at the end.

cc: Ed Davey, Secretary of State
Ian Lomas