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All interested parties

Email: NGGD.Separation@ofgem.gov.uk

Date: 30 September 2016

Dear Colleagues

Modification of National Grid Gas plc (NGG) National Transmission System (NTS)'s gas transporter licence to activate back stop meter provider of last resort (BMPOLR) obligations

On 06 July 2016¹, we issued a direction to modify NGG (NTS)'s gas transporter licence to add inactive BMPOLR obligations to it, together with a mechanism to activate them. This decision followed our statutory consultation letter dated 3 May 2016², which outlined our proposed changes and reasons for proposing these changes. The BMPOLR obligations were inserted in order to ensure that NGG could retain the BMPOLR obligation in the event that the Authority consented to the transfer of NGG's distribution licence, in advance of NGG selling a majority stake in its distribution business.

Today, we have consented to the transfer of NGG's distribution licence under s.8AA of the Gas Act 1986. We are therefore also issuing a direction alongside this letter (in Annex of this letter), which activates the BMPOLR obligations in NGG (NTS)'s gas transporter licence.

If you have any questions on this matter, please do not hesitate to contact Rupika Madhura (Head of gas distribution policy) on Rupika.madhura@ofgem.gov.uk.

Yours faithfully

Ian Rowson

Associate Partner, RIIO Finance & Investor Relations, Networks Division

Duly authorised on behalf of the Gas and Electricity Markets Authority

¹ <https://www.ofgem.gov.uk/publications-and-updates/modification-national-grid-gas-plc-national-transmission-system-s-gas-transporter-licence-add-dormant-back-stop-meter-provider-last-resort-obligations>

² <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-new-standard-special-conditions-and-special-conditions-national-grid-gas-plc-s-national-transmission-system-nts-gas-transporter-licence>

Annex 1

To: National Grid Gas plc (NTS)

(Company Number: 02006000)

DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY PURSUANT TO STANDARD SPECIAL CONDITION B6 AND SPECIAL CONDITIONS 11G OF THE GAS TRANSPORTER LICENCE OF NATIONAL GRID GAS PLC GRANTED OR TREATED AS GRANTED UNDER SECTION 7 OF THE GAS ACT 1986

WHEREAS

1. National Grid Gas plc ('NGG') ('the licensee') is the holder of a gas transporter licence in respect of the National Transmission System ('NTS') ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').

2. NGG is seeking to transfer its gas distribution assets³ and gas transporter licence in respect of its distribution network ('DN') ('the NGG(DN) gas transporter licence') to a new legal entity, National Grid Gas Distribution Limited ('NGGD'), ahead of selling a majority stake in its gas distribution business.

3. As part of this process, the Gas and Electricity Markets Authority ('the Authority')⁴ consulted⁵ on which entity (NGG or NGGD) should hold the Backstop Meter Provider of Last Resort ('BMPOLR') obligations in its licence. Following this consultation, and after considering the responses we received, we decided that the BMPOLR obligation should be retained by NGG and, therefore, the obligation should to be included in the Licence.

4. By a modification decision dated 6 July 2016, the Authority inserted the following Standard Special Conditions B6 to B12 and Special Conditions 11G and 11H into the Licence, outlined below:

- i. Standard Special Condition B6 (Application of Standard Special Conditions B7, B8 and B9);
- ii. Standard Special Condition B7 (Provision of Meters);
- iii. Standard Special Condition B8 (Provision of Terms);
- iv. Standard Special Condition B9 (Non-discrimination in the provision of Metering Activities);
- v. Standard Special Condition B10 (Provision of services for specific domestic customer groups);
- vi. Standard Special Condition B11 (Arrangements for access to premises);
- vii. Standard Special Condition B12 (Reporting on performance);
- viii. Special Condition 11G (Application of Special Condition 11H); and
- ix. Special Condition 11H (Restriction of prices in respect of Tariff Capped Metering Activities)

5. The purpose of modifying the Licence to include the above conditions was to introduce a BMPOLR obligation into the Licence, which previously had resided only in the NGG (DN) gas transporter licence. The BMPOLR obligation as inserted into the Licence was inactive; each new licence condition is expressly stated not to be in effect until a direction has been given to activate the relevant condition by the Authority.

³ Gas distribution assets are defined in Appendix 1 of our consent direction issued 6 July 2016

⁴ The terms "the Authority", "we" and "us" are used interchangeably in this document.

⁵ https://www.ofgem.gov.uk/system/files/docs/2016/05/160503_qdn_sale_con_doc_final.pdf

6. Inserting inactive provisions ensured that the BMPOLR obligation would be activated only if we consented to the transfer of the DN licence to the new NGGD company following our recent consultations⁶.

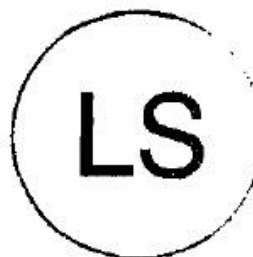
7. By decision dated 30 September 2016, the Authority consented, pursuant to section 8AA of the Act, to transfer the DN licence to NGGD. The Authority has therefore decided to issue a direction to activate the conditions identified above in the Licence.

8. This Direction has effect from the date at which the NGG(DN) gas transporter licence and NGG's gas distribution assets have transferred from NGG to NGGD ('the Nominated Date'). The Nominated Date is 1 October 2016.

NOW THEREFORE THE AUTHORITY HEREBY DIRECTS

1. Pursuant to paragraph 2 of Standard Special Condition B6 of the Licence, that Standard Special Conditions B7, B8, B9, B10, B11 and B12 shall be in effect from the Nominated Date.
2. Pursuant to paragraph 2 of Special Condition 11G of the Licence, that Special Condition 11H shall be in effect from the Nominated Date.

This Direction constitutes notice of the Authority's reasons to give a direction for the purposes of section 38A of the Act.



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**Signed on behalf of the Authority by
Ian Rowson**

Associate Partner, RIIO Finance and Investor Relations, Networks Division
Duly authorised for that purpose by the Authority

30 September 2016

⁶ <https://www.ofgem.gov.uk/publications-and-updates/national-grid-s-intended-sale-its-gas-distribution-networks-statutory-consultations-under-section-8aa-and-section-23-gas-act-1986>