

Notice under section 11 of the Electricity Act 1989

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

1. The Authority proposes to modify amended standard conditions BA2, BA3, BA5 and BA6 (the "conditions") of the distribution licence (the "Licence") granted under section 6(1)(c) of the Act to each of the following independent electricity distribution network operators;
 - (i). Independent Power Networks Ltd
 - (ii). Laing Energy Limited
 - (iii). Global Utility Connections Limited,

each, the "Licensee".

2. The reasons why the Authority proposes to make these modifications and their effect are set out in the following documents published by the Authority:
 - (i). *Regulation of Independent Electricity Distribution Network Operators* – consultation paper, July 2004, 180/04; and
 - (ii). *Regulation of Independent Electricity Distribution Network Operators* – decision document – July 2005, 176/05,

copies of which are available (free of charge) from the Ofgem library, 9 Millbank, London SW1P 3GE (020 7901 7003) or the Ofgem website (www.ofgem.gov.uk).

3. In summary, the purpose and effect of these proposed modifications are to implement changes to the Licensee's financial ring fencing conditions BA2, BA3, BA5 and BA6, all of which conditions were developed in order to protect consumers connected to the Licensee's independent distribution system by providing safeguards for the financial stability of the Licensee and to secure that the Licensee is able to finance its authorised activities by protecting it against any financial pressures of or from an affiliate.
4. In summary the reasons why the Authority proposes to make the modifications are to improve clarity and provide better protection for customers if a licensee fails to comply with the alternative arrangements approved by the Authority under condition BA5. In addition, the proposed modifications align the financial ring fencing conditions in the Licence and those in the distribution licences of each of the other two independent distribution network operators with the ring fencing conditions in the licences of the fourteen ex-PES distribution network operators which were recently modified as part of the recently concluded Distribution Price Control Review 4.
5. A copy of the proposed licence modifications can be found in the Schedule to this notice.
6. Any representations or objections to the proposed licence modifications must be made in writing within 28 days from the date of publication of this notice, on or

before 19 December 2005 and should be addressed to Mark Cox, 9 Millbank, London SW1P 3GE (020 7901 7458) or mark.cox@ofgem.gov.uk.



Martin Crouch
Director – Distribution, Networks
Authorised on behalf of the Authority

21 November 2005

Schedule to Notice under Section 11 of the Electricity Act 1989

Standard Condition BA2. Restriction on Activity and Financial Ring Fencing

1. Save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than the distribution business.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
 - a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose; or
 - b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the distribution business; or
 - c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or in the absence of any such requirement recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2 nothing in this condition shall prevent:
 - a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
 - b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
 - c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
 - d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.

4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a 'relevant associate') from conducting de_-minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with.
- a) For the purpose of this paragraph "de_-minimis business" means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:
- i) the distribution business; and
 - ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
- b) The licensee or a relevant associate may carry on de_-minimis business provided that ~~the relevant associate carries on no other business except activities of the distribution business and business activities authorised by the Authority under paragraph 3(d), and~~ neither of the following limitations is exceeded, namely:
- i) the aggregate turnover of all the de_-minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by ~~and~~ all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 percent of the aggregate turnover of the ~~distribution business licensee~~ licensee as shown by the most recent audited historical cost ~~accounting~~ statements of the licensee; and
 - ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee ~~and all its relevant associates~~ in ~~their~~ de_-minimis business, carried on by the licensee and all relevant associates ~~or de-minimis businesses~~, does not at any time after the date this condition takes effect in this licence exceed 2.5 percent of the sum of share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by its most recently audited ~~historical cost financial statements~~ historical cost accounting statements then available.
- c) For the purpose of sub-paragraph (b) of this paragraph, "investment" means any form of financial support or assistance given by or on behalf of the licensee ~~or a relevant associate~~ for the de_-minimis business whether on a temporary or

permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.

- d) At any relevant time, the amount of an investment shall be the sum of:
- i) the value at which such investment was included in the audited historical cost balance sheet of the licensee ~~or a relevant associate~~ as at its latest accounting reference date to have occurred prior to the ~~date this condition takes effect in this licence~~ date of this licence (or, where the investment was not so included, zero);
 - ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee ~~or a relevant associate~~ in respect of such investment in all completed accounting reference periods since such accounting reference date; and
 - iii) all commitments and liabilities (whether actual or contingent) of the licensee ~~or a relevant associate~~ relating to such investment outstanding at the end of the most recently completed accounting reference period.

less the sum of the aggregate gross amount of all income (whether of a capital or a revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

5. For the purpose of paragraph 4, "equity share", in relation to any share holding, means the nominal value of the equity shares held by the licensee in a relevant associate, as a percentage of the nominal value of the entire issued equity share capital of that relevant associate,

6. In this condition :

"permitted purpose"	<p>means the purpose of all or any of the following:</p> <p>(a) the licensee's distribution business or any other business or activity within the limits of paragraph 4;</p> <p>(b) any business or activity to which the</p>
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	<p>Authority has given its consent in writing in accordance with paragraph 3 (d); and</p> <p>(c) without prejudice to the generality of sub-paragraph (a), any payment or transaction lawfully made or undertaken by the licensee for a purpose within sub-paragraphs 1(b)(i) to (vii) of standard condition BA6.</p>
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Standard Condition BA3. Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to ~~itself all~~ 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 distribution 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 the distribution business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity distribution.

2. The licensee shall by 31 July of each year submit ~~a certificate~~ to the Authority a certificate, approved by a resolution of the board of directors of the licensee and signed by a director of the licensee pursuant to that resolution, ~~Such certificate shall be submitted in June of each year. Each certificate shall be~~ in one of the following forms:
 - a) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation that the licensee will have available to it, after taking into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid, sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate.”

 - b) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation, subject to what is explained said below, that the licensee will have available to it, after taking into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid, sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate. However,

they would like to draw attention to the following factors which may cast doubt on the ability of the licensee to carry on the distribution business.”

- c) “In the opinion of the directors of the licensee, the licensee will not have ~~available to it~~ sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the distribution business for a period of 12 months from the date of this certificate.”
3. The licensee shall submit to the Authority with that certificate a statement of the main factors which the directors of the licensee have taken into account in giving ~~the that~~ certificate, together with a confirmation of the availability of financial facilities.
4. The statement submitted to the authority in accordance with paragraph 3 shall be approved by a resolution of the board of directors of the licensee and must be signed by a director of the licensee pursuant to that resolution.
5. The licensee shall inform the Authority in writing immediately if the directors of the licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the then most recent certificate given under paragraph 2.
6. The licensee shall require that each certificate provided for in paragraph 2 is accompanied by a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between ~~use its best endeavours to obtain and submit to the Authority with each certificate provided for in paragraph 2 a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between,~~ on the one hand, that certificate and the statement submitted with it and, on the other hand, any information which they obtained during their audit work on the most recent audited accounting statements of the licensee.
7. The directors of the licensee shall not declare or recommend a dividend, ~~and nor shall~~ the licensee shall not make any other form of distribution within the meaning of section 263 of the Companies Act 1985, or redeem or repurchase any share capital of the licensee unless prior to the declaration, recommendation or making of the distribution,

redemption or repurchase (as the case may be) the licensee ~~has shall have~~ issued to the Authority a certificate complying with the following requirements of this paragraph.

a) The certificate shall be in the following form:

“After making enquiries, the directors of the licensee are satisfied:

- i) that the licensee is in compliance in all material respects with all obligations imposed on it by standard condition 24 (Provision of Information to the Authority), standard condition BA2 (Restriction on Activity and Financial Ring-fencing), standard condition BA3 (Availability of Resources), standard condition BA4 (Undertaking from Ultimate Controller), standard condition BA5 (Credit Rating of the Licensee) and paragraph 1 of standard condition BA6 (Indebtedness) of the licence; and
- ii) that the making of a distribution, redemption or repurchase of [] on [] 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 these obligations in the future.”

b) The certificate shall be signed by a director of the licensee and must have been approved by a resolution of the board of directors of the licensee passed not more than 14 days before the date on which the declaration, recommendation or payment will be made.

c) Where the certificate has been issued in respect of the declaration or recommendation of a dividend, the licensee shall be under no obligation to issue a further certificate prior to payment of that dividend provided such payment is made within six months of the issuing of that certificate.

Standard Condition BA5. Credit Rating of Licensee

1. The licensee shall ~~take all appropriate steps~~ ~~use all reasonable endeavours~~ 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:

~~“investment grade~~ issuer credit rating” means:

(a) an issuer rating ~~of not less than BBB-~~ by Standard & Poor’s Ratings Group or any of its subsidiaries ~~or a corporate rating of not less than Baa3 by Moody’s Investor Service, Inc. or any of its subsidiaries or such higher rating as shall be specified by either of them from time to time as the lowest investment grade credit rating; or~~

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

(c) an issuer senior unsecured debt rating by Fitch Ratings Ltd or any of its subsidiaries ;or

(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 referred to in sub-paragraphs (a), (b) or (c) or;

ii. ~~an equivalent rating from~~ any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in the United Kingdom and the United States of America.

In relation to any issuer credit rating, “investment grade” means:

(a) unless sub-paragraph (b) below applies:

(i) an issuer rating of not less than BBB- by Standard & Poor’s Ratings Group or any of its subsidiaries;

(ii) an issuer rating of not less than Baa3 by Moody’s Investors Service Inc. or any of its subsidiaries;

- iii) an issuer senior unsecured debt rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries; 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 (a), (b) or (c) and issued by:
 - aa) any of the credit rating agencies referred to in sub-paragraphs (a), (b) or (c) 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 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.

Standard Condition BA6. Indebtedness

1. In addition to the requirements of standard condition 29 (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 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 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 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 BA2 (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 4 below, as the case may be, shall prevail in any 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 this condition comes into effect in this licence~~ date of this 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 (c) and (d) ~~of this paragraph~~ shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a);

2. ~~(f)~~ 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 BA5 (Credit Rating of the 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, if:
- (a) the licensee does not hold an investment grade issuer credit rating;
 - (b) where the licensee holds more than one issuer credit rating, one or more of the ratings so held is not investment grade; or
 - (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 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 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 BA5 (Credit Rating of the Licensee) and:
 - (i) is on review for possible downgrade; or
 - (ii) is on Credit Watch or Rating Watch with a negative designation;or, where neither (i) nor (ii) applies:
 - (iii) the rating outlook of the licensee as specified by any credit rating agency referred to in sub-paragraph (c) 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.
4. Where the Authority has granted permission for the use of alternative arrangements in accordance with paragraph 1 of BA5 (Credit Rating of the 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, if 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 BA5 (Credit Rating of the Licensee).

5. Where 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 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 circumstances 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 circumstances in paragraph 3 or 4 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 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.

6. In this condition:

“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, increasing or of acceleration by

reason of a default (howsoever such default may be described or defined) by any person other than the licensee, unless:

- a) that liability can arise only as the result of a default by a subsidiary of the licensee,
- b) 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
- c) that subsidiary carries on business only for a purpose within paragraph (a) of the definition of permitted purpose [set out in standard condition BA2 \(Restriction on Activity and Financial Ring Fencing\)](#).

“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 BA5 \(Credit Rating of the Licensee\)](#)

[“issuer credit rating”](#)

[has the meaning given in paragraph 2 of standard condition BA5 \(Credit Rating of the Licensee\)](#).