



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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Date: 30 March 2011

Dear Colleague

National Grid Gas System Operator Incentives from April 2011

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. This consultation set out Ofgem's final proposals for new incentive schemes on NGG to minimise costs of procuring Operating Margins gas and to minimise Greenhouse Gas emissions from compressors. This consultation closed on 29 March 2011 and we received a response from one industry participant. NGG has consented to the licence modifications proposed, subject to minor amendments.

We have considered the response to the Final Proposals Consultation and taking this into account we believe it remains appropriate, subject to ten minor amendments (as set out in the Notice of Reasons¹), to direct the licence modifications to be made in line with those proposed.

As set out in the Final Proposals Consultation, Ofgem will shortly be issuing an open letter setting out our proposed way forward with respect to the 'roll over' of incentives that expire on 1 April 2012 until 1 April 2013. In May 2011 we are expecting to publish an initial consultation on options for longer term SO incentive arrangements to apply from 1 April 2013 which will include consideration of the alignment of these incentives with the incentives on the Transmission Owner being developed through RIIO-T1².

Should you wish to discuss any aspect of the SO incentive schemes please contact Giuseppina Squicciarini (Giuseppina.squicciarini@ofgem.gov.uk) or Philippa Pickford (Philippa.pickford@ofgem.gov.uk).

Yours sincerely

Ian Marlee
Partner, GB Markets

¹ Modification of the Special Conditions of National Grid Gas Plc's Gas Transporter Licence in respect of the National Transmission System under Section 23 of the Gas Act 1986. Notice of reasons for decision to modify the special conditions of National Grid Gas plc's Gas Transporter Licence under section 38A of the Gas Act 1986. Ofgem, 30 March 2011.

² The first transmission price control under the RIIO model (Revenue = Incentives + Innovation + Outputs). RIIO-T1 is expected to be implemented on 1 April 2013.