

Brian Mullins
GNI (UK) Ltd
PO Box 51
Gasworks Road
Cork

Ref: CNO/G/TH/397

4th July 2018

Dear Brian,

Re: Further Consultation on Granting of WTL Security Consent

Thank you for the email dated 20 June 2018 sent by Claire Madden in response to the additional information we provided on the grant of the Security Consent in respect of WTL's pre-construction financing (the 'early financing'), which stated that GNI (UK) had no further comment on or objections to the granting of that consent.

Since that consultation, we have been informed that there is a need for WTL to grant further rights in respect of security over the network assets. This is distinct from the subject-matter of the previous Security Consent, and relates to rights that are proposed to be given to SGN rather than (as in the case of the previous consent) to the providers of finance. The need for it is, however, triggered by the early financing, and to that extent the two things are related in time.

With regard to the position of SGN, the original security that had been granted in favour of SGN in 2017 over the assets of WTL will be released at the date of financial closing of the early financing. WTL has therefore indicated the need for a consent to be provided by the Utility Regulator for SGN to be given (in partial replacement for its current security) the right to require the grant by WTL of a 'True-Up Debenture' in favour of SGN.

This consent has been expressed to us as a pre-requisite for completion of early financing in connection with the Gas to the West project. A draft of the proposed Authority Security Consent Letter is provided as an annex to this letter.

More specifically, the proposed Authority Security Consent Letter would give the Authority's consent for SGN to obtain a right to require the grant of security over WTL's network assets in the form of a debenture in favour of SGN. This right would become enforceable by SGN only in the event that there was a shortfall in the cash raised by WTL (or a group company)

as part of the early financing and WTL was required to pay SGN via the three year “true-up mechanism” in the WTL licence (hence the reference to the ‘True-Up Debenture’).

In this context, the Authority needs to consider Condition 1.12 of the WTL licence. The grant of security over the network assets – including, in our view, the grant of any right to obtain such a security – constitutes a disposal which requires the Authority’s consent if it materially affects the ability of WTL to carry on the regulated business.

The Authority can give such consent under Condition 1.12.4 of the WTL licence where it has “consulted and taken into consideration any representations made in a timely manner by any other licence holder liable to be materially affected by the disposal in question”, in line with Condition 1.12.5 of the WTL licence.

We consider that GNI (UK) Ltd may constitute such an “other licence holder liable to be materially affected by the disposal”. Therefore, we are providing GNI (UK) Ltd with an opportunity to provide comments on the proposed disposal, i.e. WTL entering into an agreement with SGN under which SGN will have the right to require the grant in its favour of security by way of the True-Up Debenture.

We would welcome any representations GNI (UK) Ltd may wish to make on this matter by 11 July 2018 at 12 noon at the latest. Your response should be sent to:

Tanya Hedley
Utility Regulator
Queens House
14 Queens Street
Belfast BT1 6ED
Email: Gas_networks_responses@uregni.gov.uk with cc to
Tanya.Hedley@uregni.gov.uk

If, prior to submitting your response, you wish to discuss this matter in more detail, please contact Tanya Hedley under the email addresses provided above.

Yours sincerely



Tanya Hedley
Director of Compliance and Network Operations
For and on behalf of NIAUR

Annex: Draft of Authority SGN Security Consent Letter

Northern Ireland Authority for Utility Regulation
Queens House, 10-14 Queen Street, BELFAST, BT1 6ED
T: +44 (0) 28 9031 1575 F: +44 (0) 28 9031 1740

AUTHORITY SECURITY CONSENT LETTER

To:

1. West Transmission Limited ("WTL") of First Floor, The Arena Building, 85 Ormeau Road, Belfast B7 1SH; and
2. SGN Commercial Services Limited ("SGN") of St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ.

[INSERT DATE]

Dear Sirs

Consent to disposal of assets pursuant to Condition 1.12 of the Conveyance Licence granted to West Transmission Limited

1. We refer to our recent discussions concerning the amendments to the collaboration arrangements which have been entered into between SGN and WTL in order to facilitate the completion of the pre-construction financing ("the **Early Financing**") of the Gas to the West project ("the **Project**").
2. We have been informed by WTL and SGN that as part of such amendments to the collaboration arrangements:
 - i. the original security that SGN has been granted over the assets of WTL by way of a share charge and debenture (to which we consented pursuant to a letter to WTL and SGN dated 5 May 2017) will be irrevocably and unconditionally released at the date of financial closing of the Early Financing; and
 - ii. in partial substitution for the original security, it is proposed that WTL will enter into an agreement with SGN under which –
 - a. to the extent that the cash raised by WTL (or a group company) as part of the Early Financing is insufficient and WTL is required to pay SGN via a three year "true-up"

mechanism, SGN will have the right to require WTL to grant security over the relevant assets in the form of a debenture (the "**True-Up Debenture**");

- b. the True-Up Debenture, if required, will rank behind both the provider of the Early Financing (or any agent or security trustee that is acting on its/their behalf) and the Department for the Economy (in respect of the capital grant to be provided in relation to the Project).

3. WTL has informed us that it intends to enter into the security document specified in Schedule 1 hereto ("**Security Document**") to which it is expressed to be a party, whereby it will give SGN the right to require the grant by WTL of the True-Up Debenture in favour of SGN.
4. WTL has informed us that the right to require the grant of the True-Up Debenture will only become enforceable by SGN in the event that there is a shortfall in cash raised by WTL (or a group company) as part of the Early Financing and WTL is required to pay SGN via a three year "true-up" mechanism.
5. Condition 1.12 of the conveyance licence granted to WTL on 11 February 2015 (the "**WTL Licence**") provides that, subject to certain exceptions, WTL may not, without the consent of the Northern Ireland Authority for Utility Regulation (the "**Authority**"), dispose of a relevant asset or relinquish operational control over a relevant asset if the disposal or relinquishing of control would materially affect WTL's ability to discharge its obligations under the Gas (Northern Ireland) Order 1996 or the Energy (Northern Ireland) Order 2003 or the carrying on of the activities authorised or required by the WTL Licence. We consider that WTL's network assets are "relevant assets" for the purpose of Condition 1.12 of the WTL Licence.
6. Notwithstanding that WTL has confirmed to us that the entering into by WTL of the Security Document will not materially affect WTL's ability to discharge its obligations under the Gas (Northern Ireland) Order 1996 or the Energy (Northern Ireland) Order 2003 or the carrying on of the activities authorised or required by the WTL Licence, WTL has sought the consent of the Authority to the entering into by WTL of the Security Document.

7. To the extent that the entering into of the Security Document represents a disposal of or a relinquishment of operational control over a relevant asset having a material effect on WTL's ability to discharge its obligations under the Gas (Northern Ireland) Order 1996 or the Energy (Northern Ireland) Order 2003 or the carrying on of the activities authorised or required by the WTL Licence, the Authority hereby consents to the entry into the Security Document by WTL.
8. This consent shall have effect on the date of this letter.
9. In addition, we confirm that the granting of the right created by the WTL Security Document will not be taken to constitute a transfer by WTL to another person of part or all of its gas conveyance business within the meaning of Condition 1.11 of the WTL Licence.
10. Terms used in this letter which are not defined herein but are defined in the WTL Licence shall have the same meaning as they have in the WTL Licence.
11. References in this letter to "we" and "us" are references to the Authority.

Yours faithfully

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For and on behalf of the Northern Ireland Authority for Utility Regulation

SCHEDULE 1

The Security Document

1. The agreement entered into between WTL and SGN under which SGN is given the right to require the grant by WTL of the True-Up Debenture in favour of SGN (the "**Security Document**").