

Appendix 1: Transco's applications for consent

**National Grid Transco – Sale of gas
distribution networks**

Authority Decision

**Transco plc applications to dispose of four
gas distribution networks**

January 2005

The Gas and Electricity Markets Authority
9 Millbank
London
SW1P 3GE

For the Attention of: David Gray, Managing Director

11 January 2005

Dear Sirs

Proposed network sales: Application for consent from the Authority for the proposed disposal of certain transportation assets and the proposed disposal of certain land that has been purchased compulsorily to Blackwater SC A Limited

The purpose of this letter is to request consent from the Gas and Electricity Markets Authority (the "Authority") to the proposed disposal by Transco plc ("Transco") of certain transportation assets and certain land that has been purchased compulsorily to its wholly owned subsidiary company, Blackwater SC A Limited (registered in Scotland with number SC264065 and whose registered office is at 191 West George Street, Glasgow, G2 2LD, Scotland).

This request for consent is being made in connection with National Grid Transco plc's ("NGT") proposed sale of one or more of Transco's local gas distribution networks ("DNs") (the "Proposed Transaction") as announced by NGT in May 2003.

Transco (registered in England with company number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH) is the holder of a gas transporter ("GT") licence treated as granted under section 7 of the Gas Act 1986 (the "Act") which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry (the "Secretary of State") pursuant to Paragraph 19 of Schedule 7 of the Utilities Act 2000 on 28 September 2001 (the "Original Transco Licence").

On 5 November 2004 (pursuant to applications from Transco in connection with the Proposed Transaction), the Authority (without in any way fettering its discretion in relation to the Proposed Transaction) granted five additional GT licences to Transco (the "Additional Transco Licences"). As a result of this, Transco currently holds in total six GT licences. The Additional Transco Licences were granted and remain in substantially the same form as the Original Transco Licence. The Original Transco Licence and the Additional Transco Licences are together referred to in this letter as the "Transco Licences".

As at the date of this letter, all gas transportation assets owned by Transco are operated pursuant to the Original Transco Licence. As at the date of this letter, the Additional Transco Licences, whilst active, do not relate to any particular gas transportation assets owned or operated by Transco.

Background to this request

In August 2004, Transco entered into conditional agreements with a number of bidders in connection with the Proposed Transaction. One of these bidders was a consortium comprising Scottish and Southern Energy plc, Borealis Infrastructure Management Inc. and Ontario Teachers Pension Plan ("the consortium") who are proposing indirectly (through the acquisition from Transco of the entire issued share capital of Blackwater SC A Limited) to acquire the Distribution Network Business (as such term is defined in Appendix 1 to this letter).

On 25 November 2004, the Authority (without in any way fettering its discretion in relation to the Proposed Transaction), published a notice pursuant to section 23 of the Act proposing, in connection with the proposed transaction, to modify each of the Transco Licences in the manner set out in the notice to separate the price controls (as currently set out in the Original Transco Licence). The intention behind the proposals is to achieve revenue separation between the NTS and each of the DNs which are proposed to be disposed of by Transco ("IDNs") and each of those DNs which are proposed to be retained by Transco ("RDNs") (the "Initial S23 Modifications"). If the modifications proposed in the Initial S23 Modifications notice are made, four of the Additional Transco Licences will each relate to a specific IDN; one of the Additional Transco Licences will relate to the RDNs only and the Original Transco Licence will relate to the NTS only.

Accordingly, subject to the Authority making the necessary directions, one of the Additional Transco Licences is envisaged by Transco to have been amended, among other things, so that it is applicable to the Distribution Network Business only.

As part of the Proposed Transaction, Transco is proposing to "hive-down" each of the four IDN businesses to a separate wholly owned Transco subsidiary company. The proposed hive-downs by Transco will require, inter alia, the consent of the Secretary of State and the Authority pursuant to Amended Standard Condition 29 of the Original Transco Licence. It was made clear in the Initial S23 Modifications notice that the proposed Initial S23 Modifications to the Transco Licences would not be directed by the Authority in the event that Transco does not obtain the consents necessary to undertake the hive-down of the IDNs from Transco to the wholly owned Transco subsidiary companies. Transco is therefore seeking to hive-down the Distribution Network Business to its wholly-owned subsidiary, Blackwater SC A Limited.

In order to facilitate the proposed hive-downs, Transco is also proposing (pursuant section 8AA of the Act) to transfer four of the Additional Transco Licences (which, if the Initial S23 Modifications are made will relate to each of the four IDNs respectively) to the four wholly owned Transco subsidiaries. It is proposed that each of these four Additional Transco Licences be further modified as part of any consent to transfer (the "S8AA Modifications"). In conjunction with this, it is also proposed that the Original Transco Licence (which, if the Initial S23 Modifications are made will relate to the NTS only) be modified and the one Additional Transco Licence (which, if the Initial S23 Modifications are made will relate to the RDNs only) be modified. It is proposed that such modifications to the Original Transco Licence and this one Additional Transco Licence are expected to be proposed pursuant to a S23 notice which would be published in conjunction with the 8AA Modifications notice (the "Second S23 Modifications").

Accordingly, it is proposed that at the same time as the Distribution Network Business is hived-down to Blackwater SC A Limited, Transco will transfer the

Additional Transco Licence which it envisages will at that stage relate only to the Distribution Network Business to Blackwater SC A Limited, provided that it has received:

- the consent of the Authority under s8AA of the Act; and
- the consent of the Secretary of State under Special Condition 25A of the Original Transco Licence.

Transco will apply for such consent from the Authority (and consent from the Secretary of State) under separate cover.

If the Distribution Network Business is hived-down to Blackwater SC A Limited and subject to:

- the satisfaction by Transco of any conditions which may be attached to the Authority's consent to the disposal of the transportation assets to Blackwater SC A Limited which are the subject matter of this request for consent;
- the acceptance by the Health and Safety Executive of a safety case in respect of Blackwater SC A Limited under the Gas Safety (Management) Regulations 1996; and
- Transco obtaining the necessary consent from the Secretary of State under paragraph 2A of Amended Standard Condition 29 of the Original Transco Licence to the disposal of those parts of the transportation assets which are the subject matter of this request and comprise a significant part of an independent system operated by Transco,

the entire issued share capital of Blackwater SC A Limited is proposed to be sold to the consortium.

Description of the transportation assets to be disposed of by Transco plc

The transportation assets which are the subject matter of this request for consent which Transco proposes to dispose of to its wholly owned subsidiary company, Blackwater SC A Limited consist of the Pipes within the Distribution Network as such terms are defined in Appendix 1 to this letter. These Pipes, together with any estate or interest in land required for the utilisation of such Pipes, are referred to in this letter as the "Transportation Assets."

Transco is, by separate letters submitted to the Authority at the same time as this letter, also seeking similar consents from the Authority in relation to each of the other three IDNs.

Consents Required

In the light of the above proposals, the consents described below will be required from the Authority:

- 1 Consent under Amended Standard Condition 29 of the Original Transco Licence to permit Transco to dispose of and relinquish operational control over the

Transportation Assets to its wholly owned subsidiary company, Blackwater SC A Limited;

Please regard this letter as notice of, and request for consent to, Transco's proposed disposal of, and relinquishing of operational control over, the Transportation Assets to its wholly owned subsidiary company, Blackwater SC A Limited not earlier than 1 May 2005, pursuant to paragraph 2 of Amended Standard Condition 29 of the Original Transco Licence.

Amended Standard Condition 29 of the Original Transco Licence permits the proposed disposal to take place if the Authority does not inform Transco in writing of any objection to Transco's disposal notice within 2 months. We would, however, prefer an affirmative consent from the Authority.

2. Consent under paragraph 3 of Schedule 3 to the Act to permit Transco to dispose of such land as it has purchased compulsorily which falls within the assets of the Distribution Network Business to its wholly owned subsidiary company, Blackwater SC A Limited. Please regard this letter as a request by Transco for consent to dispose of such land as it has purchased compulsorily which falls within the assets of the Distribution Network Business to its wholly owned subsidiary company, Blackwater SC A Limited.

Transco recognises that it will also need the consent of the Authority to transfer one of the Additional Transco Licences (which it envisages will at the relevant stage relate to Distribution Network Business) to its wholly owned subsidiary company, Blackwater SC A Limited under section 8AA of the Act. Transco will be seeking consent for this transfer by a separate letter to the Authority of even date with this one.

Transco acknowledges and accepts (for itself and on behalf of each member of the NGT group) that there is no expectation on its part nor on the part of any other member of the NGT group either as to what the Authority's final decision in relation to the requested consent may be, or as to the regulatory framework which may be implemented if the Authority grants its consent. Any steps taken to date by Ofgem or the Authority in relation to the Proposed Transaction will not be treated by Transco or any other member of the NGT group as binding on the Authority or as fettering its discretion in any way.

Yours faithfully,



Mark Fairbairn
Director,
Transco plc

Appendix 1

This Appendix sets out the definitions of certain terms used in the letter of 11 January 2005 from Transco plc to Ofgem requesting consent:

- (1) under Amended Standard Condition 29 of the Original Transco Licence for the disposal of the Transportation Assets (as defined in the letter); and
- (2) the disposal of land which has been compulsorily purchased under schedule 3 of the Gas Act 1986.

“Distribution Network” means that area known as the Scotland LDZ as shown in the Ten Year Statement.

“Pipes” means the facilities used for the diurnal storage of gas or for the storage of gas in connection with the operation of independent systems (bearing the meaning of that expression within the Original Transco Licence) within the Distribution Network and the pipeline system operated by Transco plc from each NTS/LDZ Offtake to each point at which gas is offtaken (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from that pipeline system within the Distribution Network together with all apparatus ancillary thereto and all decommissioned pipes formerly used for the conveyance of gas within the Distribution Network together with those Pipes more particularly shown on the plans appended at Schedule 1 to this Appendix.

“NTS/LDZ Offtake” means a point at which gas flows out of the NTS and enters the Pipes and which is more particularly shown on the plans appended as Schedule 2.

“Distribution Network Business” means the business of the conveyance of gas carried on by Transco plc within the Distribution Network from the NTS/LDZ Offtake to each point of offtake (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from the Pipes immediately prior to the disposal to its wholly owned subsidiary, Blackwater SC A Limited of those assets, together with all other activities within the Distribution Network that are authorised under the Original Transco Licence relating to the Distribution Network, but, for the avoidance of doubt, not the NTS, together with all income deriving therefrom after the disposal of those assets to Blackwater SC A Limited;

“NTS” means the national transmission system of Transco plc having the meaning given to that term in the Transco Network Code.

“Transco Network Code” means the document prepared by Transco plc under paragraph 2(a) of Amended Standard Condition 9 of the Original Transco Licence.

“Ten Year Statement” means the document prevailing at the date of this letter and prepared from time to time by Transco plc pursuant to Amended Standard Condition 25 of the Original Transco Licence.

Schedule 1

Schedule 2

The Gas and Electricity Markets Authority
9 Millbank
London
SW1P 3GE

For the Attention of: David Gray, Managing Director

11 January 2005

Dear Sirs

Proposed network sales: Application for consent from the Authority for the proposed disposal of certain transportation assets and the proposed disposal of certain land that has been purchased compulsorily to Blackwater G Limited

The purpose of this letter is to request consent from the Gas and Electricity Markets Authority (the "Authority") to the proposed disposal by Transco plc ("Transco") of certain transportation assets and certain land that has been purchased compulsorily to its wholly owned subsidiary company, Blackwater G Limited (registered in England with number 5167021 and whose registered office is at 1-3 Strand, London, WC2N 5EH).

This request for consent is being made in connection with National Grid Transco plc's ("NGT") proposed sale of one or more of Transco's local gas distribution networks ("DNs") (the "Proposed Transaction") as announced by NGT in May 2003.

Transco (registered in England with company number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH) is the holder of a gas transporter ("GT") licence treated as granted under section 7 of the Gas Act 1986 (the "Act") which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry (the "Secretary of State") pursuant to Paragraph 19 of Schedule 7 of the Utilities Act 2000 on 28 September 2001 (the "Original Transco Licence").

On 5 November 2004 (pursuant to applications from Transco in connection with the Proposed Transaction), the Authority (without in any way fettering its discretion in relation to the Proposed Transaction) granted five additional GT licences to Transco (the "Additional Transco Licences"). As a result of this, Transco currently holds in total six GT licences. The Additional Transco Licences were granted and remain in substantially the same form as the Original Transco Licence. The Original Transco Licence and the Additional Transco Licences are together referred to in this letter as the "Transco Licences".

As at the date of this letter, all gas transportation assets owned by Transco are operated pursuant to the Original Transco Licence. As at the date of this letter, the Additional Transco Licences, whilst active, do not relate to any particular gas transportation assets owned or operated by Transco.

Background to this request

In August 2004, Transco entered into conditional agreements with a number of bidders in connection with the Proposed Transaction. One of these bidders was a consortium comprising Scottish and Southern Energy plc, Borealis Infrastructure Management Inc. and Ontario Teachers Pension Plan ("the consortium") who are proposing indirectly (through the acquisition from Transco of the entire issued share capital of Blackwater G Limited) to acquire the Distribution Network Business (as such term is defined in Appendix 1 to this letter).

On 25 November 2004, the Authority (without in any way fettering its discretion in relation to the Proposed Transaction), published a notice pursuant to section 23 of the Act proposing, in connection with the proposed transaction, to modify each of the Transco Licences in the manner set out in the notice to separate the price controls (as currently set out in the Original Transco Licence). The intention behind the proposals is to achieve revenue separation between the NTS and each of the DNs which are proposed to be disposed of by Transco ("IDNs") and each of those DNs which are proposed to be retained by Transco ("RDNs") (the "Initial S23 Modifications"). If the modifications proposed in the Initial S23 Modifications notice are made, four of the Additional Transco Licences will each relate to a specific IDN; one of the Additional Transco Licences will relate to the RDNs only and the Original Transco Licence will relate to the NTS only.

Accordingly, subject to the Authority making the necessary directions, one of the Additional Transco Licences is envisaged by Transco to have been amended, among other things, so that it is applicable to the Distribution Network Business only.

As part of the Proposed Transaction, Transco is proposing to "hive-down" each of the four IDN businesses to a separate wholly owned Transco subsidiary company. The proposed hive-downs by Transco will require, inter alia, the consent of the Secretary of State and the Authority pursuant to Amended Standard Condition 29 of the Original Transco Licence. It was made clear in the Initial S23 Modifications notice that the proposed Initial S23 Modifications to the Transco Licences would not be directed by the Authority in the event that Transco does not obtain the consents necessary to undertake the hive-down of the IDNs from Transco to the wholly owned Transco subsidiary companies. Transco is therefore seeking to hive-down the Distribution Network Business to its wholly-owned subsidiary, Blackwater G Limited.

In order to facilitate the proposed hive-downs, Transco is also proposing (pursuant section 8AA of the Act) to transfer four of the Additional Transco Licences (which, if the Initial S23 Modifications are made will relate to each of the four IDNs respectively) to the four wholly owned Transco subsidiaries. It is proposed that each of these four Additional Transco Licences be further modified as part of any consent to transfer (the "S8AA Modifications"). In conjunction with this, it is also proposed that the Original Transco Licence (which, if the Initial S23 Modifications are made will relate to the NTS only) be modified and the one Additional Transco Licence (which, if the Initial S23 Modifications are made will relate to the RDNs only) be modified. It is proposed that such modifications to the Original Transco Licence and this one Additional Transco Licence are expected to be proposed pursuant to a S23 notice which would be published in conjunction with the 8AA Modifications notice (the "Second S23 Modifications").

Accordingly, it is proposed that at the same time as the Distribution Network Business is hived-down to Blackwater G Limited, Transco will transfer the Additional

Transco Licence which it envisages will at that stage relate only to the Distribution Network Business to Blackwater G Limited, provided that it has received:

- the consent of the Authority under s8AA of the Act; and
- the consent of the Secretary of State under Special Condition 25A of the Original Transco Licence.

Transco will apply for such consent from the Authority (and consent from the Secretary of State) under separate cover.

If the Distribution Network Business is hived-down to Blackwater G Limited and subject to:

- the satisfaction by Transco of any conditions which may be attached to the Authority's consent to the disposal of the transportation assets to Blackwater G Limited which are the subject matter of this request for consent; and
- the acceptance by the Health and Safety Executive of a safety case in respect of Blackwater G Limited under the Gas Safety (Management) Regulations 1996,

the entire issued share capital of Blackwater G Limited is proposed to be sold to the consortium.

Description of the transportation assets to be disposed of by Transco plc

The transportation assets which are the subject matter of this request for consent which Transco proposes to dispose of to its wholly owned subsidiary company, Blackwater G Limited consist of the Pipes within the Distribution Network as such terms are defined in Appendix 1 to this letter. These Pipes, together with any estate or interest in land required for the utilisation of such Pipes, are referred to in this letter as the "Transportation Assets."

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Consents Required

In the light of the above proposals, the consents described below will be required from the Authority:

- 1 Consent under Amended Standard Condition 29 of the Original Transco Licence to permit Transco to dispose of and relinquish operational control over the Transportation Assets to its wholly owned subsidiary company, Blackwater G Limited;

Please regard this letter as notice of, and request for consent to, Transco's proposed disposal of, and relinquishing of operational control over, Transportation Assets to its wholly owned subsidiary company, Blackwater G Limited not earlier than 1 May 2005, pursuant to paragraph 2 of Amended Standard Condition 29 of the Original Transco Licence.

Amended Standard Condition 29 of the Original Transco Licence permits the proposed disposal to take place if the Authority does not inform Transco in writing of any objection to Transco's disposal notice within 2 months. We would, however, prefer an affirmative consent from the Authority.

2. Consent under paragraph 3 of Schedule 3 to the Act to permit Transco to dispose of such land as it has purchased compulsorily which falls within the assets of the Distribution Network Business to its wholly owned subsidiary company, Blackwater G Limited. Please regard this letter as a request by Transco for consent to dispose of such land as it has purchased compulsorily which falls within the assets of the Distribution Network Business to its wholly owned subsidiary company, Blackwater G Limited.

Transco recognises that it will also need the consent of the Authority to transfer one of the Additional Transco Licences (which it envisages will at the relevant stage relate to Distribution Network Business) to its wholly owned subsidiary company, Blackwater G Limited under section 8AA of the Act. Transco will be seeking consent for this transfer by a separate letter to the Authority of even date with this one.

Transco acknowledges and accepts (for itself and on behalf of each member of the NGT group) that there is no expectation on its part nor on the part of any other member of the NGT group either as to what the Authority's final decision in relation to the requested consent may be, or as to the regulatory framework which may be implemented if the Authority grants its consent. Any steps taken to date by Ofgem or the Authority in relation to the Proposed Transaction will not be treated by Transco or any other member of the NGT group as binding on the Authority or as fettering its discretion in any way.

Yours faithfully,


MARK FAIRBAIRN
Director,
Transco plc

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- (1) under Amended Standard Condition 29 of the Original Transco Licence for the disposal of the Transportation Assets (as defined in the letter); and
- (2) the disposal of land which has been compulsorily purchased under schedule 3 of the Gas Act 1986.

“Distribution Network” means that area known as the South and South East LDZs as shown in the Ten Year Statement.

“Pipes” means the facilities used for the diurnal storage of gas within the Distribution Network and the pipeline system operated by Transco plc from each NTS/LDZ Offtake to each point at which gas is offtaken (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from that pipeline system within the Distribution Network together with all apparatus ancillary thereto and all decommissioned pipes formerly used for the conveyance of gas within the Distribution Network including those Pipes outside the Distribution Network more particularly shown on the plans in Schedule 1 but excluding those Pipes within the Distribution Network more particularly shown on the plans in Schedule 2 together with those Pipes more particularly shown on the plans appended at Schedule 3 to this Appendix.

“NTS/LDZ Offtake” means a point at which gas flows out of the NTS and enters the Pipes and which is more particularly shown on the plans appended as Schedule 4.

“Distribution Network Business” means the business of the conveyance of gas carried on by Transco plc within the Distribution Network from the NTS/LDZ Offtake to each point of offtake (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from the Pipes immediately prior to the disposal to its wholly owned subsidiary, Blackwater G Limited, of those assets, together with all other activities within the Distribution Network that are authorised under the Original Transco Licence relating to the Distribution Network, but, for the avoidance of doubt, not the NTS, together with all income deriving therefrom after the disposal of those assets to Blackwater G Limited;

“NTS” means the national transmission system of Transco plc having the meaning given to that term in the Transco Network Code.

“Transco Network Code” means the document prepared by Transco plc under paragraph 2(a) of Amended Standard Condition 9 of the Original Transco Licence.

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Schedule 1

Schedule 2

Schedule 3

Schedule 4

The Gas and Electricity Markets Authority
9 Millbank
London
SW1P 3GE

For the Attention of: David Gray, Managing Director

11 January 2005

Dear Sirs

Proposed network sales: Application for consent from the Authority for the proposed disposal of certain transportation assets and the proposed disposal of certain land that has been purchased compulsorily to Blackwater F Limited

The purpose of this letter is to request consent from the Gas and Electricity Markets Authority (the "Authority") to the proposed disposal by Transco plc ("Transco") of certain transportation assets and certain land that has been purchased compulsorily to its wholly owned subsidiary company, Blackwater F Limited (registered in England with number 5167070 and whose registered office is at 1-3 Strand, London, WC2N 5EH).

This request for consent is being made in connection with National Grid Transco plc's ("NGT") proposed sale of one or more of Transco's local gas distribution networks ("DNs") (the "Proposed Transaction") as announced by NGT in May 2003.

Transco (registered in England with company number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH) is the holder of a gas transporter ("GT") licence treated as granted under section 7 of the Gas Act 1986 (the "Act") which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry (the "Secretary of State") pursuant to Paragraph 19 of Schedule 7 of the Utilities Act 2000 on 28 September 2001 (the "Original Transco Licence").

On 5 November 2004 (pursuant to applications from Transco in connection with the Proposed Transaction), the Authority (without in any way fettering its discretion in relation to the Proposed Transaction) granted five additional GT licences to Transco (the "Additional Transco Licences"). As a result of this, Transco currently holds in total six GT licences. The Additional Transco Licences were granted and remain in substantially the same form as the Original Transco Licence. The Original Transco Licence and the Additional Transco Licences are together referred to in this letter as the "Transco Licences".

As at the date of this letter, all gas transportation assets owned by Transco are operated pursuant to the Original Transco Licence. As at the date of this letter, the Additional Transco Licences, whilst active, do not relate to any particular gas transportation assets owned or operated by Transco.

Background to this request

In August 2004, Transco entered into conditional agreements with a number of bidders in connection with the Proposed Transaction. One of these bidders was a consortium comprising Cheung Kong Infrastructure Holdings Limited, Hongkong Electric Holdings Limited; the Li Ka Shing (Overseas) Foundation and United Utilities Contract Solutions Limited (“the consortium”) who are proposing indirectly (through the acquisition from Transco of the entire issued share capital of Blackwater F Limited) to acquire the Distribution Network Business (as such term is defined in Appendix 1 to this letter).

On 25 November 2004, the Authority (without in any way fettering its discretion in relation to the Proposed Transaction), published a notice pursuant to section 23 of the Act proposing, in connection with the proposed transaction, to modify each of the Transco Licences in the manner set out in the notice to separate the price controls (as currently set out in the Original Transco Licence). The intention behind the proposals is to achieve revenue separation between the NTS and each of the DNs which are proposed to be disposed of by Transco (“IDNs”) and each of those DNs which are proposed to be retained by Transco (“RDNs”) (the “Initial S23 Modifications”). If the modifications proposed in the Initial S23 Modifications notice are made, four of the Additional Transco Licences will each relate to a specific IDN; one of the Additional Transco Licences will relate to the RDNs only and the Original Transco Licence will relate to the NTS only.

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In order to facilitate the proposed hive-downs, Transco is also proposing (pursuant section 8AA of the Act) to transfer four of the Additional Transco Licences (which, if the Initial S23 Modifications are made will relate to each of the four IDNs respectively) to the four wholly owned Transco subsidiaries. It is proposed that each of these four Additional Transco Licences be further modified as part of any consent to transfer (the “S8AA Modifications”). In conjunction with this, it is also proposed that the Original Transco Licence (which, if the Initial S23 Modifications are made will relate to the NTS only) be modified and the one Additional Transco Licence (which, if the Initial S23 Modifications are made will relate to the RDNs only) be modified. It is proposed that such modifications to the Original Transco Licence and this one Additional Transco Licence are expected to be proposed pursuant to a S23 notice which would be published in conjunction with the 8AA Modifications notice (the “Second S23 Modifications”).

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- the consent of the Authority under s8AA of the Act; and
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Transco will apply for such consent from the Authority (and consent from the Secretary of State) under separate cover.

If the Distribution Network Business is hived-down to Blackwater F Limited and subject to:

- the satisfaction by Transco of any conditions which may be attached to the Authority's consent to the disposal of the transportation assets to Blackwater F Limited which are the subject matter of this request for consent;
- the acceptance by the Health and Safety Executive of a safety case in respect of Blackwater F Limited under the Gas Safety (Management) Regulations 1996; and
- Transco obtaining the necessary consent from the Secretary of State under paragraph 2A of Amended Standard Condition 29 of the Original Transco Licence to the disposal of those parts of the transportation assets which are the subject matter of this request and comprise a significant part of an independent system operated by Transco,

the entire issued share capital of Blackwater F Limited is proposed to be sold to the consortium.

Description of the transportation assets to be disposed of by Transco plc

The transportation assets which are the subject matter of this request for consent which Transco proposes to dispose of to its wholly owned subsidiary company, Blackwater F Limited consist of the Pipes within the Distribution Network as such terms are defined in Appendix 1 to this letter. These Pipes, together with any estate or interest in land required for the utilisation of such Pipes, are referred to in this letter as the "Transportation Assets."

Transco is, by separate letters submitted to the Authority at the same time as this letter, also seeking similar consents from the Authority in relation to each of the other three IDNs.

Consents Required

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Amended Standard Condition 29 of the Original Transco Licence permits the proposed disposal to take place if the Authority does not inform Transco in writing of any objection to Transco's disposal notice within 2 months. We would, however, prefer an affirmative consent from the Authority.

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Transco recognises that it will also need the consent of the Authority to transfer one of the Additional Transco Licences (which it envisages will at the relevant stage relate to Distribution Network Business) to its wholly owned subsidiary company, Blackwater F Limited under section 8AA of the Act. Transco will be seeking consent for this transfer by a separate letter to the Authority of even date with this one.

Transco acknowledges and accepts (for itself and on behalf of each member of the NGT group) that there is no expectation on its part nor on the part of any other member of the NGT group either as to what the Authority's final decision in relation to the requested consent may be, or as to the regulatory framework which may be implemented if the Authority grants its consent. Any steps taken to date by Ofgem or the Authority in relation to the Proposed Transaction will not be treated by Transco or any other member of the NGT group as binding on the Authority or as fettering its discretion in any way.

Yours faithfully,



Mark Fairbairn
Director,
Transco plc

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This Appendix sets out the definitions of certain terms used in the letter of 11 January 2005 from Transco plc to Ofgem requesting consent:

- (1) under Amended Standard Condition 29 of the Original Transco Licence for the disposal of the Transportation Assets (as defined in the letter); and
- (2) the disposal of land which has been compulsorily purchased under schedule 3 of the Gas Act 1986.

“Distribution Network” means that area known as the North and North East LDZs as shown in the Ten Year Statement.

“Pipes” means the facilities used for the diurnal storage of gas or for the storage of gas in connection with the operation of independent systems (bearing the meaning of that expression within the Original Transco Licence) within the Distribution Network and the pipeline system operated by Transco plc from each NTS/LDZ Offtake to each point at which gas is offtaken (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from that pipeline system within the Distribution Network together with all apparatus ancillary thereto and all decommissioned pipes formerly used for the conveyance of gas within the Distribution Network including those Pipes outside the Distribution Network more particularly shown on the plans in Schedule 1 but excluding those Pipes within the Distribution Network more particularly shown on the plans in Schedule 2 together with those Pipes more particularly shown on the plans appended at Schedule 3 to this Appendix.

“NTS/LDZ Offtake” means a point at which gas flows out of the NTS and enters the Pipes and which is more particularly shown on the plans appended as Schedule 4.

“Distribution Network Business” means the business of the conveyance of gas carried on by Transco plc within the Distribution Network from the NTS/LDZ Offtake to each point of offtake (such phrase having the same meaning as that set out in section J, paragraph 3.7 of the Transco Network Code) from the Pipes immediately prior to the disposal to its wholly owned subsidiary, Blackwater F Limited, of those assets, together with all other activities within the Distribution Network that are authorised under the Original Transco Licence relating to the Distribution Network, but, for the avoidance of doubt, not the NTS, together with all income deriving therefrom after the disposal of those assets to Blackwater F Limited;

“NTS” means the national transmission system of Transco plc having the meaning given to that term in the Transco Network Code.

“Transco Network Code” means the document prepared by Transco plc under paragraph 2(a) of Amended Standard Condition 9 of the Original Transco Licence.

“Ten Year Statement” means the document prevailing at the date of this letter and prepared from time to time by Transco plc pursuant to Amended Standard Condition 25 of the Original Transco Licence.