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Dear Stuart

Re: Managing Constraints on the GB Transmission System

Thank you for your letter of 17 February in which you asked National Grid to conduct an urgent review into whether changes are required to the existing commercial and charging arrangements for access to the GB transmission system in order to reduce the cost of constraint management. In the event that National Grid believes that changes are necessary, you asked that proposals are raised by the end of February.

In response to this letter, National Grid has reviewed the way in which constraint costs could be managed differently with emphasis on four areas; namely, the way in which intertrips are priced, targeting of constraint costs through locational pricing, greater alignment between System Operator (SO) and Transmission Owner (TO) incentives and administered BM prices for constraint management.

After some deliberation, we concluded that some changes could be beneficial in reducing constraint costs at this time, although I would emphasise that National Grid believes that the arrangements currently in place fully comply with National Grid's obligations under the Electricity Act 1989 and as System Operator to act in an "efficient, economic and co-ordinated manner". We also believe that we have fully complied with our Licence obligation to keep the Use of System Charging Methodology under review at all times.

Against this backdrop, we shared our initial thinking with the industry at the "Operational Forum" on the 24th February and we have subsequently raised CUSC Amendment Proposal 170 (Category 5 System to Generator Intertripping Scheme) and Charging Methodology Consultation GB ECM-18 (Locational BSUoS Charging Methodology). In parallel, we are further developing our thinking on SO/TO incentives and will consider administered BM prices further in the near future.

Both in discussions with industry parties and through the consultation process, we have sought a wide range of views to establish whether there is appetite for the incremental changes set out in our proposals. Once the consultation processes have closed we will fully consider all of these views in the preparation of our final reports.

We will continue to keep you updated as to our progress.

Yours sincerely

Alison Kay