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All interested parties

Email: NGGD.Separation@ofgem.gov.uk

Date: 06 July 2016

Dear Colleagues

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

We have decided to modify NGG (NTS)'s gas transporter licence to include dormant BMPOLR obligations. This decision follows our statutory consultation letter dated 3 May 2016¹ (statutory consultation), which outlined our proposed changes and reasons for proposing these changes. In reaching this decision we have carefully considered and taken into account responses received to our consultation. The changes, outlined below, will take effect from 1 September 2016.

The statutory consultation asked stakeholders to share their views on whether the changes proposed were appropriate. The changes would give us the power to maintain the BMPOLR obligation on NGG through its transmission licence, in the event that its gas distribution assets and licence were to transfer to a new company. Such a transfer is anticipated in preparation for National Grid's proposed sale of a majority of the shares in its gas distribution business. To enable us to maintain the obligation on NGG we proposed to insert additional licence conditions in to NGG (NTS)'s gas transmission licence, which largely replicated the current BMPOLR conditions in NGG (DN)'s gas distribution licence, along with a provision enabling us to bring these obligations into effect by us issuing a direction notice.

Overview of consultation responses and our views

We received two non-confidential responses to our statutory consultation. These are available on our website².

Of the two responses, only one (from National Grid, NG) raised an issue. NG noted that changes are needed to some of the conditions to reflect the stated intent. The intent of the proposed conditions, as described in the statutory consultation notice *"is to provide us with the ability to introduce a Backstop Meter Provider of Last Resort (BMPOLR) obligation, which currently resides in NGG (DN)'s gas transporter licence, into NGG (NTS)'s gas transporter licence. The BMPOLR obligation itself would not be in effect in NGG (NTS)'s gas transporter licence unless we issue a direction to bring it into effect"* (para 4). The drafting of the proposed Special Standard Conditions (SSC) B10, B11, and B12 (unlike SSC B7, B8

¹ https://www.ofgem.gov.uk/system/files/docs/2016/05/stat_con_bmpolr_cover_letter_final_0.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/national-grid-sale-gas-distribution-network-business-consultation-regulatory-aspects>

and B9) set out in the statutory consultation did not reflect the intent that they would only come into effect once we had issued a direction. We have clarified the drafting of these proposed conditions (and consequentially SSC B6) to reflect this stated intent. These amendments make it clear that the licence conditions would only come into effect if we issued a relevant direction and are substantively the same as the equivalent provisions in SSC B7, B8 and B9.

Our decision

Having carefully considered the responses to our statutory consultation, we have decided to proceed with the modifications that are set out in our decision notice referred to below.

In our wider, consultation on regulatory aspects of DN sales³, issued in May 2016 in parallel to our statutory consultation, we asked stakeholders for their views on where the BMPOLR obligations should reside. After carefully considering responses from stakeholders we have decided that the BMPOLR obligations are best suited to remain with NGG and therefore reside in the NTS gas transporter licence. Details of this decision can be found in the consultation decision document⁴.

Alongside this letter we have published a notice setting out the modifications we are making. The modifications constitute inserting additional Standard Special Conditions (SSC) B6, B7, B8, B9, B10, B11 and B12, and Special Conditions (SC) 11G and 11H. These modifications are merely preparatory, in the event that NG receives the relevant consents and meets the associated conditions⁵ required to transfer NGG (DN's) gas distribution licence to a new company⁶. The fact that we are making these preparatory modifications in no way fetters our discretion in deciding whether it is appropriate to grant such consent and should not be taken as any indication of whether such consent will be granted.

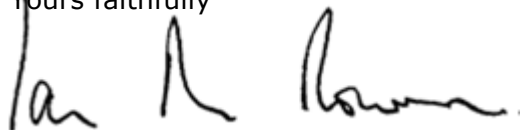
This letter and the modifications constitute our publication of our decision and the modification in accordance with the terms of section 23(7) of the Gas Act 1986.

Next Steps

The changes will take effect on 1 September 2016 subject to any appeal of our decision to modify NGG (NTS)'s gas transporter licence.

Should NGG receive the relevant consent to transfer its gas distribution licence from NGG to a subsidiary company of NG, we will issue a direction to activate the BMPOLR obligations in NGG (NTS)'s gas transporter licence after it is in effect.

Yours faithfully



Ian Rowson

Associate Partner, RIIO Finance & Investor Relations

Duly authorised on behalf of the Gas and Electricity Markets Authority

³ https://www.ofgem.gov.uk/system/files/docs/2016/05/160503_gdn_sale_con_doc_final.pdf

⁴ <https://www.ofgem.gov.uk/publications-and-updates/national-grid-sale-gas-distribution-network-business-decision-regulatory-aspects-and-transfer-assets>

⁵ The relevant consents being consent to transfer NGG's GDN assets under SSC A27 and gas distribution licence under s8AA of the Gas Act 1986.

⁶ We have today, as referenced in footnote 4 above, granted conditional consent to transfer NGG's GDN assets under SSC A27.