

To:

1. The Company Secretary
Blue Transmission Walney 2 Limited
The American Barns
Banbury Road
Lighthorne
Warwick
Warwickshire
CV35 0AE

Consent issued by the Gas and Electricity Markets Authority under paragraphs 1 and 3 of standard condition E11 (*Credit Rating of Licensee*) of the offshore transmission licence granted under section 6 of the Electricity Act 1989 to Blue Transmission Walney 2 Limited

Whereas:

1. A consortium of Macquarie Capital Group Limited and Barclays Integrated Infrastructure Fund (managed by Barclays Infrastructure Funds Management Limited) was the preferred bidder for the Walney 2 project ("the **Project**").
2. On 5 September 2012 the preferred bidder became the successful bidder for the Project. The Gas and Electricity Markets Authority ("the **Authority**") determined it would grant an offshore transmission licence in respect of the Project to the successful bidder. The Authority subsequently confirmed that determination on 25 September 2012. Consequently, Blue Transmission Walney 2 Limited ("the **Licensee**") is the holder of an offshore transmission licence granted under section 6 of the Electricity Act 1989 in respect of the Project ("the **Licence**").
3. Standard condition E11 ("*Credit Rating of Licensee*") of the Licence requires the Licensee to use all reasonable endeavours to ensure that it maintains at all times an investment grade issuer credit rating or such alternative financial arrangements to which the Authority has given its consent in writing subject to any conditions that the Authority considers to be appropriate.
4. Unless otherwise directed by the Authority as a condition of a consent granted under standard condition E11, standard condition E8 ("*Availability of Resources*") of the Licence requires the Licensee to submit a certificate, confirming the availability of resources of the Licensee, to the Authority in one of the forms set out in paragraph 2 of standard condition E8 on the date that this condition comes into force and by 31 July of each year.
5. On 25 November 2011 the preferred bidder notified the Authority that it:
 - i. requests the Authority's consent to alternative financial arrangements, namely an investment grade instrument credit rating for the single tranche of senior debt in the proposed financial structure;
 - ii. also requires variation of the requirements of standard condition E8 in relation to the form of certificate to be submitted on the date that this condition comes into force in the Licence (the "First Certificate"); and
 - iii. cannot submit an auditor's report with the First Certificate as required in paragraph 6 of standard condition E8 because the Licensee will not produce any regulatory accounts until a date after financial close.
6. The 25 November 2011 request has been taken to constitute a request from the Licensee for the Authority's consent to the arrangements described in paragraph 5 above.

Reasons for the Authority's consent

7. The Authority has considered the requirements of standard condition E11 and the extent to which the alternative arrangements, an investment grade instrument credit rating for the single tranche of senior debt in the proposed financial structure, proposed by the Licensee meet those requirements. The Authority considers that if it grants consent to the alternative arrangements proposed the Licensee will be able to achieve the policy aims of standard condition E11. The Authority has also considered the request for the alternative credit rating arrangements in light of the Licensee's particular circumstances and the extent to which the proposed arrangements provide comfort as to the Licensee's financial standing.
8. In particular the Authority has considered the differences between instrument and issuer ratings and the impact that they would have, for instance on the ability of the Licensee to access bond finance. The Authority considers that the proposed alternative arrangements are more appropriate to the Licensee and provide the Licensee with a proportionate and practical way of achieving the policy aims of standard condition E11. Further, the proposed arrangements are consistent with our indicative alternative arrangements set out in the open letter dated 13 October 2010.
9. The Authority has considered the request by the Licensee to vary the form of the First Certificate so that the First Certificate is given in relation to a period of 24 months (as two distinct 12 month periods) from the date standard condition E8 comes into force in the Licence instead of from the date of the last published accounts and the impact this will have on the information available to the Authority.
10. In particular, the Authority acknowledges that if there are no published accounts available at the time of submission of the First Certificate, then a certificate in one of the forms set out in standard condition E8 cannot be provided. The Authority therefore considers it is appropriate to amend the form of the First Certificate to address this and that proposed form provided in the 25 November 2011 request is suitable for this purpose.
11. The Authority has considered that the proposed alternative reporting arrangements in the first year would not reduce the time frame covered by the usual availability of resources certificates.
12. The Authority also acknowledges that an auditor's report cannot be provided with the First Certificate in accordance with standard condition E8 due to the fact that the Licensee will not produce any regulatory accounts until a date after financial close.

The Authority hereby gives consent

13. The Authority hereby gives consent under paragraphs 1 and 3 of standard condition E11 for the Licensee to maintain the alternative financial arrangement of an investment grade instrument credit rating for the single tranche of senior debt in the proposed financial structure in accordance with standard condition E11 subject to the following:

- i. for the purposes of this arrangement the senior debt instrument credit rating must be provided by either Fitch Ratings, Standard & Poor, Moody's or otherwise another rating agency but only if approved by the Authority. Investment grade is as defined in standard condition A1 but should a higher credit rating be specified by any of these rating agencies as its lowest investment grade credit rating then that higher credit rating is to be taken as the relevant investment grade for the purposes of this alternative arrangement;
 - ii. the Licensee is to use the following wording in place of the wording specified in paragraph 2(a) of standard condition E8 in the First Certificate only (due on the date that standard condition E8 comes into force in the Licence):

"After making enquiries, and 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 directors of the licensee 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 and activities authorised by the Licence held in accordance with its obligations under the Act for a period of 24 months (as two distinct 12 month periods) from the date that condition E8 of the Blue Transmission Walney 2 Limited's Licence came into force."
 - iii. nothing in this consent authorises the Licensee not to use all reasonable endeavours to maintain at all times the alternative financial arrangements proposed in paragraph 11 above and should the Licensee fail to use all reasonable endeavours to maintain the required credit rating this consent shall cease to have effect.
14. For the purpose of paragraph 13 above, an investment grade instrument credit rating means a credit rating with similar requirements to an issuer credit rating but which is based on the debt on a company's balance sheet rather than just the bonds in issue.
15. The Authority acknowledges that the Licensee cannot submit an auditor's report with the First Certificate as required in paragraph 6 of standard condition E8 due to the fact that the Licensee will not produce any regulatory accounts until a date after financial close.
16. Paragraph 3(a) of standard condition E8 requires the Licensee to submit a statement of main factors accompanying each certificate. The directors of the Licensee are required in the statement of factors that accompanies the First Certificate, to describe the particular circumstances of the Licensee and explain the reasons why the directors of the Licensee are satisfied of their ability to make the resolution required by paragraph 4 of standard condition E8 without the benefit of an auditor's report. The statement may make reference to the due diligence work carried out before Licence grant.

Notice of reasons

17. This document also constitutes a notice under section 49A of the Electricity Act 1989 of the reasons for the decision of the Authority to give this consent pursuant to standard condition E11.

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Martin Crouch
Director, Offshore Transmission

Duly authorised on behalf of the
Gas and Electricity Markets Authority

26 September 2012