

To the Company Secretary:

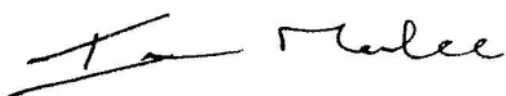
National Grid Gas plc
Company number 02006000

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

1. The Authority proposes to modify the gas transporter licence held by National Grid Gas plc in respect of the National Transmission System granted or treated as granted under section 7 of the Act ("the licence") by amending Special Condition C1 (Amendments to Standard Special Conditions relating to LNG) in that licence ("the condition").
2. The Authority proposes to modify the condition as a consequence of separately proposed modifications to the following Standard Special Conditions of the licence:
 - Standard Special Condition A27 (Disposal of Assets); and
 - Standard Special Condition A37 (Availability of Resources),(respectively "SSC A27" and "SSC A37").
3. The proposed modification of the condition would ensure that references to SSC A27 and SSC A37 in the condition remain valid after the separately proposed modifications referred to in paragraph 2.
4. The Authority's reason for making the separately proposed modifications to SSC A27 and SSC A37 are set out in the following documents published by the Authority:
 - Review of the 'Ring Fence' Conditions in Network Operator Licences (Ref 30/10) published 3 March 2010;
 - Proposed Modifications to the 'Ring Fence' Conditions in Network Operator Licences (Ref 42/11) published 25 March 2011;
 - Changes to the Ring Fence Conditions in Network Operator Licences (Ref 85/2012) published 3 July 2012;
 - Updated Proposals for Changes to Ring Fence Conditions (Ref 129/2012) published 11 October 2012; and
 - Open letter dated 17 December 2012: Formal proposals to modify the ring fence conditions in network operator licences,and in summary are to update and enhance the suite of 'Ring Fence' conditions in gas transporter licences granted under section 7 of the Act so that it continues to protect the interests of existing and future consumers by helping to control the risks associated with the financial distress of a gas transporter.
5. The effect of the proposed modification is to ensure that references to SSC A27 and SSC A37 contained in the condition remain valid after the separately proposed modifications referred to in paragraph 2.
6. The proposed modifications are set out in marked-up text in Annex 1 to this notice. Additions are shown in red text and deletions in dark red text and struck through.

7. Copies of this notice and the documents referred to in paragraph 4 are available (free of charge) from the Ofgem Research and Information Centre (telephone 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
8. Any representations on the proposed licence modifications may be made on or before 22 January 2013 to: Paul Darby, Regulatory Finance Team, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to paul.darby@ofgem.gov.uk.
9. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
10. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.



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Ian Marlee

Senior Partner, Smarter Grids and Governance (Transmission)

**Duly authorised on behalf of the
Gas and Electricity Markets Authority**

17 December 2012

Special Condition C1. Amendments to Standard Special Conditions relating to LNG

1. Amendments to Standard Special Condition A3 (Definitions and Interpretation)

Standard Special Condition A3 (Definitions and Interpretation) shall be amended by the addition of the following definitions which shall, where stated or where the context requires, replace or amend the relevant definition contained in Standard Special Condition A3 (Definitions and Interpretation) in this licence as follows:

““competition in relation to the storage of gas in LNG storage facilities”	means effective competition in or to the storage service offered by the LNG storage facilities, taking account of the provision by other persons of goods or services of equivalent purpose or effect to such storage (including where appropriate supplies of peak gas and the interruption of supplies to customers in accordance with their terms of supply);”
““LNG”	means liquefied natural gas;”

““LNG storage arrangements”	means arrangements whereby gas shippers and / or DN operators may, from time to time and in different cases and circumstances, have gas stored in the LNG storage facilities;”
““LNG storage business”	means the activities of the licensee connected with the development, administration, maintenance and operation of the LNG storage facilities by the licensee for the storage of gas in Great Britain and with the supply of LNG storage services relating to those facilities;”
““LNG storage facilities”	means containers for the storage of LNG operated by the licensee and any other facilities used by the licensee in connection with the storage of LNG in Great Britain which both are operated by the person who holds this licence and were so operated at a time during the period of 12 months ending with 1 March 1996,”
““supply of LNG storage services”	means the undertaking and performance for gain or reward of engagements in connection with the storage of gas in the LNG storage facilities;”
““transportation and LNG storage business”	means the transportation business and the LNG storage business but excluding, for the avoidance of doubt, the metering business and the meter reading business;”

2. **Amendments to Standard Special Condition A4 (Charging– General)**

Standard Special Condition A4 (Charging – General) shall be amended by:-

- (a) the insertion of the following in paragraphs 6, 7, 9 and 10 in substitution for the words “NOT USED”:

“6. In any case in which the licensee is willing to enter into LNG storage arrangements -

- (a) if the charges in pursuance of those arrangements are not governed by the methodology established under paragraph 5, the licensee shall avoid any undue preference or undue discrimination in the terms on which it enters into such arrangements; and
- (b) if either those charges or any charges made in pursuance of transportation arrangements other than LNG storage arrangements are not governed as aforesaid, the licensee shall ensure so far as is reasonably practicable, that no unjustified cross-subsidy is involved between the terms on which it enters into the LNG storage arrangements and those on which it enters into other transportation arrangements.”

“7. Any question which arises under paragraph 6 as to whether a cross subsidy is unjustified, shall be determined by the Authority.”

“9. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that for the purposes of this condition shall also include LNG storage arrangements.”

“10. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and the Authority’s view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 9, then the

paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose and the reference thereto in the definition of “transportation_arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”; and

- (b) the addition of the words “subject to any amendments made by paragraph 9 hereof,” at the beginning of the definition of “transportation arrangements “ in paragraph 11.

3. **Amendments to Standard Special Condition A5 (Obligations as Regard Charging Methodology)**

Standard Special Condition A5 (Obligations as Regard Charging Methodology) shall be amended by:

- (a) in addition to the definition set out in paragraph 11, the insertion of the following definition after “In this condition:”

“transportation business” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) but for the purposes of this conditions shall also include the LNG Storage Business.

- (b) the insertion of the following new paragraph 12:

“12. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the definition of “transportation business” from paragraph 11, then the definition shall be omitted with effect from a date specified in a notice published by the Authority for that purpose and the definition of “transportation business” in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition save that the reference to this condition in the definition of “transportation business” in

Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”

4. **Amendments to Standard Special Condition A6 (Conduct of Transportation Business)**

Standard Special Condition A6 (Conduct of Transportation Business) shall be amended by:

- a) the insertion of the words “LNG storage arrangements,” at the start of paragraph 2(a); and
- b) the insertion of the following in paragraph 3 in substitution for the words “NOT USED”:

“3. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to LNG storage arrangements in paragraph 2(a) then the reference shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; and the definition of “transportation business” contained in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition subject to any amendments made by the remaining sections of paragraph 2.”

5. **Amendments to Standard Special Condition A7 (Requirement to Enter into Transportation Arrangements in Conformity with the Network Code)**

Standard Special Condition A7 (Requirement to Enter into Transportation Arrangements in Conformity with the Network Code) shall be amended by the insertion of the following in paragraphs 2 and 3 in substitution for the words “NOT USED”:

“2. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definition and Interpretation) save that for the purposes of this condition it shall also include LNG storage arrangements.”

“3. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 2, then the paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; the definition of “transportation arrangements” contained in Standard Special Condition A3 shall apply to this condition; and the reference to this condition in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and interpretation) shall cease to have effect”.

6. **Amendments to Standard Special Condition A11 (Network Code and Uniform Network Code)**

Standard Special Condition A11 (Network Code and Uniform Network Code) shall be amended by the insertion of the following in paragraphs 20 and 21 in substitution for the words “NOT USED”:

“20. In this condition “transportation arrangements” shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) save that for the purposes of this condition it shall also include LNG storage arrangements.”

“21. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of paragraph 20 then the paragraph shall be omitted with effect from a date specified in a notice published by the Authority for that purpose; the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall apply to this condition; and the reference to this condition in the definition of “transportation arrangements” in Standard Special Condition A3 (Definitions and Interpretation) shall cease to have effect.”

7. **Amendments to Standard Special Condition A27 (Disposal of Assets)**

Standard Special Condition A27 (Disposal of Assets ~~and restrictions on charges over Receivables~~) shall be amended by:

- (a) the insertion of the following definition of LNG storage asset in paragraph ~~6~~ **13** between the definitions of “disposal” and ~~“relevant premises”~~“receivable”:

““LNG storage asset”	means any of the LNG storage facilities or anything used by the licensee in connection with the provision of such facilities;” and
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- (b) the insertion of the words “any LNG storage asset and/or” after the word “means” in the definition of “transportation asset” in paragraph ~~6~~ **13**; and
- (c) inserting the following new paragraph ~~7~~ **14**,

~~“7~~**14.** If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities ~~and its view on that question~~, considers it appropriate that this condition should be modified by the omission of the definition of “LNG storage asset” from paragraph ~~6~~ **13** and the words “any LNG storage asset and” where they occur in paragraph ~~6~~ **13** of this condition then these omissions shall be made with effect from a date specified in a notice published by the Authority for that purpose.”

8. **Amendments to Standard Special Condition A30 (Regulatory Accounts)**

Standard Special Condition A30 (Regulatory Accounts) shall be amended by:

- (a) the insertion of the words “the LNG storage business” in sub-paragraph 1 (b) in substitution for the words “NOT USED”;
- (b) the insertion of the words “the LNG storage business,” after “regulatory accounts for” in paragraph 12; and
- (c) the insertion of the following in paragraph 14 in substitution for the words “NOT USED”:

“14. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and the Authority’s view on that question, considers it appropriate that this condition be modified by the omission of sub-paragraph 1(b) and references to “LNG storage business” then these omissions shall be made with effect from the date specified in a notice published by the Authority for that purpose.”

9. **Amendments to Standard Special Condition A32 (Definition of Permitted Purpose)**

Standard Special Condition A32 (Definition of Permitted Purpose) shall be amended by the substitution in sub-paragraph (a) of the definition of “permitted purpose” of the words “the transportation and LNG storage business” for the words “the transportation business”.

10. **Amendments to Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business)**

Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business) shall be amended:

- (a) by the insertion of the words “LNG storage business and” between the words “also includes the licensee’s” and “metering business other than its meter-related services business” in the definition of “transportation business” in paragraph 1; and

(b) by the insertion of the following new paragraph 10:

“10. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to “LNG storage business” in the definition of “transportation business” in paragraph 1 of this condition, then that reference shall be omitted with effect from a date specified in a notice published by the Authority for that purpose.”

11. Amendments to Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing)

Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) shall be amended by:

(a) the insertion of “the LNG storage business, ” after the words “the transportation business, ” in paragraph 4(b)(i); and

(b) by the insertion of the following new paragraph 7:

“7. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities and its view on that question, considers it appropriate that this condition should be modified by the omission of the reference to “LNG storage business” in paragraph 4(b)(i) and shall be construed as if the definition of “permitted purpose” made no reference to “LNG storage business”, then for the purpose of this condition, that reference shall be omitted and the definition of “permitted purpose” shall be so construed with effect from a date specified in a notice published by the Authority for that purpose.”

12. **Amendments to Standard Special Condition A37 (Availability of Resources)**

Standard Special Condition A37 (Availability of Resources) shall be amended by the following:

- (a) ~~throughout the condition in paragraph 1(a)~~ by the substitution of the words “transportation and LNG storage business” for the words “transportation business”; and
- (b) by the addition of the following in paragraph ~~8~~ 17 in substitution for the words “NOT USED”:

~~“8.~~ If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons as to the extent to which there is competition in relation to the storage of gas in LNG storage facilities ~~and its view on that question~~, considers it appropriate that this condition should be construed as if the definition of “the transportation and LNG storage business” made no reference to the “LNG storage business” then for the purpose of this condition, with effect from the date specified in a notice published by the Authority for that purpose, the definition of “the transportation and LNG storage business” shall be so construed and shall be treated as being the “transportation business” only.”

13. **Amendments to Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter)**

Standard Special Condition A41 (Emergency Services to or on Behalf of Another Gas Transporter) shall be amended, at paragraph 3, by the substitution of the words “transportation and LNG storage business” for the words “transportation business” where they appear after the words “for the purposes of its”.