

Compliance Annual Report

National Grid Gas plc

Prepared pursuant to paragraphs 6 and 7 of Standard Special Condition A34 of the Gas Transporter Licence granted to National Grid Gas plc (registered in England with number 2006000 and whose registered office is at 1-3 Strand, London WC2N 5EH) under section 7 of the Gas Act 1986 (as amended) in respect of its distribution networks.

31st May 2006

Definitions

For the purposes of this report, the following definitions apply:

Confidential Information	Means information relating to, or derived from, the Transportation Business which is not published or otherwise legitimately in the public domain: <ul style="list-style-type: none">• except where such information is made available on an equal basis to any meter asset manager;• except where such information appertains to a customer who at the time to which the information relates was a customer of the relevant supplier; or• where the Authority otherwise consents in writing
Transportation Business	Means the business of National Grid Gas plc in respect of its UK gas distribution business
MRSB	Means Meter-related services business as defined in the GT licence
MRB	Means meter reading business as defined in the GT licence
GT Licence	Means the gas transporter's licence held by National Grid Gas plc in respect of its UK gas distribution business

Introduction

Paragraphs 6 and 7 of Standard Special Condition A34 of the Gas Transportation Licence ("Licence") granted to National Grid Gas plc ("NGG") in respect of the RDNs require NGG to produce an annual report covering its compliance during the relevant year with relevant duties, its implementation of the practices, procedures and systems adopted in accordance with the Compliance Statement, as approved by the Gas and Electricity Markets Authority, the activities of the Compliance Officer during the relevant year and the details of any investigations conducted by the CO. This is the annual report in respect of the Period 1st May 2005 to 30th April 2006 ("Period").

Compliance with relevant duties

Throughout the Period National Grid Gas has been compliant with the relevant duties.

Implementation of the practices, procedures and systems adopted in accordance with the Compliance Statement

The Compliance Statement (“Statement”) prepared pursuant to paragraph 4 of Standard Special Condition A33 of the gas transporter licence granted to National Grid Gas plc was approved by Ofgem on 1st May 2005. The Statement describes the practices, procedures and systems adopted by NGG to secure compliance with its obligations under paragraphs 2 and 3 of Standard Special Condition A33 (Restriction on use of Information and Independence of the Transportation Business) of its GT licence, which respectively provide how NGG:

- Shall maintain managerial and operational systems which prevent any MRSB or MRB having access to Confidential Information other than as permitted by paragraphs 2(a) and 2(b) of Standard Special Condition A33; and
- Shall at all times manage and operate the Transportation Business in a way best calculated to ensure that it does not restrict, prevent or distort competition in the supply of meter related services or meter reading (together, “the Conditions”).

Managerial Independence

Since the implementation of the review of gas metering arrangements “RGMA” and throughout the Period, National Grid has adopted a separate and independent management structure for the Transportation Business from the management of MRSB and MRB.

Under this structure, the Managing Director National Grid Metering Limited has management responsibility for the MRSB and MRB and reports to the Group Director Unregulated Business. The Group Director Unregulated Business does not have any management responsibility for the Transportation Business.

The separated MRSB and MRB are contracted to the Transportation Business for the delivery of the metering services and meter reading services that the Transportation Business is obliged by the GT licence and its network code to deliver.

Operational Independence of the Transportation Business from MRSB and MRB

Effective from RGMA, NGG has adopted a separate operational structure for the Transportation Business from the operational structure of the MRSB and the MRB.

Independent Branding

Pursuant to the written consent of the Authority dated 25th May 2005 NGG is relieved of its obligation to implement separate branding for the Transportation Business to the branding used for MRSB and MRB.

Use of equipment, facilities, property and personnel employed by the Transportation Business

Accommodation

Effective from RGMA, NGG has and continues to ensure that the Transportation Business is located in separate accommodation to that of the MRSB and MRB. There are controls in place restricting access by staff engaged in the MRSB and MRB to premises occupied by persons engaged in the Transportation Business.

Information Systems

Effective from RGMA, NGG has throughout the Period, save as otherwise excepted by the written consent of the Authority dated 1st May 2005, restricted access to Confidential Information about the Transportation Business by ensuring that there is no access to information systems by personnel employed by or in respect of the MRSB or MRB.

The restriction is met by National Grid Metering having processes and controls in place and an ongoing review and monitoring of access levels. During the Period a plan was operated successfully to remove access in accordance with the timescales specified in the consent.

Use of equipment, facilities, property and personnel employed by gas transportation

NGG has ensured that no breach of the Conditions has arisen by the Transportation Business through the transparent and cost reflective allocation of charges for any equipment, facilities, property and personnel employed by the Transportation Business that are utilised for the provision of services to the MRSB and MRB.

Transfer of employees from the Transportation Business

NGG has ensured throughout the Period that no breach of the Conditions arose by the Transportation Business to ensure that any employee who transfers to the MRSB or MRB does not possess Confidential Information that would be commercially valuable to MRSB and/or MRB that was acquired less than three months before the date of such transfer. Throughout the Period any transfers were managed and controlled by a dedicated HR resource. All Transportation Business employees who transferred during the Period received an induction which included information on the compliance arrangements between the Transportation Business and MRSB and MRB. Checks were carried out to ensure that those who transferred did not have unauthorised access to any transportation business systems.

Activities of the CO

During the Period the CO:

- Provided advice and information to directors, managers and staff on ensuring compliance with the relevant duties, both pro-actively and in response to requests;
- Monitored the effectiveness of the practices, procedures and systems put in place as set out in the Compliance Statement;
- Provided advice and information to directors, managers and staff to ensure the implementation of practices, procedures and systems put in place as set out in the Compliance Statement;
- Communicated the requirements of the Compliance Statement to appropriate employees.

Investigations conducted by the Compliance Officer

There have been no complaints during the Period and therefore no investigations or the requirement to advise upon remedial action.

Any enquiries regarding the content of this report should be addressed in the first instance to the Compliance Officer at the following address:

Alison Kay
Compliance Officer
General Counsel and Company Secretary
National Grid Gas plc
Legal Department
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

31st May 2006