



Paul Whittaker
Director of Regulation
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill
CV34 6DA

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value for all customers*

Your Ref:
Our Ref:
Direct Dial: 020 7901 7050
Email: Robert.Hull@ofgem.gov.uk

Date: 25 May 2007

Dear Mr Whittaker,

Request for renewal of consent under Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) of National Grid Gas Plc's gas transporter licences

I am writing in response to your letter of 12 April 2007 in relation to a request by Transco plc (the Licensee) that the Authority renew a consent which is due to expire on 25 May 2007, granted to NGG under standard special condition A36 (d) of its gas transporter licence. Pursuant to paragraph standard special condition A36 (d), the Licensee is permitted to carry on certain businesses or conduct certain activities provided that the Authority consents in writing.

Background

On 1 May 2005 (1 May Consent), the Authority granted a consent to the Licensee, to conduct certain activities pursuant to certain service arrangements (listed in Table 1 of the schedule to Transco's letter of 6 April 2005) which the NGG proposed to enter into on the basis that such agreements were necessary transitional arrangements relating to the sale of four of Transco's Distribution Networks ("DN Sales").

Pursuant to a direction issued on 1 May 2005 and reissued on 25 May 2005 ("the 25 May Consent") by the Authority, the Authority consented to the Licensee providing the services described in the schedule to the 25 May consent. The 25 May Consent is due to expire on 25 May 2007.

On 12 April 2007 NGG wrote to Ofgem requesting that the Authority renew the consent in respect of certain of the Transmission activities. However the contract between NGG and the Independent Distribution Networks expires on 31 May 2007, and if consent is granted will be renewed for a year. Therefore NG have asked for the consent to apply until 31 May 2008.

The Authority's views

Subject to paragraphs 2 and 3 of the consent annexed to this letter, the Authority considers that the 25 May Consent should continue to be in force for the specified activities until 31 May 2008 for the following reasons:

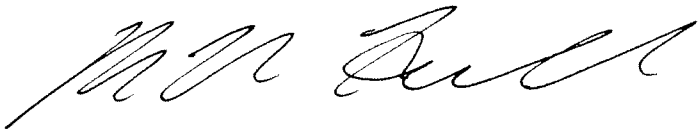
- a. the Independent Distribution Networks have asked for the consent to be renewed;

- b. the consent is renewed for a further limited period in order to ensure safety for consumers while Independent Distribution Networks find alternative means of procuring these services.

Authority's Decision

The Authority has decided to issue a consent (attached at Annex 1) under SSC A36 paragraph 3 (d) with effect from 25 May 2007. The consent is granted subject to paragraphs 2 and 3 of the consent annexed to this letter. In particular it should be noted that nothing in the consent shall fetter the Authority's discretion in relation to the interpretation or enforcement of any provision of the Competition Act 1998 or the EC Treaty, even if such interpretation or enforcement relates to the activities covered by this consent. The consent will expire on 31 May 2008.

Yours sincerely



Robert Hull

Director of Transmission.

**The Company Secretary
Transco plc
1-3 Strand
London
WC2N 5EH**

**GAS TRANSPORTER'S LICENCE
STANDARD SPECIAL CONDITION A36 (RESTRICTION ON ACTIVITY AND
FINANCIAL RING FENCING)**

**Consent issued by the Gas and Electricity Markets Authority to Standard Special
Condition A36 (Restriction on Activity and Financial Ring Fencing)**

WHEREAS:

- (a). Transco Plc, a company registered in England and Wales with company number 2006000 and registered office at 1-3 Strand, London WC2N 5EH ("the Licensee") is the holder of two gas transporter licences ("the Licences") one of which is treated as granted by the Gas and Electricity Markets Authority ("the Authority") under section 7 of the Gas Act 1986 ("the Act") which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry pursuant to paragraph 19 of Schedule 7 to the Utilities Act 2000 on 28 September 2001 and relates to the National Transmission System ("the NTS Licence") and the other which was granted by the Authority under section 7 of the Act on 5 November 2004 and relates to the four distribution networks held by the Licensee. ("the RDN Licence").
- (b). Pursuant to a direction issued on 1 May 2005 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 A36 (Restriction on Activity and Financial Ring Fencing) (the "condition").
- (c). Pursuant to paragraph 3(d) of the condition, the Licensee is permitted to carry on certain businesses or conduct certain activities provided that the Authority consents in writing.
- (d). The Licensee, wrote to the Authority on 6 April 2005 seeking the Authority's written consent to the Licensee conducting certain activities pursuant to certain service arrangements (listed in Table 1 of the schedule to Transco's letter of 6 April 2005) which the Licensee had entered into or proposed to enter into in respect of the NTS licence on the basis that such agreements are necessary transitional arrangements relating to the sale of four of Transco's Distribution Networks ("DN Sales") ("the Licensee's application").
- (e). On 1 May 2005, the Authority granted a consent to the Licensee, in response to the Licensee's application and pursuant to Standard Condition A36 (Restriction on Activity and Financial Ring Fencing) (the "1 May Consent").
- (f). On 25 May 2007 the Authority consented to the sale by Transco plc of Blackwater G limited (holder of a Gas transporters licence in respect of the South of England Distribution Network) to Scotia Gas Networks limited ("the Share Sale Consent").

- (g). On 25 May 2007, and pursuant to a request from Blackwater G Limited, the Authority reissued the 1 May Consent ("the 25 May Consent"). The 25 May Consent was conditional upon the share sale. The share sale occurred on 1 June 2005.
- (h). On 12 April 2007 the Licensee asked for a renewal of the 25 May Consent in respect of certain of the activities under the NTS licence. The contract between NGG and the Independent Distribution Networks expires on 31 May 2007. NGG have asked for the consent to apply until 31 May 2008 in order to fit with the expiration of the contract.
- (i). Having carefully considered the Licensee's application and the Licensee's letter of 12 April 2007 the Authority is minded to grant its consent on the terms and conditions set out in this letter:

NOW THE AUTHORITY HEREBY CONSENTS AS FOLLOWS:-

- 2. Subject to paragraphs 2 and 3 below based on the information provided by the Licensee in the letter of 12 April 2007 to the Authority, the Authority hereby consents to the Licensee providing the services described in Schedule 1 to this consent for the following reasons:
 - a. the Independent Distribution Networks have asked for the consent to be renewed;
 - b. the consent is renewed for a further limited period in order to ensure safety for consumers while Independent Distribution Networks find alternative means (as necessary) of procuring these services.
- 3. This consent is issued pursuant to Standard Condition A36 (Restriction on Activity and Financial Ring Fencing) only and, as such, its effect is restricted to this condition unless otherwise stated and for the avoidance of doubt:
 - (a). nothing in this consent shall fetter the Authority's discretion in relation to the interpretation or enforcement of any other provision of the licence, including, without limitation, any other paragraph of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing), even if such interpretation or enforcement relates to the activities covered by this consent;
 - (b). any reference in this consent to compliance with specific provisions of the licence or the absence of such references in this consent or any other consent, acceptance, approval, direction, indication, agreement or other similar licence related instrument issued by the Authority, shall in no way be construed as meaning the Licensee is not required to comply with any condition which is not specifically referenced and no adverse interference shall be drawn by any inconsistencies in approach; and
 - (c). notwithstanding paragraph 3 below, in the event that the Authority determines that the licensee has breached this consent, this consent shall be revocable immediately without notice at the sole discretion of the Authority.
 - (d). nothing in this consent shall fetter the Authority's discretion in relation to the interpretation or enforcement of any other provision in the Gas, Electricity Utilities or Competition Act or the EC Treaty, even if such interpretation or enforcement relates to the activities covered by this consent;
- 4. This consent shall take effect on and from 25 May 2007 and shall continue until 31 May 2008 unless revoked, amended or replaced 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 25 May 2007

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull
Director of Transmission

Duly authorised by the Authority

Schedule 1

Service Recipients	Contract/Service Agreement Services	Commencement	Expiry
<p>Northern Gas Networks Ltd, Wales & West Utilities Ltd, Scotland Gas Networks Ltd, South Gas Networks Ltd</p>	<p>Agreement for the Provision of Transmission Services</p> <p>Transco Plc</p> <p>Provision of a number of services to the stated service recipients:</p> <ul style="list-style-type: none"> • Emergency pipeline services-standby emergency response service, making safe, repairs; • Aerial surveillance services- overflight of pipelines and reporting on third party infringement/encroachment; • Online inspection services- coordination of pigging activities, including provision of pigging equipment; • Specialist pipeline services-provision of specialist equipment and manpower, support to planned interventions, as requested by DN. 	<p>25 May 2007</p>	<p>31 May 2008</p>