

The Company Secretary  
National Grid Gas plc  
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 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) (the "Condition"), the Licensee is permitted to carry on certain businesses or conduct certain activities provided that the Authority has given its consent in writing.

(c) The Condition also states that where the holder of the licence owns one or more relevant gas transporters, the licences for which are held in a single legal entity, references in the Condition to the "Licensee" shall mean that legal entity.

(d) The Licensee obtained with effect from 25 May 2005, the Authority's consent to provide to four gas transporters ("Independent Distribution Networks" - "IDNs") (each holding a gas transporter licence granted by the Authority relating to a gas distribution network) certain activities pursuant to various service agreements under transitional arrangements relating to the sale of the gas distribution networks by the Licensee (formerly "Transco plc").

(e) One of these agreements is for the provision of transmission services, further details of which are set out in Schedule 1 hereto, the initial consent for which had the expiry date of 25 May 2007, but was renewed by the Authority until 31 May 2008 (the "25 May 2007 consent").

(f) On 16 November 2007, the Licensee requested further extension to the 25 May 2007 consent for the provision of transmission services as described in Schedule 1 hereto. The Licensee provided supporting evidence that the IDNs has required the Licensee to request that the consent be renewed by the Authority because replicating service standards through alternative arrangements for the provision of transmission services would result in additional costs, which would be ultimately borne by consumers. The further consent was granted by the Authority on 31 July 2008, in respect of the transmission services described in Schedule 1 hereto, until 31 May 2009 (the "31 July 2008 consent").

(g) As was indicated in the 31 July 2008 consent, Ofgem undertook a review of the Gas Transporter to Gas Transporter services covered by the consents and 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.

(h) The Licensee wrote to Ofgem on 9 April 2009 and 2 June 2009 requesting an enduring extension to the 31 July 2008 consent to allow the Licensee to continue to provide contestable, safety critical services, as described in Schedule 1 hereto, in an efficient and reliable manner to third parties. The Licensee informed the Authority that the services are offered to third parties in order to maximise efficiencies and the utilisation of its resources and to share its fixed costs. The Licensee stated that the pricing structure for each service does not differentiate between services provided by the Licensee's own networks and those of the IDNs and hence economies of scale are equally shared by all parties to the ultimate benefit of end consumers.

(i) While some IDNs have chosen to purchase some services from alternative providers, it is clear that the IDNs continue to require the Licensee to provide contestable safety critical services as alternative arrangements for the provision of such transmission services and that this is likely to continue in the near future.

(j) Having carefully considered the Licensee's request, and the responses from the consultation, the Authority is satisfied that it is appropriate for transmission services as described in Schedule 1 hereto to continue to be provided by the Licensee if the IDNs wish to continue to procure these services from the Licensee.

(k) 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 paragraph 3(d) of the Condition.

(l) The Authority is therefore minded to grant its consent as requested but on the terms and conditions set out below.

#### NOW THE AUTHORITY HEREBY CONSENTS AS FOLLOWS:

1. Subject to paragraphs 2 and 3 below, having regard to the initial consent granted on 25 May 2005 and the extensions granted in the 25 May 2007 consent and 31 July 2008 consent, and for the reasons stated in the Licensee's request, the Authority in accordance with paragraph 3(d) of the Condition hereby consents to the Licensee providing transmission services as described in Schedule 1 hereto.

2. This consent took effect on and from 1 June 2009 and shall continue until 31 March 2013.

3. This consent is issued pursuant to paragraph 3(d) of the Condition only and, as such, its effect is restricted to the 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 provision of the Condition 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 statute or the absence of such reference in this consent, or any other consent, acceptance, approval, direction, indication, agreement or other similar licence related instruments issued

by the Authority, shall in no way be construed as meaning that the Licensee is not required to comply with any provision which is not specifically referenced and no adverse inference shall be drawn by any inconsistencies in approach; and

(c) Notwithstanding paragraph 2 above, in the event that the Authority determined that the Licensee has breached this consent, this consent shall be revocable immediately without notice at the sole discretion of the Authority.

4. For the avoidance of doubt, this consent replaces the 31 July 2008 consent.

#### NOTICE

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

Dated 27 November 2009

A handwritten signature in dark ink, appearing to read 'Rachel Fletcher', is written over a light gray rectangular background.

Rachel Fletcher  
Partner, Distribution

Duly authorised by the Authority

## **Schedule 1**

<b>Service Recipients</b>	<b>Contract/Service Agreement</b>	<b>Commencement Date</b>	<b>Expiry Date</b>
<p>Northern Gas Networks Ltd,</p> <p>Wales &amp; West Utilities Ltd,</p> <p>Scotland Gas Networks Ltd,</p> <p>Southern Gas Networks Ltd,</p> <p>Other third party service recipients</p>	<p><b>Agreement for the provision of transmission services</b></p> <p>Provision by the Licensee of a number of services to the stated service recipients:</p> <ul style="list-style-type: none"> <li>• Emergency pipeline services – standby emergency response service, making safe, repairs;</li> <li>• Aerial surveillance services - overflight of pipelines and reporting on third party infringement / encroachment;</li> <li>• Online inspection services - coordination of pigging activities, including provision of pigging equipment;</li> <li>• Specialist pipeline services - provision of specialist equipment and manpower, support to planned interventions, as requested by DN or other party.</li> </ul>	1 June 2009	31 March 2013