

To the Company Secretary:

National Grid Gas plc
Company No. 02006000
1-3 Strand
London
WC2N 5EH

GAS TRANSPORTERS LICENCE

STANDARD SPECIAL CONDITION A36 (RESTRICTION ON ACTIVITY AND FINANCIAL RING FENCING)

This consent is granted by the Gas and Electricity Markets Authority pursuant to Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing).

WHEREAS:

(a) National Grid Gas 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") and 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 of which was granted by the Authority under section 7 of the Act on 5 November 2004 and relates to the four gas distribution networks retained and operated by the Licensee (the "RDN licence").

(b) Pursuant to paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) ("SSC A36") of the RDN licence the Licensee can (subject to limitations set out in SSC A36) carry on any business or conduct any activity to which the Authority has given its consent in writing.

(c) On 25 May 2005, the Authority, in response to requests dated 6 April and 24 May 2005 made by the Licensee, granted consent (the "25 May 2005 consent") to the Licensee to conduct certain activities under certain service arrangements and agreements which were described in the Tables in the Licensee's consent request of 6 April 2005 and these activities were set out in Schedule 2 of the 25 May 2005 consent. This consent was granted on the basis of various expiration dates detailed in the 25 May consent.

(d) On 14 March 2008 and 8 May 2008 the Licensee requested of the Authority that consent be renewed for it to continue to conduct activities in relation to –

i) the system operation managed service agreement ("SOMSA") to the independent gas transporters ("IDNs") (each holding a gas transporter licence granted by the Authority relating to a gas distribution pipe-line system ("network")) in view of the 31 March 2008 expiry date of the 25 May 2005 consent in respect of this agreement;

ii) the agreement for provision of call handling services to the IDNs in view of the 1 April 2007 expiry date of the 25 May 2005 consent in respect of this service;

iii) the general services agreement to xoserve (xoserve Limited. Registered Office 1-3 Strand, London WC2N 5EH, Company Number 05046877) in view of the 31 March 2008 expiry date of the 25 May 2005 consent in respect of this agreement; and

iv) the emergency assistance agreements to all gas transporters in view of the 31 March 2008 expiry date of the 25 May 2005 consent in respect of these agreements.

(e) The Authority was satisfied that it was appropriate for the Licensee to continue providing these services if the IDNs wished to continue to procure these services from the Licensee and consent was renewed on 20 June 2008 until either

- i. 30 October 2009 for activities relating to SOSMA; or
- ii. 31 March 2009 for activities relating to the agreement for provision of call handling services to the IDNs, the general services agreement to xoserve and the emergency assistance agreements to all gas transporters,

specified in Schedule 1 of that consent (the “20 June 2008 consent”).

(f) As indicated in the 20 June 2008 consent, Ofgem undertook a review of the Gas Transporter to Gas Transporter services covered by consents and then consulted on 19 December 2008 to seek views on how such services should be provided in the future. The views expressed in the responses to that consultation have assisted the Authority in deciding how requests for renewal of these consents should be treated in the future.

(g) The Licensee wrote to Ofgem on 5 October 2009 and 26 October 2009 requesting an extension to the 20 June 2008 consent to allow the Licensee to continue to conduct the activities set out in Schedule 1 to the 20 June 2008 consent, summarised in above paragraph (d) of this recital, until 31 March 2013. Following a request for further information by the Authority, the Licensee provided details regarding the delays that have occurred in the SOMSA system migration programme.

(h) The Licensee has confirmed that although the IDNs have migrated system operations to their own control centres, they remain reliant on the Licensee’s Supervisory Control and Data Acquisition (“SCADA”) and related systems (GTMS, SC2004, and telemetry) to operate their networks. The IDNs have therefore not yet achieved full and independent control of their system operations.

(i) The SOMSA agreement was intended to be only a temporary arrangement until the IDNs were able to fully and independently manage their control systems. The Authority considers that extending this arrangement may delay or prevent the realisation of the full benefits of the previous sale of the Licensee’s networks.

(j) The Authority therefore considers that it is appropriate that any consent relating to SOMSA should allow only those activities that are still necessary for safe system operation. In addition, the Authority reserves the right to seek to establish whether the SOMSA programme has been effectively managed and costs were efficiently incurred.

(k) Having carefully considered the Licensee’s application, further information and the responses to the 19 December 2008 consultation as relevant, the Authority considers that it is appropriate for the Licensee to continue to provide the services listed in Schedule 1 until 31 March 2013 if the IDNs wish to continue to procure these services from the Licensee.

(l) The Licensee by requesting consent renewal has taken all such steps as it appears to the Authority for the time being to be appropriate for the Licensee to take for the purpose of securing or facilitating compliance with SSC A36(3)(d).

(m) The Authority is minded to give consent for the Licensee to carry on the activities described in Schedule 1 hereto, but on the terms and conditions set out in this letter.

NOW THE AUTHORITY HEREBY CONSENTS AS FOLLOWS:

1. Having regard to the Licensee’s requests dated 5 October 2009 and 26 October 2009, the Authority hereby consents, subject to paragraphs 2, 3 and 4 below, to the Licensee carrying out those activities set out in Schedule 1 hereto relating to –

(a) the system operation managed service agreement ("SOMSA") to the independent gas transporters ("IDNs") (each holding a gas transporter licence granted by the Authority relating to a gas distribution pipe-line system ("network")), specifically only those activities that are still necessary for safe system operation as described in Schedule 1 hereto;

(b) the agreement for provision of call handling services to the IDNs;

(c) the general services agreement to xoserve (xoserve Limited. Registered Office 1-3 Strand, London WC2N 5EH, Company Number 5046877); and;

(d) the emergency assistance agreements to all gas transporters.

2. This consent is deemed to have taken effect on and from 31 October 2009 with regard to sub-paragraph 1(a) above; and on and from 1 April 2009 for sub-paragraphs 1(b), (c) and (d) and this consent shall continue in effect until 31 March 2013 unless this consent is 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.

3. The Authority reserves the right to seek to establish whether the SOMSA programme has been effectively managed and costs were efficiently incurred.

4. This consent is issued pursuant to SSC A36 paragraph (3) (d) 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 SSC A36, even if such interpretation or enforcement relates to the activities covered by this consent;

(b) any reference in this consent to compliance with any specific provision 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 that the Licensee is not required to comply with any condition which is not specifically referenced and no adverse inference shall be drawn by any inconsistencies in approach; and

(c) notwithstanding paragraph 2, 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.

5. For the avoidance of doubt, this consent replaces the 20 June 2008 consent.

NOTICE

This document also constitutes notice under section 38A of the Act of the reasons for the Authority's decision to give this direction.

Dated 27 November 2009



Rachel Fletcher
Partner, Distribution

Duly authorised by the Authority

Schedule 1

Service Recipient(s)	Contract / Service Agreement	Commencement Date	Expiry Date
Northern Gas Networks Ltd, Wales & West Utilities Ltd, Scotland Gas Networks Ltd, Southern Gas Networks Ltd.	<p>System Operation Managed Service Agreement</p> <p>Provision and maintenance of the control and telemetry systems and support services to enable IDNs to individually monitor and control the pressures and flows of gas within their networks in order to achieve required physical balance.</p> <p>Other services include:</p> <ul style="list-style-type: none"> • Collaborative completion of the SOMSA exit process including; • GTMS replacement and • IDN system development activities such as SC2004 and telemetry for which they may need the Licensee's assistance. 	31 October 2009	31 March 2013
Northern Gas Networks Ltd, Wales & West Utilities Ltd, Scotland Gas Networks Ltd, Southern Gas Networks Ltd, Other Gas Transporters	<p>Provision of Call Handling Services Agreement</p> <p>A service operating a call handling facility for the receipt of all calls using the national 0800 111 999 gas emergency telephone number.</p> <p>The service will operate from the existing call centres, which will also be supporting the Licensee's own networks.</p> <p>Note: The agreement is intended to meet the requirements of the Gas Safety (Management) Regulations 1996 that the Licensee perform these duties on behalf of all gas transporters in Great Britain. Since the Licensee has a continuing statutory obligation upon expiry of this agreement, it will be necessary for the parties to re-negotiate with the Licensee for the provision of the service.</p>	1 April 2009	31 March 2013
xoserve	<p>xoserve - General Services Agreement</p> <p>Provision of services to xoserve including HR services, payroll, P&L and communications</p>	1 April 2009	31 March 2013
All Gas Transporters	<p>Emergency Assistance Agreement</p> <p>Provision of assistance between Gas Transporters in the event of a gas emergency.</p>	1 April 2009	31 March 2013