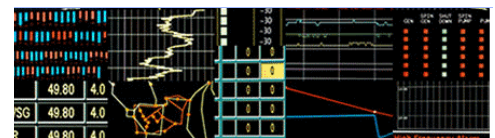


National Grid Electricity System Operator Incentives

Final Proposals Report

Issued 27 February 2009



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National Grid operates the Electricity and Gas Transmission Systems in Great Britain. We are subject to a number of financial incentive arrangements which encourage us to minimise the overall costs to consumers and to support the efficient operation of the wholesale gas and electricity markets.

This report summarises the industry responses to the Initial Proposals consultation, sets out our views on the main issues raised and outlines our updated forecast and final proposal. The report should be read in conjunction with the consultation responses that are published on our web site. These can be found at:

<http://www.nationalgrid.com/uk/Electricity/soincentives/docs/>

The Initial Proposals consultation was published on 27 November 2008 and responses were requested by 9 January 2009.

- We received 7 responses to our proposals;
- We received feedback and comments at the SO Incentives Workshop held on 16 December 2009

We would like to take this opportunity to thank all parties who took the time to engage in the process. We have developed the final proposals based on feedback received from the industry and from Ofgem during the process.

Ofgem's Final Proposals (and the required Statutory Licence amendment notices) are expected to be published in late February so that the potential licence amendments can be implemented by 1 April 2009.

The main points received from the industry during the process are:

- Our forecast assumptions should be revised to reflect that 2008/9 was an exceptional year and therefore, weightings should be focused equally on previous years;
- Updated forecast should reflect the latest market information; and
- Unbundled and multi-year schemes were not generally favoured

Our recommendation for the SO incentive scheme is summarised below:

Unbundled Reactive and Transmission Losses

| Scheme | Indexed Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------|----------------|-----------------------|---------|-------------------------|--------|
| Unbundled reactive | £56m | 30% | £4m | 30% | £4m |

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|-------------------------------|-----------------|-----------------------|---------|-------------------------|--------|
| Unbundled transmission losses | 5.8TWh – 6.2TWh | 10% | £0.5m | 10% | £0.5m |

Remaining bundled scheme

Using the current NIA methodology, the scheme would look like:

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------------|--------|-----------------------|---------|-------------------------|--------|
| Remaining bundled scheme | £757m | 20% | £15m | 10% | £15m |

Using the New NIA methodology, the scheme would look like:

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------------|--------|-----------------------|---------|-------------------------|--------|
| Remaining bundled scheme | £559m | 20% | £15m | 10% | £15m |

Section 1

Introduction

This section provides an overview of the SO incentives development process.

1.1 Purpose of this Document

1. This document outlines the general themes from the responses to our Initial Proposals Consultation, provides an updated forecast for 2009/10 and the Final Proposal for a scheme option to be implemented on 1 April 2009.
2. The document is structured as follows:
 - Section 2 outlines the Initial Proposals responses
 - Section 3 outlines our updated forecast for 2009/10
 - Section 4 details our preferred scheme option

1.2 Consultation Process

3. National Grid is incentivised to balance the system in an efficient, economic and co-ordinated manner. The application of financial incentives enables National Grid to invest in additional systems and resources to ensure balancing costs and risks are efficiently minimised.
4. Last year, Ofgem trialled a new consultation process for SO Incentive development and in November 2007 asked National Grid to lead the development of Initial Proposals for SO Incentives. Following a review of the success of this approach, Ofgem issued an open letter and has again asked National Grid to lead on the development of Initial Proposals for its own SO Incentives for the period from 1 April 2009¹. In response to industry feedback on the timetable followed for the 2008/09 incentives this process has been initiated earlier to allow a more fundamental review, greater opportunity for innovation and to give industry participants more time and involvement in the development and consideration of proposals. A proposed process timetable is set out in Ofgem's open letter and our response² to the same.
5. To initiate industry engagement and debate on the issues around Electricity SO Incentives, National Grid held an Industry Workshop on the 26 June 2008 where we presented on a number of issues relating to the current SO incentive schemes. To ensure maximum industry engagement in the process, National Grid has also presented on this year's process at the Electricity Operational Forum.

¹<http://www.ofgem.gov.uk/Markets/WhlMkts/EffSystemOps/SystOplncent/Documents1/SO%20Incentives%20Open%20Letter%20May%202008.pdf>

² <http://www.nationalgrid.com/NR/rdonlyres/BA106C2D-0E67-41AC-8549-B110BCE657F6/27078/SOInitialProposalsMiniConsultationsOpenLetterJuly3.pdf>

6. In addition to the workshops, industry presentation and written consultations, we met with a number of Market Participants on a one to one basis to discuss specific issues in more detail.
7. Our updated forecast has been sent to Ofgem and this Initial Proposals Consultation Report will be sent to Ofgem on publication. Ofgem will develop and consult on its Final Proposals for SO Incentive schemes, prior to implementation.
8. This year's consultation process has seen a number of improvements; development of mini consultations and earlier engagement with the industry. To continue with the aim of improving the process, a review of this year's process will be undertaken after the implementation of the incentive scheme in April 2009. We will be consider process improvements highlighted by this review for implementation during next year's process.

Section 2

Summary of the Responses to the Consultation Questions

This section provides an high level summary of the industry's responses to the consultation questions.

2.1 General comments

9. This section presents a summary of responses to our Initial Proposal for Electricity System Operator Incentive Scheme.
10. All respondents to the consultation, and who provided feedback at the workshop, stated that they found the level of information provided to be useful in developing an understanding of our forecast.
11. Some respondents commented that to enable them to comment on the forecast, National Grid would need to provide more detailed information. However, they did not believe that it would be appropriate for a detailed forecast to be made for confidentiality reasons and therefore they believed that it was appropriate for Ofgem to assess the forecast detail on behalf of the industry.

2.2 Consultation Questions Responses

12. The consultation included a number of questions to help National Grid determine the industry's view on what the incentive scheme should look like in April 2009.
13. The questions have been combined into similar themes.

Cost drivers and assumptions

Question 1 – Do you agree with the areas identified as the main cost drivers for 2008/09? Are there any other drivers not explicitly identified?

Question 2 – Do you agree with the high level assumptions outlined:

- utilisation of forward power prices and the 60% - 160% range?
- market length central and ranges?
- generation availability and utilisation of OC2 data?

Question 3 – Do you agree with the assumptions (described in detail in the appendix) used to forecast the various elements that make up underlying balancing costs?

Question 4 – Do you agree with the areas identified as the main cost drivers for 2009/10? Please explain your rationale. Are there any other drivers not explicitly identified?

In particular, do you agree with the assumptions used to forecast margin (reserve, STOR and BM start up) and constraint costs?

Overview of Responses

14. The majority of respondents generally agreed that we had identified the main cost drivers and that our assumptions seemed reasonable.
15. A number of respondents suggested:
 - Our forecast used power and fuel prices that were too high;
 - Using most recent history to weight our forecast assumptions may not be prudent due to 2008/9 being an exceptional year. A more prudent assumption would be to use equal weighting for the previous years;
 - Using historic price and market length information to determine future price and length may not be an indicator of future behaviour;
 - Scottish constraint prices should not have a bid premium given that there is a formal investigation into alleged market abuse; and
 - Forecast does not seem to take into account the potential change in demand levels due to the economic downturn

National Grid's View

16. National Grid agrees that the market conditions experienced this year are unusual. However, responses received did not outline the rationale for why conditions experienced this year would not continue into 2009/10, e.g. the reduction in free headroom seen during 2008/9.
17. The power and fuel prices used in the Initial Proposals forecast were published forward prices at the time the forecast was undertaken.
18. As a result of these comments we have:
 - Used the latest forward power and fuel prices in our forecast;
 - Weighted our market length forecast to equal weighting for the last 4 years; and
 - Where appropriate, we have used the latest demand forecasts

Impact of regime changes in the operation of the England to France interconnector

Question 5 – Do you have any comments on the assumptions used in determining the increase in costs associated with the revised operation of the England / France interconnector known as Use it or lose it?

Overview of Responses

19. The responses to the potential impact of 'Use It or Lose It (UIoLI)' change to the operation of the England to France interconnector were mixed.
20. An overview of some of the responses stated that they:
 - Were unsure as to the rationale behind the cost increase and whether our interpretation of the directive was correct;
 - Agreed that costs would increase with such a regime change;
 - Suggested that the impact of the changes were too uncertain to be able to predict cost increases; and
 - The potential cost increase should be covered by an Income Adjusting Event due to the uncertainty of the level of cost increase

National Grid's View

21. National Grid agrees that the costs are uncertain and are the result of an interpretation of the directive rules.
22. Therefore we believe that it is prudent to develop a means to adjust the incentive target if the implementation of the directive does / does not result in a change in costs.
23. Within our £813m forecast, we have included £21m for the increase in constraint costs associated with changes in operation of the interconnector. We propose that if these costs do not materialise, there is an adjustment made that reduces the incentive scheme target by an agreed amount.

Impact of Interim Connect and manage

Question 6 – Do you believe that we should include some provision for a volume of additional generation connecting as a result of the interim connect and manage arrangements? If not, how do you believe we should manage the risk of additional generation connecting?

Overview of Responses

24. Only one respondent suggested that some form of provision should be made for the increase in generation that could connect due to the implementation of the interim connect and manage arrangements. The remaining respondents believed that there should be no provision.

National Grid's View

25. We agree the level of generation that may connect is uncertain at this time and therefore the potential impact is unknown. Therefore we agree that no provision should be made for the potential increase in generation for 2009/10. However, we do believe that if additional generation connects due to the interim arrangements that increase constraint costs, we should be allowed to raise an Income Adjusting Event.

26. Implementation of Indexation

Question 7 – Do you agree with the implementation of a new adjustment as described as New NIA? If not, please outline your rationale?

Question 8 – Do you agree with the implementation of a new reactive power index? If not, please outline your rationale? Are there any other indices that we should consider?

Question 13 – Do you agree with the implementation of reactive power indexation?

Overview of Responses

27. The majority of respondents agreed with the implementation of a revised adjustment methodology 'New NIA', and the implementation of a reactive power price index.
28. The main rationale for respondents disagreeing with the implementation of the New NIA was that they did not believe that there was sufficient evidence to adopt the new methodology. A number of respondents commented that additional information would be useful on the correlation of New NIA and the balancing costs.
29. A minority of respondents suggested that reactive indexation should not be implemented as there was not sufficient evidence and that the evidence provided did not show sufficient correlation between market prices and reactive costs.

National Grid's View

30. We understand the limitations of the current and revised NIA methodology. However, the analysis undertaken in our September Indexation Consultation and recent further work indicates that implementing a NIA methodology with the revised parameters provided gives a better correlation between adjustment and the applicable balancing costs.
31. Therefore, we believe that the implementation of New NIA improves on the current adjustment methodology.
32. In addition, as reactive power costs can be heavily influenced by power price, we support the implementation of a reactive power index.

Forecast Range of Costs

Question 9 – Do you have any comments on the forecast range of incentivised balancing costs for 2009/10? Specifically do you believe that the range is too wide or narrow or do you believe it represents the full range of costs?

Overview of Responses

33. The general view of respondents was that the range of costs forecast seemed reasonable.
34. The range of costs shows the uncertainty in forecasting outturn costs, and with the level in uncertainty of key drivers that are beyond the SO's control, an accurate forecast cannot be made.
35. Two recipients suggested that the level of costs seemed too high, as basing the costs on the trend in increasing costs shown in 2008/9 would be pessimistic.
36. One respondent commented that the level of uncertainty caused the industry some concern due to the corresponding volatility of BSUoS and requested

that National Grid considered methods to reduce this volatility over the longer term.

37. One respondent asked for the difference in the median and mean that resulted from the skewed range.

National Grid's View

38. The forecast range was developed using historical analysis on the volatility of power and fuel prices, market length and the potential volume and price of certain services. We believe that this range indicates the potential outturn of BSIS / BSUoS costs.
39. The mean is £16m higher than the median for the initial forecast. This reflects the skew towards higher costs.

Unbundling of incentive components

Question 14 – Do you agree with the unbundling of reactive power? Should the bundled scheme caps and collars be changed from £20m?

Question 15 – Do you agree with the unbundling of transmission losses? Please give your rationale.

Question 17 – Are there any other components that you believe should be unbundled?

Overview of Responses

40. Unbundling individual components from the main bundled incentive received mixed responses. There was some support for the unbundling of reactive power but limited support for transmission losses with no one indicating additional components that could be unbundled.
41. Respondents that indicated a preference stated that if reactive were to be unbundled, the main scheme parameters should be changed to reflect the reduction in target and potential cap and collar.
42. One respondent believed that due to the limited in the control National Grid has on transmission losses, the losses incentive should be omitted from the incentive scheme.

National Grid's View

43. It is National Grid's view that there are a number of benefits in unbundling certain incentive components from the main unbundled scheme. The development of an unbundled scheme may enable the development of longer term incentives.
44. We recognise the concerns expressed by the industry. We will continue to work on the development of an unbundled scheme over 2009 with the potential to implement an unbundled scheme in 2010.

Multi Year incentives

Question 18 – Do you agree with multi-year reactive power scheme? Please give your rationale.

Question 19 – Do you agree with the implementation of a multi-year Transmission losses scheme? Please give your rationale.

Question 20 – Are there any other components that you believe should have a multi-year scheme?

Overview of Responses

45. Overall the majority of respondents were not supportive of the implementation of a multi-year scheme.
46. There was limited support for the multi-year deal for an unbundled reactive power scheme with less support for a multi-year unbundled transmission losses scheme.
47. One respondent suggested that the entire scheme should be multi-year so that National Grid can make more efficient and innovative investment decisions, recognising the difficulty in achieving this currently.

National Grid's View

48. It is National Grid's aim to develop and implement longer term incentive schemes. However, in light of the industries comments, we believe that more work is required to develop a scheme or schemes that meets the industries needs therefore we are not proposing multi-year option for implementation in April 2009.

Incentive options

Question 10 – Do you have any comments on option 1? In particular:

- sharing profile
- benefits / drawbacks of such a scheme
- do you support implementation of such a scheme in April 2009

Question 21 – Which is (are) your preferred incentive scheme(s)? Please provide reasons and your views on caps, collars and sharing factors.

Overview of Responses

49. The responses on Option 1 were mixed, with a number of parties stating that the increase in incentive range would be beneficial. A number of respondents suggested that the use of variable sharing factors would overly complicate the scheme and therefore there is a preference for linear sharing factors.
50. Two respondents suggested alternative methods of developing an incentive range, aiming to improve the incentive on National Grid to manage costs down or to increase the range over which National Grid is incentivised.

51. There was no overall consensus as to the preferred scheme option.

National Grid's View

52. National Grid agrees that a scheme with variable sharing factors is more complex to implement and for the industry to determine the level of incentive at any given time.
53. Therefore, to simplify the scheme, we are proposing linear sharing factors for implementation in April 2009.

Change in Incentive Period

Question 11 – Should we consider a change to the incentive period to ensure that an incentive remains on National Grid over the year? Would you support the implementation of such a scheme?

Question 12 – What could such an incentive scheme look like?

- incentive period (e.g. monthly, quarterly)
- caps and collars
- sharing factors

Overview of Responses

54. All except one respondent believed that a reduction in incentive period had limited benefits and some respondents stated that the change may dilute the incentive.

National Grid's View

55. National Grid believes that there are a number of benefits in splitting the year into separate incentive periods, e.g. summer and winter. However, National Grid agrees that a reduction in incentive period may impact on how the incentive may work.
56. Therefore, we are not proposing a reduction in incentive year for implementation in April 2009 but will continue to explore the benefits of such an option for future schemes.

Transmission losses reference price

Question 16 – The transmission losses reference price is currently calculated on an annual basis. Do you believe there are any benefits in changing this to a more frequently calculated transmission losses reference price, such as daily? Please give your rationale.

Overview of Responses

57. There were mixed responses on whether a more granular approach to transmission losses reference price would be of benefit. A number of respondents stated that such a change would be more cost reflective with the alternative view that losses volumes are not closely correlated to market price and so there should not be a link between the two.

National Grid's View

58. We agree that there are a limited number of benefits in moving to a more frequent calculation of a transmission losses reference price, and as the volume of transmission losses is not impacted by the level of market price, there is limited rationale for moving to a more complex arrangement.
59. Therefore we are not proposing a change to the current arrangements for calculating the reference price.
60. In line with the 2008/9 calculation for transmission losses reference price, using the average baseload power price for 2009/10 and adjusting this to reflect the shadow price of carbon, the transmission reference price for 2009/10 is £55/MWh.

BSUoS Costs

Question 22 – Do you have any comments on the forecast range of BSUoS costs for 2009/10?

Overview of Responses

61. A number of participants stated that the range of BSUoS costs looked reasonable, the range shown indicated the complexities in developing an accurate forecast. Some respondents indicated concern at the level of costs, with constraint costs being the major concern.

National Grid's View

62. The range and volatility of BSUoS costs is of concern to National Grid. We have focused on improving our development of the range of forecast costs for 2009/10.
63. National Grid will continue to provide the industry the most up to date BSUoS forecasts throughout 2009/10.
64. We will also undertake further work on the development of a Fixed Price BSUoS proposal with the aim of publishing a consultation in the summer.

Consultation process and information provided

Question 23 – Did you find the level of information within this consultation, and associated documentation and workshop, on our balancing and BSUoS costs forecasts for the current year and 2008/09 informative.

What additional information should National Grid provide to explain better the costs and cost drivers?

Question 24 – Do you have any further comments on the analysis and information provided within the appendices to this consultation or in the further documentation available on our website?

Question 25 – Do you have any further comments on any aspect of this consultation in relation to the Electricity SO?

Overview of Responses

65. All respondents stated that the level of information provided in the consultation and the workshop was very good.
66. A number of respondents requested additional information on the following points:
- Publication of the models used to generate the forecast;
 - Additional analysis on the relationship between market length and free headroom to balancing costs (as apposed to market length only);
 - More detail on the increase in constraint costs; and
 - Supporting information provided to give evidence that National Grid in performing its role has influenced outturn costs

National Grid's View

67. National Grid has published a number of the models used in developing its 2009/10 forecast. However, we agree that more information could be provided in future.
68. Prior to publishing any information, we would need to be sure that there was no confidential information that was included in any of the models. With certain models that have been developed, this is not possible and so these could not be published at present.
69. National Grid will consider the publication of additional information for next years consultation.

Section 3 Latest Forecast Summary for 2009/10

This section provides an updated BSUoS forecast for 2009/10.

Forecast Balancing Costs for 2009/10

70. The forecast costs outlined in figure 3.1 below show the changes from our initial forecast of £991m to our latest forecast of £813m for 2009/10.

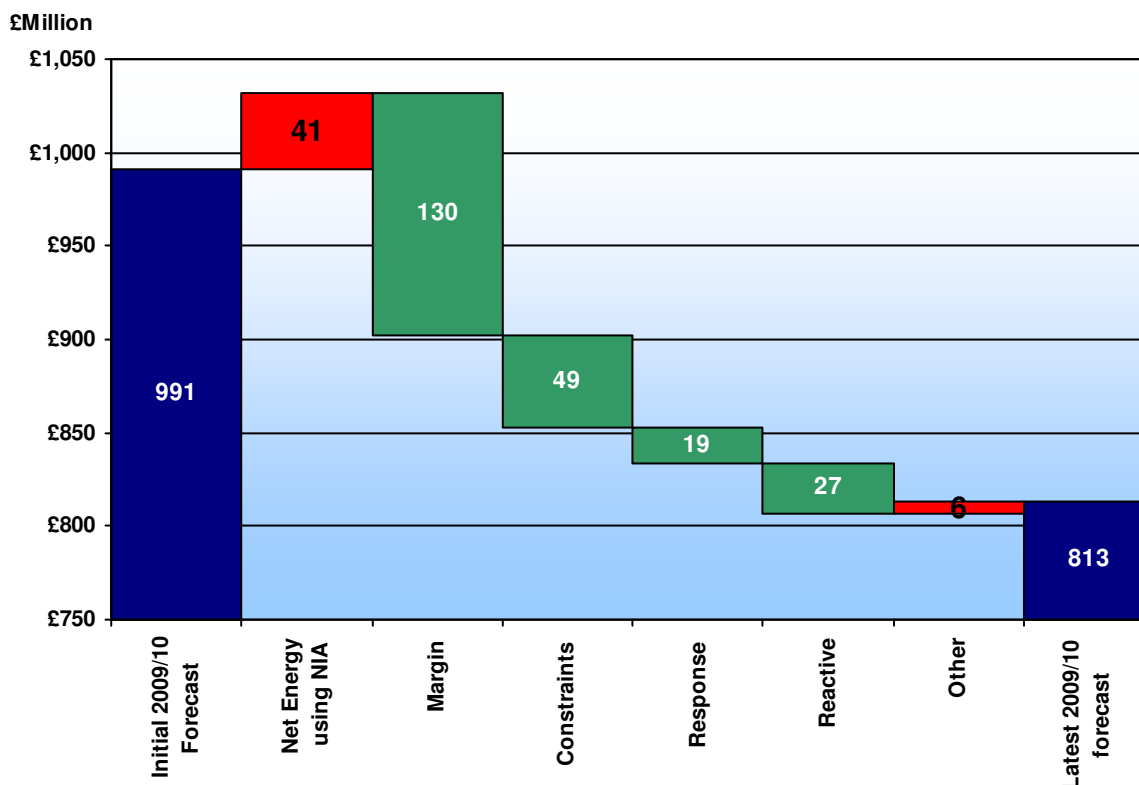


Figure 3.1: 2009/10 forecast comparison with our latest 2008/09 forecast

71. The like for like latest forecast for 2009/10 is £813m. Figure 3.1 shows the change in our Initial Proposals forecast of £991m to the latest forecast of £813m.

High Level Assumptions Changes

72. Below we outline the change in high level assumptions used in our latest re-forecast for 2009/10 compared to the Initial Proposals forecast of £991m.

Power and Fuel Price

73. The following table outlines our power price assumptions for the re-forecast for the 2009/10. A more detailed set of assumptions are provided in Appendix A.

| | UK | |
|---------|----------|---------|
| | Baseload | UK Peak |
| Q2 2009 | £46.80 | £56.75 |
| Q3 2009 | £45.80 | £56.25 |
| Q4 2009 | £51.05 | £62.88 |
| Q1 2010 | £55.30 | £68.12 |

Market Length

- 74. In our November forecast we assumed a weighted average of the last 4 years (since BETTA go-live), using the most recent years as a higher weighting than more historic years (4:3:2:1 weighting for 2008/9:2007/8:2006/7:2005/6).
- 75. For the latest reforecast, we have assumed an equal weighting across 2008/9:2007/8:2006/7:2005/6. In addition, we included the latest information on market length for October, November and December.

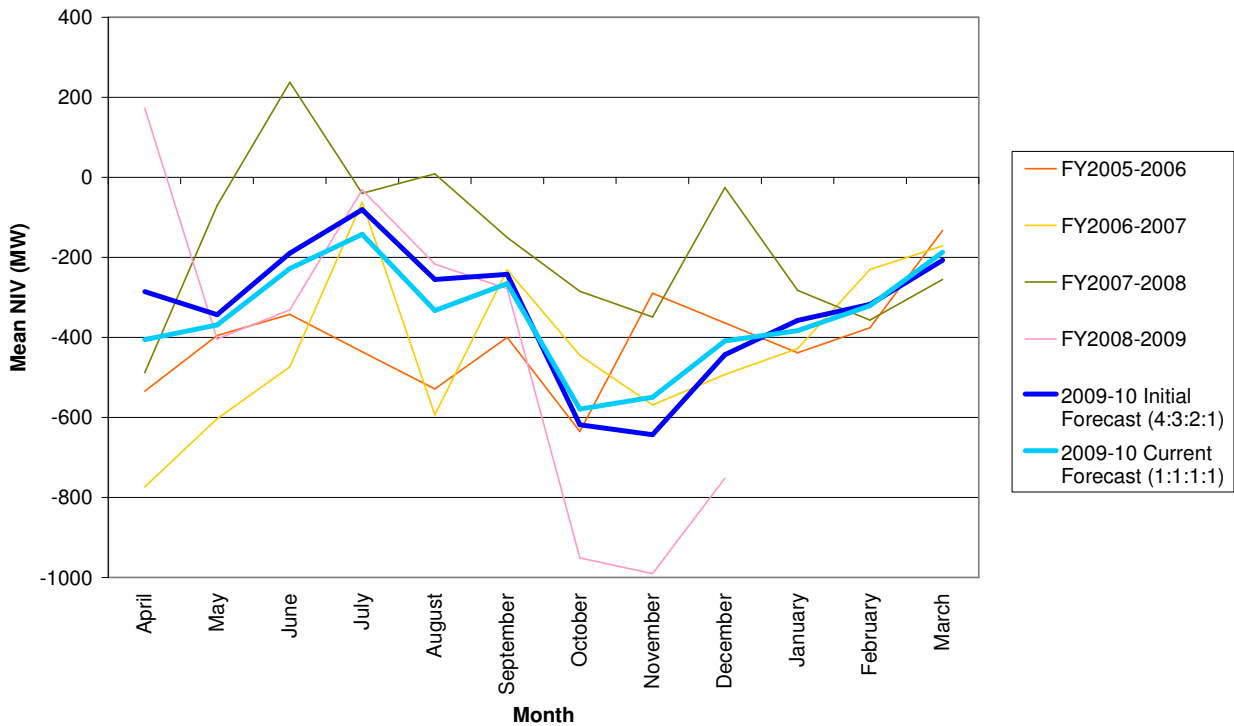


Figure 3.2: 2009/10 market length assumption

- 76. As can be seen from the graph, the change in market length assumption has increased market length between April – September, with October – December being shorter.
- 77. The table below shows a breakdown of our latest 2009/10 forecast for:

| All Categories £m | Initial Proposals Consultation Forecast 2009/10 | 2009/10 Forecast |
|------------------------------|---|------------------|
| Margin | 430 | 300 |
| STOR | 93 | 88 |
| Operating Reserve | 314 | 189 |
| BM Start-up | 23 | 23 |
| Footroom | 7 | 7 |
| Fast Reserve | 69 | 72 |
| Response | 216 | 197 |
| Reactive | 83 | 56 |
| Blackstart | 21 | 21 |
| Unclassified BM | 18 | 18 |
| BM+AS General | 3 | 5 |
| Reconciliation | 0 | 0 |
| Transmission losses | 0 | 0 |
| Constraints | 307 | 258 |
| Cheviot Internal | 161 | 139 |
| Scotland | 81 | 70 |
| England and Wales | 65 | 50 |
| UoLI | 21 | 21 |
| Net Energy using current NIA | -183 | -142 |
| Total (using current NIA) | 991 | 813 |
| Net Energy using New NIA | -418 | -340 |
| Total (using New NIA) | 757 | 615 |

2009/10 Forecast Overview

78. Figure 3.3 shows the latest 2009/10 forecast with New NIA.

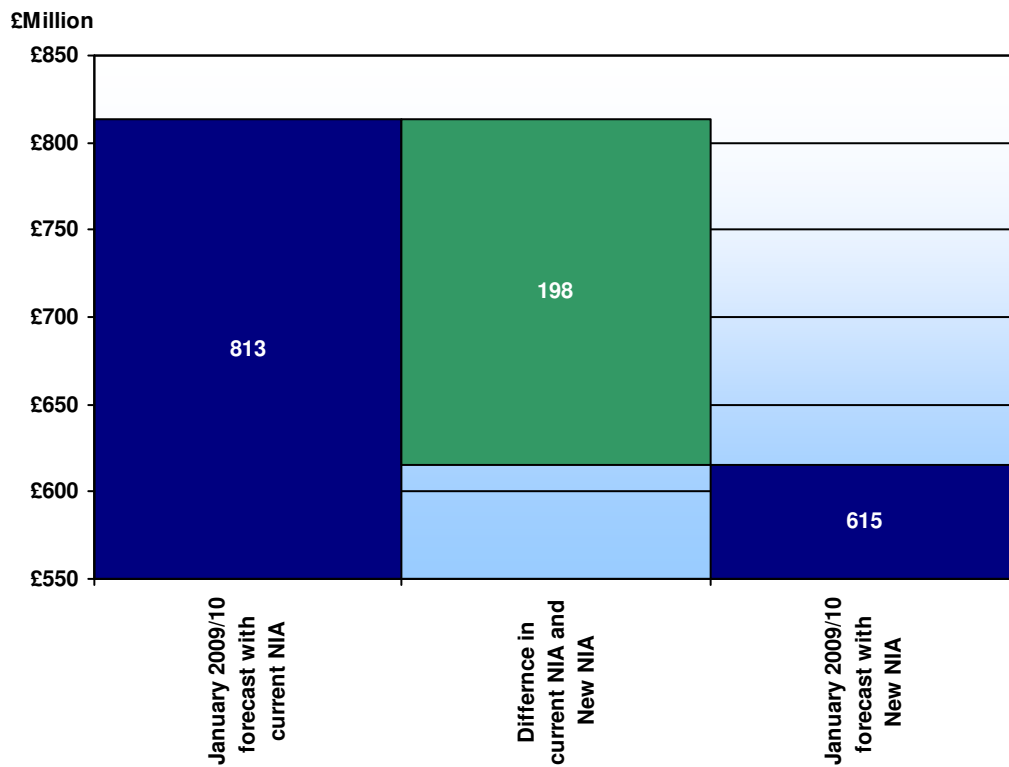


Figure 3.3: Latest 2009/10 forecast with New NIA

Section 4 Final Scheme Proposal

This section outlines our incentive proposals for implementation in April 2009.

Scheme proposals commentary

80. Based on respondents' views and latest forecast, we recommend the following incentive scheme structure and target:

Unbundling of Reactive Power and Transmission Losses

Reactive Power

81. The proposal is to implement an unbundled reactive scheme with reactive power price indexation and transmission losses scheme for 1 year.
82. The unbundling proposal includes reactive power price indexation. The following table indicates the target. This target will change with the application of the default power price indexation.

| Scheme | Indexed Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------|----------------|-----------------------|---------|-------------------------|--------|
| Unbundled reactive | £56m | 30% | £4m | 30% | £4m |

83. Our reactive forecast for 2009/10 is 19.2TVarh.

Transmission Losses

84. The transmission losses forecast highlights the uncertainties associated with transmission losses that we have seen over recent years. Due to these uncertainties and the limited amount of control the SO has over the volume, we are proposing low sharing factors and a low cap and collar.
85. Therefore, we are proposing a 3 year target of 6.0TWh with a 0.2TWh deadband.

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|-------------------------------|-----------------|-----------------------|---------|-------------------------|--------|
| Unbundled transmission losses | 5.8TWh – 6.2TWh | 10% | £0.5m | 10% | £0.5m |

86. We are also proposing to roll forward the method for the calculation of the transmission losses reference price.

Remaining Bundled Scheme

87. The target for the remaining scheme would be £757m using current NIA. Due to the asymmetrical risk for the scheme we are proposing asymmetrical sharing factors.

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------------|--------|-----------------------|---------|-------------------------|--------|
| Remaining bundled scheme | £757m | 20% | £15m | 10% | £15m |

88. Using the New NIA methodology, the scheme would look like:

| Scheme | Target | Upside sharing factor | Cap, £m | Downside Sharing factor | Collar |
|--------------------------|--------|-----------------------|---------|-------------------------|--------|
| Remaining bundled scheme | £559m | 20% | £15m | 10% | £15m |

Adjustments to the Incentive Scheme Target

89. Within our latest forecast, there are a number of uncertainties around key assumptions. Two such assumptions are:
- The assumptions used for the introduction of UIoLI
 - Changes in the availability of providers of commercial balancing services
90. These uncertainties can significantly influence balancing costs. To ensure that a change in these key assumptions are reflected in the incentive, we are proposing that the incentive target is adjusted if there is a material change from our forecast assumptions.

Section 5 BSUoS Forecast

This section provides an updated BSUoS forecast for 2009/10.

5.1 BSUoS Forecast and Wider Cost Impact

91. BSUoS costs can be described as follows:

BSUoS = External Incentive + Internal Cost Incentive + Incentive payment
where

External incentive = Incentive scheme costs + New NIA

Internal incentive = internal cost incentive agreed for the TPC period

Incentive payment = profit / loss payment to / from National Grid

92. In this forecast we have used a fixed internal cost incentive term and we have assumed that there is no profit or loss for the incentive payment. We have used our incentive target and the P10 and P90 range to develop the BSUoS forecast and range.

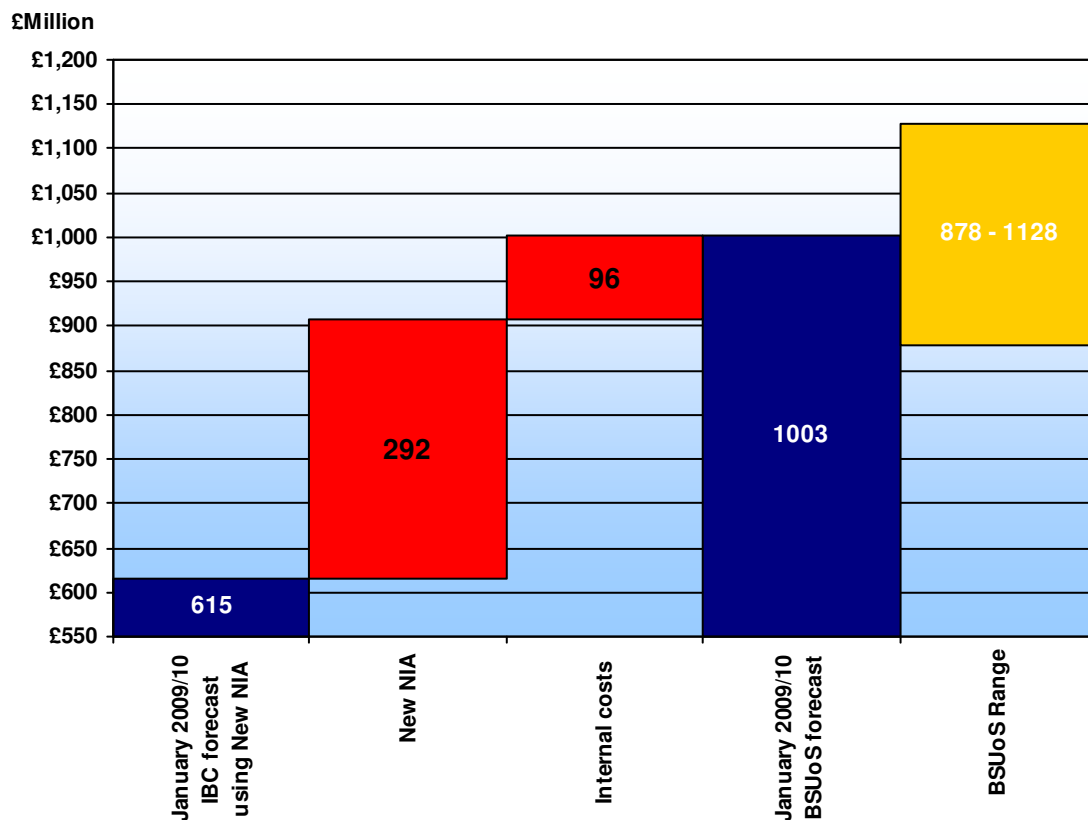


Figure 5.1: BSUoS forecast and range

Section 6 Contact details

If you would like to discuss any issues on SO incentives, please contact us via the details below.

To register your interest in receiving future communications on SO incentive development, please email: SOIncentives@uk.ngrid.com

To access information on the web via our dedicated web site, go to:

Electricity SO Incentives: <http://www.natonalgrid.com/uk/electricity/>

Gas SO Incentives: <http://www.natonalgrid.com/uk/gas/>

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Power and Fuel Price

| | UK Baseload | | UK Peak | | French Peak | | Clean Gas Price | |
|------------------|-------------|--------|---------|--------|-------------|--------|-----------------|--------|
| | (£/MWh) | | (£/MWh) | | (£/MWh) | | (£/MWhe) | |
| | Oct-08 | Jan-09 | Oct-08 | Jan-09 | Oct-08 | Jan-09 | Oct-08 | Jan-09 |
| April | 59.84 | 46.21 | 72.18 | 56.04 | 65.06 | 56.40 | 48.46 | 37.20 |
| May | 57.11 | 44.11 | 68.89 | 53.48 | 62.10 | 53.84 | 46.26 | 35.50 |
| June | 64.85 | 50.08 | 78.23 | 60.73 | 70.51 | 61.13 | 52.52 | 40.31 |
| July | 65.07 | 49.67 | 78.51 | 61.00 | 79.12 | 65.83 | 52.02 | 38.97 |
| August | 57.25 | 43.70 | 69.08 | 53.67 | 69.61 | 57.92 | 45.77 | 34.29 |
| September | 57.68 | 44.03 | 69.61 | 54.08 | 70.14 | 58.36 | 46.12 | 34.55 |
| October | 51.09 | 41.02 | 60.10 | 50.53 | 77.75 | 64.35 | 44.17 | 36.09 |
| November | 64.01 | 51.40 | 75.31 | 63.31 | 97.42 | 80.63 | 55.34 | 45.22 |
| December | 75.64 | 60.74 | 88.99 | 74.81 | 115.12 | 95.28 | 65.40 | 53.44 |
| January | 70.90 | 56.93 | 89.21 | 70.13 | 107.13 | 89.31 | 64.42 | 50.09 |
| February | 65.51 | 52.60 | 82.42 | 64.80 | 98.98 | 82.52 | 59.53 | 46.28 |
| March | 70.19 | 56.36 | 88.31 | 69.43 | 106.05 | 88.42 | 63.78 | 49.59 |