

ELECTRICITY TRANSMISSION LICENCE

Consent given by the Gas and Electricity Markets Authority (“the Authority”) pursuant to paragraph 1 of standard condition B9 (Indebtedness) of the electricity transmission licence granted under section 6(1)(b) of the Electricity Act 1989 (“the Act”) to National Grid Electricity Transmission plc (“the licensee”)

Whereas:

- A. The licensee is the holder of a Transmission Licence (“the licence”) granted under section 6 (1) (b) of the Act.
- B. On 5th March 2015, the licensee requested consent from the Authority under paragraph 1 of Standard Licence Condition B9 (Indebtedness) of the licence (“SLC B9”) to participate in a VAT group arrangement (“the arrangement”) for the National Grid plc group (“the group”), to the extent that such participation gives rise to a cross default obligation (as that term is defined in SLC B9).
- C. Under the arrangement, the licensee has joint and several liability for VAT debts incurred by the group.
- D. In response to requests made by the Authority on 5 May 2015, the Licensee provided further information in relation to their VAT group arrangements. On 1 October 2015 the Authority gave such a consent subject to conditions.
- E. In October 2018 the licensee requested that the consent be updated and re-granted in order to reflect new arrangements following the partial transfer of the licence by the licensee to National Grid Electricity System Operator Limited under section 7A of the Act.
- F. The Authority considers that the consent under paragraph 1 of SLC B9 should be updated and re-granted in order for the licensee to continue to participate in the arrangement for the reasons outlined below and subject to the conditions set out below.

Reasons for the Authority’s decision:

- G. Having had regard to its principal objective and statutory and other duties, the Authority is satisfied that a consent in accordance with paragraph 1 of standard condition B9 would be appropriate.
- H. The Authority considers that consent should be given for the licensee to participate in the arrangement because, from the information provided, it appears that:
 - (a) the arrangement is a cost effective business arrangement that is likely to benefit the licensee and in turn consumers through organisational and financial efficiencies;
 - (b) it will not prejudice or have any adverse impact on consumers; and
 - (c) the risks associated with the licensee’s participation can be effectively managed by imposing additional conditions to this consent.

Now the Authority consents hereby as follows:

1. In accordance with, and for the purpose of, paragraph 1 of SLC B9, the Authority hereby consents to the licensee participating in the arrangement.
2. This consent has effect from 1 April 2019 (being the date on which the partial transfer of the licence by the licensee to National Grid Electricity System Operator Limited under section 7A of the Act has effect) and shall remain in force until 31 March 2021, unless the Authority decides to revoke or amend the consent in writing after the provision of reasonable notice to the licensee. The previous consent granted by the Authority on 1 October 2015 is revoked with effect from 1 April 2019.
3. This consent is subject to the following conditions set out below in paragraphs 4, 5 and 6.
4. The condition set out in this paragraph is that, within 6 months of the date of this consent, the licensee's ongoing participation in the arrangement must be approved by a meeting of its board attended by its sufficiently independent directors¹ having satisfied themselves that, the arrangement is in the best interest of the licensee.
5. The condition set out in this paragraph is that, subject to the condition set out in paragraph 6, the licensee's joint and several liabilities under the arrangement do not at any time exceed an amount calculated as the sum of:

(a) the higher of:

- (i) the licensee's VAT group liability directly attributable to its transmission business² for the four VAT quarters ending before the point in time at which the calculations falls to be made; or
- (ii) zero;

and

(b) fifteen percent of the value of the term BRT, applicable to:

- (i) the licensee's Electricity Transmission Network as specified in Appendix 1 in Special Condition 3A (Restriction of Transmission Network Revenue) of the licence for the Relevant³ year in which the calculation falls to be made.

6. The condition set out in this paragraph is that, if at any time, the licensee's joint and several liability under the arrangement exceeds the amount referred to in paragraph 5 ("the excess"), the licensee must be the beneficiary of a guarantee arrangement that:

(a) is between the licensee and a third party ("the guarantor") that:

- (i) holds an investment grade issuer credit rating; and
- (ii) is not an associate⁴ of the licensee; and

(b) provides for the licensee to be paid by the guarantor, the amount of any portion of the excess that the licensee is required to pay to HMRC under its joint and several liability.

¹ Having the meaning given in Standard Special Condition B22 (Requirement for sufficiently independent directors) of the Licence.

² Having the meaning given in Standard Condition A1 (Definitions and Interpretation) of the Licence.

³ Having the meaning given in Special Condition 1A (Definitions and Interpretation) of the Licence.

⁴ Having the meaning given in Standard Condition B7 (Availability of Resources) of the Licence

7. This consent constitutes the Authority's written consent for the purposes of paragraph 1 of SLC B9.

Notice

This document constitutes notice under section 49A of the Act of the reasons for the Authority's decision to give this consent.

1 April 2019

Grendon Thompson
Head of Electricity SO Regulation
Duly authorised on behalf of the Gas and Electricity Markets Authority