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24 March 2011

Dear Andrew

GB Connect and Manage Derogation Cost Analysis

I am writing to provide an update to our 18 January 2011 letter on the potential constraint costs arising from the implementation of the new Connect and Manage arrangements for generation connections.

This letter updates the England and Wales analysis and, for the first time, includes Scottish generation projects. As with the previous letter we have provided the information on a contracted basis (which we continue to view as a high cost, low likelihood scenario) and on a 'more likely' view based around our Gone Green scenario.

Approach to the Analysis

Since the 18 January letter we have sought to further refine the approach we adopt to provide our 'more likely' view. In the previous analysis we simply used the Gone Green Scenario throughout. However we now believe it is more appropriate to use the contracted data for the first two years (as we have more certainty) before continuing to use the Gone Green scenario for 2013/14 onwards, where there is greater uncertainty over terminations and potential project slippage.

Compared to the previous analysis we have also updated the boundary capabilities on the transmission system used in the model based on the latest available data.

We have limited the analysis to 2017/18 as beyond this there are transmission reinforcements associated with generation projects that are not sufficiently developed to be included in the modelling. Given the known requirement for these reinforcements any modelling undertaken without these reinforcements would misrepresent the incremental constraint costs.

The same caveats from the previous analysis, including the results being a snapshot of the best information at the time, are equally applicable here. The following tables provide a summary of the results.

Contracted Position Analysis

The tables below show the cumulative GW for each year in the analysis and the corresponding additional constraint costs from the analysis.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
England & Wales	4.6	6.8	11.2	19.1	23.4	29.0	33.3	**127.2**
Scotland	1.1	2.4	3.3	5.5	6.9	7.8	10.7	**37.6**
Total	**5.7**	**9.2**	**14.5**	**24.6**	**30.3**	**36.7**	**44.0**	**164.9**

Contracted GW

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
England & Wales	0.3	1.1	5.2	40.2	168.0	118.0	141.6	474.4
Scotland	15.8	65.4	77.3	62.5	74.4	114.9	187.0	597.3
Total	**16.1**	**66.5**	**82.5**	**102.7**	**242.4**	**233.0**	**328.5**	**1071.7**

Additional Constraint Costs (£m)

"More Likely" Analysis (Contracted Position to 2012/13 with Gone Green for Subsequent Years)

The tables below show the assumed GW connecting in each year and the corresponding additional constraint costs from the analysis.

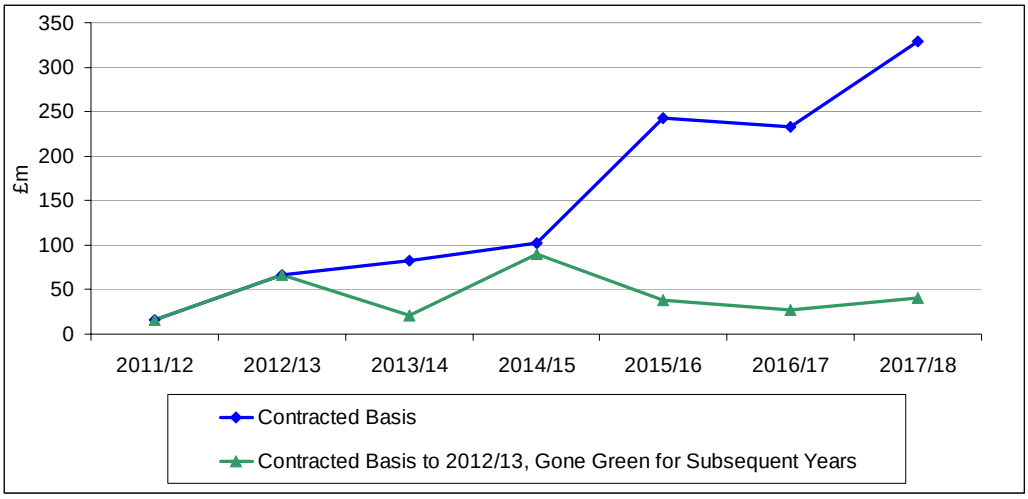
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
England & Wales	4.6	6.8	2.9	3.3	5.0	7.0	8.3	37.9
Scotland	1.1	2.4	5.8	6.9	6.9	7.9	8.8	39.9
Total	**5.7**	**9.2**	**8.8**	**10.2**	**11.9**	**14.9**	**17.1**	**77.8**

Assumed GW

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
England & Wales	0.3	1.1	0.1	2.0	2.0	17.3	10.3	33.2
Scotland	15.8	65.4	20.4	87.8	35.9	9.8	30.6	265.7
Total	**16.1**	**66.5**	**20.5**	**89.8**	**37.9**	**27.1**	**41.0**	**298.9**

Additional Constraint Costs (£m)

The chart below compares the costs per year under the two scenarios.



Analysis of additional Constraint costs under the two modelled scenarios

The information in this letter will be updated regularly and we will of course continue the ongoing dialogue with DECC and Ofgem colleagues to ensure that you are well informed of progress.

I trust that this letter is useful in outlining our current view of the likely Constraint Costs arising from the Connect and Manage regime. If you would like to discuss any of the issues raised in more detail then please feel free to contact myself or John Perkins (01926 656337).

Yours sincerely,

Alison Kay

cc: Hannah Nixon