

To: The Company Secretary
National Grid Gas plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Direction issued to National Grid Gas plc by the Gas and Electricity Markets Authority pursuant to paragraph 1(b) of Special Condition C3 of National Grid Gas plc's gas transporter licence

Whereas

This Direction is issued to National Grid Gas plc ("the Licensee") by the Gas and Electricity Markets Authority ("the Authority") pursuant to paragraph 1(b) of Special Condition C3 (Restriction of Prices for Liquefied Natural Gas (LNG) Storage Services) ("SC C3") of the Licensee's gas transporter licence in respect of its National Transmission System (NTS) ("the NTS Licence") treated as granted under section 7 of the Gas Act 1986 ("the Act").

Paragraph 1(a) of SC C3 provides that the charges made by the Licensee for (i) the provision of Operating Margins and (ii) the supply of LNG storage services to any DNO Operator whose transportation system includes independent systems which are operated using LNG are the charges set out in tables 1 and 2 of SC C3 ("C3 prices").

Paragraph 1(b) of SC C3 provides that the Authority may direct that the requirement set out in paragraph 1(a) shall be suspended for such period of time as the Authority may specify in respect of (i) the provision of Operating Margins and/ or (ii) the supply of LNG storage services to any DNO Operator whose transportation system includes independent systems which are operated using LNG. Such a direction may be made in respect of one or more LNG storage facility and/or in respect of one or more "Operating Margins requirements" as set out in SC C3.

Much of the gas used for this purpose has previously been procured from National Grid's LNG storage facilities ("NG LNG") at the C3 prices. In January 2010 the Licensee undertook a tender for the procurement of Operating Margins (OM) gas. Ofgem's¹ open letter to the industry published in December 2009 set out its view that it was minded to suspend the C3 prices for the relevant period of OM provision if it judged competition to have been effective. The key criterion proposed for assessing the effectiveness of competition was whether the Licensee could purchase the complete volume of each of the OM requirements from providers other than NG LNG. The open letter also proposed modifications to SC C3 to provide the Authority with more flexibility in suspending C3 prices. These modifications have now been made.

Responses to the open letter in relation to the proposed key criterion for assessing effective competition expressed concern that Ofgem's proposed approach was potentially too simplistic a test upon which to conclude that competition has been effective.

Ofgem has considered the responses. It is our view that the relevant consideration in this context whether the Licensee can purchase its requirements without purchasing from NG LNG. However, we accept that there would be concerns if any party were able to exercise market power and have therefore taken this into consideration.

¹ Ofgem is the Office for Gas and Electricity Markets which supports the Authority. In this direction "Ofgem " and "the Authority" are used interchangeably.

In the light of our key criterion, the Authority has considered the results of the Licensee's tender, the range of tenders and the volumes tendered by non-NG LNG providers against each of the OM requirements. These indicate that, when the offers from NG LNG are excluded, the complete volume of the Locational North, Orderly Rundown and Non-locational OM requirements can be met. Therefore, the Authority considers that competition is effective for the provision of those OM requirements.

Now, the Authority hereby directs pursuant to paragraph 1(b) of the Condition that the C3 prices shall be suspended in respect of:

Glenmavis for:

- Non-locational; and
- Orderly rundown

Avonmouth for:

- Non-locational; and
- Orderly rundown

Partington for:

- Compressor failure and pipeline failure for:
 - Locational – North;
- Non-locational; and
- Orderly rundown

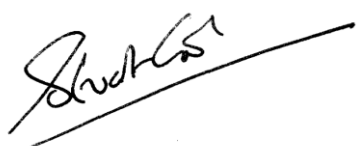
This Direction shall have effect from 06:00 on 1 May 2010 and shall expire at 06:00 on 1 May 2011.

Further details of the Authority's reasons for making this Direction are set out in the following documents:

"Operating Margins (OM) Contestability", Ofgem, 18 February 2010.

"Operating Margins (OM) Contestability", Ofgem, 21 December 2009.

These documents are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at (www.ofgem.gov.uk).



Stuart Cook

Senior Partner, Transmission and Governance

Duly authorised on behalf of the Gas and Electricity Markets Authority

18 February 2010