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**The Company Secretary
Blackwater SC A Limited
191 West George Street
Glasgow
G2 2LD**

GAS TRANSPORTERS LICENCE

STANDARD SPECIAL CONDITION D3: Long Term Development Statement

Direction issued by the Gas and Electricity Markets Authority pursuant to Standard Special Condition D3: Long Term Development Statement

WHEREAS:

- (a). Blackwater SC A Limited ("Blackwater SC A"), a company registered in Scotland with company number SC264065 and registered at 191 West George Street, Glasgow G2 2LD ("the licensee") is the holder of a gas transporters licence ("the licence") granted by the Gas and Electricity Markets Authority ("the Authority") under section 7 of the Gas Act 1986 ("the Act") on 5 November 2004 in respect of the licensee's Scotland Distribution Network ("the DN").

- (b). Pursuant to a direction issued today by the Authority (the "modification direction"), certain modifications to the licence were directed to take effect. Such modifications included inter alia the introduction of Standard Special Condition D3 (the "condition").

- (c). Pursuant to paragraph 1 of the condition, the licensee shall comply with a direction by the Authority to prepare an annual statement, in respect of each Distribution Network (as defined in Special Condition E2A (Revenue Restriction Definitions in respect of the Distribution Network)) in such form and at such a time as may be specified in the direction giving, with respect to each of the 10 succeeding years beginning with 1 October, such information by way of forecasts of the use likely to be made of the pipe-line system to which this licence relates; and the likely developments of that system and those facilities which the licensee expects from time to time to be taken into account in determining the charges for making connections to that system and in pursuance of transportation arrangements.
- (d). Pursuant to paragraph 3(b) of the condition, the licensee shall, furnish such other gas transporters as the Authority may direct with a copy of each statement prepared under paragraph 1 and of each revision of the statement prepared under paragraph 2.
- (e). Pursuant to paragraph 3(c) of the condition, the licensee shall, in such form and manner as the Authority may direct, publish such a summary of each statement or, as the case may be, of a revision of the statement as will assist a person in deciding whether to ask for a copy of the version mentioned in sub-paragraph (d).
- (f). Ofgem has consulted upon proposed licence conditions relating to Long Term Development Statements for the National Transmission System and each Distribution Network and received a number of responses in relation to its consultations.
- (g). Having carefully considered terms of the condition and the responses it has received to its consultations, the Authority is minded to direct on the terms and conditions set out in this letter:

NOW THE AUTHORITY HEREBY DIRECTS AS FOLLOWS:-

1. Subject to paragraph 5 below and having regard to the responses received by the Authority to its open letter of 8 March 2005 and for the purpose of ensuring comparability over time and between the statement prepared by the licensee, by Transco plc as licensee for the National Transmission System and by other licensees of the Distribution Networks, the Authority in accordance with the condition hereby directs the

licensee to prepare an annual statement by 30 September 2005 and each subsequent formula year in the form set out in the Annex to this direction. The form of the statement, prepared in accordance with the Annex, should follow as far as is reasonably possible the current format employed by Transco plc in preparing the Transportation Ten Year Statement, including units of measurement, formatting of tables, categories of information provided, demand and supply assumptions and discuss how these demand and supply assumptions are used. The Authority requests that the licensee publish its prepared annual statement on a publicly available web-site in such manner as will secure adequate publicity for it.

2. Pursuant to paragraph 3(b), the Authority directs the licensee to furnish to other gas transporters a copy of the statement prepared under paragraph 1 and each revision of the statement prepared under paragraph 2.
3. Pursuant to paragraph 3(c) of the condition, the Authority directs the licensee to publish a summary of the statement which shall include the executive summary of the statement, as set out in the Annex to this direction on a publicly available web-site in such manner as will secure adequate publicity for it.
4. The Authority anticipates that in producing such a statement pursuant to paragraph 1 of the condition, the licensee and Transco plc, as the licensee for the National Transmission System, will consult each other regarding relevant assumptions including demand and supply assumptions of the NTS and the licensee's Distribution Network. The Authority expects the licensee to keep the form of the statement under review to take account of developments in the operation and management of the Distribution Network and the National Transmission System.
5. This direction shall take effect on and from the date specified below and shall continue until revoked, or amended by the Authority following consultation with the licensee on giving six months prior written notice to the licensee or such other period as may be agreed in writing between the Authority and the licensee.

Dated the 1st May 2005

Joanna Whittington
Director of Gas Distribution

Duly authorised by the Authority

Annex – Form of Long Term Development Statement

The statement should consist of the following sections:

1. Executive Summary

2. Document Scope

This should at a high level discuss the process by which the analysis contained in the statement was carried out. This section should also briefly set out the structure of the document.

3. Demand

This section should present forecasts for demand ten years ahead and their sensitivities for each Local Distribution Zone (LDZ) within the Distribution Network (DN) operated by the licensee. It should discuss how current forecasts relate to previously published forecasts and discuss any divergence. Demand forecasts should be broken down by customer types, end use of gas, peak and off-peak, firm and interruptible and by any other category by which Transco plc currently breaks down demand forecasts in its Transportation Ten Year Statement for the National Transmission System (NTS).

4. Supply

The statement should give information on any gas supply and storage facilities that are currently connected to the DN or are likely to connect in future.

5. Investment in the Distribution Network

The statement should give a full description of development plans on the Local Transmission System (LTS) ten years ahead, in a manner comparable to the way development plans are currently discussed for the National Transmission system. This should include details of associated projects which present the scope for further connection.

The statement should discuss how development plans relate to demand and supply developments on the LDZs within the licensee's DN, and to wider developments on the NTS and on other DNs.

6. Commercial Developments

The statement should discuss any likely commercial developments, including potential reforms of existing arrangements.