

**To the Company Secretary:**

National Grid Electricity Transmission plc  
Company number 02366977

SP Transmission Ltd  
Company number SC189126

Scottish Hydro Electric Transmission plc  
Company number SC213461

TC Robin Rigg OFTO Ltd  
Company number 07384550

TC Gunfleet Sands OFTO Ltd  
Company number 07384551

TC Barrow OFTO Ltd  
Company number 07384547

TC Ormonde OFTO Ltd  
Company number 07456969

Blue Transmission Walney 1 Ltd  
Company number 07353265

Blue Transmission Walney 2 Ltd  
Company number 07753568

## **NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989**

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 ("the Act") as follows:

1. The Authority proposes to modify all electricity transmission licences granted or treated as granted under section 6(1)(b) of the Act by amending the following standard licence conditions:

### Section B - Applicable to onshore electricity transmission licensees

- Condition B3: Disposal of relevant assets;
- Condition B7: Availability of Resources;
- Condition B8: Undertaking from ultimate controller;
- Condition B9: Indebtedness; and

### Section E - Applicable to offshore electricity transmission licensees

- Condition E8: Availability of Resources;
- Condition E9: Undertaking from ultimate controller;
- Condition E10: Indebtedness; and
- Condition E11: Credit Rating of Licensee.

and to alter the definitions of "investment grade" and "issuer credit rating", and to add a definition for "instrument credit rating" in standard condition A1 (Definitions and interpretation).

2. The Authority also proposes to add the following new Standard Licence Condition to Section B which will be applicable only to onshore electricity transmission licensees:

- Condition B22: Requirement for Sufficiently Independent Directors.

3. The Authority's reasons for proposing to make these licence modifications are set out in the following documents published by the Authority:

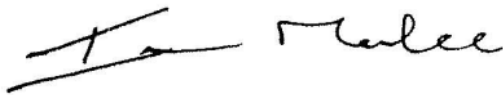
- Review of the 'Ring Fence' Conditions in Network Operator Licences (Ref 30/10) published 3 March 2010;
- Proposed Modifications to the 'Ring Fence' Conditions in Network Operator Licences Ref (42/11) published 25 March 2011;
- Changes to the Ring Fence Conditions in Network Operator Licences (Ref 85/2012) published 3 July 2012; and
- Updated Proposals for Changes to Ring Fence Conditions (Ref 129/2012) published 11 October 2012; and
- Open letter dated 17 December 2012: Formal proposals to modify the ring fence conditions in network operator licences,

and in summary are to update and enhance the suite of 'Ring Fence' conditions in electricity transmission licences granted under section 6(1)(b) of the Act so that it continues to protect the interests of existing and future consumers by helping to

control the risks associated with the financial distress of a transmission system operator.

4. The effects of the proposed modifications are, in respect of onshore electricity transmission licensees:
  - a) to provide assurance that charges will only be granted over the receivables of a licensee in appropriate circumstances;
  - b) to extend the scope of the annual certification of resource availability by each licensee's board so that it covers operational as well as financial resources and compliance with certain licence conditions;
  - c) to require each licensee to maintain an intervention plan containing important financial and operational information;
  - d) to require each licensee to provide the Authority with a schedule of its ultimate controllers and to reappraise those ultimate controllers of the terms of undertakings which they have given to the licensee on an annual basis;
  - e) to expand the definition of parties specified in restrictions placed on the licensee in Standard Licence Condition B9 by the inclusion of a new defined term of "associate";
  - f) to specify additional circumstances in which a licensee could be subject to restrictions on the payments it can make to its associates;
  - g) to add DBRS Ratings Ltd and its affiliates to the list of credit rating agencies referred to in the definition of "investment grade" and "issuer credit rating"; and
  - h) to require each licensee to have two sufficiently independent directors,and, in respect of offshore electricity transmission licensees, are:
  - i) to extend the scope of the annual certification of resource availability by each licensee's board so that it covers operational as well as financial resources and compliance with certain licence conditions;
  - j) to require each licensee to maintain an intervention plan containing important financial and operational information;
  - k) to require each licensee to provide the Authority with a schedule of its ultimate controllers and to reappraise those ultimate controllers of the terms of undertakings which they have given to the licensee on an annual basis;
  - l) to remove the requirement for the ultimate controller of a licensee to confirm in an undertaking that the licence holder is both the owner and operator of the transmission system;
  - m) to expand the definition of parties specified in restrictions placed on the licensee in Standard Licence Condition E10 by the inclusion of a new defined term of "associate";
  - n) to specify additional circumstances in which a licensee could be subject to restrictions on the payments it can make to its associates;
  - o) to add DBRS Ratings Ltd and its affiliates to the list of credit rating agencies referred to in Condition E11 (Credit Rating of Licensee) and the definitions of "investment grade" and "issuer credit rating"; and
  - p) to provide for licensees to hold instrument credit ratings as an alternative to an issuer credit rating.

5. The proposed modifications are set out in marked-up text in Annexes 1 to 10 to this notice.
6. Copies of this notice and the documents referred to in paragraph 3 are available (free of charge) from the Ofgem Research and Information Centre (telephone 020 7901 7003) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
7. Any representations on the proposed licence modifications may be made on or before 22 January 2013 to: Paul Darby, Regulatory Finance Team, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [paul.darby@ofgem.gov.uk](mailto:paul.darby@ofgem.gov.uk).
8. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
9. If the Authority decides to make the proposed modifications they will take effect not less than 56 days after the decision is published.



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**Ian Marlee**  
**Senior Partner, Smarter Grids and Governance (Transmission)**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**17 December 2012**

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

1. The licensee ~~shall~~ **must** not dispose of or relinquish operational control over any relevant asset ~~otherwise than~~ **except** in accordance with the ~~following paragraphs~~ **provisions** of this condition.
2. Subject to paragraph 3, the licensee must not, after 1 April 2013, grant any mortgage, charge, or other form of security over any receivable 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 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.
24. Save as provided in paragraphs ~~3~~ **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 together with such further information as the Authority may request relating to such receivable, class or classes of receivables or the circumstances of the intended grant of the mortgage, charge or other form of security.
35. Notwithstanding paragraphs 1 and ~~2~~ **4(a)**, the licensee may dispose of or relinquish operational control over any relevant asset **where:-**
  - (a) ~~where:(i)~~ the Authority has issued directions for the purposes of this condition containing a general consent (whether or not subject to conditions) to:

- (~~aa~~i) transactions of a specified description; or
- (~~bb~~ii) the disposal of or relinquishment of operational control over relevant assets of a specified description; and
- (~~ii~~) 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) ~~where~~ the disposal or relinquishment of operational control in question is ~~required by or under any enactment or subordinate legislation or where the relinquishment of operational control in question is~~ to another transmission licensee 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 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 clear 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 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 or directive of the Council or Commission of the European Union.

49. 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 as is specified in any notice given under paragraph 24 in circumstances 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, in favour of whom the relevant asset is proposed to be disposed or operational control is proposed to be relinquished to 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, or relinquishment or grant of control within the notice period referred to in paragraph 24.

510. 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.

"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).

"relinquishment 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.



**Annex 2 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

**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.

.....Delete all subsequent existing text and replace with the text shown below:

**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 director of the licensee pursuant to that resolution and is in one of the following forms:
  - (a) **Certificate 1F**

"After making enquiries 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, 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.”

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

3. 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;
  - (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.

#### **Certificates for the Authority in relation to operational resources**

4. With effect from 1 August 2013, 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 director of the licensee pursuant to that resolution and 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**

5. 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**

6. With effect from 1 August 2013, 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 director of the licensee pursuant to that resolution and 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).”

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).”

### **Obligation to report any adverse circumstances**

7. 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 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**

8. Subject to paragraph 11, 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 9 and 10 below.
9. 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);

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.”

10. 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 director of the licensee.

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

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

12. Where the certificate given under paragraph 8, or relied upon under paragraph 11, 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.

## **Requirement to maintain an Intervention Plan**

13. The licensee must prepare by 1 April 2014 and at all times thereafter maintain an Intervention Plan fulfilling the criteria described in the definition of Intervention Plan in Paragraph 15 below.
14. The requirement for the information described in any of sub-paragraphs (a) to (k) in the definition of Intervention Plan in paragraph 15 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**

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 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.



**Annex 3 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

***Condition B8: Undertaking from ultimate controller***

1. The licensee shall procure from each company or other person which the licensee knows or reasonably should know is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that that ultimate controller ("the covenantor") will refrain from any action, and will procure that any person (including, without limitation, a corporate body) which is subsidiary of, or is controlled, by, the covenantor (other than the licensee and its subsidiaries) will refrain from any action which would then be likely to cause the licensee to breach any of its obligations under the Act or this licence. Such undertaking shall be obtained within 7 days of the company or other person in question becoming an ultimate controller and shall remain in force for as long as the licensee remains the holder of this licence and the covenantor remains an ultimate controller of the licensee.
2. The licensee shall:
  - (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 1;
  - (b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
  - (c) comply with any direction from the Authority to enforce any such undertaking;

and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or of any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when,

- (i) an undertaking complying with paragraph 1 is not in place in relation to that ultimate controller, or
- (ii) there is an unremedied breach of such undertaking; or
- (iii) the licensee is in breach of the terms of any direction issued by the Authority under sub-paragraph (c).

3. With effect from 1 August 2013, the licensee must, on or before 31 July of each year, provide the Authority with a schedule of the undertakings obtained in accordance with paragraph 1 that are in force at that time, together with a confirmation that the licensee has sent each of the Ultimate Controllers concerned a letter, within the preceding 12 months, reapprising that Ultimate Controller of the terms of the undertaking that it has given.

**Annex 4 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

**Condition B9: Indebtedness**

1. In addition to the requirements of standard condition B3 (Disposal of relevant assets **and restrictions on charges over Receivables**), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):
  - (a) 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);
  - (b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any ~~affiliate or related undertaking~~ **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, ~~subsisting on the date this condition comes into effect in the licensee's transmission licence save that the licensee may permit any cross default obligation in existence at that date to remain in effect for a period not exceeding twelve months from that date, provided that the cross default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to that date and the terms on which those facilities have been made available as subsisting on that date are not varied or otherwise made more onerous;~~

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:
  - (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 ~~after 1st April 2008~~ enter into or complete any transaction of a type referred to or described in paragraph 1(b) save in accordance with paragraph 49, if ~~any of the circumstances set out in paragraphs 4 to 8 applies~~.
4. ~~(a) The circumstance described by this paragraph is that~~ the licensee does not hold an investment grade issuer credit rating.
5. ~~The circumstance described by this paragraph is that (b) where~~ the licensee holds more than one issuer credit rating, ~~and~~ one or more of the ratings so held is not investment grade. ~~or~~
6. ~~The circumstance described by this paragraph is that (c) 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 ~~sub-~~ this paragraph ~~(e) 6 that 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.
7. ~~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 7 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:
  - (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.

8. 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.

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

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.

“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.



**SECTION A: INTERPRETATION, APPLICATION AND PAYMENTS**

**Condition A1: Definitions and interpretation**

*Substitute modified definitions as follows:*

- "investment grade" means in relation to any issuer ~~credit rating or instrument~~ credit rating unless otherwise specified
- (a) unless sub-paragraph (b) below applies:
- (i) ~~an issuer~~ rating of not less than BBB- by Standard & Poors Ratings Group or any of its subsidiaries;
- (ii) ~~an issuer~~ rating of not less than Baa3 by Moody's Investors Services Inc. or any of its subsidiaries;
- (iii) ~~an issuer default~~ rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries;
- (iv) in relation to issuer credit ratings only, a rating of not less than BBB (low) by DBRS Ratings Limited or any of its affiliates; or

(v) a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs (i), (ii), ~~and~~ (iii) ~~and~~ (iv) and issued by:

(aa) any of the credit rating agencies referred to in sub-paragraphs (i), (ii), (iii) ~~or~~ (iv); or

(bb) any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in both the United Kingdom and the United States of America~~;-~~

(b) such higher rating as may be specified by those agencies from time to time as the lowest investment grade credit rating.

“issuer credit rating”

means

(a) an issuer **credit** rating by Standard & Poors Ratings Group or any of its subsidiaries

(b) an issuer **credit** rating by Moody’s Investors Services Inc. or any of its subsidiaries;

- (c) an issuer ~~credit default~~ rating by Fitch Ratings Ltd or any of its subsidiaries;
- (d) an issuer credit rating by DBRS Ratings Limited or any of its affiliates; or
- (e) a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs (a), (b), (c) or (ed) and issued by:
  - (i) any of the credit rating agencies as referred to in sub-paragraphs (a), (b), (c) or (ed); or
  - (ii) any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in both the United Kingdom and the United States of America.

*Insert definition as follows:*

"instrument credit rating"

means

- (a) a Long-Term Issuer Credit Rating by Standard & Poor's Ratings Group or any of its subsidiaries;

- (b) a Long-Term Corporate Obligation Rating by Moody's Investors Services Inc. or any of its subsidiaries;
- (c) a rating on the Structured, Project & Public Finance Obligations Long Term Ratings Scale by Fitch Ratings Ltd or any of its subsidiaries;
- (d) a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs (a), (b), or (c) and issued by:
  - (i) any of the credit rating agencies as referred to in sub-paragraphs (a), (b), or (c); or
  - (ii) any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in both the United Kingdom and the United States of America.

**Annex 6 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

***Condition B22: Requirement for sufficiently independent directors***

1. Subject to paragraph 11, 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 sufficiently independent director must:
  - (a) be a natural person;
  - (b) 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
  - (c) not have any executive duties within the licensee's business.
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 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 for the standard conditions)); or

(c) a qualifying group company.

5. A sufficiently independent director must not:

(a) have, or have had during the 12 months before his 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 term of office, having particular regard to the criteria set out in paragraphs 2, 3, and 5.

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 continues to meet the criteria set out in paragraphs 2, 3, and 5.
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.
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.

### **Interpretation**

12. 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.

“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:

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



## **SECTION E: offshore transmission owner standard conditions**

### ***Condition E8: 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.

.....Delete all subsequent existing text and replace with the text shown below:

### **Certificates for the Authority in relation to financial resources**

2. Unless otherwise directed by the Authority, subject to paragraph 3, the licensee must within 7 days of the date that this condition comes into effect and then by 31 July in each subsequent calendar year, give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a director of the licensee pursuant to that resolution and is in one of the following forms:
  - (a) **Certificate 1F**

"After making enquiries 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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts."

or

(b) **Certificate 2F**

“After making enquiries, 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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts.

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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts.”

3. Where a certificate under paragraph 2 is to be submitted within 7 days of the date that this condition comes into effect, paragraphs 2(a), 2(b) and 2(c) have effect in relation to the licensee as if, for the reference to “from the date of its last published statutory accounts” in each of those sub-paragraphs there were substituted a reference to “from the date that condition E8 (Availability of resources) comes into effect in that licence”.

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

4. Subject to paragraph 5, the licensee must ensure that any 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;
    - (ii) the most recent cash flow statement prepared for the licensee;
  - (b) a cashflow forecast;
  - (c) an analysis of net debt and of movement in net debt;and
  - (d) 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 items referred to under sub-paragraphs (a) to (c) and, on the other hand, any information that they obtained during their audit work under standard condition E2 (Regulatory Accounts) on the licensee's regulatory accounts.
  
5. Where a certificate under paragraph 2 is to be submitted within 7 days of the date that this condition comes into effect, the following applies:
  - (a) sub-paragraphs 4(c) and 4(d) shall not have effect in relation to the licenseeand
  - (b) the statement of main factors under sub-paragraph 4(a), in respect of a certificate provided in accordance with paragraph 2 should provide the reasons why the directors of the licensee believe they are able to make the declarations contained within the certificate without the need for an auditor's report as described in sub-paragraph 4(d). Such reasons may include references to due diligence work carried out before this licence was granted.

## **Certificates for the Authority in relation to operational resources**

6. Subject to paragraph 7, the licensee must within 7 days of the date that this condition comes into effect and then by 31 July in each subsequent calendar year give the Authority a certificate that has been approved by a resolution of the licensee's board of directors and signed by a director of the licensee pursuant to that resolution and 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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts."

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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts.

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 24 months (as two distinct 12 month periods) from the date of its last published regulatory accounts.”

7. Where a certificate under paragraph 6 is to be submitted within 7 days of the date that this condition comes into effect, paragraphs 6(a), 6(b) and 6(c) have effect in relation to that licence holder as if, for the reference to “from the date of its last published statutory accounts” in each of those sub-paragraphs there were substituted a reference to “from the date that condition E8 (Availability of resources) comes into effect in that licence”.

#### **Statement of factors in relation to operational resources certificate**

8. The licensee must ensure that any certificate given to the Authority under paragraph 6 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**

9. The licensee must within 7 days of the date that this condition comes into effect and then by 31 July in each subsequent calendar year, give the Authority a certificate that has been approved by a resolution of the licensee’s board of directors and signed by a director of the licensee pursuant to that resolution and 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 E5 (Provision of information to the Authority), standard condition E7 (Restriction on Activity and Financial Ring Fencing), standard condition E8 (Availability of Resources), standard condition E9 (Undertaking from ultimate controller), standard condition E11 (Credit Rating of Licensee) and standard condition E10 (Indebtedness).

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 E5 (Provision of information to the Authority), standard condition E7 (Restriction on Activity and Financial Ring Fencing), standard condition E8 (Availability of Resources), standard condition E9 (Undertaking from ultimate controller), standard condition E11 (Credit Rating of Licensee) and standard condition E10 (Indebtedness).

**Obligation to report any adverse circumstances**

10. 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 form of Certificate 3F under paragraph 2(c) or Certificate 3R under paragraph 6(c) have materially worsened.

**Certificates for the Authority in relation to dividends**

11. Subject to paragraph 14, 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 12 and 13 below.
12. 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 E5 (Provision of information to the Authority), standard condition E7 (Restriction on Activity and Financial Ring Fencing), standard condition E8 (Availability of Resources), standard condition E9 (Undertaking from ultimate controller), standard condition E11 (Credit Rating of Licensee) and standard condition E10 (Indebtedness);

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.”

13. 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 director of the licensee.

14. The licensee need not give the Authority a certificate of the type referred to in paragraph 11 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 9 of this condition; and

(b) that certificate includes an appropriate addendum using the wording given at paragraph 12(b) of this condition.

15. Where the certificate given under paragraph 11, or relied upon under paragraph 14, 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.

## **Requirement to maintain an intervention plan**

16. The licensee must prepare by 1 April 2014 and at all times thereafter, maintain an intervention plan fulfilling the criteria described in the definition of intervention plan in Paragraph 18 below.
17. The requirement for the information described in any of sub-paragraphs (a) to (k) in paragraph 18 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**

18. In this condition:

“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 to an affiliate or related undertaking;
- (i) any contractual rights to receive cash or other financial assets from any affiliate or related undertaking of the licensee;
- (j) any contractual obligations to deliver cash or other financial assets to any affiliate or related undertaking 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 regulatory reporting requirements.

**Annex 8 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

**Condition E9: Undertaking from ultimate controller**

1. The licensee shall procure from each company or other person which the licensee knows or reasonably should know is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in the form specified by the Authority that that ultimate controller ("the covenanter ") ~~confirms that the licence holder is both the owner and operator of the transmission system and that the covenanter~~ will refrain from any action, and will procure that any person (including, without limitation, a corporate body) which is subsidiary of, or is controlled, by, the covenanter (other than the licensee and its subsidiaries) will refrain from any action which would then be likely to cause the licensee to breach any of its obligations under the Act or this licence. Such undertaking shall be obtained within 7 days of the company or other person in question becoming an ultimate controller and shall remain in force for as long as the licensee remains the holder of this licence and the covenanter remains an ultimate controller of the licensee.

2. The licensee shall:

- (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 1;
- (b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
- (c) comply with any direction from the Authority to enforce any such undertaking;

and shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or of any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when,

- (i) an undertaking complying with paragraph 1 is not in place in relation to that ultimate controller, or
- (ii) there is an unremedied breach of such undertaking; or

(iii) the licensee is in breach of the terms of any direction issued by the Authority under sub-paragraph (c).

3. With effect from 1 August 2013, the licensee must, on or before 31 July of each year, provide the Authority with a schedule of the undertakings obtained in accordance with paragraph 1 that are in force at that time, together with a confirmation that the licensee has sent each of the Ultimate Controllers concerned a letter, within the preceding 12 months, reapprising that Ultimate Controller of the terms of the undertaking that it has given.

**Annex 9 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

**Condition E10: Indebtedness**

1. In addition to the requirements of standard condition E4 (Disposal of relevant assets), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):
  - (a) 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 E4 (Disposal of relevant assets) in accordance with that condition);
  - (b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any ~~affiliate or related undertaking~~ 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 E7 (Restriction on Activity and Financial Ring Fencing) made on an arm's length basis and on normal commercial terms,
- (c) provided however, that the provisions of paragraph 3 **or, as applicable, paragraph 9** below shall prevail in any of the circumstances described or referred to therein;
- (d) enter into an agreement or incur a commitment incorporating a cross-default obligation; or
- (e) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation subsisting on the date this condition comes into effect in the licensee's transmission licence save that the licensee may permit any cross-default obligation in existence at that date to remain in effect for a period not exceeding twelve months from that date, provided that the cross-default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to that date and the terms on which those facilities have been made available as subsisting on that date are not varied or otherwise made more onerous;

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:
- (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.

.....*Delete all subsequent existing text and replace with the text shown below:*

3. Where the Authority has not granted permission for the use of alternative arrangements in accordance with paragraph 2 of standard condition E11 (Credit Rating of Licensee), then 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 10, if any of the circumstances set out in paragraphs 4 to 8 applies.
4. The circumstance described by this paragraph is that the licensee does not hold an investment grade issuer credit rating or instrument credit ratings which meet the requirement set out at paragraph 1(b) of standard condition E11 (Credit Rating of Licensee).
5. 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.
6. The circumstance described by this paragraph is that any issuer credit rating, or instrument credit rating relied upon by the licensee in respect of compliance with the requirement set out at paragraph 1(b) of standard condition E11 (Credit Rating of Licensee), 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 (in the case of issuer credit ratings only) or any of its affiliates (or such higher issuer credit rating or instrument 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 E11 (Credit Rating of Licensee) 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 paragraph 6 which at the relevant time has

assigned the lower or lowest investment grade issuer credit rating or instrument credit rating held by the licensee has been changed from stable or positive to negative.

7. 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 E8 (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 6 of standard condition E8 (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 10 of standard condition E8 (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.

8. 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 paragraph 10, or the Authority has not provided a substantive response to such a written request within seven days of receiving it.
  
9. Where the Authority has granted permission for the use of alternative arrangements in accordance with paragraph 2 of standard condition E11 (Credit Rating of Licensee), then 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 10, if:
  - (a) the alternative arrangements for which the Authority has granted permission are not maintained in accordance with the conditions imposed by the Authority when giving written permission pursuant to paragraph 1 of standard condition E11 (Credit Rating of Licensee); or
  - (b) either of the circumstances described in paragraphs 7 and 8 applies.
  
10. Where, under the provisions of either paragraph 3 or paragraph 9, the licensee is prohibited from entering into or completing any transaction of a type referred to or described in paragraph 1(b), the licensee may not without the prior written consent of the Authority (following disclosure of all material facts) 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.

11. 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.

"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.

**Annex 10 to the Authority's Notice under section 11A(2) of the Electricity Act 1989 dated 17 December 2012**

**Condition E11: Credit Rating of Licensee**

1. The licensee shall use all reasonable endeavours to ensure that the licensee maintains at all times:
  - (a) an investment grade issuer credit rating;
  - (b) investment grade instrument credit ratings for debt instruments that it has issued and whose aggregate nominal value is at least 75% of a figure equating to the licensee's total assets minus total liabilities as shown in its most recent statutory accounts; or
  - (c) such alternative financial arrangements to which the Authority has given its consent in writing.
2. The licensee may propose to the Authority alternative financial arrangements which may include, but ~~are is~~ not limited to, providing a security, for example in the form of a deposit or an unconditional irrevocable letter of credit, the latter being exercisable under English law within GB drawn on a bank with a credit rating equivalent to at least "A-" with a credit rating agency recognised by Ofgem (ie Standard & Poors, Moodys, ~~or~~ Fitch, or DBRS) residing in a country with a credit rating of at least "A" to a value equal to twelve months gross operating expenditure. Such a proposal by the licensee shall contain sufficient information to enable the Authority to consider whether the proposed alternative financial arrangements demonstrate sufficient financial standing.
3. The Authority may consent to alternative financial arrangements proposed by the licensee under paragraph 2, subject to any conditions that the Authority considers to be appropriate.