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Dear Ian

Notice under section 23 of the Gas Act 1986 (re modification of the Special Conditions of National Grid Gas plc's gas transporters licence to amend Special Condition C8F (NTS System Operator external incentives, costs and revenues) and Special Condition C8G (NTS System Operator internal incentives, costs and revenues) and add Special Condition C28 (Requirement to develop and undertake a Scheme of Work to facilitate the establishment of a long term external gas system operator incentive to reduce targeted greenhouse gases) (the "Conditions"))

I refer to the notice (the "Notice") given by the Gas and Electricity Markets Authority on 01 March 2011 pursuant to section 23 of the Gas Act 1986 (the "Act") that proposes to modify National Grid Gas plc's ("National Grid") gas transporters licence (the "Licence") in the manner set out in the Schedules to the Notice.

National Grid has considered the drafting of the text in the Schedules to the Notice and considers that the drafting of it should be changed slightly in the form of the Conditions directed by the Authority in order to improve their clarity. These changes are described in more detail below:

- in paragraph 1(a) of Special Condition C8F in the definition of $GHGC_t$, to increase clarity, the term $GHGC_t$ should be replaced with $GHGC_t$ where the t is in subscript. This would ensure that the same term is used throughout this condition for the greenhouse gas emissions project costs in formula year t ;
- in paragraph 3(a) of Special Condition C8F in the first equation, the term $OMPC_t$ should be replaced by $OMOPC_t$ such that it is consistent with the following equations in that paragraph. $OMPC_t$ is already defined elsewhere in Special Condition C8G and this change is necessary so that $OMPC_t$ will not be confused with $OMOPC_t$. National Grid considers that this change is needed to make this drafting conform to the Authority's intention as set out in its Final Proposals Consultation for Gas System Operator Incentives from April 2011 (reference 23/11) as without this change effectively there would be no collar on the operating margins incentive;
- in paragraph 3(a) of Special Condition C8F in the definition of OMA_t , the drafting would work better if the word "of" after "14 days" was replaced by "after" and the word "booking" was replaced by "books";
- in paragraph 3(a) of Special Condition C8F in the definition of $OMLS_t$, the words "respect of" should be inserted after "adjustment in" to aid clarity to ensure that a direction by the Authority would still apply for the formula year after the relevant formula year;
- in paragraph 3(a) of Special Condition C8F after the definition of $OMLS_t$, the word "In" at the start of the paragraph should be replaced by the word "For" to ensure that a direction by the Authority would still apply for the formula year after the relevant formula year;

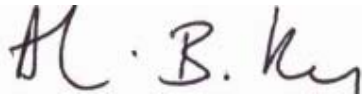
- in paragraph 3(a) of Special Condition C8F within the definition of OMAUC_t, this would read better if the word “including” near the start of the second sentence were replaced by the word “include” and the word “is” were inserted before the word “defined”;
- in paragraph 6(a) of Special Condition C8F, the words “greenhouse gas emissions incentive revenue” should be replaced by “Greenhouse Gas Incentive Revenue” to align with the definition proposed for GHGIR_t in paragraph 1(a) to increase clarity such that the term is consistent throughout the licence condition;
- the current definition of IOC_t within the Section 23 notice relating to paragraph 1(b) of Special Condition C8G does not align with the current definition in the NTS licence as the term RBC_t should read RBC_t in line with the Section 23 notice published on 18 June 2010. The term RBC_t should be replaced by RBC_t in the drafting in both the original and amended definitions to ensure that the RBC_t term is consistent with elsewhere in the licence; and
- in paragraph 1(b) of Special Condition C8G within the revised definition of IOC_t, a “)” should be added following “targeted greenhouse gases” to ensure that it is not possible to misinterpret which costs are included within IOC_t as Pension Costs and agency costs may otherwise not be interpreted as separate items to be excluded from the IOC_t term.

While none of these changes are material, they will help the clarity and user-friendliness of the drafting and ensure that the drafting clearly implements the Authority’s intention set out in its Final Proposals Consultation for Gas System Operator Incentives from April 2011 (reference 23/11).

National Grid has discussed these changes with Ofgem and does not consider that the changes that it is proposing to the drafting of the Conditions materially affect the objectives served by the Conditions: rather it considers that they clarify them.

In this light, National Grid consents to the proposed modification of its gas transporters licence in the manner specified in the Schedule to the Notice provided that the changes described in this letter are adopted by the Authority in directing the modifications of the Conditions into the Licence;

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. B. Kay'.

Alison Kay