

To the Company Secretary:

National Grid Gas plc
Company number 02006000

Quadrant Pipelines Ltd
Company number 02528816

Northern Gas Networks Ltd
Company number 05167070

SSE Pipelines Ltd
Company number 02742721

Scotland Gas Networks plc
Company number SC264065

Severn Gas Transportation Ltd
Company number 05121224

Southern Gas Networks plc
Company number 05167021

Greenpark Energy Transportation Ltd
Company number 06977962

Wales and West Utilities Ltd
Company number 05046791

SP Gas Transportation Cockenzie Ltd
Company number SC361054

Energetics Gas Ltd
Company number SC303150

SP Gas Transportation Hatfield Ltd
Company number SC361055

E.S. Pipelines Ltd
Company number 03822878

British Gas Pipelines Ltd
Company number 03226380

ESP Connections Ltd
Company number 03234745

Caythorpe Gas Storage Ltd
Company number 05283117

ESP Networks Ltd
Company number 02865198

INEOS Enterprises Ltd
Company number 04651437

ESP Pipelines Ltd
Company number 03405272

Humbly Grove Energy Services Ltd
Company number 05210198

Fulcrum Pipelines Ltd
Company number 06006362

Utility Grid Installations Ltd
Company number 03958461

GTC Pipelines Ltd
Company number 03104203

Wingas Storage UK Ltd
Company number 00953066

Independent Pipelines Ltd
Company number 02828692

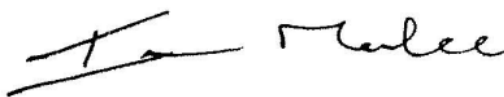
Wyre Gas Transportation Ltd
Company number 06658221

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

1. The Authority proposes to modify the gas transporter licences granted or treated as granted under section 7 of the Act to relevant licence holders by amending the following Standard Licence Conditions:
 - Condition 29: Disposal of Assets;
 - Condition 44: Availability of Resources;
 - Condition 45: Undertaking from Ultimate Controller;
 - Condition 46: Credit Rating of Licensee; and
 - Condition 47: Indebtedness.
2. Relevant licence holders for the purposes of this Notice are the holders of gas transporter licences granted under section 7 of the Act in which any of the conditions set out in paragraph 1 are in effect.
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
 - 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 gas transporter licences granted under section 7 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 gas transporter.
4. The effects of the proposed modifications are, in each case where the relevant condition is in effect in the licence of a relevant licence holder (a 'licensee'):
 - 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 the licensee's board so that it covers operational as well as financial resources and compliance with certain licence conditions;
 - c) to require the licensee to maintain an intervention plan containing important financial and operational information;
 - d) to require the licensee to provide the Authority with a schedule of its ultimate controllers and to reapprise those ultimate controllers of the terms of undertakings which they have given to the licensee on an annual basis;

- e) to add DBRS Ratings Ltd and its affiliates to the list of credit rating agencies specified in Standard Licence Condition 46;
 - f) to expand the definition of parties specified in restrictions placed on the licensee in Standard Licence Condition 41 by the inclusion of a new defined term of "associate"; and
 - g) to specify additional circumstances in which a licensee could be subject to restrictions on the payments it can make to its associates.
5. The proposed modifications are set out in marked-up text in Annexes 1 to 5 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).
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.
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.



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

Duly authorised on behalf of the
Gas and Electricity Markets Authority

17 December 2012

Condition 29: Disposal of Assets and restrictions on charges over Receivables

1. The licensee shall not dispose of or relinquish operational control over any transportation asset or storage asset otherwise than 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 35, 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 transportation asset or storage 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 24(a), the licensee may dispose of or relinquish operational control over a transportation asset or storage asset where:-

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

(i) ~~(aa)~~ transactions of a specified description; or

(ii) ~~(bb)~~ the disposal of or relinquishment of operational control over an asset of a specified description; and

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

~~(b) where the disposal or relinquishment of operational control in question is required by or under any enactment or subordinate legislation.~~

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 transportation asset or storage 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 transportation asset or storage 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 by the licensee under paragraph 24 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 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. If the a transportation asset comprises a significant part of the gas conveyance system in Great Britain, notwithstanding that the a disposal of or relinquishment of operational control over the asset is permitted under paragraph 35, 8 or 49, the licensee shall notify the Secretary of State at least 60 days in advance of the proposed disposal of or relinquishment of operational control over the asset; and if the Secretary of State directs the licensee, within 30 days of such notification, not to proceed with the disposal of or the relinquishment of operational control over the asset, the licensee shall comply with the direction.

611. In this condition -

“disposal” means:

- (a) in relation to disposal of a transportation asset or storage asset situated in England and Wales includes 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 transportation asset or storage asset situated in Scotland includes the grant of any disposition, conveyance, contract of excambion, any lease, assignation, licence, the grant of any right of possession, loan, standard security, floating charge to a third party, or the grant of any servitude right, wayleave or any other transaction or event which is capable under any enactment or rule of law of affecting the title to a registered interest in land

and “dispose” and cognate expressions shall be construed accordingly;

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

“storage asset” means -

- (a) an offshore gas storage installation;
- (b) storage cavities in natural strata;
- (c) containers for the storage of gas in a liquid state,

or anything used in connection with the provision of such facilities;

“transportation asset” means any part of the licensee’s pipe-line system or any part of any facility being one -

- (i) used by the licensee only for the diurnal storage of gas or for the storage of gas in connection with the operation of its independent systems; and
- (ii) required for the proper performance of its duty under section 9(1) of the Act,

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

712. If the Authority, having regard, in particular, to any representations made to it by the licensee and other persons and to the extent to which there ~~is~~ is competition in relation to the storage of gas in particular categories of the facilities mentioned in sub-paragraph (a), (b) or (c) of the definition of “storage asset” in paragraph ~~611 and its view on that question~~, considers it appropriate that that definition should be modified by the omission of sub-paragraph (a), (b) or (c), then the sub-paragraph in question shall be omitted with effect from a date specified in a

notice relating thereto published by the Authority for the purposes of this condition generally.

Condition 44: Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to itself such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents, and facilities, on such terms and with all such rights, as shall ensure that it is at all times able:
 - (a) to properly and efficiently carry on the transportation business of the licensee; and
 - (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to those activities authorised by this licence including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of gas transportation.

.....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 transportation 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 transportation business for a period of 12 months from the date of this certificate.

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

or

(c) **Certificate 3F**

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

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

and

- (b) a report prepared by its auditors and addressed to the Authority which states whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it under sub-paragraph (a) and, on the other hand, any information that they obtained during their audit work under Standard Condition A30 (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 transportation business for a period of 12 months from the date of this certificate.”

or

- (b) **Certificate 2R**

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

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

or

(c) **Certificate 3R**

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

Statement of factors in relation to operational resources certificate

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 24 (Provision of Information to the Authority), Standard Condition 43 (Restriction on Activity and Financial Ring Fencing), Standard Condition 44 (Availability of Resources), Standard Condition 45 (Undertaking from Ultimate Controller), Standard Condition 46 (Credit Rating of the Licensee) and Standard Condition 47 (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 24 (Provision of Information to the Authority), Standard Condition 43 (Restriction on Activity and Financial Ring Fencing), Standard Condition 44 (Availability of Resources), Standard Condition 45 (Undertaking from Ultimate Controller), Standard Condition 46 (Credit Rating of the Licensee) and Standard Condition 47 (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 of the obligations imposed on it by Standard Condition 24 (Provision of Information to the Authority), Standard Condition 43 (Restriction on Activity and Financial Ring Fencing), Standard Condition 44 (Availability of Resources), Standard Condition 45 (Undertaking from Ultimate Controller), Standard Condition 46 (Credit Rating of the Licensee) and Standard Condition 47 (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, or within 12 months of this condition coming into effect in respect of the licensee, whichever is the later, and thereafter, maintain an intervention plan 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 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 1 (Definitions and Interpretation) 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 transportation business with information on any significant contractual arrangements, including those that impose obligations on the licensee;
- (h) any arrangements under which the licensee has relinquished operational control over transportation assets (as that term is defined in Standard Condition 29 (Disposal of Assets and restrictions on charges over Receivables)) to an associate of the licensee;
- (i) any contractual rights to receive cash or other financial assets from any associate of the licensee;
- (j) any contractual obligations to deliver cash or other financial assets to any associate of the licensee; and
- (k) the licensee's arrangements and procedures for ensuring compliance with legislative requirements and with its obligations under this licence, including price control reporting requirements.

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

- (a) that other person holds a Participating Interest in the person; or

- (b) the person is subject to a Participating Interest by a person who is himself subject to a Participating Interest by that other person.

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

Condition 45: Undertaking from Ultimate Controller

1. The licensee shall procure from each company or other person which 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 a subsidiary of or 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 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 paragraph 2 of this condition.

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.

Condition 46: Credit Rating of Licensee

1. The licensee shall take all appropriate steps to ensure that the licensee maintains at all times an investment grade issuer credit rating, or with the prior written permission of the Authority, any such arrangements as the Authority considers appropriate.
2. In this condition:
“issuer credit rating” means
 - (a) an issuer ~~credit~~ rating by Standard & Poor's Ratings Group or any of its subsidiaries;
 - (b) an issuer ~~credit~~ rating by Moody's Investors Service 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
 - (~~ed~~) 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 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.
3. In relation to any issuer credit rating, “investment grade” means:
 - (a) unless sub-paragraph (b) below applies:
 - (i) an issuer ~~credit~~ rating of not less than BBB- by Standard & Poor's Ratings Group or any of its subsidiaries;

- (ii) an issuer **credit** rating of not less than Baa3 by Moody's Investors Service Inc. or any of its subsidiaries;
 - (iii) an issuer **credit default** rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries;
 - (iv) **an issuer credit rating of not less than BBB (low) by DBRS Ratings Limited or any of its affiliates; or**
 - (iv) 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), (iii) and (iv) and issued by:
 - (aa) any of the credit rating agencies referred to in subparagraphs (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 **issuer** credit rating.

Condition 47: Indebtedness

1. In addition to the requirements of Standard Condition 29 (Disposal of 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 or continue or permit to remain in effect 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 29 (Disposal of 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 of Advance Corporation Tax~~ 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 43 (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 or 49 below (as the case may be) 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 at the date in which this condition came into effect, 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 (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. Where the Authority has not granted permission for the use of alternative arrangements in accordance with paragraph 1 of Standard Condition 46 (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 ~~5~~10, 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. ~~(b)~~ The circumstance described by this paragraph is that ~~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. ~~(c)~~ The circumstance described by this paragraph is that any issuer credit rating held by the licensee is BBB- by Standard & Poor's Ratings Group or Fitch Ratings Ltd or Baa3 by Moody's Investors Service, Inc. or BBB (low) by DBRS Ratings Ltd or any of its affiliates (or such higher issuer credit rating as may be specified by any of these credit rating agencies from time to time as the lowest investment grade issuer credit rating), or is an equivalent rating from another agency that has been notified to the licensee by the Authority as of comparable standing for the purposes of Standard Condition 46 (Credit Rating of Licensee) and such rating:
 - (a) ~~(i)~~ is on review for possible downgrade; or
 - (b) ~~(ii)~~ is on Credit Watch or Rating Watch with a negative designation;
or, where neither ~~(ia)~~ nor ~~(iib)~~ applies:
 - (c) ~~(iii)~~ the rating outlook of the licensee as specified by any credit rating agency referred to in ~~sub~~ paragraph ~~(c)~~ 6 which at the relevant time has assigned the lower or lowest investment grade issuer credit rating held by the licensee has been changed from stable or positive to negative.
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 44 (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 44 (Availability of Resources) and:
 - (i) the opinion expressed in the certificate arises in whole or in part from

- circumstances affecting an associate of the licensee, and
- (ii) the licensee has not subsequently given the Authority a certificate in the form of Certificate 1R or Certificate 2R as set out in the same condition;

or

- (c) informed the Authority of any circumstance of the type set out in paragraph 7 of Standard Condition 44 (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.

49. Where the Authority has granted permission for the use of alternative arrangements in accordance with paragraph 1 of Standard Condition 46 (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 510, 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 46 (Credit Rating of Licensee); or
- (b) either of the circumstances described in paragraphs 7 and 8 applies.

510. 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) ~~paragraph 3 or 4 applies~~, 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 ~~affiliate or related undertaking~~ 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 described in paragraph 3 or 4 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 ~~in paragraph 3 or 4 arise~~ arose, provided that such payment is not made earlier than the original due date for payment in accordance with its terms; and

- (d) payments for group corporation tax relief ~~or for the surrender of Advance Corporation Tax~~ 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.

611. 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 1 (Definitions and Interpretation) but substituting that company for the licensee) is also an ultimate controller of the licensee.

“cross-default obligation”

means a term of any agreement or arrangement whereby the licensee’s liability to pay or repay any debt or other sum arises or is increased or accelerated or is capable of arising, of increasing or of being accelerated by reason of a default (howsoever such default may be described or defined) by any person other than the licensee, unless:

- (i) that liability can arise only as the result of a default by a subsidiary of the licensee;
- (ii) the licensee holds a majority of the voting

rights in that subsidiary and has the right to appoint or remove a majority of its board of directors; and

(iii) that subsidiary carries on business only for a purpose within paragraph (a) of the definition of permitted purpose set out in Standard Condition 32 (Interpretation of Section C)

“indebtedness”

means all liabilities now or hereafter due, owing or incurred, whether actual or contingent, whether solely or jointly with any other person and whether as principal or surety, together with any interest accruing thereon and all costs, charges, penalties and expenses incurred in connection therewith.

“investment grade”

has the meaning given in paragraph 2 of Standard Condition 46 (Credit Rating of Licensee)

“issuer credit rating”

has the meaning given in paragraph 2 of Standard Condition 46 (Credit Rating of 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.