

Proposed modifications to the Electricity Transmission Standard Licence Conditions

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This document contains the proposed modifications to the Electricity Transmission Standard Licence Conditions. Any additions are shown as black double-underlined and any deletions are shown as black single strikethrough.

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TRANSMISSION LICENCE STANDARD CONDITIONS

SECTION A: INTERPRETATION, APPLICATION AND PAYMENTS

Condition A1: Definitions and interpretation

1. In the standard conditions unless the context otherwise requires:

“ultimate controller” means

- (a) a holding company of the licensee which is not itself a subsidiary of another company or entity; and
- (b) any person or entity (including a general partner of a limited partnership, whether an individual or corporate body) who (whether alone or with a person or persons connected with ~~him~~ them) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:

- (i) rights under contractual arrangements to which ~~he is~~they are a party or of which ~~he is~~they are a beneficiary; or
- (ii) rights of ownership (including rights attached to or deriving from securities, partnership interests or rights under a trust) which are held by ~~him~~them or for which ~~he is~~they are a beneficiary but excluding any director or employee of a corporate body in ~~his~~their capacity as such
- (c) for the purposes of sub-paragraph (b) a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph; and
- (d) for the purposes of sub-paragraph (b), rights under contractual arrangements shall not include any rights in or arising under the STC Framework Agreement which are exercisable by the ISOP or a transmission licensee over the activities of, or as against, another transmission licensee.

SECTION B: GENERAL

Condition B2: ~~Not Used~~ Independence of the transmission business and restricted use of Confidential Information

Licensee's obligations

1. The licensee must put in place and at all times maintain managerial and operational systems that prevent any Relevant Undertaking from having

access to Confidential Information except and to the extent that such information:

- a. is made available on an equal basis to any electricity supplier, gas supplier, or gas shipper;
- b. is referable to a Customer who at the time to which the information relates was a Customer of the Relevant Undertaking; or
- c. is of a type that has been confirmed by the Authority in Writing as corporate information.

Compliance Statement must always be in place

- 2. Except with the Authority's consent, the licensee must at all times have in place a Compliance Statement, approved by the Authority, that describes the practices, procedures, and systems which the licensee has adopted (or intends to adopt) to ensure compliance with paragraph 1.
- 3. If the Authority does not direct the licensee to amend the Compliance Statement within 60 days of receiving it, the statement is to be treated as approved by the Authority.
- 4. The licensee must take all reasonable steps to ensure that it complies with the terms of the Compliance Statement in place under this condition.

Specific contents of the Compliance Statement

- 5. The Compliance Statement must, in particular, set out how the licensee will:
 - a. maintain the full managerial and operational independence of the Transmission Business from any Relevant Undertaking;
 - b. maintain the branding of the Transmission Business so that it is fully independent from the branding used by any Relevant Undertaking; and

c. manage the transfer of employees from the Transmission Business to any Relevant Undertaking.

6. The Compliance Statement must also ensure that any arrangements to which the licensee is party that fall within any of the descriptions given in paragraph 7 are such as to prevent any breach of the requirements of paragraph 1.

7. The arrangements referred to in paragraph 6 are those that enable any Relevant Undertaking, or any person engaged in or in respect of the activities of such a Relevant Undertaking, to have any use of or access to:

a. premises or parts of premises occupied by persons engaged in, or in respect of, the management or operation of the Transmission Business;

b. systems for recording, processing, or storing data to which persons engaged in, or in respect of, the management or operation of the Transmission Business also have access;

c. equipment, facilities, or property employed for the management or operation of the Transmission Business; and

d. the services of any persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the Transmission Business.

Revision and publication of Compliance Statement

8. The licensee may, with the Authority's approval, revise a Compliance Statement prepared in accordance with paragraph 2.

9. The licensee must publish a copy of every Compliance Statement prepared in accordance with paragraph 2 (or revised in accordance with paragraph 8 on its Website (if it has one) within 21 days of its approval by the Authority.

Interpretation

10. In this condition:

Confidential Information means information relating to, or derived from, the Transmission Business that is not published or otherwise legitimately in the public domain.

Relevant Undertaking means either a Relevant Licence Holder, or a Relevant Exemption Holder.

Relevant Licence Holder means any holder of:

- (a) an electricity supply licence; or
- (b) a gas supply licence; or
- (c) a gas shipper licence; or
- (d) an electricity generation licence, that is also an Affiliate or Related Undertaking of the licensee

Relevant Exemption Holder means a person who:

- (a) carries out the activity specified in Section 4(1)(a) of the Act, and
- (b) is authorised to do so by an exemption pursuant to Section 5 of the Act,
and
- (c) is an Affiliate or a Related Undertaking of the licensee.

Condition B3: Disposal of relevant assets and restrictions on charges over receivables

1. The licensee must not dispose of or relinquish operational control over any relevant asset except in accordance with the provisions of this condition.
2. Subject to paragraph 3, the licensee must not, after ~~1 April 2013~~ 6 November 2026, grant any mortgage, charge, or other form of security over any receivable or other Financial Asset except in accordance with the provisions of this condition.
3. The licensee may permit any mortgage, charge, or other form of security over any receivable or other Financial Asset in effect at the date mentioned in paragraph 2 to remain in effect and may vary its terms so long as the variation does not have the effect of materially extending the

scope of the mortgage, charge, or other form of security insofar as it applies to the licensee's receivables or other Financial Asset.

4. Save as provided in paragraphs 5 or, as applicable, 6, or 8 the licensee shall give to the Authority not less than two months' prior written notice of:

(a) its intention to dispose of or relinquish operational control over any relevant asset, together with such further information as the Authority may request relating to such asset or the circumstances of such intended disposal or relinquishment of control or to the intentions in regard thereto of the person proposing to acquire such asset or operational control over such asset; or

(b) its intention to grant any mortgage, charge, or other form of security over any receivable or class or classes of receivables, or other Financial Asset together with such further information as the Authority may request relating to such receivable, class or classes of receivables, or other Financial Asset or the circumstances of the intended grant of the mortgage, charge or other form of security.

5. Notwithstanding paragraphs 1 and 4(a), the licensee may dispose of or relinquish operational control over any relevant asset where:

(a) the Authority has issued directions for the purposes of this condition containing a general consent (whether or not subject to conditions) to:

(i) transactions of a specified description; or

(ii) the disposal of or relinquishment of operational control over relevant assets of a specified description; and

the transaction or the relevant assets are of a description to which such directions apply and the disposal or relinquishment is in accordance with any conditions to which the consent is subject;

or

(b) the disposal or relinquishment of operational control in question is to another transmission licensee or the ISOP and is required by or under standard condition B12 (System Operator – Transmission Owner Code).

6. Notwithstanding paragraphs 2 and 4(b), the licensee may grant a mortgage, charge, or other form of security over a receivable or class or classes of receivables or other Financial Asset where:

(a) the indebtedness of the licensee which is to be secured represents the novation or rollover of existing indebtedness; and

(b) the proceeds of the indebtedness of the licensee which is to be secured are used to repay the existing indebtedness referred to in sub-paragraph (a).

7. For the purposes of paragraph 6, what is meant in any particular case by:

(a) “existing indebtedness”; and

(b) “proceeds of the indebtedness”

is to be treated as a question of fact.

8. Notwithstanding paragraphs 1, 2 and 4, the licensee may dispose of or relinquish operational control over any relevant asset or grant a mortgage, charge, or other form of security over a receivable or class or classes of receivable or other Financial Asset where the transaction in question is required by or under any enactment, any provision of subordinate legislation within the meaning of the Interpretation Act 1978, or a regulation of the Council or Commission of the European Union that has effect in EU law immediately before IP completion day.

9. Notwithstanding paragraphs 1 and 2, the licensee may dispose of or relinquish operational control over any relevant asset or grant a mortgage, charge, or other form of security over a receivable or class or classes of receivable, or other Financial Asset as is specified in any notice given under paragraph 4 where:

- (a) the Authority confirms in writing that it consents to such disposal or relinquishment or grant (which consent may be made subject to acceptance by the licensee or any third party to the transaction in question, of such conditions as the Authority may specify); or
- (b) the Authority does not inform the licensee in writing of any objection to such disposal, relinquishment or grant within the notice period referred to in paragraph 4.

10. In respect of a sale, disposal or transfer of a transmission asset to a company or other entity operating within the same group structure as the licensee, the licensee is required to meet the requirement of paragraph 10(c) standard condition B22 Requirement for sufficiently independent directors.

40.11. In this condition:

"disposal" Includes

- (a) in relation to disposal of a relevant asset situated in England and Wales any sale, gift, exchange, assignment, lease, licence, loan, mortgage, charge or grant of any other encumbrance or the permitting of any encumbrance to subsist or any other disposition;
- (b) in relation to disposal of a relevant asset situated in Scotland, the grant of any disposition, conveyance, contract of excambion, any lease, assignation, licence, the grant of any right of possession, loan, standard security, floating charge to a third party or the grant of any servitude right, wayleave or any other transaction or event which is capable under any enactment or rule of law of affecting the title to a registered interest in land;

and "dispose" and cognate expressions shall be construed

accordingly.

“receivable” means a contractual right to receive any sum or sums or any other financial asset from another person.

“Financial Asset” is any asset that is:
(a) cash;
(b) an equity instrument of another entity;
(c) a contractual right:
(i) to receive cash or another financial asset from another entity; or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
(d) a contract that will or may be settled in the entity’s own equity instruments.

“relevant asset” means any asset for the time being forming part of the national electricity transmission system, any control centre for use in conjunction therewith and any legal or beneficial interest in (or right, title or interest in) land upon which either of the foregoing is situate (which for the purposes of property located in Scotland means any estate, interest, servitude or other heritable or leasehold right in or over land including any leasehold interests or other rights to occupy or use and any contractual or personal rights in favour of the licensee relating to the occupation, use or acquisition of such property).

“relinquish ment of operational control” includes, without limitation, entering into any agreement or arrangement whereby operational control of a relevant asset or relevant assets is not or ceases to be under the sole management of the licensee.

Condition B6: Restriction on Activity and Financial Ring

Fencing

1. Save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than the transmission business.

1A The licensee must not own, develop, manage or operate an electricity storage facility, except where the licensee owns or operates an electricity storage facility which is situated on a site on which the licensee carries out its transmission business, for the purpose of continuity of supply and system resilience, or energy management and the electricity storage facility is not used to buy or sell electricity in the electricity markets.

2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:

- (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
- (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the transmission business; or
- (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.

3. Subject to the provisions of paragraph 2, nothing in this condition shall prevent:

- (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;

- (b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
 - (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
 - (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.
4. Subject to paragraph 1A, nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a “relevant associate”) from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:
- (a) For the purpose of this paragraph, “de minimis business” means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:
 - (i) the transmission business; and
 - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
 - (b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:
 - (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory historical cost-accounting statements of the licensee ~~produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts)~~; and
 - (ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de

de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee's transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited ~~regulatory~~historical cost accounting statements of the licensee, ~~produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts) then available.~~

- (c) For the purpose of sub-paragraph (b) above, "investment" means any form of financial support or assistance given by or on behalf of the licensee for the de minimis business whether on a temporary or permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.
- (d) At any relevant time, the amount of an investment shall be the sum of:
- (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee as at its latest accounting reference date to have occurred prior to the date this condition comes into effect in the licensee's transmission licence (or, where the investment was not so included, zero);
 - (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date; and
 - (iii) all commitments and liabilities (whether actual or contingent) of the licensee relating to such investment outstanding at the end of the most recently completed accounting reference period,

less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

5. For the purposes of paragraph 4, “equity share”, in relation to any shareholding, means the nominal value of the equity shares held by the licensee in a relevant associate, as a percentage of the nominal value of the entire issued equity share capital of that relevant associate.

6. In this condition:

“electricity markets” means markets for electricity, including over-the-counter markets and electricity exchanges, markets for the trading of energy, capacity, balancing and ancillary services in all timeframes, including forward, day-ahead and intraday markets;

“electricity storage” means the conversion of electrical energy into a form of energy that can be stored, the storing of that energy, and the subsequent reconversion of that energy back into electrical energy;

“electricity storage facility” means a facility where electricity storage occurs; and

“system resilience” means the ability to avoid, adapt to, and quickly and efficiently recover from potential or actual disturbance in the supply of electricity.”

Condition B7: Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to it such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, as shall ensure that it is at all times able:

(a) to properly and efficiently carry on the transmission business; and

(b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to the transmission business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.

Certificates for the Authority in relation to financial resources

2. The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a sufficiently independent director and at least one other director of the licensee pursuant to that resolution and is in one of the following forms:

(a) **Certificate 1F**

“After making enquiries including reviewing the results of stress tests that the licensee considered to be appropriate, and having taken into account in particular (but without limitation) any dividend or other distribution that might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.”

or

(b) **Certificate 2F**

“After making enquiries, including reviewing the results of stress tests that the licensee considered to be appropriate, and subject to what is explained below, having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the licensee's directors have a reasonable expectation, subject to what is explained below, that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.

However, the directors of the licensee would like to draw attention to the following factors, which may cast doubt on the licensee's ability to carry on the transmission business [*followed by a description of the factors concerned*].”

or

(c) **Certificate 3F**

“In the opinion of the licensee’s directors, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.”

3. The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee’s board of directors and signed by a sufficiently independent director and at least one other director of the licensee pursuant to that resolution and which is in one of the following forms:

(a) **Certificate 1F-Extended**

“After making enquiries, including reviewing the results of stress tests that the licensee considered to be appropriate, and having taken into account in particular (but without limitation) any dividend or other distribution that might reasonably be expected to be declared or paid by the licensee, the licensee’s directors have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for the longer of: (i) a period of 36 months from the date of this certificate or (ii) the remainder of the Price Control Period.”

or

(b) **Certificate 2F-Extended**

“After making enquiries, including reviewing the results of stress tests that the licensee considered to be appropriate, and subject to what is explained below, having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the licensee’s directors have a reasonable expectation, subject to what is explained below, that

the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for the longer of: (i) a period of 36 months from the date of this certificate or (ii) the remainder of the Price Control Period. However, the directors of the licensee would like to draw attention to the following factors, which may cast doubt on the licensee's ability to carry on the transmission business [*followed by a description of the factors concerned*].”

or

(c) **Certificate 3F-Extended**

“In the opinion of the licensee's directors, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business for the longer of: (i) a period of 36 months from the date of this certificate or (ii) the remainder of the Price Control Period.”

Statement of factors and report by auditors in relation to financial resources certificate

4. The licensee must ensure that the certificate given to the Authority under paragraph 2 is accompanied by:

(a) a statement of the main factors that the licensee's directors have taken into account in giving that certificate including reference to:

(i) the main financial resources and financial facilities available to the licensee; and

(ii) the most recent cash flow statement prepared for the licensee;

and

(b) a report prepared by its auditors and addressed to the Authority which states whether or not the auditors are aware of any

inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under standard condition B1 (Regulatory Accounts) on the licensee's regulatory accounts.

5. The licensee must ensure that the certificate given to the Authority under paragraph 3 is accompanied by a statement of the main factors that the licensee's directors have taken into account in giving that certificate including reference to:

- (a) results of any stress tests that the licensee deemed to be appropriate;
- (b) financial projections of key financial metrics;
- (c) assumptions made in relation to the availability of financial markets for any financing or refinancing requirements, including assumptions around equity injections;

and

(d) credit facilities, including drawn and undrawn, and compliance with covenants; and

~~(d)~~(e) cash flow forecasts.

Certificates for the Authority in relation to operational resources

6. ~~With effect from 1 August 2013, t~~The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a sufficiently independent director and at least one other director of the licensee pursuant to that resolution and which is in one of the following forms:

- (a) **Certificate 1R**

“After making enquiries the licensee’s directors have a reasonable expectation that the licensee will have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents, and facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.”

or

(b) Certificate 2R

“After making enquiries, and subject to what is explained below, the licensee’s directors have a reasonable expectation, subject to what is explained below, that the licensee will have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents, and facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.

However, the directors of the licensee would like to draw attention to the following factors, which may cast doubt on the licensee’s ability to carry on the transmission business [*followed by a description of the factors concerned*].”

or

(c) Certificate 3R

“In the opinion of the licensee’s directors, the licensee will not have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents, and facilities available to itself to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate.”

Statement of factors in relation to operational resources certificate

7. The licensee must ensure that the certificate given to the Authority under paragraph 4 is accompanied by a statement of the main factors that the licensee's directors have taken into account in giving that certificate.

Certificate for the Authority in relation to compliance with certain standard licence conditions

8. ~~With effect from 1 August 2013, t~~The licensee must by 31 July each year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a sufficiently independent director and at least one other director of the licensee pursuant to that resolution and which is in one of the following forms:

(a) **Certificate 1C**

"After making enquiries the licensee's directors consider that, at the time of their approval of this certificate, the licensee is in compliance in all material respects with all of the obligations imposed on it by standard condition B4 (Provision of information to the Authority), standard condition B6 (Restriction on Activity and Financial Ring Fencing), standard condition B7 (Availability of Resources), standard condition B8 (Undertaking from ultimate controller), standard condition B10 (Credit Rating) and standard condition B9 (Indebtedness) standard condition B22 (Requirement for sufficiently independent directors), standard condition B2 (Independence of the -transmission business), standard condition B3 (Disposal of relevant assets and restriction on charges) and standard condition B5 (Prohibition of cross-subsidies)."

or

(b) **Certificate 2C**

"In the opinion of the licensee's directors, the licensee is not at the time of their approval of this certificate in compliance in all material respects with all of the obligations imposed on it by standard condition B4 (Provision of information to the Authority), standard condition B6 (Restriction on Activity and Financial Ring Fencing), standard condition

B7 (Availability of Resources), standard condition B8 (Undertaking from ultimate controller), standard condition B10 (Credit Rating) and standard condition B9 (Indebtedness) standard condition B22 (Requirement for sufficiently independent directors), standard condition B2 (Independence of the transmission business), standard condition B3 (Disposal of relevant assets and restriction on charges over receivables) and standard condition B5 (Prohibition of cross-subsidies).”

Obligation to report any adverse circumstances

1. The licensee must inform the Authority in writing immediately if:
 - (a) the directors of the licensee become aware of any circumstance that causes them no longer to have the reasonable expectations expressed in the most recent certificate given under paragraph 2(a), 2(b), 6(a) or 6(b); or
 - (b) the directors of the licensee consider that any adverse circumstances that caused them to give the Authority a certificate in the form of Certificate 3F under paragraph 2(c) or Certificate 3R under paragraph 4(c) have materially worsened.

Certificates for the Authority in relation to dividends or other distributions

2. Subject to paragraph 13, the directors of the licensee must not declare or recommend a dividend, and the licensee must not make any other form of distribution within the meaning of sections 829, 830, 849 and 850 of the Companies Act 2006, or redeem or repurchase any share capital of the licensee, unless before declaring, recommending, or making the distribution, redemption, or repurchase (as the case may be) the licensee has given the Authority a certificate that complies in all respects with the three requirements set out in paragraphs 11 and 12 below.
3. The first requirement is that the certificate must be in the following form:

“After making enquiries, the directors of the licensee are satisfied:

- (a) that, at the time of their approval of this certificate, the licensee is in compliance in all material respects with all the obligations imposed on it by standard condition B4 (Provision of information to the Authority), standard condition B6 (Restriction on Activity and Financial Ring Fencing), standard condition B7 (Availability of Resources), standard condition B8 (Undertaking from ultimate controller), standard condition B10 (Credit Rating) and standard condition B9 (Indebtedness); standard condition B22 (Requirement for sufficiently independent directors), standard condition B2 (Independence of the transmission business), standard condition B3 (Disposal of relevant assets and restriction on charges) and standard condition B5 (Prohibition of cross-subsidies). ;

and

- (b) that the making of a distribution, redemption, or repurchase of [value] on [date] will not, either alone or when taken together with other circumstances reasonably foreseeable at the date of this certificate, cause the licensee to be in breach to a material extent of any of those obligations in the future.”

4. The second and third requirements are that the certificate:

- (a) must have been approved by a resolution of the licensee’s board of directors passed not more than 14 days before the date on which the declaration, recommendation, or payment is to be made; and
- (b) must be signed by a sufficiently independent director and at least one other director of the licensee.

5. The licensee need not give the Authority a certificate of the type referred to in paragraph 10 in circumstances where:

- (a) during the three months preceding the declaration or recommendation of a dividend, the making of any other form of distribution or the redemption or repurchase of share capital, it has given the Authority a certificate in the form of Certificate 1C under the requirement set out in paragraph 8 of this condition; and
- (b) that certificate includes an appropriate addendum using the wording given at paragraph 11(b) of this condition.

6. Where the certificate given under paragraph 10, or relied upon under paragraph 13, relates to the declaration or recommendation of a dividend, the licensee is under no obligation to issue a further certificate before paying that dividend so long as such payment is made within six months of the date on which the certificate was given.

6.7. Except with the Authority's consent, the licensee shall not make alterations to a capital or reserve category, which are usually non-distributable by nature, to facilitate a dividend payment or other distribution. The licensee must provide reasoning and justification for any proposed alteration of the type described in this paragraph to the Authority.

Requirement to maintain an Intervention Plan

7.8. The licensee must prepare by 1 April 2014, or within 12 months of this condition coming into effect in respect of the licensee, whichever is the later, and thereafter, maintain an intervention plan. The Intervention Plan must be submitted to the Authority within 3 months of the start of each price control period. The Authority may request a copy of the Intervention Plan on an ad-hoc basis, which would require to be submitted within 10 working days. The Intervention Plan must fulfil fulfilling the criteria described in the definition of intervention Plan in paragraph 178 below.

~~8-9.~~ The requirement for the information described in any of sub-paragraphs (a) to (k) in the definition of Intervention Plan in paragraph 178 below to be included in the Intervention Plan will be satisfied if the plan provides details of other documents or records (including electronic records) where that information can be readily obtained and those documents or records are either maintained by the licensee itself or are available to the licensee at all times under a legal or contractual right.

Interpretation

~~9-10.~~ In this condition:

“associate” means:

- (a) an affiliate or related undertaking of the licensee;
- (b) an ultimate controller of the licensee;
- (c) a participating owner of the licensee; or
- (d) a common control company.

“common control company” means any company, any of whose ultimate controllers (applying the definition set out in Standard Condition A1 (Definitions for the standard conditions) but substituting that company for the licensee) is also an ultimate controller of the licensee.

“Intervention Plan” means a document or set of documents (which may be in a suitably secure electronic format) containing information that would be sufficient to allow an energy administrator (within the meaning of Chapter 3 of Part 3 of the Energy Act 2004) readily to obtain information on:

- (a) the financial assets, resources, and facilities of the licensee;
- (b) the non-financial assets, rights, and resources of the licensee including information on key management and operational personnel and information technology systems;
- (c) the liabilities of the licensee, including contingent and contractual liabilities, with counterparty and maturity information;
- (d) the tax affairs of the licensee;
- (e) the personnel of the licensee and any pension schemes sponsored or administered by the licensee;
- (f) any mortgages, charges, or other forms of security over the licensee’s assets;

- (g) the systems and processes by which the licensee carries on the transmission business with information on any significant contractual arrangements, including those that impose obligations on the licensee;
- (h) any arrangements under which the licensee has relinquished operational control over relevant assets (as that term is defined in Standard Condition B3 (Disposal of relevant assets and restriction on charges over receivables)) to an associate of the licensee;
- (i) any contractual rights to receive cash or other financial assets from any associate of the licensee;
- (j) any contractual obligations to deliver cash or other financial assets to any associate of the licensee; and
- (k) the licensee's arrangements and procedures for ensuring compliance with legislative requirements and with its obligations under this licence, including price control reporting requirements.

"participating owner" - For the purposes of the definition of associate above, a person is subject to a participating interest by another person (a "participating owner") if:

- (a) that other person holds a participating interest in the person; or
- (b) the person is subject to a participating interest by a person who is himself subject to a participating interest by that other person.

"participating interest" has the meaning given in section 421A of the Financial Services and Markets Act 2000.

Condition B9: Indebtedness

General Prohibition

1. In addition to the requirements of standard condition B3 (Disposal of relevant assets and restrictions on charges ~~over receivables~~) and standard condition B7 (Availability of Resources), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts), enter into any transaction or commitment of a type described or referred to in this condition that does not comply with the restrictions applicable to it under this condition.

Part A: Restricted Category 1

- (a) The licensee must not create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of

security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into any guarantee or any obligation otherwise than:

- (i) on an arm's length basis;
- (ii) on normal commercial terms;
- (iii) for a permitted purpose; and
- (iv) ~~(if the transaction is within the ambit of standard condition B3 (Disposal of relevant assets and restrictions on charges over receivables) in accordance with that condition);~~

Part B: Restricted Category 2

- (b) The licensee must not transfer, lease, license or lend any sum or sums, asset, right or benefit to any associate of the licensee otherwise than by way of:
 - (i) a dividend or other distribution out of distributable reserves;
 - (ii) repayment of capital;
 - (iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;
 - (iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and made in compliance with the payment condition referred to in paragraph 2;
 - (v) repayment of or payment of interest on a loan not prohibited by sub-paragraph (a);
 - (vi) payments for group corporation tax relief or for the surrender thereof calculated on a basis not exceeding the value of the benefit received; or
 - (vii) an acquisition of shares or other investments in conformity with paragraph 2 of standard condition B6 (Restriction on Activity and Financial Ring Fencing) made on an arm's length basis and on normal commercial terms, provided however, that the provisions of paragraph 3 below shall prevail in any of the circumstances described or referred to therein;

~~(c) enter into an agreement or incur a commitment incorporating a cross-default obligation; or~~

~~(d) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation, provided however that the provisions of sub-paragraphs 1(c) and (d) shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a).~~

2. The payment condition referred to in paragraph 1(b)(iv) is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:

(i) the counter-party to the transaction has and maintains until payment is made in full an investment grade issuer credit rating; or

(ii) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an investment grade issuer credit rating.

3. Except with the prior consent of the Authority, the licensee shall not enter into or complete any transaction of a type referred to or described in paragraph 1(b) save in accordance with paragraph 110, if any of the circumstances set out in paragraphs 45 to 910 applies.

4. The provisions of this Part B are subject to the provisions of Part C below

Part C: Circumstances that trigger the provisions of Part D

3-5. The circumstance described by this paragraph is that the licensee does not hold an investment grade issuer credit rating.

4-6. The circumstance described by this paragraph is that the licensee holds more than one issuer credit rating and one or more of the ratings so held is not investment grade.

5-7. The circumstance described by this paragraph is that any issuer credit rating held by the licensee is BBB- by Standard & Poor's Ratings Group or Fitch Ratings Ltd or Baa3 by Moody's Investors Service, Inc. or BBB (low) by DBRS Ratings Ltd or any of its affiliates, (or such higher issuer credit rating as may be specified by any of these credit rating agencies from time to time as the lowest

investment grade issuer credit rating), or is an equivalent rating from another agency that has been notified to the licensee by the Authority as of comparable standing for the purposes of standard condition B10 (Credit Rating) and:

- (a) is on review for possible downgrade; or
 - (b) is on Credit Watch or Rating Watch with a negative designation;
- or, where neither (a) nor (b) applies:
- (c) the rating outlook of the licensee as specified by any credit rating agency referred to in this paragraph 6 that at the relevant time has assigned the lower or lowest investment grade issuer credit rating held by the licensee has been changed from stable or positive to negative.

6-8. The circumstance described by this paragraph is that the licensee has:

- (a) given the Authority a certificate in the form of Certificate 3F under the requirement set out in paragraph 2 of standard condition B7 (Availability of resources) and has not subsequently given the Authority a certificate in the form of Certificate 1F or Certificate 2F as set out in the same condition; or
- (b) given the Authority a certificate in the form of Certificate 3R under the requirement set out in paragraph 4 of standard condition B7 (Availability of Resources) and:
 - (i) the opinion expressed in the certificate arises in whole or in part from circumstances affecting an associate of the licensee, and
 - (ii) the licensee has not subsequently given the Authority a certificate in the form of Certificate 1R or Certificate 2R as set out in the same condition;

or

- (c) informed the Authority of any circumstance of the type referred to at paragraph 9 of standard condition B7 (Availability of resources) and:
 - (i) the circumstances giving rise to the licensee's report relate to the licensee's financial resources and the licensee has not subsequently given the Authority a certificate in the form of Certificate 1F or 2F as set out in the same condition; or

(ii) the circumstances giving rise to the licensee's report relate to the licensee's operational resources and:

- (a) relate in whole or in part to circumstances affecting an associate of the licensee; and
- (b) the licensee has not subsequently given the Authority a certificate in the form of Certificate 1R or 2R as set out in the same condition.

7.9. The circumstance described by this paragraph is that the licensee has, after 1 April 2013, materially breached any formal covenant contained in any loan agreement, commercial paper, bond issue or committed facility that it has entered into with a counterparty, unless one of the following applies:

- (a) the licensee has remedied the breach to the satisfaction of the counterparty concerned;
- (b) the licensee has renegotiated the covenant or arrangement to the satisfaction of the counterparty concerned;

and in either case (a) or (b) the remedy or renegotiation has been notified in writing to the Authority;

or

- (c) in response to a written request from the licensee, either the Authority has confirmed in writing, before the breach occurs, that the breach in question shall not trigger the provisions of paragraphs 3 or 9, or the Authority has not provided a substantive response to such a written request within seven days of receiving it.

10. The circumstance described by this paragraph is that the licensee has an Actual Regulatory Gearing ratio of 75% or higher or, based on its reasonable projections, will exceed this ratio at the end of the current Regulatory Year.

Part D Restricted Category 3

8.11. Where, under the provisions of paragraph 3, the licensee is prohibited from entering into or completing any transaction of a type referred to or described in paragraph 1(b), the licensee (following disclosure of all material facts) may not without the prior written consent of the Authority transfer, lease, license or lend any sum or sums, asset,

right or benefit (as described or referred to in paragraph 1(b)) to any associate of the licensee, otherwise than by way of:

- (a) payment properly due for any goods, services or assets in relation to commitments entered into prior to the date on which the prohibiting circumstances arose, and which are provided on an arm's length basis and on normal commercial terms;
- (b) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and where the value of the consideration due in respect of the transaction in question is payable wholly in cash and is paid in full when the transaction is entered into;
- (c) repayment of, or payment of interest on, a loan not prohibited by paragraph 1(a) and which was contracted prior to the date on which the prohibiting circumstances arose, provided that such payment is not made earlier than the original due date for payment in accordance with its terms; and
- (d) payments for group corporation tax relief or the surrender thereof calculated on a basis not exceeding the value of the benefit received, provided that the payments are not made before the date on which the amounts of tax thereby relieved would otherwise have been due.

Part E: Restricted Category 4

12. Subject to paragraph 13 below, the licensee must not enter into an agreement or incur a commitment incorporating a cross-default obligation; or continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation.

13. The provisions of paragraph 12 and 13 shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of Part A sub-paragraph (a).

9-14. In this condition:

“Actual Regulatory Gearing” means the ratio of Net Debt to regulatory asset value, as reported at the closing of the previous Regulatory Year and calculated in accordance with the Regulatory Instructions and Guidance published by the Authority under Standard Condition B15.

“associate” means:

- (a) an affiliate or related undertaking of the licensee;

- (b) an ultimate controller of the licensee;
- (c) a participating owner of the licensee; or
- (d) a common control company.

“**common control company**” means any company, any of whose ultimate controllers (applying the definition set out in Standard Condition A1 (Definitions for the standard conditions) but substituting that company for the licensee) is also an ultimate controller of the licensee.

“**participating owner**” - For the purposes of the definition of associate above, a person is subject to a participating interest by another person (a “participating owner”) if:

- (a) that other person holds a participating interest in the person; or
- (b) the person is subject to a participating interest by a person who is himself subject to a participating interest by that other person.

“**Net Debt**” means the value of the licensee’s net debt as reported at the closing of the previous Regulatory Year and defined by the Regulatory Instructions and Guidance published by the Authority under Standard Condition B15.

“**participating interest**” has the meaning given in section 421A of the Financial Services and Markets Act 2000.

Condition B10: Credit rating of the licensee and related obligations

Introduction

1. The purpose of this condition is to place obligations on the licensee in respect of credit ratings, Published Rating Reports, Negative Rating Actions and Financial Resilience Reports.

Part A: Obligation to maintain an Investment Grade Issuer Credit Rating

2. The licensee must maintain more than one Investment Grade Issuer Credit Rating at all times.

Part B: Obligation to provide Published Rating Reports

3. Where a Negative Rating Action occurs in respect of the licensee or any of the licensee’s credit ratings is withdrawn, it must within a period of ten working days beginning with the date of the relevant Published Rating Report:

- (a) notify the Authority; and
- (b) if permitted by the relevant rating agency, provide the Authority with a copy of the Published Rating Report, or where the Published Rating Report relates to the wider group provide such parts as are relevant to the licensee.

Part C: Obligation to provide Financial Resilience Reports

4. The licensee must provide the Authority with a Financial Resilience Report within 60 days of ~~1 April 2026~~ or the date of a Negative Rating Action relating to the licensee (~~whichever is later~~), if:

- (a) any of the licensee's ratings held for an Issuer Credit Rating or highest rating held for a Significant Instrument Credit Rating is one notch higher than the lowest Investment Grade and that Issuer Credit Rating or Significant Instrument Credit Rating is on Negative Watch;
- (b) any of the licensee's Issuer Credit Ratings or Significant Instrument Credit Ratings is at the lowest Investment Grade or lower; or
- (c) the licensee has a debt covenant linked to a specific Issuer Credit Rating or Significant Instrument Credit Rating that would, if breached by the licensee, trigger an event of default under the relevant debt documents and that rating is either;
 - (i) one notch above the minimum covenant requirement and is on Negative Watch; or
 - (ii) lower than one notch above the minimum rating specified within the covenant requirement.

5. The Financial Resilience Report must include:

- (a) an assessment of the licensee's current and forecast financial standing, including an assessment of resilience to downside scenarios relating to:
 - (i) operational performance; and/or
 - (ii) macro-economic events,

in each case as applicable;

- (b) financial projections for the next three Regulatory Years (including the remainder of the current year) or the remainder of the Price Control Period, whichever is longer; and

- (c) details of Potential Mitigating Actions the licensee could take to improve its financial resilience and an indication of whether such actions are planned.
6. The financial projections required by paragraph 5(b) of this condition must include:
- (a) a forecast-balance sheet;
 - (b) income statements;
 - (c) cashflow statements;
 - (d) key financial metrics projections; and
 - (e) results of any stress tests that the licensee considers to be appropriate.
7. Where a licensee is required to provide the Authority with a Financial Resilience Report pursuant to Part C of this condition, the licensee is also required to comply with paragraph 9(b) of Special Condition B22 (Requirement for sufficiently independent directors).
8. Where a licensee is required to notify the Authority in accordance with paragraph 3(a) of this condition, the licensee is also required to comply with paragraphs 10(a) and/or 10(b) of Special Condition B22 (Requirement for sufficiently independent directors).

Condition B22: Requirement for sufficiently independent directors

1. Subject to paragraph 143, except and to the extent that the Authority consents otherwise, the licensee must ensure that at all times after a date which is the later of:
- (a) 1 April 2014; and
 - (b) 12 months after this condition comes into effect in respect of the licensee,
- it has at least two non-executive directors who meet the criteria set out in paragraphs 2, 3, and 5 below. In this condition such directors are referred to as “sufficiently independent directors”.

2.

- (a) A sufficiently independent director must:
- (i) be a natural person;
 - (ii) in the reasonable opinion of the licensee, have the skills, knowledge, experience, and personal qualities necessary to perform effectively as a non-executive director of the licensee; ~~and~~
 - (iii) not have any executive duties within the licensee's business or any associate of the transmission business; and
 - (iv) in the reasonable opinion of the licensee, be able to meet the duties of a director as specified in the Companies Act 2006.
- (b) The licensee must, by 31 July each year, submit to the Authority a completed checklist and completed template confirming each sufficiently independent director meets requirements 2(a)(i), 2(a)(ii), 2(a)(iii) and 2(a)(iv) and state the skills, knowledge, experience and personal qualities each sufficiently independent director holds which are appropriate to perform their duties as an independent non-executive director of the licensee with reasonable care, skill and diligence.

3. Except and to the extent that the Authority consents otherwise, and subject to paragraph 4, a sufficiently independent director must not be, and must not have been during the 12 months before ~~his~~their appointment as a director of the licensee or the coming into force of this condition (whichever is the later):

- (a) an employee of the licensee; or
- (b) a director or employee of an associate of the licensee.

4. The reference to 'director' in sub-paragraph 3(b) does not include appointment as a non-executive director of:

- (a) an associate of the licensee that is the holder of a gas transporter licence or an electricity transmission licence or an electricity distribution licence;
- (b) a wholly-owned subsidiary of the licensee that has been incorporated by it solely for the purpose of raising finance for a

permitted purpose (as that term is defined in Standard Condition A1 (Definitions and interpretation)); or

(c) a qualifying group company.

5. A sufficiently independent director must not:

(a) have, or have had during the 12 months before ~~his~~their appointment as a director or the coming into force of this condition (whichever is the later), any material business relationship with the licensee or any associate of the licensee;

(b) hold a remit to represent the interests of any particular shareholder or group of shareholders of the licensee or the interests of any associate of the licensee; or

(c) receive remuneration from the licensee or any associate of the licensee apart from a director's fee and reasonable expenses.

6. For the purposes of sub-paragraphs 5(a) and 5(c) respectively:

(a) the holding of a small number of shares or associated rights shall not, of itself, be considered a material business relationship; and

(b) the receipt or retention of any benefit accrued as a result of prior employment by or service with the licensee or any associate of the licensee shall not be considered to be remuneration.

7. The licensee must notify the Authority of the names of its sufficiently independent directors within 14 days of the later of the two dates referred to in paragraph 1 and must notify the Authority within 14 days where any new directors are appointed to fulfil the obligation in paragraph 11 of this condition.

8. The terms of appointment of each sufficiently independent director must include a condition stipulating that both the licensee and the appointee will use their best endeavours to ensure that the appointee remains sufficiently independent during ~~his~~their term of office, having particular regard to the criteria set out in paragraphs 2(a), 3, and 5.

9. On submissions to the Authority which require approval by a resolution of the board, at least one sufficiently independent director is a signatory, alongside at least one other director of the licensee, on behalf of the board in respect of the following submissions or notifications:

(a) availability of resources certificates, dividend certificate and statement of factors; and

(b) Financial Resilience Report.

10. At least one sufficiently independent director is a signatory alongside at least one other director of the licensee in respect of the following notifications:

(a) issuer credit rating withdrawal;

(b) any change in credit rating and / or outlook which would trigger a negative rating action, to a rating of BBB- or one notch above the minimum covenant requirement and is on negative watch; and

(c) proposed asset disposal to another entity operating within the same group structure as the licensee.

8-11. A term of appointment for a sufficiently independent director may not be for longer than eight years, but an individual may be reappointed thereafter provided that ~~he~~they-contin~~ues~~ to meet the criteria set out in paragraphs 2(a), 3, and 5.

9-12. The licensee must notify the Authority in writing within 14 days if any sufficiently independent director is removed from office or resigns, giving reasons for the removal or (to the extent that they are known to the licensee) the resignation. For the purposes of this requirement, the reasons for a resignation may, if appropriate, be stated to be personal reasons.

13. If at any time the licensee has fewer than two sufficiently independent directors because of a removal or resignation or other reason (including death or incapacity), the licensee must use its reasonable endeavours to ensure that a new director is, or new directors are, appointed to fulfil the obligation in paragraph 1 as soon as is reasonably practicable to bring the number of sufficiently independent directors up to at least two.

10-14. At least one sufficiently independent director must be in attendance at the licensee remuneration committee (or equivalent) meeting where remuneration of executives of the licensee is discussed for ratification or approval. If a remuneration committee is held by a parent or other entity in the licensee's group structure, the sufficiently independent director must make verbal representations on the licensee recommendation for remuneration to the committee.

Interpretation

~~44-15.~~ In this condition:

“associate” means:

- (a) an affiliate or related undertaking of the licensee;
- (b) an ultimate controller of the licensee;
- (c) a participating owner of the licensee; or
- (d) a common control company.

“common control company” means any company, any of whose ultimate controllers (applying the definition set out in Standard Condition A1 (Definitions and interpretation) but substituting that company for the licensee) is also an ultimate controller of the licensee.

“participating owner” - For the purposes of the definition of associate above, a person is subject to a participating interest by another person (a “participating owner”) if:

- (a) that other person holds a participating interest in the person; or
- (b) the person is subject to a participating interest by a person who is himself subject to a participating interest by that other person.

“participating interest” has the meaning given in section 421A of the Financial Services and Markets Act 2000.

“qualifying group company” means:

- (c) an immediate parent company of the licensee that holds 100% of the shares of the licensee and no other shares except for shares in one or more wholly-owned subsidiaries, each of which is the holder of a gas transporter licence or an electricity transmission licence or an electricity distribution licence;
- (d) the parent company of a group whose other members may only include:
 - (i) a company meeting the criteria set out in sub-paragraph (a) or a subsidiary of such a company, of the type referred to in that sub-paragraph; and
 - (ii) intermediate holding companies between the parent company concerned and a company meeting the criteria set

out in sub-paragraph (b)(i) provided that such intermediate holding companies:

- (a) have no shareholders other than the parent company concerned or another intermediate holding company;
and
- (b) hold no shares other than shares in a company meeting the criteria set out in sub-paragraph (a) or shares in another intermediate holding company;

and

- (e) intermediate holding companies meeting the criteria set out in sub-paragraph (b)(ii).