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Modifications to the Gas Transporter Standard Special Licence Conditions

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This document contains the modifications to the Gas Transporter Standard Special Licence Conditions. Any additions are shown as black double-underlined and any deletions are shown as black single strikethrough. Any changes since the statutory consultation are highlighted in yellow.

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Standard Special Conditions applicable to both NTS AND DN Licensees

Standard Special Condition A3: Definitions and Interpretation

1. Unless the context otherwise requires, words and expressions used in Part A: Standard Special Conditions applicable to both NTS and DN licensees, Part B: Standard Special Conditions applicable to all NTS licensees, Part C: Special Conditions applicable to the licensee (NTS), Part D: Standard Special Conditions applicable to all DN licensees, and/or Part E: Special Conditions applicable to the licensee (DN) of this licence shall bear the same meaning as set out in this paragraph, to the extent that they apply to the licensee:

"ultimate controller"	means:- (a) a holding company of the licensee which is not itself a subsidiary of another company or entity; (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 himthem) 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 ~~they are~~ is a beneficiary; or

(ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him~~them~~ or of which he ~~they are~~ is a beneficiary, but excluding any director or employee of a corporate body in his~~their~~ capacity as such; and

(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~~;~~.

Standard Special Condition A27: Disposal of Assets and restrictions on charges ~~over Receivables~~

1. The licensee shall not dispose of or relinquish operational control over any transportation asset except in accordance with the provision of this condition.

2. Subject to paragraph 3, the licensee must not, after ~~1 April 2013~~6 ~~November 2026~~ 16 December 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 7~~6~~, ~~7~~8 or ~~9~~10, 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 transportation 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~~Financial Asset or class or classes of ~~receivables, or other~~ Financial Asset, together with such further information as the Authority may request relating to such ~~receivable~~Financial Asset, class or classes of Financial Assets~~receivables~~ or the circumstances of the intended grant of the mortgage, charge or other form of security.

5. A director and at least one sufficiently independent director must be a signatory in respect of a notification under paragraph 4(a) where that notification relates to a disposal of or relinquishment of operational control over a transportation asset to an affiliate.

~~5.~~6. The following provisions of this paragraph shall apply where the transportation asset comprises a significant part of an independent system operated by the licensee on the appointed day which remains an independent system:

    a. Save where the Secretary of State otherwise agrees, the licensee shall neither agree to dispose of, nor dispose of, its right to operate such a transportation asset unless it has put in place or procured, or will with effect from no later than the date

of such disposal put in place or procure, a suitable alternative arrangement and any question arising under this sub-paragraph as to whether an alternative arrangement is or will be suitable shall be determined by the Secretary of State.

b. The licensee shall notify the Secretary of State no less than 60 days in advance of the proposed disposal and if the Secretary of State directs the licensee within 30 days of such notification, not to proceed with the disposal on grounds that it, and / or the person to whom the independent system will be disposed of, will not comply with such suitable alternative arrangement as the Secretary of State shall determine, the licensee shall comply with the direction.

c. The licensee shall at all times comply with the alternative arrangements in respect of independent systems operated by the licensee.

~~6.~~7. Notwithstanding paragraphs 1 and 4(a), the licensee may dispose of or relinquish operational control over a transportation asset where:

a. the Authority has issued directions for the purposes of this condition generally 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 an asset of a specified description; and

b. the transaction or the 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.

~~7.~~8. Notwithstanding paragraphs 2 and 4(b), the licensee may grant a mortgage, charge, or other form of security over a ~~receivable~~

Financial Asset 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).

~~8.~~9. For the purposes of paragraph ~~8~~7, what is meant in any particular case by:

a. "existing indebtedness"; and

b. "proceeds of the indebtedness"

c. is to be treated as a question of fact.

~~9.~~10. Notwithstanding paragraphs 1 and 2, the licensee may dispose of or relinquish operational control over any transportation asset or grant a mortgage, charge, or other form of security over a ~~receivable~~ Financial Asset 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.

~~10.~~11. Notwithstanding paragraphs 1 and 2, the licensee may dispose of or relinquish operational control over any transportation asset or grant a mortgage, charge, or other form of security over a ~~receivable~~Fianancial Asset or class or classes of ~~receivable or other~~ Financial Asset as is specified in any notice given by the licensee 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.

~~In respect of a sale, disposal or transfer of a transportation 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 Special Condition A42: Requirement for sufficiently independent directors.~~

~~11.~~12. If a transportation asset comprises a significant part of the gas conveyance system in Great Britain, notwithstanding that a disposal of or relinquishment of operational control over the asset is permitted under paragraphs ~~7~~6, ~~10~~9 or ~~11~~0, the licensee shall notify the Secretary of State at least 60 days in advance of the proposed disposal of or relinquishment of operational control over the asset; and if the Secretary of State directs the licensee, within 30 days of such notification, not to proceed with the disposal of or the relinquishment of operational control over the asset, the licensee shall comply with the direction.

~~12.~~13. In this condition

"alternative arrangements"	means, in respect of relevant premises, arrangements for the conveyance of gas to protect the interests of consumers at such premises, as determined by the Secretary of State as suitable under sub-paragraph ~~6~~5(a) of this condition in this licence or the equivalent condition in the licence of any other relevant gas transporter.

"**appointed day**"	means 1 March 1996
"**disposal**"	Means In relation to disposal of a transportation asset situated in England and Wales includes, any sale, gift, exchange, assignment, lease, licence, loan, mortgage, charge, or the grant of any other encumbrance, or the permitting of any encumbrance to subsist or any other disposition to a third party; In relation to disposal of a transportation asset situated in Scotland, includes 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 instrument and is.

(i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, or

(ii) a derivative that will or may be settled other than by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

"**relevant premises**"	Means any premises connected to a system to which this licence relates which was an independent system on the appointed day and which remains an independent system; and any premises of domestic customers subsequently connected, in pursuance of section 10 of the Act, to a system to which this licence relates which was an independent system on the appointed day and which remains an independent system.
	1.
"**relinquishment of operational control**"	includes , without limitation, entering into any agreement or arrangement whereby operational

control of a transportation asset or transportation assets is not or ceases to be under the sole management of the licensee.

2.

“**transportation asset**” means any part of the pipe-line system to which this licence relates or any part of any facility being one –

3.

a) used by the licensee only for the diurnal storage of gas or for the storage of gas in connection with the operation of its independent systems; and

b) required for the proper performance of its duty under section 9(1) of the Act,

together with any estate or interest in land required for the utilisation of that system or of such a facility.

Standard Special Condition A33: Restriction on Use of Certain Information and Independence of the Transportation Business

1. In this condition, and in Standard Special Condition A34 (Appointment of Compliance Officer):

“**confidential information**”	means information relating to, or derived from, the transportation business which is not published or otherwise legitimately in the public domain;
“relevant generator”	means the holder of an electricity generation licence which is an affiliate or related undertaking of the licensee;
“relevant producer”	means a person who is an affiliate or related undertaking of a licensee who conveys gas to at least 100,000 premises, and who— a) gets gas from its natural condition in strata otherwise than as an unintended consequence of the storage of gas, and requires a licence under section 3 of the Petroleum Act 1998 to do so or would require such a licence if getting the gas in Great Britain; or b) produces any other gas, including in particular biomethane, which is suitable for conveyance through pipes to premises in accordance with a gas transporter licence;
“**relevant supplier”**	means the holder of an electricity or gas supply licence which is an affiliate or related undertaking of the licensee;
“relevant shipper”	means a gas shipper which is an affiliate or related undertaking of the licensee;
“trading business”	means:

(i) activities connected with the acquisition and disposal of gas or electricity in Great Britain;

(ii) activities connected with the storage of gas at an offshore storage installation or storage cavities in natural strata; or

(iii) activities connected with 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

other than such activities relating to gas or electricity intended for consumption outside Great Britain as designated for the purposes of this condition by the Authority, and in the case of the licensee's trading business only, also excluding:

1. such activities in connection with the supply of transportation services; or

2. such activities as it may engage in with a gas shipper or with a person who benefits from an exemption under section 6A of the Act from the prohibition under section 5(1)(c) of the Act;

"**meter-related services business**" means the activities of the licensee in connection with metering services~~the provision of meter-related services as provision, installation, commissioning, inspection, repairing, alteration, repositioning, removal, renewal and maintenance of the whole or~~

~~part of the Supply Meter Installation as defined in Section M, paragraph 1.2 of the Network Code of Transco plc, as at 12 July 2004, as defined within Amended Standard Condition 9 (Network Code) of Transco plc's gas transporter licence on that date~~. ~~defined in paragraph 1A of Standard Special Condition D17 (Provision and Return of Meters~~); and

"transportation business" shall have the meaning given in Standard Special Condition A3 (Definitions and Interpretation) but for the purposes of this condition shall also include the licensee's metering business other than its meter-related services business.

2. Unless the Authority otherwise consents in writing, the licensee shall put in place and at all times maintain managerial and operational systems which prevent any relevant supplier, relevant shipper, relevant generator, relevant producer, any trading business, its meter-related services business or its meter reading business from having access to confidential information except and to the extent that such information:

   (a) is made available on an equal basis to any gas or electricity supplier or gas shipper, electricity generator, gas producer (within the meaning of section 7(10) of the Act) or any metering equipment manager (bearing the meaning of that expression contained in Standard Special Condition D17 (Provision and Return of Meters)); or

   (b) relates to a customer who at the time to which the information relates was a customer of the relevant supplier.

3. The licensee shall at all times manage and operate the transportation business in a way calculated to ensure that it does not restrict, prevent

or distort competition in the supply of electricity or gas, the shipping of gas, the generation of electricity, the production of gas, any trading business, or the supply of meter-related services or of meter reading services.

4. Unless otherwise directed by the Authority, the licensee shall no later than 1 May 2005 have in place a statement (in this condition "**the statement**"), approved by the Authority, describing the practices, procedures and systems which the licensee has adopted (or intends to adopt) to secure compliance with paragraphs 2 and 3.

5. Where the Authority does not indicate otherwise within 60 days of receipt of the statement, the statement shall be deemed to be approved by the Authority.

6. Unless the Authority otherwise consents in writing, the statement shall in particular (but without prejudice to the generality of paragraphs 2 and 3) set out how the licensee shall:

   (a) maintain the full managerial and operational independence of the transportation business from any relevant supplier, relevant shipper, relevant generator, relevant producer, any trading business, its meter-related services business and its meter reading business;

   (b) maintain the branding of the transportation business so that it is fully independent from the branding used by any relevant supplier, relevant shipper, relevant generator, relevant producer, any trading business, its meter-related services business or its meter reading business;

   (c) secure that any arrangements for the use of or access to:

      (i) premises or parts of premises occupied by persons engaged in, or in respect of, the management or operation of the transportation business;

(ii) systems for the recording, processing or storage of data to which persons engaged in, or in respect of, the management or operation of the transportation business also have access;

(iii) equipment, facilities or property employed for the management or operation of the transportation business; or

(iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management of operation of the transportation business;

by any relevant supplier, relevant shipper, relevant generator, any trading business, its meter-related services business or its meter reading business or by any person engaged in or in respect of the activities of such a relevant supplier, relevant shipper, relevant generator, relevant producer, any trading business, its meter-related services business or its meter reading business shall be such as to prevent any breach of the requirements of those paragraphs; and

(d) manage the transfer of employees from the transportation business to any relevant supplier, relevant shipper, relevant generator, relevant producer, any trading business, its meter-related services business or its meter reading business.

7. The licensee shall revise the statement prepared in accordance with paragraph 4 where circumstances change such that the statement prepared in accordance with paragraph 4 no longer secures compliance with paragraphs 2 and 3. Such revision of the statement shall only become effective once the Authority has approved the revised statement in accordance with paragraphs 4 or 5.

8. The licensee shall use its best endeavours to ensure compliance with the terms of the statement as from time to time revised and approved by the Authority.

9. The licensee shall publish a copy of the approved statement prepared in accordance with paragraph 4 (or the latest approved version) on its company's website within fifteen working days of its approval by the Authority.

Standard Special Condition A36: Restriction on Activity and Financial Ring Fencing

(a) Subject to paragraph 1A, and save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than any business carried on by the licensee for a purpose within sub-paragraphs (a), (b), and (c) of the definition of "permitted purpose" in Standard Special Condition A3 (Definitions and Interpretation).

1A Nothing in this condition prevents the licensee from carrying out gas production if the licensee:

(a) conveys gas to less than 100,000 premises; and

(b) is not the NTS operator.

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 any purpose falling within sub-paragraphs (a), (b) or (c) of the definition of permitted purpose contained in Standard Special Condition A3 (Definitions and

Interpretation) of this licence and any other licence held by the licensee in the same legal entity; 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. 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 business or activities falling within sub-paragraph (a),

(b), or (c) of the definition of "permitted purpose" contained in Standard Special Condition A3 (Definitions and Interpretation);

(ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d); and

(iii) gas production.

(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 transportation business, the metering business and the meter reading business (excluding the turnover on transactions which each of those businesses make with each other) as shown by the most recent audited ~~regulatory historical cost accounting statements~~statutory accounts of the licensee ~~prepared under Standard Special Condition A30 (Regulatory Accounts)~~; and

(ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in 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 this 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 ~~regulatoryhistorical cost~~

~~accounting statements~~statutory accounts of the licensee ~~prepared under Standard Special Condition A30 (Regulatory Accounts) then available~~. ~~i~~

(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 13 December 1999 (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.

5A. For the purposes of this condition, "**gas production**" means the production of gas for the purpose of its conveyance through pipes to premises, or through a pipeline system operated by a gas transporter or a transmission system operator, including where a licence is held under section 3 of the Petroleum Act 1998 for that purpose but not where such a licence is held for a different purpose.

Standard Special Condition A37: Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to itself 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 transportation business of the licensee; and
   (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to those activities authorised by this licence including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of gas transportation.

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 which is in one of the following forms:

(a) Certificate 1F

"After making enquiries, including reviewing the results of stress tests that the licensee has 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 transportation 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 has 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 transportation 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 transportation 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 transportation 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 has 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 transportation 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 transportation 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 transportation 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 transportation 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 statutory audit work. ~~under Standard Special Condition A30 (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~~ considered 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 associated 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 transportation 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 transportation 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 transportation 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 transportation 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 64 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 Special -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 Special Condition A26 (Provision of Information to the Authority), Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing), Standard Special Condition A37 (Availability of Resources), Standard Condition 45 (Undertaking from Ultimate Controller), Standard

Special Condition A38 (Credit Rating of the Licensee and resulting obligations) and Standard Special Condition A39 (Indebtedness)~~.~~, Standard Special Condition A42 (Requirement for sufficiently independent directors), Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business), Standard Special Condition A27 (Disposal of ~~relevant~~ assets and restriction on charges) and Standard Special Condition A35 (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 Special Condition A26 (Provision of Information to the Authority), Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing), Standard Special Condition A37 (Availability of Resources), Standard Condition 45 (Undertaking from Ultimate Controller), Standard Special Condition A38 (Credit Rating of the Licensee and resulting obligations) and Standard Special Condition A39 (Indebtedness)~~.~~, Standard Special Condition A42 (Requirement for sufficiently independent directors), Standard Special Condition A33 (Restriction on Use of Certain Information and Independence of the Transportation Business), Standard Special Condition A27 (Disposal of relevant assets and restriction on charges) and Standard Special Condition A35 (Prohibition of cross-subsidies)."

Obligation to report any adverse circumstances

9. 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), 4(a) or 4(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 64(c) have materially worsened.

Certificates for the Authority in relation to dividends or other distributions

10. Subject to paragraph 131, 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 119 and 120 below.

11. 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 of the obligations imposed on it by Standard Special Condition A26 (Provision of Information to the Authority), Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing), Standard Special Condition A37 (Availability of Resources), Standard

Condition 45 (Undertaking from Ultimate Controller), Standard Special Condition A38 (Credit Rating of the Licensee and resulting obligations) and Standard Special Condition A39 (Indebtedness) Standard Special Condition A42 (Requirement for sufficiently independent directors), A27 (Disposal of ~~Relevant~~ Assets and restrictions on charges, A35 (Prohibition of cross-subsidies), and A33 (Restriction on Use of Certain Information and Independence of the Transportation Business; 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."

12. 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, pursuant to that resolution.~~.~~

13. The licensee need not give the Authority a certificate of the type referred to in paragraph 10~~8~~ 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~~6~~ of this condition; and

(b) that certificate includes an appropriate addendum using the form of the wording given at paragraph 11~~9~~(b) of this condition.

14. Where the certificate given under paragraph 108, or relied upon under paragraph 131, 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.

15. Before making anyExcept with the Authority's consent, the licensee shall not make alterations to a capital or reserve category, which areis usually non-distributable by nature, where the effect of the alteration is to create or increase distributable reserves available for to facilitate a dividend payment or other distribution,. Tthe licensee must notify the Authority and provide such information, supporting documentation reasoning and justification as the Authority may reasonably require. for any proposed alteration of the type described in this paragraph to the Authority. The Authority shall notify the licensee of its decision within one month of receiving all information reasonably required to assess the request.

16. The Authority may object to the proposed alteration within one month of receiving all information reasonably required to assess the proposal.

17. The licensee must not proceed with the proposed alteration where:

(a) the period referred to in paragraph 16 has not yet expired; or

(a)(b) the Authority has notified the licensee of an objection under paragraph 16.

Requirement to maintain an intervention plan

15.18. 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 lintervention Pplan. The Intervention pPlan must be submitted to the Authority within 3 months of the start of each Pprice Ccontrol Pperiod. The Authority may request a copy of the Intervention Plan on an ad-hoc basis, which the licensee is required to submit would require to be submitted within 10 working days of such a

request. The ~~i~~Intervention P~~p~~lan must fulfil ~~fulfilling~~ the criteria described in the definition of l~~i~~ntervention P~~p~~lan in paragraph 1~~5~~8 below.

~~16.~~19. The requirement for the information described in any of sub-paragraphs (a) to (k) in the definition of l~~i~~ntervention P~~p~~lan in paragraph ~~15~~ 18 below to be included in the l~~i~~ntervention P~~p~~lan 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

~~17.~~20. 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 Special Condition A3 (Definitions and Interpretation) but substituting that company for the licensee) is also an ultimate controller of the licensee.

"**l~~i~~ntervention P~~p~~lan**" 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 transportation 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 transportation assets (as that term is defined in Standard Special Condition A27 (Disposal of Assets and restrictions 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.

~~18. NOT USED.~~

~~Standard Special Condition A38: 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

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:

4. (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.

The financial projections required by paragraph 5(b) must include:

6.

(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.

~~Submission of a Financial Resilience Report requires to comply with requirement of A42 (Requirement for sufficiently independent directors) 9(b)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 Standard Special Condition A42: Requirement for sufficiently independent directors.~~

~~Notification of issuer credit rating withdrawal or any change in credit rating and/ or outlook which would trigger a negative rating action require to comply with requirement of A42 (Requirement for sufficiently independent directors) 10(a) and 10(b)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 Standard Special Condition A42: Requirement for sufficiently independent directors.~~

~~Where a licensee is required to provide the Authority with a notification pursuant to Part B paragraph 3(a) of this condition, the notification must~~

~~be signed by at least one sufficiently independent director and by at least one other director of the licensee.~~

Where a licensee is required to provide the Authority with a Financial Resilience Report pursuant to Part C of this condition, the Financial Resilience Report must be signed by at least one sufficiently

7. independent director and by at least one other director of the licensee.

Standard Special Condition A39: Indebtedness

General prohibition

1. In addition to the requirements of Standard Special Condition A27 (Disposal of Assets and restrictions on charges over Receivables) and Standard Special Condition A37 (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 Special Condition A27 (Disposal of 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 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 Special Condition A36 (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 continue or permit to remain in effect~~

~~any agreement or commitment incorporating a cross-default obligation,~~

~~provided, however, that the provisions of sub-paragraph (c) shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a).~~

~~1.~~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:

(a) the counter-party to the transaction has and maintains until payment is made in full an Investment Grade Issuer Credit Rating; or

(b) 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 1~~0~~, if any of the circumstances set out in paragraphs ~~4~~5 to ~~9~~10 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

~~2.~~5. The circumstance described by this paragraph is that the licensee does not hold an Investment Grade Issuer Credit Rating.

~~3.~~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.

4.7. 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 Special Condition A38 (Credit Rating of the Licensee and related obligations) 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 which 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.

5.8. 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 Special Condition A37 (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 46 of Standard Special Condition A37 (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 set out in paragraph 9 of Standard Special Condition A37 (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:

(aa) relate in whole or in part to circumstances affecting an associate of the licensee; and

(bb) 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.

~~6.~~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 and ~~10~~12, 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

~~7.~~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 to any associate of the licensee as described or referred to in paragraph 1(b), 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 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

~~8.~~12. Subject to paragraph 13 below, t~~T~~he 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 shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph 1(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 Special Condition A40.
"**associate**"	means: (I) an affiliate or related undertaking of the licensee; (II) an ultimate controller of the licensee; (III) a participating owner of the licensee; or (IV) a common control company.
"**common control company**"	means any company, any of whose ultimate controllers (applying the definition set out in Standard Special Condition A3 (Definitions and Interpretation) but substituting that company for the licensee) is also an ultimate controller of the licensee.

"**cross-default obligation**"	means a term of any agreement or arrangement whereby the licensee's liability to pay or repay any debt or other sum arises or is increased or accelerated or is capable of arising, of increasing or of being accelerated by reason of a default (howsoever such default may be described or defined) by any person other than the licensee, unless: 1. that liability can arise only as the result of a default by a subsidiary of the licensee; 2. the licensee holds a majority of the voting rights in that subsidiary and has the right to appoint or remove a majority of its board of directors; and 3. that subsidiary carries on business only for a purpose within sub-paragraphs (a), (b), (c) or (d) of the definition of permitted purpose set out in Standard Special Condition A3 (Definitions and interpretation).
"**indebtedness**"	means all liabilities now or hereafter due, owing or incurred, whether actual or contingent, whether solely or jointly with any other person and whether as principal or surety, together with any interest accruing thereon and all costs, charges, penalties and expenses incurred in connection therewith.
"**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.
"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 Special Condition A40.

Standard Special Condition A42: Requirement for sufficiently independent directors

1. Subject to paragraph 113, 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(a), 3, and 5 below. In this condition such directors are referred to as "sufficiently independent directors".

2.

   ~~(c)~~(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 transportation business or within any associate of the licensee business.~~; and~~

~~(iii) 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~~:~~;

(i) confirm ~~submit~~ to the Authority that ~~a completed checklist and completed template confirming~~ each sufficiently independent director meets the requirements set out in paragraphs 2 (a), 3 and 5 of this condition A42 (Requirements for sufficiently independent directors);~~(i), 2 (a)(ii), 2 (a)(iii) and 2 (a)(iv)~~ and

~~(iv)~~(ii) provide to the Authority a statement of ~~state~~ the skills, knowledge, experience and personal qualities each sufficiently independent director has~~olds~~, which in the reasonable opinion of the licensee enables them ~~are appropriate~~ to perform their duties as a~~n~~ sufficiently independent ~~non-executive~~ director of the licensee with reasonable care, skill and diligence.

~~2.~~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 any associate of the licensee.

~~3.~~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 Special Condition A3 (Definitions and Interpretation)); or

(c) a qualifying group company.

~~4.~~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.

~~5.~~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.

~~6.~~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 1 of this condition.

~~7.~~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 hist~~their~~ term of office, having particular regard to the criteria set out in paragraphs 2(a), 3, and 5.

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

- ~~availability of resources certificates, dividend certificate and statement of factors;~~
- ~~(a) Financial Resilience Report.~~

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

- ~~issuer credit rating withdrawal;~~
- ~~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~~
- ~~(b) proposed asset disposals to another entity operating within the same group structure as the licensee~~

~~8.~~9. 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~~ continues to meet the criteria set out in paragraphs 2(a), 3, and 5.

~~9.~~10. 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.

~~10.~~11. ~~11.~~ 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.

12. The licensee must ensure a~~A~~t least one sufficiently independent director makes representations ~~must be in attendance~~ at the licensee remuneration committee, or equivalent meeting, where remuneration of the chair and 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 licensee must ensure a sufficiently independent director ~~must~~ makes ~~verbal~~ representations on the licensee's recommendation for remuneration to the committee.

~~11.~~13. Where the holder of this licence owns one or more relevant gas transporters, the licences for which are held in a single legal entity, references in this condition to "licensee" shall mean that single entity.

Interpretation

~~12.~~14. 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 Special Condition A3 (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:

I. 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;

II. 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:

(aa) have no shareholders other than the parent company concerned or another intermediate holding company; and

(bb) 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

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