

## NOTICE UNDER SECTIONS 7(5) AND 8(4) OF THE GAS ACT 1986

This notice is issued by the Gas and Electricity Markets Authority ("the Authority") under sections 7(5) and 8(4) of the Gas Act 1986 ("the Gas Act") in connection with National Grid Transco plc's ("NGT") proposed sale of one or more of Transco plc's local gas distribution networks ("DNs") ("the proposed transaction").

In issuing this notice and describing the proposed regulatory process to be followed, it is important to make clear that there can be no expectation on the part of NGT, Transco plc, potential DN purchasers, shippers or any other interested parties either as to what the Authority's final decision in relation to the proposed transaction may be, or as to the regulatory framework which may be implemented if the Authority consents to the proposed transaction. The information contained in this notice is not binding on the Authority. Nothing in this notice is to be construed as granting any rights or imposing any obligations on the Authority. The Authority's discretion in this matter will not be fettered by any statements made in this notice and all references to the proposed timetable or decisions by the Authority are qualified by this statement.

As explained in paragraph j below, in the event that the proposed transaction does not proceed as planned or any conditions imposed by the Authority are not complied with, the Authority retains the right to revoke any or all of the licences issued pursuant to or in connection with this notice.

### A. Notice under section 7(5)

The Authority hereby gives notice pursuant to section 7(5) of the Gas Act as follows:

1. The Authority has received eight applications from Transco plc (company number 2006000), whose registered office is situated at 1-3 Strand, London WC2N 5EH ("Transco") seeking the grant of eight new additional gas transporter ("GT") licences in relation to each of its DNs (individually "the Licence" and collectively "the Licences").
2. The Authority proposes to grant the new additional GT Licences to Transco.
3. The applications for the new additional GT Licences request that Transco be authorised to:
  - a. convey gas through pipes to any premises in the following areas (as defined in Special Condition 28B, Part 1b, paragraph 6A of Transco's existing GT licence) respectively:
    - Scotland
    - North of England
    - North West
    - East of England
    - West Midlands
    - Wales and the West
    - London

## South of England

and

- b. convey gas through pipes to any pipe-line system operated by another GT.

The applications for the new additional GT Licences received from Transco request restricted geographical authorised areas in respect of each new additional GT Licence as described above. It is important to note that the Authority has not yet come to a decision as to what the extent of the authorised area of each DN will be and it is possible that each of the new additional GT Licences may be granted with an authorised area covering the whole of Great Britain without any geographical restriction as requested by Transco.

- 4. The Authority is of the view that the grant of the new additional GT Licences in the context of the proposed transaction would be in accordance with its principal objective and statutory and other duties. The reasons why the Authority proposes to grant the eight new additional Licences to Transco are as follows:
  - a. In May 2003, NGT publicly announced that it would consider the sale of one or more of Transco's DNs if it were to maximise shareholder value. Any such sale would require the consent of the Authority, the Health and Safety Executive and the Secretary of State for Trade and Industry.
  - b. Transco is currently the holder of a GT licence under the provisions of the Gas Act. This covers (amongst other things) its operation of the National Transmission System ("NTS") and the DNs. As part of the process of a potential sale of DNs, Transco's current GT licence will need to be restructured to facilitate separation. The resulting independent DNs (and any retained DNs which may be required by the Authority to be legally separate from the NTS) will need to hold GT Licences in order to be able to convey gas.
  - c. A key determinant of the timetable for the proposed transaction is the mechanism by which the DNs receive GT licences. Under the process proposed, Transco has applied to Ofgem for eight new additional GT Licences for the DNs (i.e in relation to the DNs to be sold and those to be retained) to be granted to Transco to accommodate a potential sale. Ofgem will now consult under the Gas Act for a period of two months on the proposal to grant these new additional GT Licences to Transco. Subject to consideration of consultation responses, the new additional GT Licences would then be granted to Transco. It is proposed that the new additional GT Licences would, on grant, largely "mirror" Transco's existing GT licence in that the provisions of these Licences will, initially, be largely the same as Transco's existing GT licence.
  - d. At the same time, the process of identifying the required modifications to these new additional GT Licences and to the existing GT licence held by Transco would commence and these proposed modifications to the eight new additional GT Licences and Transco's existing GT licence would be

the subject of an informal consultation document that Ofgem intends to release in early September 2004.

- e. This informal consultation document referred to in paragraph d above will have been informed by the development of the commercial and regulatory framework that has been undertaken through the DN Sales industry work group process in recent months. As has been noted in recent industry work group meetings, Ofgem is working towards reaching all significant decisions on the development of the commercial and regulatory framework by August 2004.
- f. Following the release of the informal consultation document referred to in paragraph d above, and subject to consideration of respondents' views, Ofgem would issue a notice under section 23 of the Gas Act to formally modify each of Transco's GT licences (ie Transco's existing GT licence and, if granted, the new additional GT Licences). The notice would be formally consulted upon for 28 days.
- g. During the formal section 23 consultation period referred to in paragraph f above, the Authority will meet to determine whether it wishes to consent (under Amended Standard Condition 29 of Transco's existing GT licence) to the proposed disposal by Transco of DN assets to DN companies which will (at that stage) be wholly owned by Transco. This meeting is scheduled to occur in mid November 2004. It should be noted that if the Authority is minded to consent to the proposed disposal it has the discretion to attach conditions to its consent.
- h. In the event that the Authority consents to a disposal of DN assets from Transco to the DN companies then, following expiry of the formal section 23 consultation period and subject to consideration of responses, the Authority would issue directions to bring into effect the modifications to Transco's existing GT licence and the new additional GT Licences.
- i. Following the completion of this process, Transco would then make a applications for consent to the Authority (under section 8AA of the Gas Act) and to the Secretary of State for Trade and Industry (under a Special Condition in each new additional GT Licence which will be equivalent to Special Condition 25A of Transco's existing GT licence) for the new additional GT Licences to be transferred from Transco to the DN companies that will (at that stage) be wholly owned by Transco. Once this application is received there would be a two month formal consultation under section 8AA of the Gas Act relating to the proposed transfer. Ofgem expects that this application would be received in December 2004 thereby allowing the consultation and subsequent transfer of the new additional GT Licences to be completed by 1 March 2005 subject to the responses received to the consultation process and the grant of the necessary consents.
- j. As specifically noted in the introduction to this notice, the Authority has not reached any decision regarding the proposed transaction nor any of the individual consultations outlined above. However, for the avoidance of doubt, it should be noted that the Authority has not yet formed a view as to whether each of Transco's retained DN and NTS businesses should be separate legal entities. In order to avoid pre-judging the Authority's decision on this issue (and any other matters which may be passed to the Authority for decision making or otherwise for determination) and to

allow the process to continue in line with its timetable, Transco has made applications for eight new additional GT Licences. If following the outcome of this consultation, these new additional Licences are granted and if the Authority subsequently determines that it is unnecessary for the Transco retained DNs to be legally separate from the NTS or from each other then the Authority would reserve the right to revoke surplus Licences relating to the retained DNs. Similarly, the Authority would also reserve the right to revoke the new additional GT Licences if the Authority does not consent to the disposal of DN assets by Transco to the DN companies or if completion of the proposed transaction does not take place within a specified time period or where any conditions specified by the Authority as part of the consent process are not complied with.

#### **B. Notice under section 8(4)**

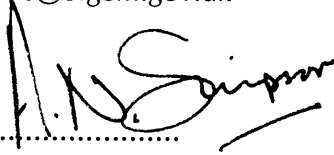
The Authority hereby gives notice pursuant to section 8(4) of the Gas Act as follows:

5. As set out above, eight applications for new additional GT Licences under Section 7 of the Gas Act have been received by the Authority from Transco.
6. If the Authority decides to grant the new additional Licences to Transco then the Authority proposes to modify the Standard Conditions of each new additional GT Licence.
7. The proposed modifications would involve alteration to the Standard Conditions of each new additional GT Licence so that they largely reflect the Standard Conditions (as amended) as contained in Transco's existing GT licence.
8. Further, if the Authority decides to grant the new additional GT Licences to Transco, then the Authority proposes to introduce Special Conditions in each new additional GT Licence so that they largely reflect the Special Conditions as contained in Transco's existing GT Licence.
9. The purpose and effect of the modifications described in paragraphs 6, 7 and 8 above will be to ensure that Transco is granted up to eight new additional GT Licences which largely reflect the provisions of its existing GT licence.
10. The Authority is of the view that the modifications described in paragraphs 6, 7 and 8 above in the context of the proposed transaction would be in accordance with its principal objective and statutory and other duties. The reasons for the modifications are the same as those set out in paragraph 4 above in relation to the notice under section 7(5) of the Gas Act.

For convenience, a copy of Transco's existing GT licence (as at 11 July 2004) is attached to this notice. It should be noted that whilst the intention is that the eight new additional GT Licences which are proposed to be granted to Transco are expected to largely mirror Transco's existing GT licence, there will be exceptions to this general principle. The Authority therefore reserves the right to issue new additional GT Licences which have terms and conditions which are different to

those contained in Transco's existing GT licence where it considers that it is appropriate to do so.

Any representations or objections with respect to the proposed grant of the new additional GT Licences to Transco or in relation to the proposed modifications to the Standard Conditions of the Licences or in relation to the introduction of Special Conditions (in each case largely in the format of Transco's existing GT Licence as attached to this notice) may be made on or before 24 September 2004 and should be addressed to Michael Fewes at 9 Millbank, London, SW1P 3GE or Michael.fewes@ofgem.gov.uk

A handwritten signature in black ink, appearing to read 'N. Simpson', written over a dotted line.

**Nick Simpson**  
**Duly authorised on behalf of the Authority**

**23 July 2004**