

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.

5th June 2008

Definitions

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

Confidential Information	<p>Means information relating to, or derived from, the Transportation Business which is not published or otherwise legitimately in the public domain:</p> <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 relates 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	<p>Means the business of National Grid Gas plc in respect of its UK gas distribution business</p>
MRSB	<p>Means meter-related services business as defined in the GT licence</p>
MRB	<p>Means meter reading business as defined in the GT licence</p>
Trading Business	<p>Means activities connected with:</p> <ol style="list-style-type: none"> a) the acquisition and disposal of gas or electricity in Great Britain; b) the storage of gas at an offshore storage installation or storage cavities in natural strata; or c) arranging with a gas transporter for gas to be introduced into, conveyed by means of or taken out of a pipe-line system operated by that transporter
GT Licence	<p>Means the gas transporter's licence held by National Grid Gas plc in respect of its UK gas distribution business</p>

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 the 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 (“CO”) 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 2007 to 30th April 2008 (“Period”).

Compliance with relevant duties

Throughout the Period NGG 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 NGG, was approved by Ofgem on 11th February 2008. 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. Paragraphs 2 and 3 require that 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, meter reading business or any trading business (together, “the Conditions”).

Managerial Independence

Since the implementation of the review of gas metering arrangements “RGMA”, NGG has adopted and maintains a separate and independent management structure for the Transportation Business from the management of the MRSB, MRB and trading business as described below.

The management of National Grid Metering is separate and independent from the management structure for NGG’s Transportation Business. Under this structure, the Business Operations Director of National Grid Metering Limited

has full management responsibility for the MRSB and MRB. The Business Operations Director of National Grid Metering Ltd is not a member of the NGG Board or Gas Distribution Executive Committee and retains full autonomy over the operational activities and management decisions of the MRSB and MRB.

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.

The management of Fulcrum Pipelines Limited is separate and independent from the management structure for NGG's Transportation Business. The Managing Director of Fulcrum Group Holdings Limited is not a member of the NGG Board or Gas Distribution Executive Committee and retains full autonomy over the operational activities and management decisions of the trading business.

Operational Independence of the Transportation Business from MRSB, MRB and Trading Business

Effective from RGMA, NGG has adopted a separate operational structure for the Transportation Business from the operational structure of the MRSB and the MRB. Save as otherwise excepted by the written consent of the Authority, this will continue.

NGG has adopted a separate operational structure for the Transportation Business from the operational structure of the trading business and this will continue.

Independent Branding

Pursuant to the written consent of the Authority, NGG is relieved of its obligation to implement separate branding for the Transportation Business to the branding used for National Grid Metering.

The Transportation Business maintains separate branding from the trading business.

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

Accommodation

Effective from RGMA, NGG has and will continue to ensure that the Transportation Business is located in separate accommodation to that of the MRSB and MRB.

NGG has and will continue to ensure that the Transportation

Business is located in separate accommodation to that of the trading business.

Information Systems

Effective from RGMA, NGG has and will, save as otherwise excepted by the written consent of the Authority, restrict 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.

NGG has and will, restrict 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 trading business.

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

NGG ensures that no breach of the Conditions arises 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 the MRSB , MRB or trading business.

Transfer of employees from the Transportation Business

NGG has ensured throughout the Period that no breach of the Conditions arose by the Transportation Business by requiring that any employee who transfers to the MRSB, MRB or Trading Business does not possess Confidential Information that would be commercially valuable to MRSB, MRB or Trading Business. 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, MRB and Trading Business. 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 to ensure the implementation of practices, procedures and systems put in place as set out in the Compliance Statement;
- Monitored the effectiveness of the practices, procedures and systems as set out in the Compliance Statement;
- Made policy recommendations to NGG's RDN Board to further enhance NGG's compliance capabilities;
- Reviewed recommendations made to, and decisions made by, the management boards for NGG's RDN businesses; and
- Communicated the requirements of the Compliance Statement to appropriate employees to ensure a consistent understanding and a high level of awareness of NGG's licence obligations.

Investigations conducted by the Compliance Officer

There have been no complaints during the Period and therefore no investigations arose and no 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:

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