

To: The Company Secretary
National Grid Gas plc
1-3 Strand
London
WC2N 5EH

The Company Secretary
Northern Gas Networks Limited
1200 Century Way
Colton
Leeds
LS15 8ZA

The Company Secretary
Scotland Gas Networks plc
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

The Company Secretary
Southern Gas Networks plc
55 Vastern Road
Reading
RG1 8BU

The Company Secretary
Wales and West Utilities Limited
Ferry Road
Cardiff
CF11 0XR

DIRECTION UNDER SECTION 23(3) OF THE GAS ACT 1986 IN RELATION TO GAS TRANSPORTER LICENCES HELD IN RESPECT OF GAS DISTRIBUTION BUSINESSES

Whereas:

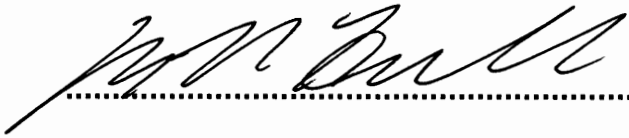
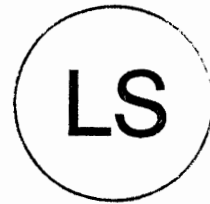
- 1 National Grid Gas plc, Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales and West Utilities Limited are holders of gas transporter licences in respect of their gas distribution businesses ("the GDN Licences"), granted under section 7 of the Gas Act 1986 ("the Act").
- 2 Pursuant to section 23(3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice, on 8 March 2006 ("the Notice") that it proposed to modify paragraph 8(6)(a) of Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) of each of the GDN Licences by amending the definition of "threshold amount" for the purposes of an income adjusting event ("IAE"). The Authority proposed to modify the GDN Licence held by National Grid Gas plc by making the proposed licence modification with respect to each of the four distribution networks within Part 1b this licence.

- 3 The licence modifications proposed to the GDN Licences were set out in Appendix 1 of the Notice.
- 4 The Authority received no responses prior to the close of the consultation period in respect of the Notice.
- 5 Pursuant to section 23(4)(b) of the Act, the Authority gave notice of its intention to modify the GDN Licences to the Secretary of State and has not received a direction from the Secretary of State not to make the proposed modifications.
- 6 By 5 April 2006, each of the GDN Licensees had given their consent to the proposed modification of their respective GDN Licence.
- 7 Pursuant to section 38A of the Act, the reasons for making this Direction to modify the GDN Licences are set out in the following documents:
 - (a) 266/05 - Open letter on Income Adjusting Events thresholds for gas distribution networks, Ofgem, December 2005, and
 - (b) 44/06 - Open letter: Ofgem decision on Income Adjusting Event thresholds for gas distribution networks, Ofgem, February 2006.
- 8 Copies of the documents referred to in this Direction are available on request from Ofgem or are on the Ofgem website at www.ofgem.gov.uk.

Pursuant to the powers contained in section 23 of the Act, and with effect on and from 12 April 2006, the Authority hereby directs that:

- (a) the GDN Licences held by Northern Gas Networks Limited, Scotland Gas Networks plc, Southern Gas Networks plc and Wales and West Utilities Limited be modified by substituting for the existing paragraph 8(6)(a) of Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) of the respective GDN Licence, a new paragraph 8(6)(a) of Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) in the form annexed in Appendix 1 to this Direction; and
- (b) the GDN Licence held by National Grid Gas plc be modified by substituting for the existing paragraphs 8(6)(a) in respect of each of the four distribution networks within Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity), new paragraphs 8(6)(a) in respect of each of the four distribution networks within Part 1b of Special Condition E2B (Restriction of revenue in respect of the Distribution Network transportation activity) in the form annexed in Appendix 1 to this Direction.

The official seal of the Gas and Electricity Markets Authority is affixed to this Direction and is authenticated by

A handwritten signature in black ink, appearing to read 'Robert Hull', positioned above a horizontal dotted line.

Robert Hull

Director, Transmission

Duly authorised on behalf of the Authority

13 April 2006

APPENDIX 1

Special Condition E2B

Part 1b

8.

(6) Determination of any adjustment factor to be applied to $DNMR_t$ (DNIAE_t)

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the network code;
 - (ii) an event or circumstance resulting in the declaration of a network gas supply emergency (having the meaning given to such term in the network code); and
 - (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 8(6)(i) of this condition,

where the event has increased or decreased the value of $DNExCP_t$ (having the meaning given to that term in paragraph 8(5)(c) of this condition) by more than:

- (aa) £1,500,000 for formula year $t=5$;
- (bb) £1,000,000 for formula year $t=6$;
- (cc) £1,500,000 for formula year $t=7$; or
- (dd) £2,000,000 for any other formula year

(the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 8(6)(a)(ii) above.