

Quarterly Gas System Operator Incentive Report

Q2 2012-2013 (July 2012 to September 2012)

Introduction

1.1 Purpose

The purpose of the Quarterly Gas System Operator Incentive Report is to provide information in respect of the actions / performance measures which National Grid is incentivised against during the relevant quarter in operating the gas transmission system.

1.2 Nature of information provided in this report

This publication contains (amongst other data) volume and cost information associated with balancing actions and shrinkage trading and is based on the latest data and information available at the time of publication. As future quarter summaries are produced, information in the graphs and tables will be updated to reflect the latest information available at that time. Changes to preliminary data that occur after the publication of the relevant quarter's report will thus be visible in the graphs and tables of future reports. Each quarterly report will report volume data on a monthly rolling basis. The cost values contained in this document are predominantly reported to 2 decimal places (£m).

1.3 Structure of Report

This report presents a summary of performance on the first sheet, and then covers each of the incentives in more detail:

- Capacity,
- Demand Forecasting,
- Data Publication,
- Shrinkage,
- Operating Margins,
- Residual Balancing,
- Greenhouse Gas Emissions.

1.4 Further Information

Using the above link you can access a document (called "Supporting Information") that contains further information on the existing incentive schemes, the historic levels of performance under these schemes and the impact of incentive payments on charges.

1.5 Consultation Documents

Using the above link you can access an area of the National Grid website that contains any current SO Incentive consultation documents issued by National Grid, along with any responses received from interested parties.

1.6 Other Useful Links

[Transmission Price Control Review 4 Rollover: Final Proposals - Ofgem - Capacity Incentive](#)

[National Grid Gas System Operator Incentives from April 2012 - Ofgem Website - Demand Forecasting, Data Publication, Shrinkage, and Residual Balancing Incentives](#)

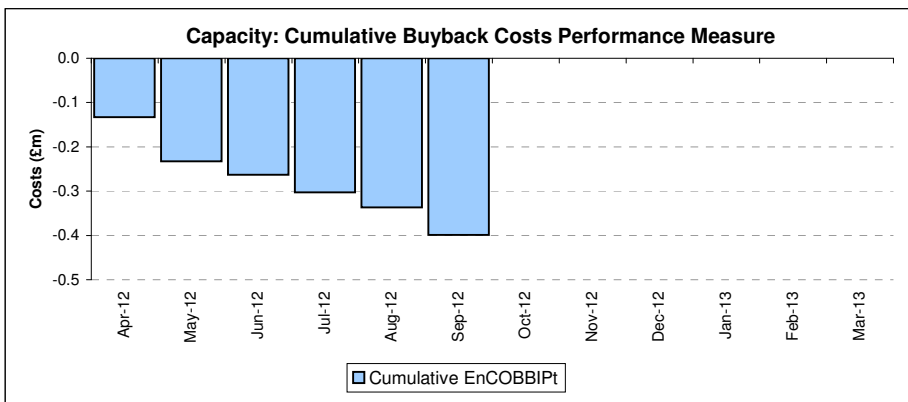
[Final Proposal Consultation for Incentives from April 2011 - Ofgem Website - Greenhouse Gas Emissions and Operating Margins Incentives](#)

[SO Incentive Schemes from 2013 - Ofgem Website](#)

[Ofgem Initial Proposals for Incentives Post April 2013](#)

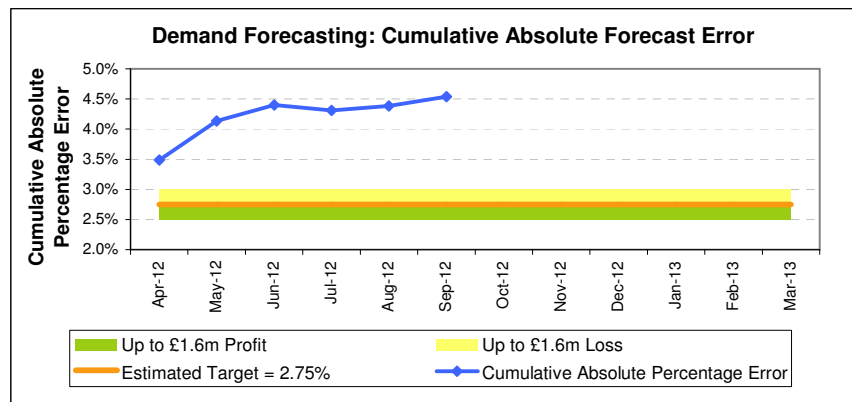
[National Grid UAG Reporting Page](#)

Capacity



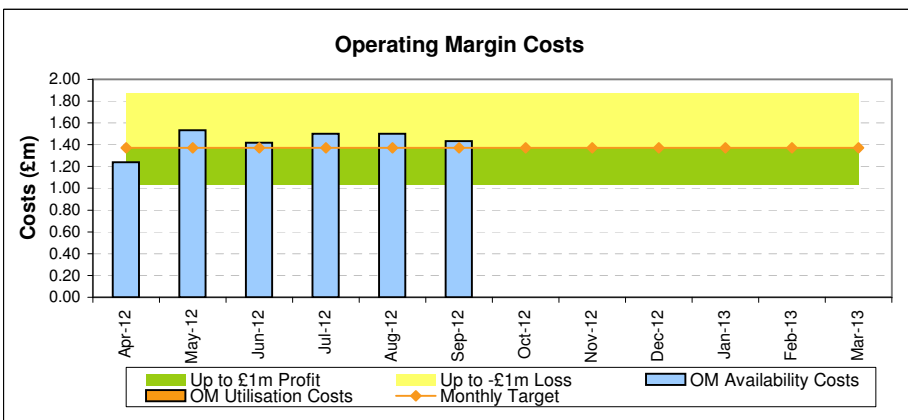
The chart shows the monthly cumulative buy-back cost performance measure. The annual target cost for this incentive is £17.56m. The end of Q2 performance is a cost of £399K.

Demand Forecasting



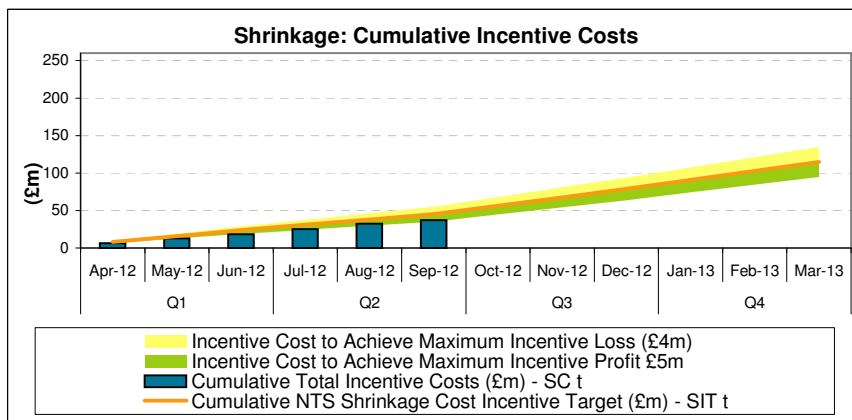
The chart compares the monthly cumulative absolute forecast error (the blue line) to the incentive target (the orange line), where the target is a cumulative absolute error of 2.75% for the full year (excluding the adjustment for the fast cycle storage adjuster). The end of Q2 Cumulative Absolute Percentage error is 4.54%. During the quarter, demand has continued to be very low when compared to historic levels, largely driven by lower Power Station demand, with high day to day volatility, particularly of storage demand.

Operating Margins



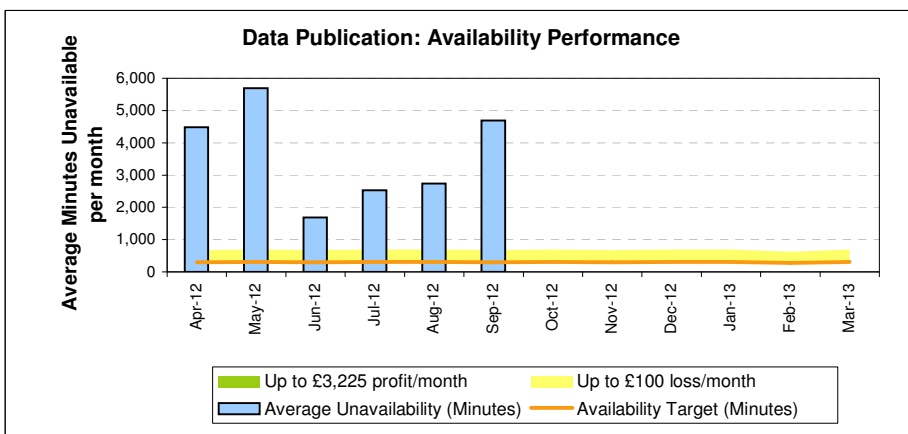
The chart shows the costs of Operating Margins availability and utilisation. The target Incentive Cost for 2011/12 for the Operating Margins incentive is £16.45m, with an Incentive Payment capped at £1m and collared at -£1m. The end of Q2 position is a cost of £8.63m.

Shrinkage

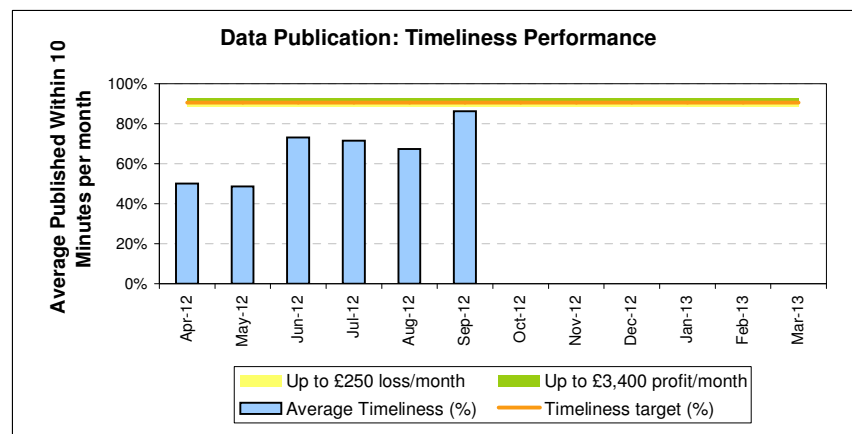


The chart compares cumulative total shrinkage costs (the blue bars) to an indicative cumulative target (the orange line). The current Cumulative Incentive Costs (as of September 2012) are £45.16m.

Data Publication

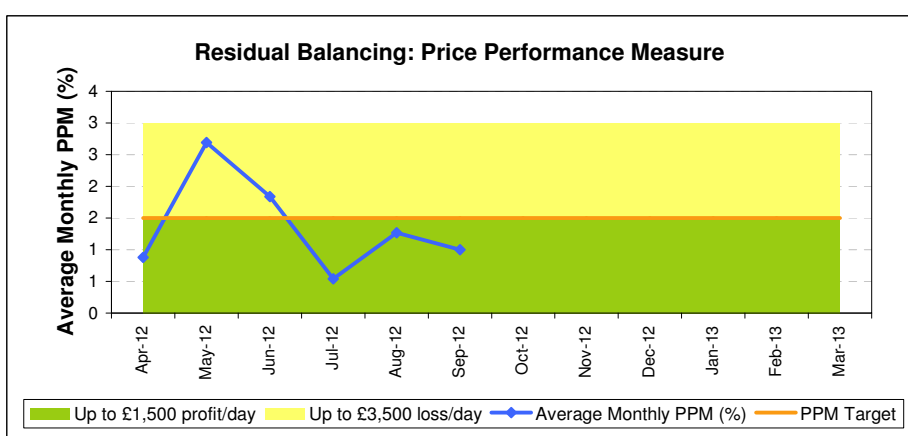


The chart compares the average number of minutes for which the incentivised web pages were unavailable in the month (the blue columns) to the incentive target (the orange line), where the target represents 99.3% availability. The performance for July, August and September were all below target levels, resulting in an end of Q2 loss of £5,312 for the availability portion of the incentive.

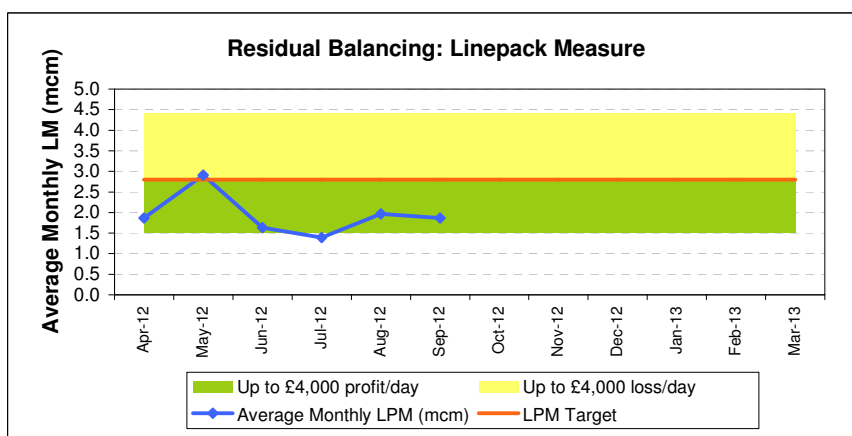


The chart compares the average timeliness of the incentivised reports for the month (the blue columns) to the incentive target (the orange line), where the target represents 90.5% published within 10 minutes. The performance for July, August and September were all below target levels, resulting in an end of Q2 loss of £16,480 for the timeliness portion of the incentive.

Residual Balancing

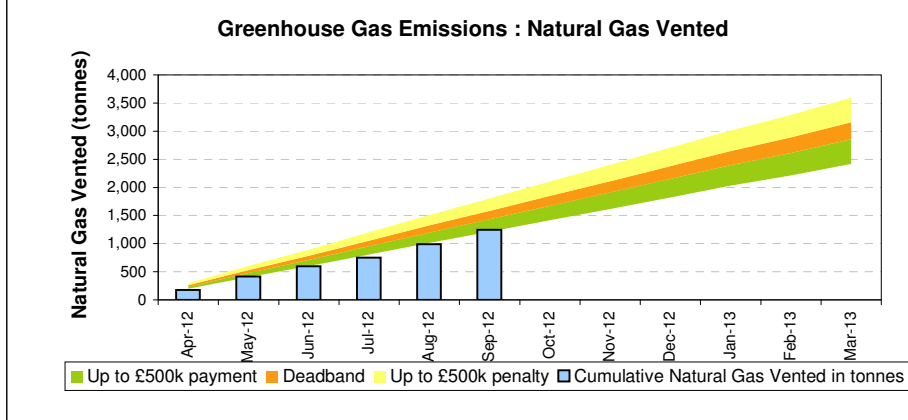


The chart compares the average Price Performance Measure in the month (the blue line) to the incentive target (the orange line), where the target is a PPM of 1.5%. The end of Q2 position for the price portion of the incentive is a profit of £59,456.



The chart compares the average Linepack Measure in the month (the blue line) to the daily incentive target (the orange line), where the target is an LM of 2.8mcm. The end of Q2 position for the Linepack portion of the incentive is a profit of £303,027.

Greenhouse Gas Emissions

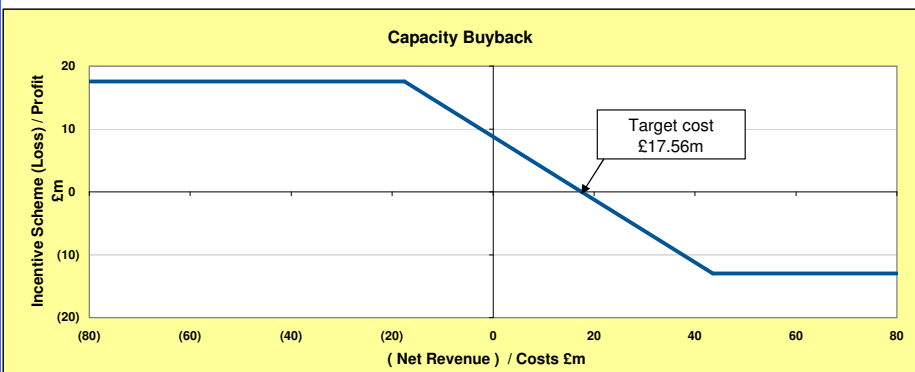


The chart compares the cumulative mass of natural gas vented (the blue columns) to a cumulative target (the orange band). The cumulative end of Q2 position is 1,244 tonnes of Natural Gas vented.

CAPACITY

Introduction

Scheme Description: National Grid auctions firm capacity for entry onto the National Transmission System (NTS) at ASEPs (Aggregated System Entry Points). If constraints arise on the day and flows into the network exceed operational limits, National Grid may have to buy back firm entry capacity to reduce flows. National Grid is incentivised to keep these costs down by managing the NTS efficiently.



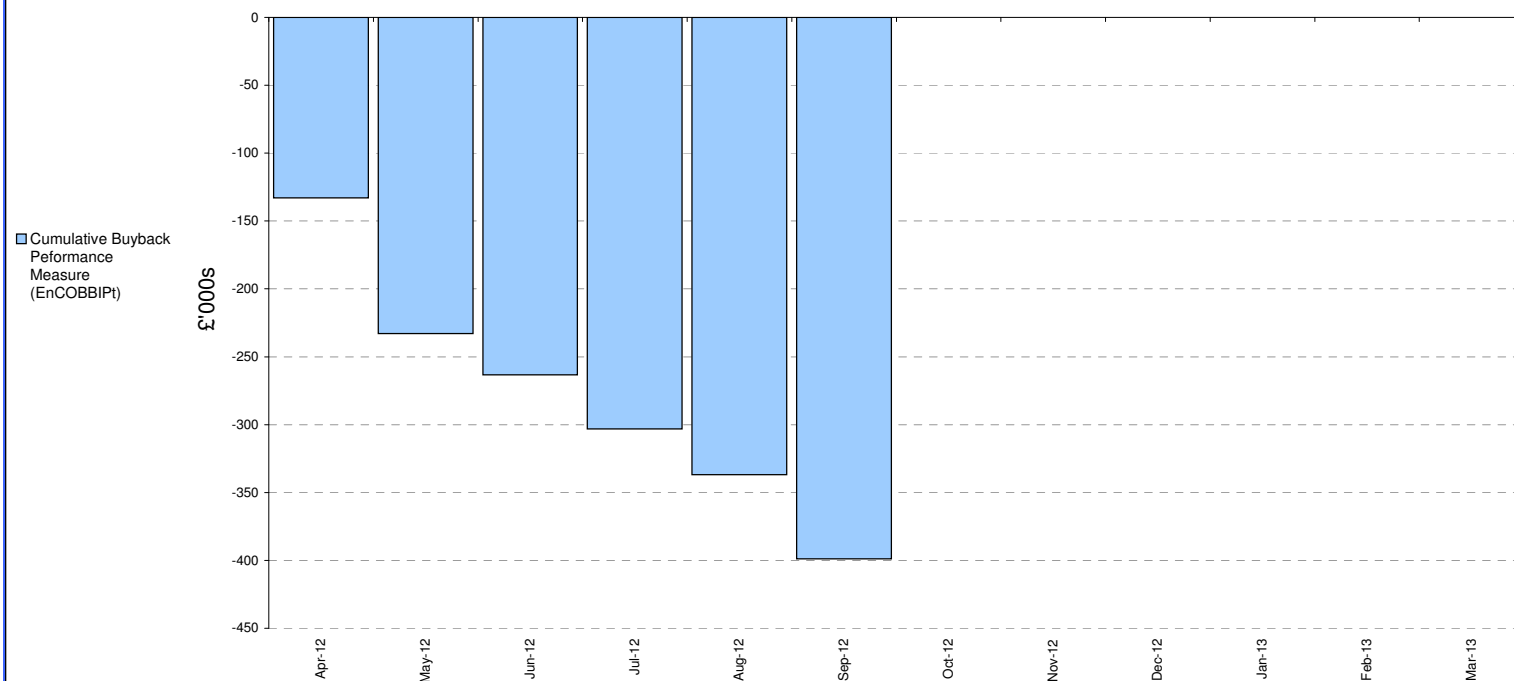
Scheme Description

Performance Measure: Costs of Entry Capacity constraint management actions

For 2012/13 the cost target is now £17.56m. The scheme has upside and downside sharing factors of 50% with a profit cap of £17.56m and a loss collar of £13m (all values in 2012/13 prices).

Performance

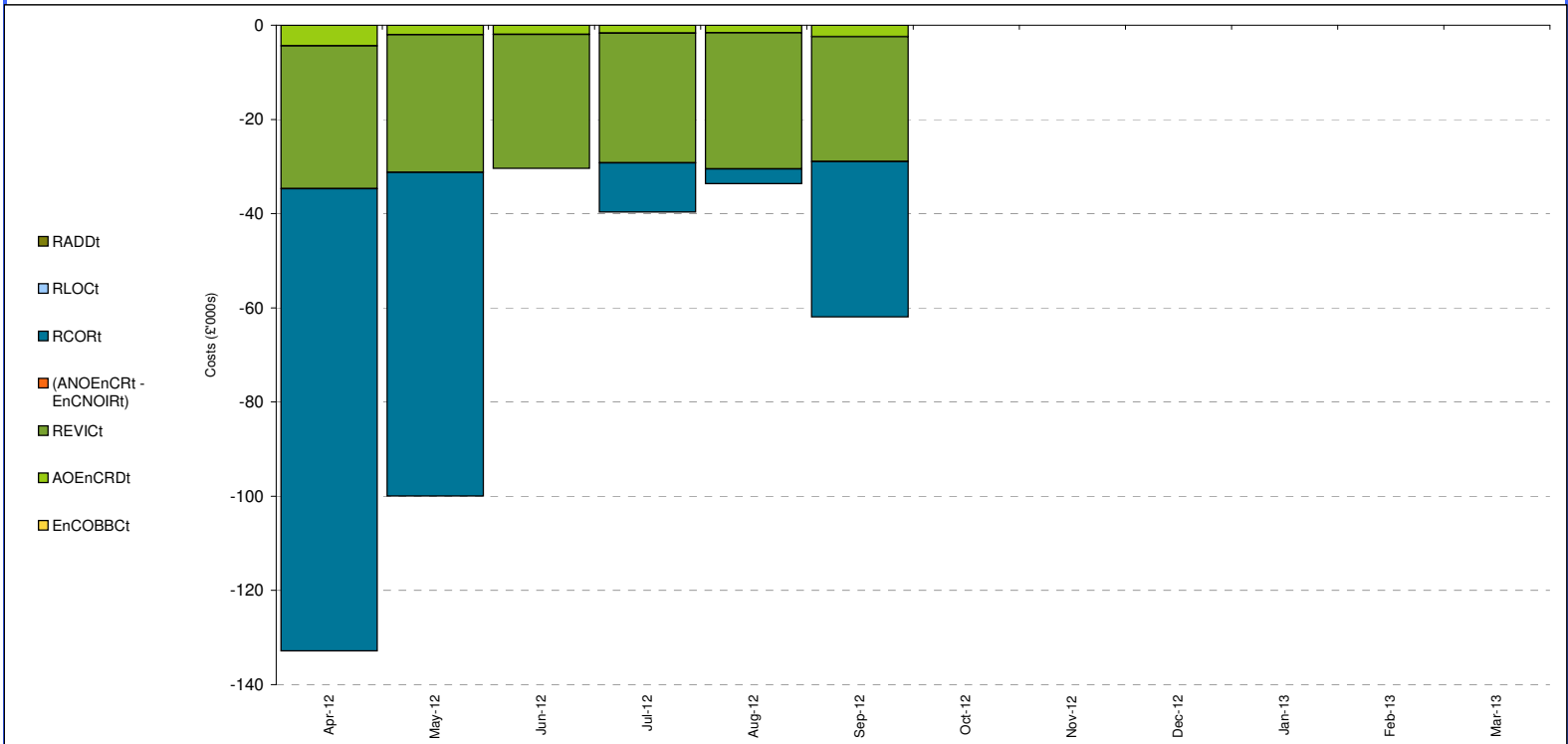
Cumulative Buyback Performance Measure



The chart shows the monthly cumulative buy-back cost performance measure. The annual target cost for this incentive is £17.56m. The end of Q2 performance is a cost of £399K.

Supporting Data

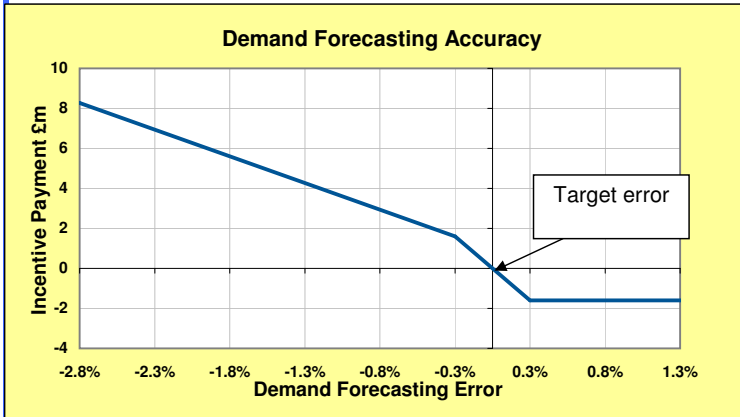
| EnCOBBIpt | = | EnCOBBCt | - | AOEnCRDt | - | REVICt | - | (ANOEnCRt - EnCNOIRt) | - | RCORt | - | RLOCt | - | RADDt |
|----------------------------------|---|-------------------------------------------------------------|---|---------------------------------------------------------------------|---|----------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------|---|-----------------------------------------------------|---|-------------------------------|---|-----------------------------------------------------------------------------------------|
| Buyback Cost Performance Measure | | Total Capacity Constraint Management Costs BBCd,t + ECCCd,t | | Daily Sales Revenue From Obligated Capacity ANIOEnCRDt + AFIOEnCRDt | | Revenue received from interruptible capacity sales | | Non-Obligated Sales Revenue NB This is now total non-ob sales minus those associated with accelerated release | | Revenue from overrun charges (one month in arrears) | | Revenue from locational sells | | New Term - any other revenue which the Authority decides (Nothing put through this yet) |
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Introduction

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| Scheme Description: | The demand forecasting incentive rewards improvements in demand forecasting accuracy. National Grid publishes national gas demand forecasts over a range of timescales. Since Winter 06/07, the accuracy of the forecast published day-ahead at 13:00 has been subject to an incentive. National Grid has a performance measure of achieving a forecasting accuracy of 2.75%. This is calculated as the "Sum of each day's absolute error divided by the sum of each day's actual demand" over a one year time period. This has an accompanying incentive looking at website performance – together they are both referred to as the "Quality of Information" incentive. |
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| Target | 2.75% + adjustment of up to 0.35% for fast-cycle storage capability |
|--------|---------------------------------------------------------------------|

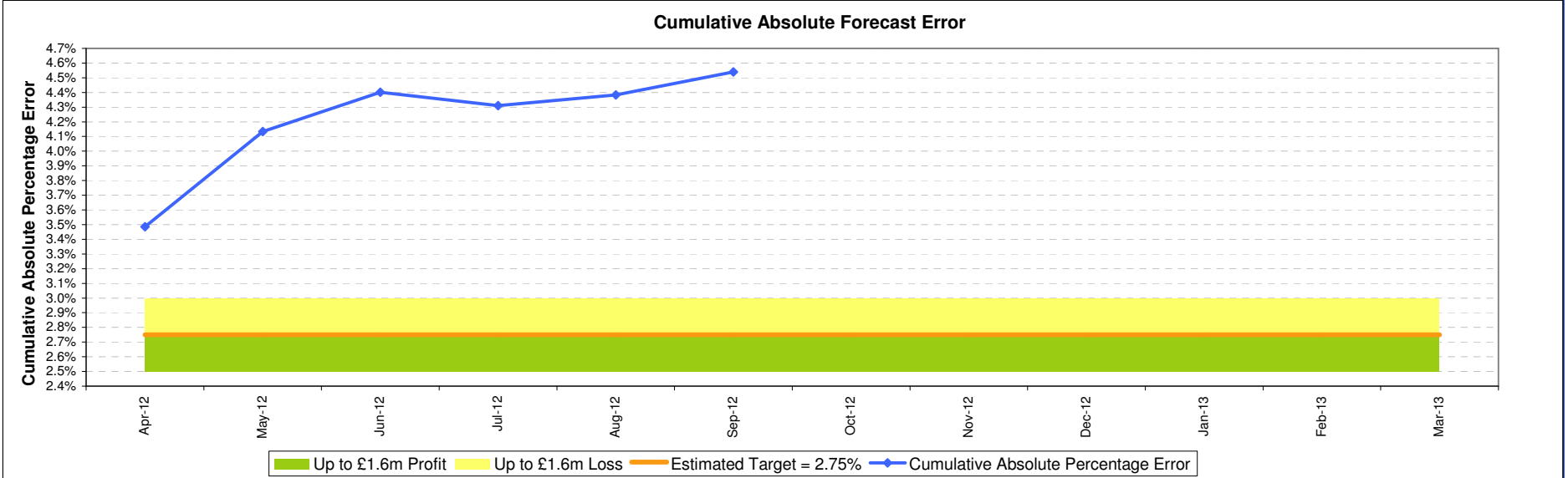


Scheme Description

Performance Measure: Level of Forecast Error

The sharing factors of the scheme are designed to give a profit or loss to National Grid of £1.6m for a 0.25% increase or decrease in performance around the target of 2.75% (between 2.5% and 3%). There is a shallower upside sharing factor for performance increases beyond 2.5% which extends up to a maximum payment of £8.27m, if zero average absolute demand forecast error could be achieved (i.e. zero demand forecast error on every day of a year).

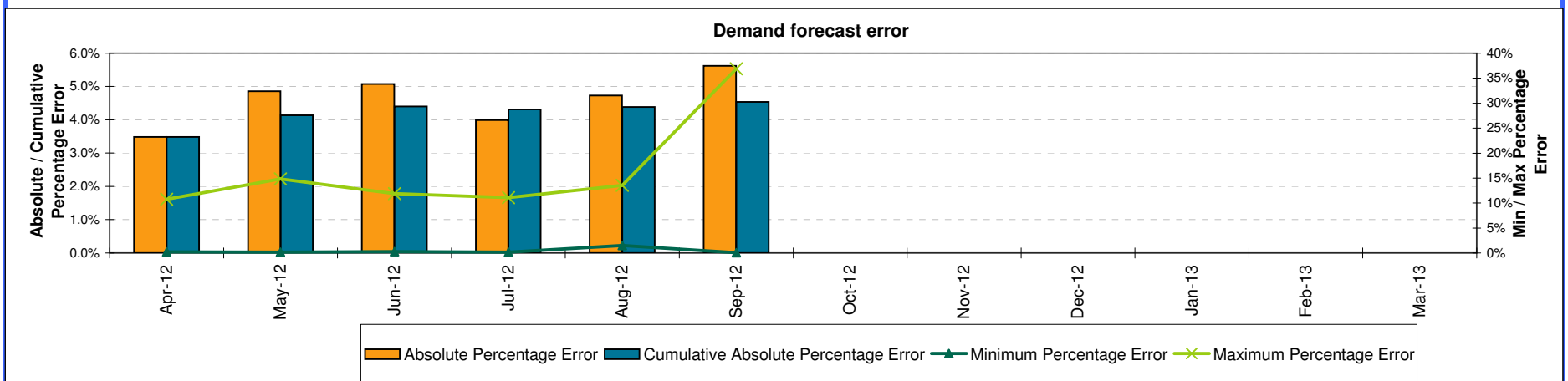
Performance



The chart compares the monthly cumulative absolute forecast error (the blue line) to the incentive target (the orange line), where the target is a cumulative absolute error of 2.75% for the full year (excluding the adjustment for the fast cycle storage adjuster). The green band represents a cumulative forecast error lower than the target, with the bottom of the band representing an illustrative profit of £1.6m - this is not the incentive cap. Similarly the yellow band represents a cumulative absolute forecast error higher than the target, with the top of the band representing a collared loss of £1.6m. The end of Q2 Cumulative Absolute Percentage error is 4.54%. During the quarter, demand has continued to be very low when compared to historic levels, largely driven by lower Power Station demand, with high day to day volatility, particularly of storage demand.

Supporting Data

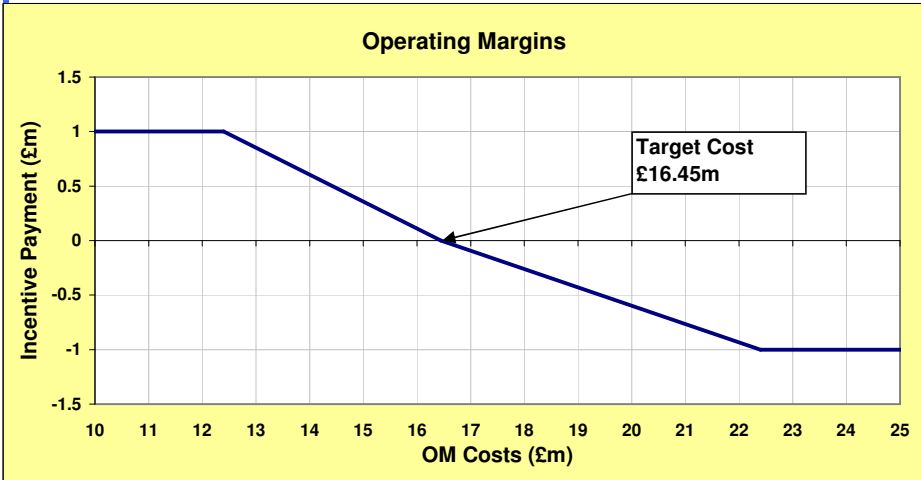
| Month | Sum of Actual Demand (mcm) | Sum of Absolute Error (mcm) | Cumulative Actual Demand (mcm) | Cumulative Absolute Error (mcm) | Absolute Percentage Error | Minimum Percentage Error | Maximum Percentage Error | Cumulative Absolute Percentage Error |
|--------|----------------------------|-----------------------------|--------------------------------|---------------------------------|---------------------------|--------------------------|--------------------------|--------------------------------------|
| Apr-12 | 7,521 | 262.12 | 7,521 | 262 | 3.49% | 0.23% | 10.78% | 3.49% |
| May-12 | 6,739 | 327.37 | 14,260 | 589 | 4.86% | 0.13% | 14.84% | 4.13% |
| Jun-12 | 5,594 | 284.19 | 19,854 | 874 | 5.08% | 0.28% | 11.89% | 4.40% |
| Jul-12 | 5,614 | 223.96 | 25,468 | 1098 | 3.99% | 0.16% | 11.11% | 4.31% |
| Aug-12 | 5,281 | 250.04 | 30,749 | 1348 | 4.73% | 1.52% | 13.54% | 4.38% |
| Sep-12 | 4,450 | 250.11 | 35,199 | 1598 | 5.62% | 0.04% | 36.92% | 4.54% |
| Oct-12 | | | | | | | | |
| Nov-12 | | | | | | | | |
| Dec-12 | | | | | | | | |
| Jan-13 | | | | | | | | |
| Feb-13 | | | | | | | | |
| Mar-13 | | | | | | | | |



OPERATING MARGINS

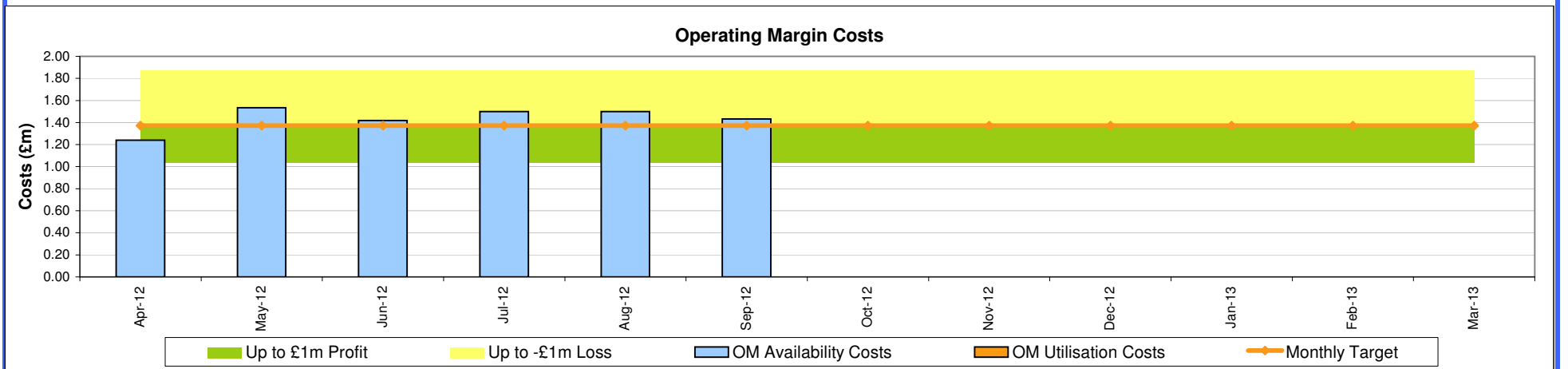
Introduction

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| Scheme Description: | Operating Margins (OM) gas is used to maintain National Transmission System (NTS) pressures in the immediate period following operational stresses and before market balancing measures become effective. Such stresses may result from supply failure, unanticipated demand changes or failure of an NTS pipeline or associated equipment. A quantity of OM is also procured to manage the orderly run-down of the System in the event of a Network Gas Supply Emergency whilst firm load shedding takes place. National Grid is incentivised for costs of utilisation of Operating Margins gas and the costs associated with holding Operating Margins gas against a target cost. |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



| Scheme Description | |
|------------------------------------------------------------------------------------------------------------------------------|-------|
| Performance Measure: | Costs |
| Sharing factors are 20% upside and 20% downside with a maximum incentive profit of £1m and a maximum incentive loss of -£1m. | |
| Target Incentive Cost for 2012/13 for the Operating Margins incentive is £16.45m. | |

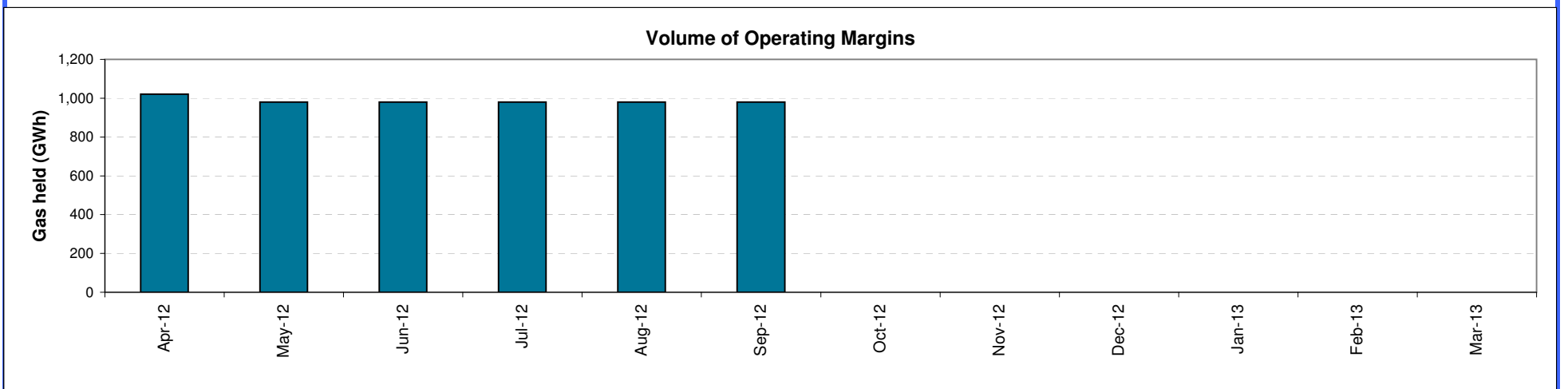
Performance



The chart shows the costs of Operating Margins availability and utilisation. The end of Q2 position is a cost of £8.63m.

Supporting Data

| Month | Ops Margin Availability Costs (£m) | Ops Margin Utilisation Costs (£m) | Volume of Operating Margins (GWh) |
|--------|------------------------------------|-----------------------------------|-----------------------------------|
| | OMAPct | OMUPct | |
| Apr-12 | 1.24 | 0.00 | 1,021 |
| May-12 | 1.53 | 0.00 | 980 |
| Jun-12 | 1.42 | 0.00 | 980 |
| Jul-12 | 1.50 | 0.00 | 980 |
| Aug-12 | 1.50 | 0.00 | 980 |
| Sep-12 | 1.43 | 0.00 | 980 |
| Oct-12 | | | |
| Nov-12 | | | |
| Dec-12 | | | |
| Jan-13 | | | |
| Feb-13 | | | |
| Mar-13 | | | |



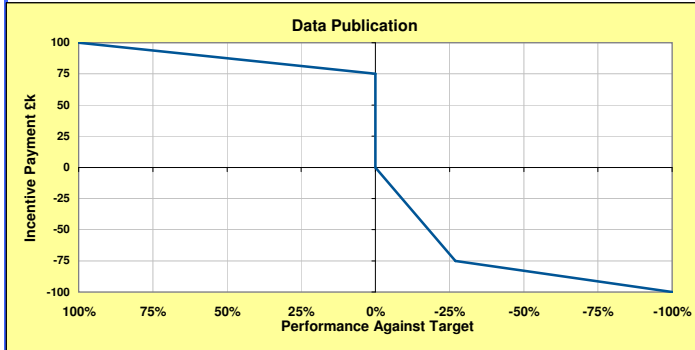
Introduction

Scheme Description: Alongside the demand forecasting incentive, this incentive covers a broader selection of gas system data published on the National Grid website. National Grid is incentivised for the availability and timeliness of data;

- * To keep the website available with a target of 99.3% (measured for three key screens).
- * To publish data promptly with the target that 90.5% of hourly updates should be posted within 10 minutes of the start of the hour (measured for 3 key reports) and to publish data to comply with UNC requirements for within day and D-1 Demand forecasts (measured for 1 key report).

| Key Terms Availability | QWAIR | WAPPV | WAPDE | WAPRE |
|------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Definitions | The quality of website availability incentive revenue | The website availability performance measure expressed as the number of minutes of downtime of the Operational Data>Prevailing View screen | The website availability performance measure expressed as the number of minutes of downtime of the Operational Data>Data Explorer screen | The website availability performance measure expressed as the number of minutes of downtime of the Operational Data>Report Explorer screen |

| Key Terms Timeliness | QWTIR | WTPL | WTPNN | WTPNA | WTPDF |
|----------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| Definitions | The quality of website timeliness incentive revenue | The website timeliness performance measure for the Predicted Closing Linepack Data Item or Report | The website timeliness performance measure for the National Forecast Flow Data Item or Report | The website timeliness performance measure for the National Physical Flow Data Item or Report | The website timeliness performance measure for the NTS Throughput Data Item or Report |

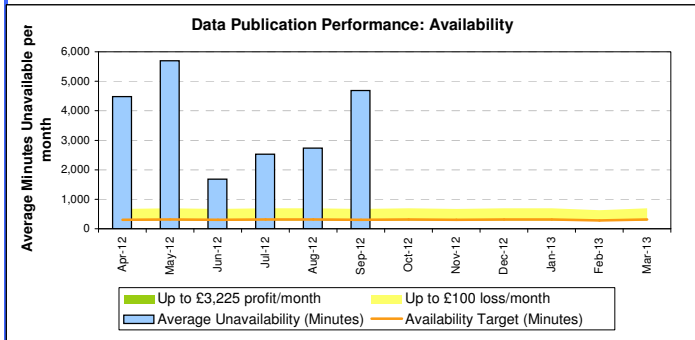


Scheme Description

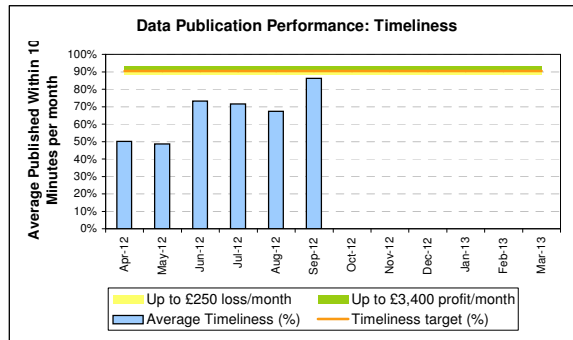
Performance Measure: Timeliness & Availability of the website

If the performance measures for timeliness and availability are met each month then National Grid receives a total payment of £6,250 per month (£75,000 per annum). If performance exceeds the target then National Grid receives an increased payment up to a maximum additional amount of £2,084 per month (£25,000 per annum). If performance is below target National Grid incurs a penalty of up to £8,334 (£100,000 per annum).

Performance



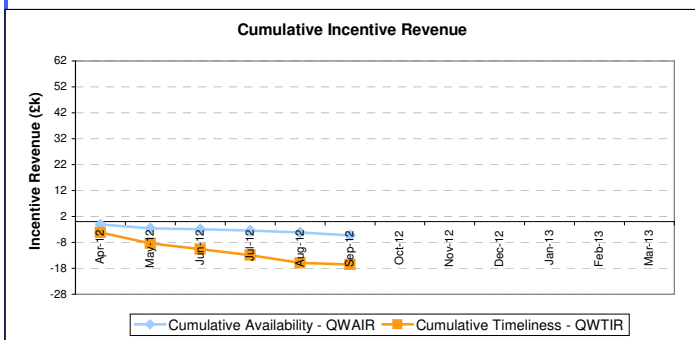
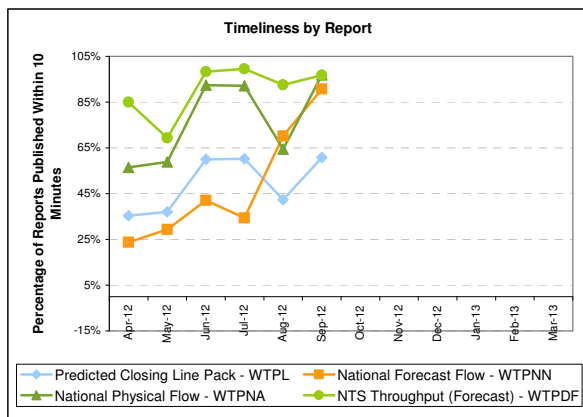
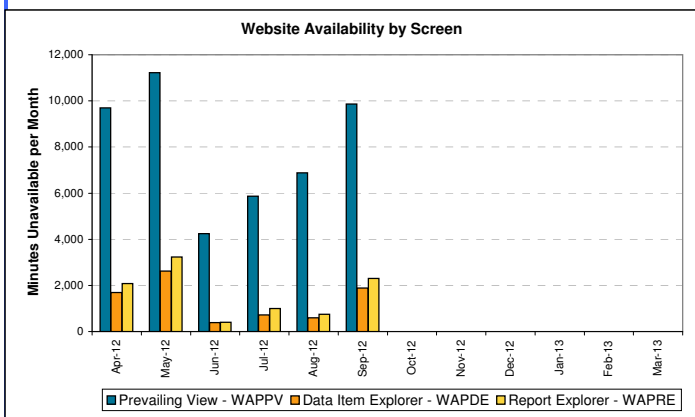
The chart compares the average number of minutes for which the incentivised web pages were unavailable in the month (the blue columns) to the incentive target (the orange line), where the target represents 99.3% availability. The green band represents availability better than the target, with the bottom of the band representing an illustrative profit of £3,225/month - this is not the incentive cap. Similarly the yellow band represents availability worse than the target, with the top of the band representing an illustrative loss of £100/month - this is not the incentive collar. The performance for July, August and September were all below target levels, resulting in an end of Q2 loss of £5,312 for the availability portion of the incentive.



The chart compares the average timeliness of the incentivised reports for the month (the blue columns) to the incentive target (the orange line), where the target represents 90.5% published within 10 minutes. The green band represents timeliness better than the target, with the top of the band representing an illustrative profit of £3,225/month - this is not the incentive cap. Similarly the yellow band represents timeliness worse than the target, with the bottom of the band representing an illustrative loss of £100/month - this is not the incentive collar. The performance for July, August and September were all below target levels, resulting in an end of Q2 loss of £16,480 for the timeliness portion of the incentive.

Supporting Data

| Website Performance | | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | Total |
|------------------------|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------|----------|----------|----------|----------|----------|----------------|
| Incentive Revenue £ | Availability - QWAIR | -1,128 | -1,406 | -375 | -582 | -637 | -1,183 | | | | | | | -5,312 |
| | Timeliness - QWTIR | -4,167 | -4,167 | -2,231 | -2,420 | -2,957 | -537 | | | | | | | -16,480 |
| | Total (QWAIR + QWTIR) | -5,295 | -5,573 | -2,606 | -3,003 | -3,594 | -1,720 | 0 | 0 | 0 | 0 | 0 | 0 | -21,792 |
| Availability - Minutes | Cumulative Availability - QWAIR | -1,128 | -2,534 | -2,909 | -3,492 | -4,129 | -5,312 | | | | | | | |
| | Cumulative Timeliness - QWTIR | -4,167 | -8,334 | -10,565 | -12,985 | -15,943 | -16,480 | | | | | | | |
| | Prevailing View - WAPPV | 9,694 | 11,230 | 4,247 | 5,869 | 6,875 | 9,864 | | | | | | | 47,779 |
| | Data Item Explorer - WAPDE | 1,687 | 2,619 | 389 | 718 | 592 | 1,890 | | | | | | | 7,895 |
| | Report Explorer - WAPRE | 2,074 | 3,239 | 409 | 1,000 | 745 | 2,309 | | | | | | | 9,776 |
| Timeliness % | Average Unavailability (Minutes) | 4,485.00 | 5,696.00 | 1,681.67 | 2,529.00 | 2,737.33 | 4,687.67 | | | | | | | |
| | Availability Target (Minutes) | 302 | 312 | 302 | 312 | 312 | 302 | 312 | 302 | 312 | 312 | 282 | 312 | |
| | Predicted Closing Line Pack - WTPNN | 35.3% | 37.0% | 59.9% | 60.2% | 42.3% | 60.8% | | | | | | | 49.3% |
| | National Forecast Flow - WTPNN | 23.7% | 29.4% | 42.1% | 34.4% | 70.2% | 90.8% | | | | | | | 48.4% |
| | National Physical Flow - WTPNA | 56.4% | 58.9% | 92.4% | 92.2% | 64.5% | 96.9% | | | | | | | 76.9% |
| | NTS Throughput (Forecast) - WTPDF | 85.0% | 69.3% | 98.3% | 99.5% | 92.5% | 96.7% | | | | | | | 90.2% |
| | Average Timeliness (%) | 50.1% | 48.7% | 73.2% | 71.6% | 67.4% | 86.3% | | | | | | | |
| Timeliness target (%) | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | 90.5% | |

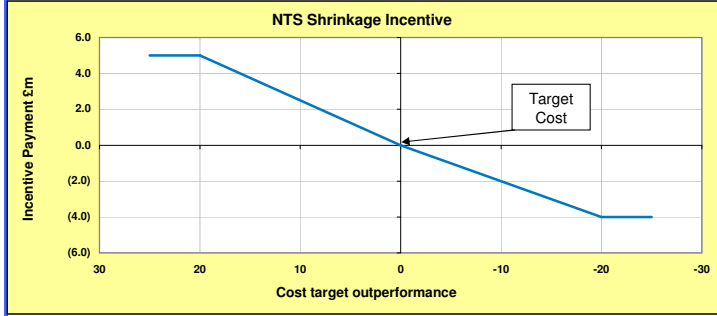


SHRINKAGE

Introduction

Scheme Description:

NTS Shrinkage covers the gas and electrical energy which is used in operating NTS compressors and to cater for gas that cannot be accounted for and billed in the measurement and allocation process. The components that comprise shrinkage are summarised as: 1/ Compressor Fuel Use (CFU): The energy used to run compressors to transport gas through the NTS. For gas driven compressors this is Own Use Gas (OUG), for electric driven compressors this is Electric Compressor Energy (ECE). 2/ Calorific Value (CV) shrinkage: The energy which cannot be billed due to CV capping under application of the Gas (Calculation of Thermal Energy) Regulations 1996 (amended in 1997). 3/ Unaccounted for Gas (UAG): The quantity of gas which remains after taking into account all measured inputs and outputs from the system, own use gas consumption, CV Shrinkage and the daily change in NTS linepack.



Scheme Description

Performance Measure: Costs

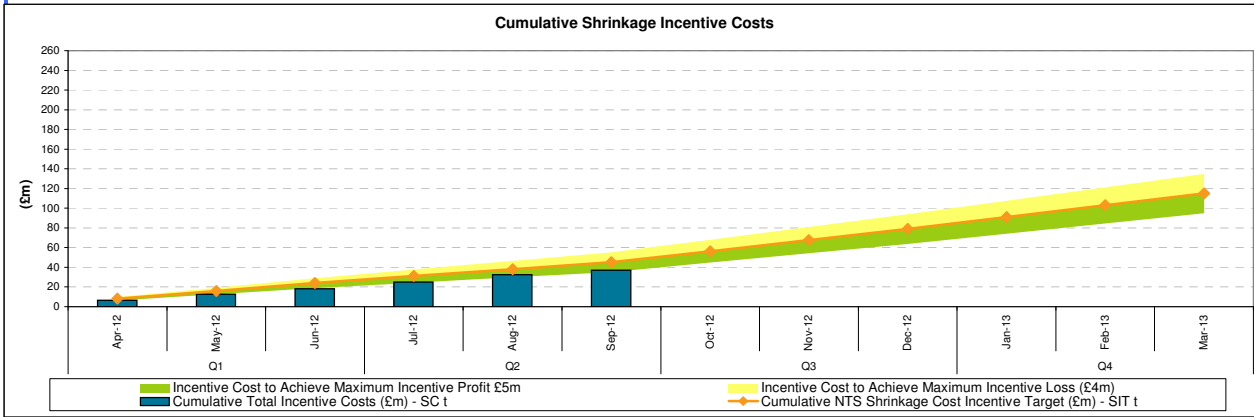
Sharing factors are 25% upside and 20% downside with a maximum incentive profit of £5m and a maximum incentive loss of £4m.

If total spend against the incentive is below the target (i.e. the cost target outperformance is positive), National Grid receives a payment equivalent to 25% of the underspend, subject to a limit of £5m. Conversely, if total spend is above the target, National Grid incurs a penalty of 20% of the overspend, subject to a limit of £4m.

Performance

| OVERALL (GAS & ELECTRICITY) | Q1 | | | Q2 | | | Q3 | | | Q4 | | | Total |
|-------------------------------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | |
| Total Incentive Costs (£m) - SC t | 6.36 | 6.41 | 5.55 | 6.71 | 7.51 | 4.57 | | | | | | | |
| Cumulative Total Incentive Costs (£m) - SC t | 6.36 | 12.77 | 18.32 | 25.03 | 32.54 | 37.11 | | | | | | | |
| NTS Shrinkage Cost Incentive Target (£m) - SIT t | | | 24.00 | | | 21.16 | | | 33.65 | | | 36.09 | |
| Cumulative NTS Shrinkage Cost Incentive Target (£m) - SIT t | | | 24.00 | | | 45.16 | | | 78.81 | | | 114.91 | |
| Incentive Cost to Achieve Maximum Incentive Loss (£4m) | | | 28.00 | | | 53.16 | | | 90.81 | | | 130.91 | |
| Incentive Cost to Achieve Maximum Incentive Profit £5m | | | 19.00 | | | 35.16 | | | 63.81 | | | 94.91 | |

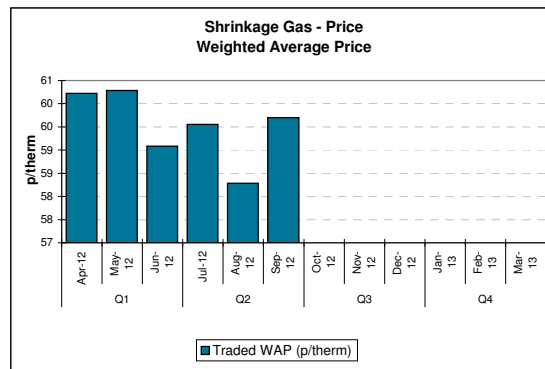
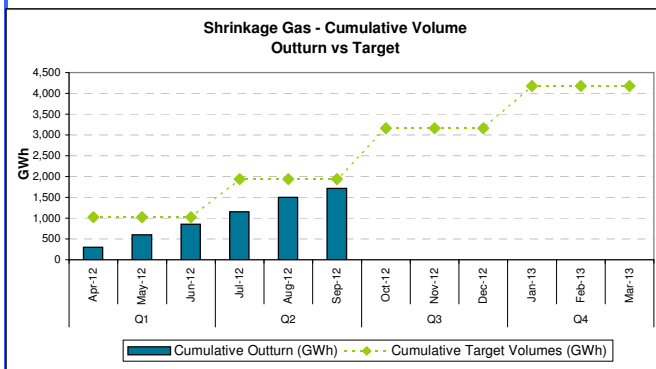
*Please be aware that Q3 & Q4 Target figures (row 35) are forecast not actual (highlighted in red)



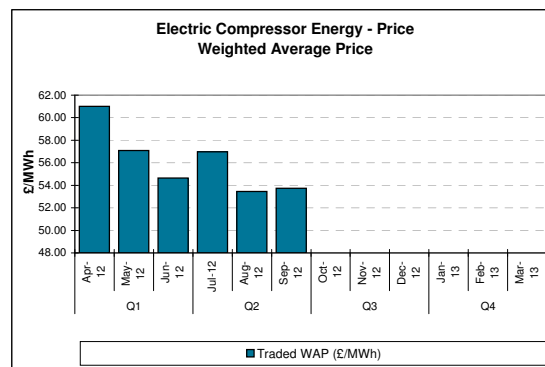
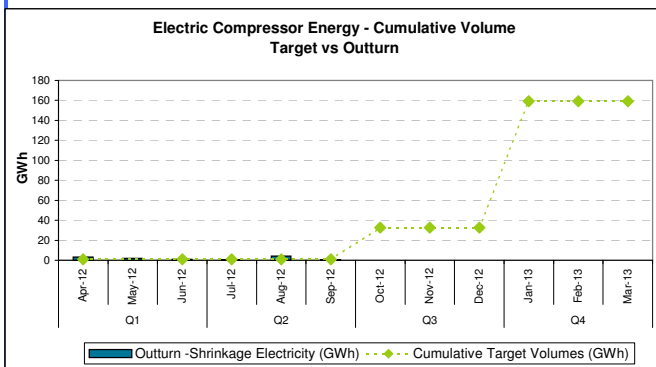
The chart compares cumulative total shrinkage costs (the blue bars) to an indicative cumulative target (the orange line). The green band represents costs below the target. The current Cumulative Incentive Costs (as of September 2012) are £45.16m.

Supporting Data

| Gas Volume and Reference Price | Q1 | | | Q2 | | | Q3 | | | Q4 | | | Total |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | |
| Outturn -Shrinkage Gas (GWh) | 301 | 296 | 256 | 298 | 349 | 215 | | | | | | | |
| Cumulative Outturn (GWh) | 301 | 597 | 853 | 1151 | 1500 | 1715 | | | | | | | |
| Target Volumes GWh (GSVTP t,q) | | | 1,022 | | | 914 | | | 1,228 | | | 1,015 | |
| Cumulative Target Volumes (GWh) | | | 1,022 | | | 1,936 | | | 3,164 | | | 4,178 | |
| Traded WAP (p/therm) | 60.23 | 60.29 | 59.08 | 59.56 | 58.28 | 59.70 | | | | | | | |

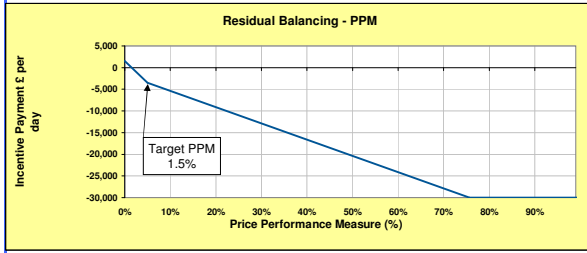


| Electricity Volumes and Reference Price | Q1 | | | Q2 | | | Q3 | | | Q4 | | | Total |
|-----------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|
| | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | |
| Outturn -Shrinkage Electricity (GWh) | 3 | 2 | 1 | 1 | 4 | 1 | | | | | | | |
| Cumulative Outturn (GWh) | 3 | 5 | 6 | 7 | 11 | 11 | | | | | | | |
| Target Volumes GWh (EVRT,q) | | | 1 | | | 0 | | | 32 | | | 127 | |
| Cumulative Target Volumes (GWh) | | | 1 | | | 1 | | | 33 | | | 159 | |
| Traded WAP (£/MWh) | 61.00 | 57.08 | 54.64 | 57.0 | 53.4 | 53.7 | | | | | | | |



Introduction

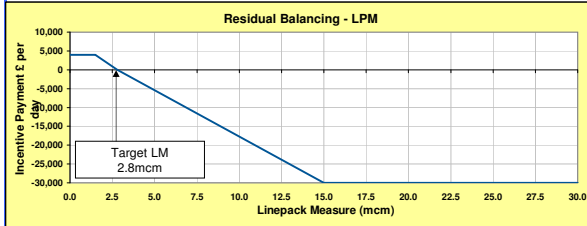
Scheme Description: The incentive contains two elements, the Price Performance Measure (PPM) and the Linepack Measure (LPM). As National Grid has no direct exposure to the costs of its balancing actions, the PPM is set to encourage National Grid to trade efficiently on behalf of the community, minimising the overall costs passed to neutrally and paid by shippers, and minimising its impact on cashout prices. The PPM is defined as the price differential between any National Grid trades, measured as a percentage of System Average Price (SAP), which encourages price efficiency by incentivising National Grid to carry out any balancing actions in a narrow price band. The LPM incentivises National Grid to minimise any changes between starting and closing NTS linepack over a gas day. This is intended to ensure that any system imbalances are resolved on the relevant day, ensuring that the costs of resolving any imbalances are targeted to those responsible for the imbalance.



Scheme Description

Performance Measure: the price differential between any National Grid trades, divided by SAP.

If the Price Performance Measure is below 1.5% on a given gas day then National Grid receives an incentive payment up to a maximum of £1,500. Conversely if the PPM is above 1.5% then National Grid incurs a penalty up to a maximum of £30,000.

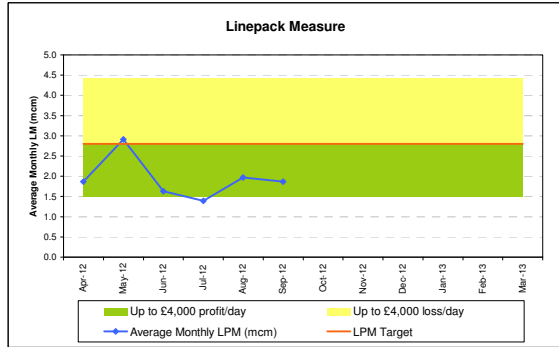
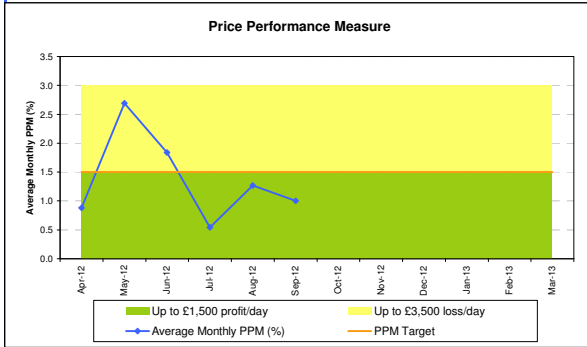


Scheme Description

Performance Measure: the absolute difference between starting and closing NTS linepack over a gas day.

If the Linepack Measure is below 2.8mcm on a given gas day then National Grid receives an incentive payment up to a maximum of £4,000. This maximum applies at 1.5mcm, so there is no incentive for National Grid to balance the system beyond this point. Conversely if the Linepack Measure is above 2.8mcm then National Grid incurs a penalty up to a maximum of £30,000.

Performance



The chart compares the average Price Performance Measure in the month (the blue line) to the incentive target (the orange line), where the target is a PPM of 1.5%. The green band represents a PPM lower than the target, with the bottom of the band representing a profit of £1,500/day. Similarly the yellow band represents a PPM higher than the target, with the top of the band representing an illustrative loss of £3,500/day - this is not the incentive collar. The end of Q2 position for the price portion of the incentive is a profit of £59,456.

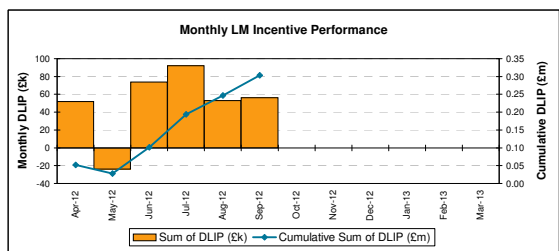
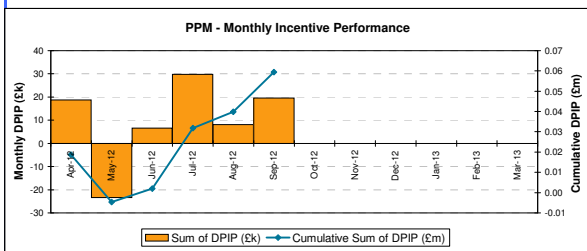
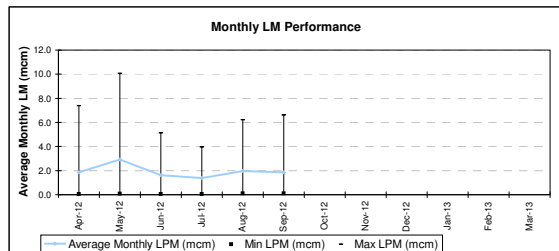
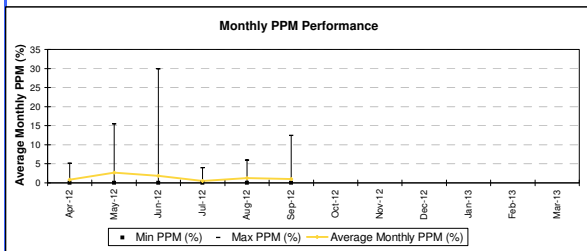
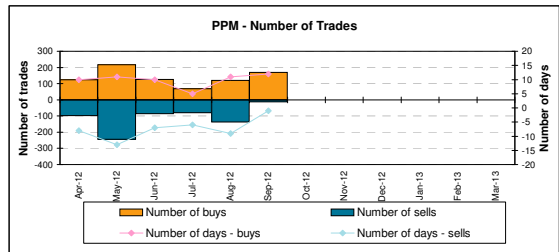
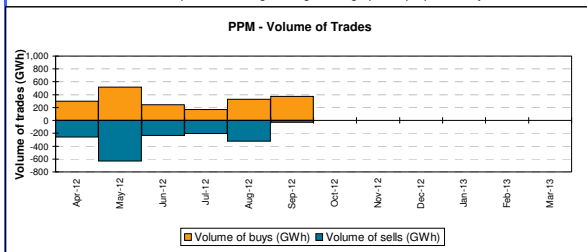
The chart compares the average Linepack Measure in the month (the blue line) to the daily incentive target (the orange line), where the target is an LPM of 2.8mcm. The green band represents an LPM lower than the target, with the bottom of the band representing a capped profit of £4,000/day. Similarly the yellow band represents an LPM higher than the target, with the top of the band representing an illustrative loss of £4,000/day - this is not the incentive collar. The end of Q2 position for the Linepack portion of the incentive is a profit of £303,027.

Supporting Data

| Month | Price | | | | | | | Linepack | | | | | | |
|--------|-------------------------------------------------|----------------------------|------------------|-----------------------------|-------------------------|-------------|-------------|----------------------------------------------------|----------------------------|------------------|-----------------------------|---------------------------|---------------|---------------|
| | Sum of Daily Price Incentive Payment (DPIP) (£) | Cumulative Sum of DPIP (£) | Sum of DPIP (£k) | Cumulative Sum of DPIP (£m) | Average Monthly PPM (%) | Min PPM (%) | Max PPM (%) | Sum of Daily Linepack Incentive Payment (DLIP) (£) | Cumulative Sum of DLIP (£) | Sum of DLIP (£k) | Cumulative Sum of DLIP (£m) | Average Monthly LPM (mcm) | Min LPM (mcm) | Max LPM (mcm) |
| Apr-12 | £18,756 | £18,756 | 19 | 0.02 | 0.88 | 0.00 | 5.09 | £51,770 | £51,770 | 51.77 | 0.05 | 1.87 | 0.05 | 7.38 |
| May-12 | -£23,365 | -£4,609 | -23 | 0.00 | 2.69 | 0.00 | 15.47 | -£23,675 | £28,095 | -23.67 | 0.03 | 2.91 | 0.08 | 10.07 |
| Jun-12 | £6,556 | £1,947 | 7 | 0.00 | 1.84 | 0.00 | 29.86 | £73,660 | £101,755 | 73.66 | 0.10 | 1.63 | 0.06 | 5.12 |
| Jul-12 | £29,812 | £31,759 | 30 | 0.03 | 0.54 | 0.00 | 3.98 | £92,145 | £193,900 | 92.14 | 0.19 | 1.39 | 0.05 | 3.95 |
| Aug-12 | £8,167 | £39,926 | 8 | 0.04 | 1.27 | 0.00 | 5.93 | £53,004 | £246,904 | 53.00 | 0.25 | 1.97 | 0.10 | 6.2 |
| Sep-12 | £19,530 | £59,456 | 20 | 0.06 | 1.00 | 0.00 | 12.44 | £56,124 | £303,027 | 56.12 | 0.30 | 1.87 | 0.11 | 6.61 |
| Oct-12 | | | | | | | | | | | | | | |
| Nov-12 | | | | | | | | | | | | | | |
| Dec-12 | | | | | | | | | | | | | | |
| Jan-13 | | | | | | | | | | | | | | |
| Feb-13 | | | | | | | | | | | | | | |
| Mar-13 | | | | | | | | | | | | | | |

| Month | Trades | | | | SELL | | | | BUY | | | |
|--------|----------------------|-----------------------|----------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Volume of buys (kWh) | Volume of sells (kWh) | Number of buys | Number of sells | Price (ppt) | Price (ppt) | Price (ppt) | Price (ppt) | Price (ppt) | Price (ppt) | Price (ppt) | Price (ppt) |
| Apr-12 | 299,284,105 | 257,668,023 | 124 | -98 | -57.0 | -60.0 | 58.7 | 63.5 | | | | |
| May-12 | 519,878,647 | 632,359,297 | 216 | -244 | -45.0 | -60.7 | 50.0 | 64.7 | | | | |
| Jun-12 | 242,867,938 | 234,574,028 | 126 | -85 | -51.8 | -59.9 | 55.1 | 75.5 | | | | |
| Jul-12 | 167,636,612 | 205,237,623 | 69 | -80 | -53.7 | -58.3 | 54.2 | 59.0 | | | | |
| Aug-12 | 328,063,681 | 320,561,066 | 121 | -137 | -49.0 | -56.1 | 52.2 | 58.0 | | | | |
| Sep-12 | 372,610,479 | 28,076,203 | 170 | -12 | -58.2 | -59.3 | 57.9 | 72.0 | | | | |
| Oct-12 | | | | | | | | | | | | |
| Nov-12 | | | | | | | | | | | | |
| Dec-12 | | | | | | | | | | | | |
| Jan-13 | | | | | | | | | | | | |
| Feb-13 | | | | | | | | | | | | |
| Mar-13 | | | | | | | | | | | | |

NB: "Sell" is depicted as a negative figure for graphical purposes only

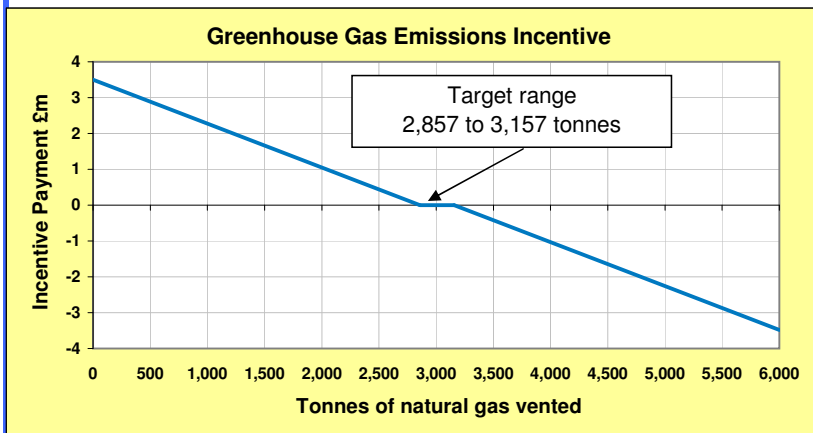


Greenhouse Gas Emissions Incentive



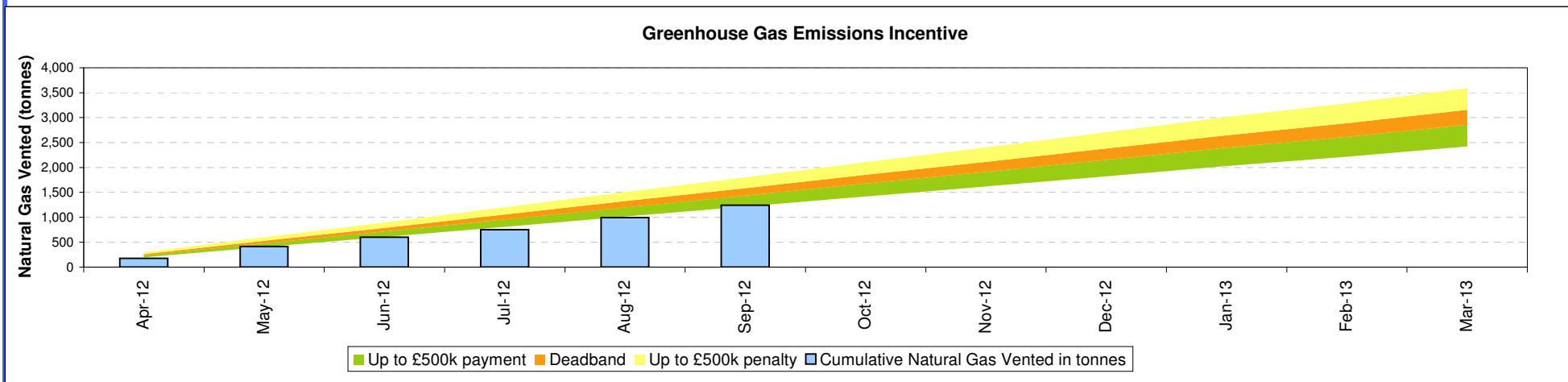
Introduction

| | |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scheme Description: | The Greenhouse Gas Emissions Incentive scheme encourages National Grid to make the economic trade-off between choosing to depressurise compressor units (venting the gas within them) or to keep units on standby - which incurs costs associated with ancillary electrical equipment (vent fans, oil pumps etc) and leakage through the shaft seal. The number of tonnes of natural gas vented from NTS compressors as a result of starting a compressor; purging a compressor; depressurising a compressor; or the leakage of gas through a seal around the shaft of a compressor are compared to a target volume. The incentive target volume of natural gas is 2,857 to 3,157 tonnes. The scheme has no sharing factors, caps or collars and uses a reference price of £1,224 per tonne of natural gas vented. |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



| Scheme Description |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Performance Measure: Mass of natural gas vented from NTS compressors |
| The incentive target volume for 2012/13 is 2,857 to 3,157 tonnes of natural gas. For every tonne vented above or below the target, National Grid is subject to a penalty or payment of £1,224. This is equivalent to £100,000 for every 82 tonnes vented above or below the target band. |

Performance



The chart compares the cumulative mass of natural gas vented (the blue columns) to a cumulative target (the orange band) - note that the incentive target is an annual one and therefore the monthly targets are only indicative. The green band represents venting below the target, with the bottom of the band representing an illustrative payment of £500k - this is not the incentive cap. Conversely the yellow band represents vented gas above the target, with the top of the band representing an illustrative penalty of £500k - again, this is not the incentive collar. The end of Q2 position is 1,244 tonnes of Cumulative Natural Gas vented.

Supporting Data

| Month | Natural Gas Vented, in tonnes, from Compressors (VIPMt) | Cumulative Natural Gas Vented in tonnes |
|--------------|---------------------------------------------------------|-----------------------------------------|
| Apr-12 | 176 | 176 |
| May-12 | 239 | 415 |
| Jun-12 | 184 | 599 |
| Jul-12 | 151 | 749 |
| Aug-12 | 243 | 992 |
| Sep-12 | 252 | 1,244 |
| Oct-12 | | |
| Nov-12 | | |
| Dec-12 | | |
| Jan-13 | | |
| Feb-13 | | |
| Mar-13 | | |
| TOTAL | 1,244 | |

