

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

GAS TRANSPORTERS LICENCE

STANDARD SPECIAL CONDITION A39 (INDEBTEDNESS)

This consent is granted by the Gas and Electricity Markets Authority pursuant to Standard Special Condition A39 (Indebtedness)

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 1(c) of Standard Special Condition A39 (Indebtedness) (the "Condition"), the Licensee shall not without the prior written consent of the Authority (following disclosure by the Licensee of all material facts) enter into an agreement or incur a commitment incorporating a cross-default obligation.

(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 under paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring-fencing) 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 services pursuant to various service agreements under transitional arrangements relating to the sale of the gas distribution network 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 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 "A36 31 July 2008 consent").

(g) The Licensee had informed the Authority that it provides the transmission services described in Schedule 1 hereto to IDNs using subcontractors, thereby incurring cross-default obligations for which it did not have the Authority's prior written consent under paragraph 1(c) of the Condition. Accordingly the licensee requested consent to incur cross-default obligations when providing transmission services to the IDNs or to certain third parties. On 31 July 2008, the Authority granted consent under paragraph 1(c) of the Condition expiring 31 May 2009 (the "A39 31 July 2008 consent").

(h) The Licensee has written to Ofgem, on 9 April 2009 and 2 June 2009, requesting an enduring extension to the A36 31 July 2008 consent and A39 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. In providing these services the Licensee uses subcontractors, thereby incurring cross-default obligations, and accordingly the licensee requests extension to the A39 31 July 2008 consent.

(i) Ofgem undertook a review of the Gas Transporter to Gas Transporter services covered by 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.

(j) In considering the Licensee's request for extension of the consent under paragraph 1(c) of the Condition, the Authority has taken into account its reasons and that:

- i. it has now granted the Licensee consent to carry out those activities set out in Schedule 1 hereto in a consent issued pursuant to paragraph 3(d) of Standard Special Condition A36 (Restriction on Activity and Financial Ring-fencing) dated 27 November 2009, applying on and from 1 June 2009 to 31 March 2013, subject to the terms of that consent;
- ii. having become aware that the arrangements the Licensee has entered into for the provision of transmission services entail incurring cross-default obligations, the Licensee has taken appropriate steps to secure compliance with paragraph 1(c) of the Condition by applying for consent under paragraph 1(c) of the Condition; and
- iii. the cross-default obligations only extend to any liability the Licensee may incur as a result of any of its subcontractors failing to fulfil their contractual obligations to provide on the Licensee's behalf, transmission services to the IDNs.

(k) The Authority therefore is 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, for the reasons stated in the Licensee's requests, the Authority in accordance with paragraph 1(c) of the Condition hereby consents to the Licensee entering into agreements or incurring commitments incorporating cross-default obligations in respect of the provision of the services listed in Schedule 1 hereto, on the condition that the Licensee will take all appropriate steps to minimise its actual and potential liabilities that arise or have arisen or may arise as the case may be from any existing contracts, extension of such existing contracts, or new contracts.

2. This consent took effect on and from 1 June 2009 and shall continue in effect in respect of contracts and renewals of such contracts pertaining to the activities set out in Schedule 1 hereto until:

(a) the contract (or contracts) is terminated or any liabilities or potential liabilities cease or are extinguished by the operation of law or fact, whichever is earlier to occur; or

(b) the consent is revoked, replaced or amended by the Authority following consultation with the Licensee on giving three months prior written notice to the Licensee or such other period as may be agreed in writing between the Authority and the Licensee; or

(c) the expiration date of 31 March 2013,

whichever is the earliest to occur.

3. This consent is issued pursuant to paragraph 1(c) 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 issues 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 3 above, in the event that the Authority is satisfied that the Licensee has breached or is breaching this consent, this consent shall be revocable immediately without notice at the sole discretion of the Authority.

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 blue ink, appearing to read 'Rachel Fletcher', is written over a faint, light blue circular stamp.

Rachel Fletcher
Partner, Distribution

Duly authorised by the Authority

Schedule 1

Service Recipients	Contract/Service Agreement	Commencement Date	Expiry Date
<p>Northern Gas Networks Ltd,</p> <p>Wales & West Utilities Ltd,</p> <p>Scotland Gas Networks Ltd,</p> <p>Southern Gas Networks Ltd,</p> <p>Other third party service recipients</p>	<p>Agreement for the provision of transmission services National Grid Gas 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 or other party. 	1 June 2009	31 March 2013