

# BLUE TRANSMISSION WALNEY 2 LIMITED

25 October 2012

## Separation and Independence of the Transmission Business Compliance Statement

Prepared pursuant to Amended Standard Condition E12 - C2 (Separation and Independence of the Transmission Business) of the Offshore Electricity Transmission Licence as granted to Blue Transmission Walney 2 Limited (“BTW2”) (registered in England with number 7753568) whose registered office is at The American Barns, Lighthorne, Warwickshire CV35 0AE under section 6 of the Electricity Act 1989.

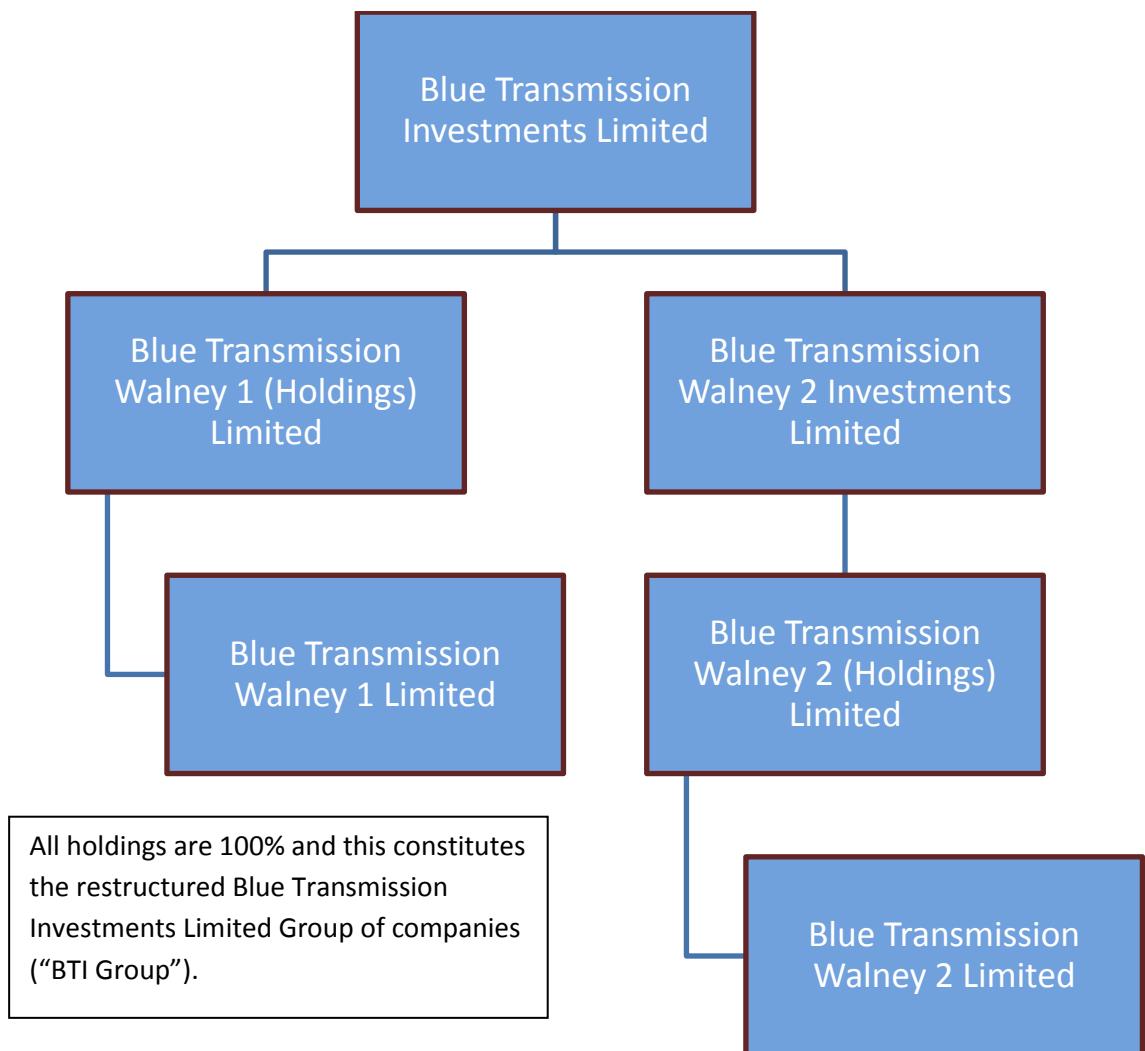
## SEPARATION AND INDEPENDENCE OF THE TRANSMISSION BUSINESS COMPLIANCE STATEMENT

### 1. Introduction

- 1.1 This Separation and Independence of the Transmission Business Statement of Compliance (the "Statement") has been prepared to secure compliance with paragraphs 1, 2 and 4 of Amended Standard Condition E12 - C2 of the Offshore Electricity Transmission Licence (the "Licence") held by Blue Transmission Walney 2 Limited ("BTW2") - the "Licensee" or "Licensed undertaking".
- 1.2 At the date that the licence was issued to BTW2 on 26th September 2012 ("financial close date"), BTW2 was owned by Blue Transmission Walney 2 (Holdings) Limited ("BTW2H") which is a 100% subsidiary of Blue Transmission Walney 2 Investments Limited ("BTW2I"). At this date, BTW2I was jointly owned in equal proportions by a consortium of independent investors being Macquarie Capital Group Limited and BIF Offshore Windkraft Holdings Limited ("BOWH" - a wholly owned subsidiary of Barclays Integrated Infrastructure Fund LP). On 4th October 2012 ("asset transfer date"), BTW2 acquired the assets of the Walney 2 offshore transmission system and Macquarie Capital sold its interest in BTW2I to Diamond UK Transmission Corporation Limited (DUTC) (a wholly-owned subsidiary of Mitsubishi Corporation).
- 1.3 DUTC and BOWH are both 50% shareholders in Blue Transmission Investments Limited ("BTI") which has a 100% subsidiary, Blue Transmission Walney 1 (Holdings) Limited ("BTW1H"), that holds 100% of the issued share capital of Blue Transmission Walney 1 Limited ("BTW1") which has a licence to operate the Walney 1 offshore transmission system. On the 5<sup>th</sup> October 2012, BTI acquired 100% of the equity investment in BTW2I together with its subsidiaries BTW2H and BTW2. At some future date, BTW2I will no longer be required within the wider group structure and will be wound up. The BTW2 and BTI Group structures resulting from these transactions are shown below.
- 1.4 The structure of the Blue Transmission Walney 2 Investments Limited Group between financial close date and 5<sup>th</sup> October 2012 when BTI acquired the shares in BTW2I was as follows:



1.5 On 5<sup>th</sup> October 2012 the investors in BTW2I exchanged their shares in BTW2I for additional shares issued by BTI and thereby BTW2I and its subsidiaries became part of the BTI group of companies. The resulting BTI group structure post this transaction was as follows:



1.6 Following the winding up of BTW2I at some point in the future the Group structure above would be amended such that BTW2H will become a direct subsidiary of BTI.

## 2. Operating Model

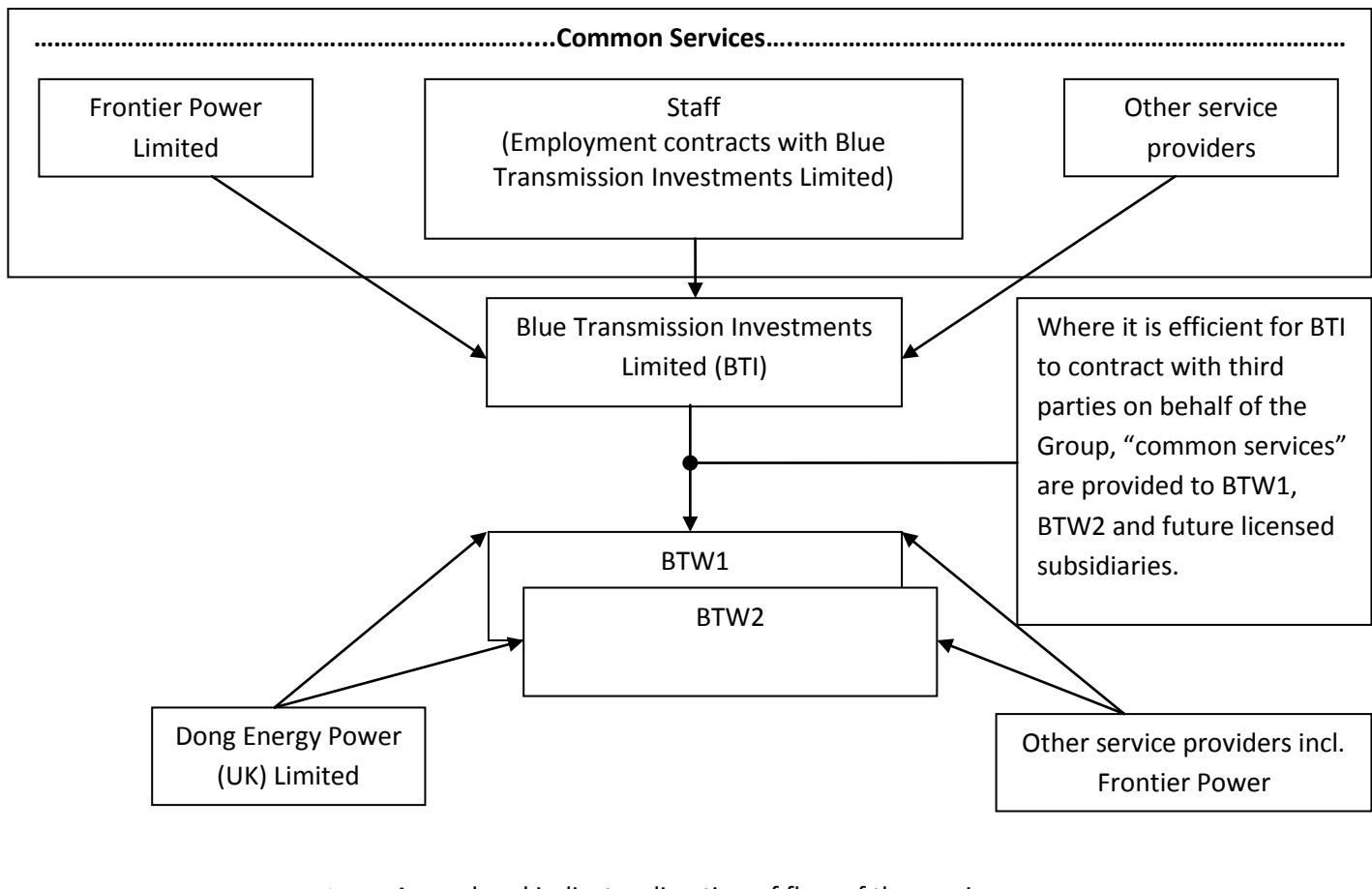
2.1 BTW2 primarily operates and maintains its transmission system through a series of bilateral contractual arrangements with independent third parties and with BTI (which in itself also contracts with independent third parties). BTI acts as both: a service and holding company to the BTI Group, employing (or intending to employ) a limited number of staff, and provides certain shared services to BTW2 and to the other offshore transmission companies within the BTI Group. These shared services and the services of the staff employed by BTI are termed "common services", and are provided to BTW1, BTW2 and future potential members of the Group – the flow of common services are shown in diagrammatic form in paragraph 2.4 below.

2.2 Consistent with the operating model described in paragraph 2.1 above, the management of the operations of BTW2 has been outsourced to an independent third party, Frontier

Power Limited, a specialist in the provision of asset management services to the energy sector. Frontier Power Limited has contracted with BTI to provide management services to that company and its subsidiaries including BTW2. Frontier Power Limited is not affiliated in any way to the Group.

2.3 The provider of operating and maintenance services to maintain and operate the transmission assets of both BTW1 and BTW2 is Dong Energy Power (UK) Limited.

2.4 A simple diagrammatical representation of the operating model is shown below:



### 3. Purpose and changes to this Statement

3.1 The purpose of this Statement is to describe the practices, procedures and systems which BTW2 will adopt (or intends to adopt) to secure compliance with its obligations under the following conditions of the Licence:

- Standard condition E6 (Prohibition of Cross-subsidies);
- Standard condition E7 (Restriction on Activity and Financial Ring Fencing);
- Amended standard condition E12 – C1 (Conduct of the Transmission Business); and
- Amended standard condition E12 – C2 (Separation and Independence of the Transmission Business).

3.2 The Licensee is required to revise this statement when circumstances change such that this statement no longer secures compliance with Standard condition E6 (Prohibition of Cross-subsidies); Standard condition E7 (Restriction on Activity and Financial Ring Fencing); Amended standard condition E12 – C1 (Conduct of the Transmission Business); and Amended standard condition E12 – C2 (Separation and Independence of the Transmission Business).

3.3 Any revisions to this statement shall only become effective once the Authority has approved the revised statement and once approved this Statement may only be revised with the approval of the Authority.

3.4 This Statement sets out how BTW2 shall:

- ❖ Maintain appropriate managerial and operational independence of the Licensee in undertaking its activities under its licence, from any associated business.
- ❖ Ensure that the business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the Licensee or of an affiliate or related undertaking of the Licensee as required by standard condition E6.
- ❖ Not conduct any business or carry on any activity other than the offshore transmission business, save as provided for by paragraphs 3 and 4 of standard condition E7.
- ❖ Conduct its offshore transmission business in the manner best calculated to secure that, in complying with its obligations under its licence:
  - the Licensee;
  - any affiliate or related undertaking of the Licensee;
  - any user of the national electricity transmission system; or
  - any other transmission Licensee;obtains no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the Licensee, one in connection with a business other than its offshore transmission business.
- ❖ Provide assurance except insofar as the Authority may direct, the Licensee shall secure and procure separate premises, equipment, systems for recording and storing data, facilities, staff, and property from:
  - those owned by the transmission Licensee that, holds a co-ordination licence, and is responsible for co-ordinating and directing the flow of electricity onto or over the national electricity transmission system; and
  - those owned by any associated business of the Licensee that is authorised to generate or supply electricity.
- ❖ Put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the Licensee complies with its obligations contained in standard condition E6, standard condition E7, amended standard condition E12 - C1 and amended standard condition E12 – C2.

## **4. Separation and Independence of the Transmission Business**

### ***4.1 General***

- 4.1.1 In order to maintain the requisite managerial and operational independence of the Licensee, BTW2, its subsidiary undertakings, its fellow subsidiary undertakings and its parent undertaking have all been established as legally separate companies, each with their own separate board of directors.
- 4.1.2 BTI became the ultimate parent undertaking within the restructured BTI Group on 5<sup>th</sup> October 2012 and therefore the BTW2I Group became part of the wider BTI Group from that date. Further details of the Group restructuring can be obtained by consulting paragraphs 1.2 to paragraph 1.6 inclusive.
- 4.1.3 No affiliate or related undertaking of BTW2 is authorised to generate, distribute or supply electricity, or to provide meter reading or meter-related services. BTW1 is authorised to transmit electricity.
- 4.1.4 The establishment of separate boards of directors for each company in the BTI Group, the appointment of an independent compliance officer for each licensed business within the BTI Group together with the establishment of a compliance committee for each Licensee, is designed to ensure that there is appropriate corporate governance and independence of each company within the BTW2I Group and the wider BTI Group.
- 4.1.5 The directors of each company within the BTI Group are required at all times to act in accordance with their fiduciary duties to that company in accordance with the requirements of company law and, in the case of BTW1 and BTW2, their offshore transmission licences. This means that they must discharge their duties and take all decisions as a member of the board of that company in the best interests of the business of that company and without regard to the interests of any other business.
- 4.1.6 The directors will receive support and any training as required to ensure that they understand their obligations to the company upon whose board they serve and in particular, in relation to BTW1 and BTW2, the transmission licence holders, the relevant licence obligations with which they and the licensees have to comply. In particular, the importance of business separation has been explained and reinforced to the directors and they have and will continue to be provided with regular reports on compliance. Discussions have been held and will continue to be held with the directors of the Licensee regarding the importance of compliance with the obligations of the licence generally and in respect of business separation in particular – both with the management and the independent compliance officer.

- 4.1.7 The function of the compliance officer will be to perform the duties and tasks outlined in paragraph 7 of Amended Standard Condition E12 – C4 (covering advising, monitoring, investigating and reporting on compliance matters). This will include providing relevant advice and information to the Licensee (including individual directors of the Licensee) and its compliance committee. The compliance officer will report annually to the compliance committee and to the Board of Directors of the Licensee. Thereafter, the Licencee will make a report to the Authority.
- 4.1.8 The compliance officer is independent of the management of the Licensee and provides an important check and balance in relation to Licensee's overall Licence compliance framework in general and specifically in relation to the issue of business separation and independence. The compliance officer's independence from the management of the Licensee is an essential characteristic of a compliance officer. This characteristic allows the compliance officer to form an independent and objective view as to the Licensee's compliance with the transmission business separation requirements of the licence; independent from any views that may be expressed by the management and the directors.
- 4.1.9 The compliance officer is able to offer independent advice to the management and directors of the Licensee in a number of areas; including the procedures and processes that have been put in place to achieve business separation and independence of the transmission business; and any interpretation of the Licence in business separation matters generally. The compliance officer is also able to proffer advice in relation to ad-hoc issues as they arise.

## ***4.2 Staff, premises, IT and other facilities***

- 4.2.1 As referenced under paragraph 3.4 (fourth bullet point) the Licencee is not permitted to share certain resources unless it has been allowed to do so by the Authority. The Licensee has received consent from the Authority to allow affiliated businesses or related undertakings of Blue Transmission Walney 2 Limited to use and have access to:
  - premises or parts of premises occupied by the Licensee;
  - systems of the Licensee for the recording, processing or storage of data;
  - equipment, facilities and property employed by the Licensee; and
  - services of persons who are engaged by the Licensee,for the purpose of management or operation of the transmission business.
- 4.2.2 BTW2 has also obtained consent from the Authority, insofar as is legally possible, to enable any person who ceases to be engaged in, or in respect of, the management or operation of the transmission business to be engaged in, or in respect of, the activities of the affiliates or related undertakings of the Licensee notwithstanding the expiry of an appropriate time from the date on which that person ceased to be engaged by the transmission business.

- 4.2.3 BTI has its own board of directors, employs its own staff and has its own administration facilities whereas by contrast, BTW1 and BTW2, its licenced undertakings, have separate boards of directors but do not employ any staff or have their own administration facilities. In addition, BTI has entered into a Management Services Agreement ("MSA") with Frontier Power Limited (to which the other companies in the Group are also parties) whereby Frontier Power Limited will provide a range of general management services to the Group and will supervise the Group's employees.
- 4.2.4 The shared resources comprise the resources described in paragraph 4.2.1 and are provided via the Frontier Power Limited contractual arrangement described in the section headed Operating Model described earlier in this Statement.
- 4.2.5 Absent the granting of the consent by the Authority as described in paragraph 4.2.1 above, BTW2 would not be permitted to share the resources described in that paragraph. In addition, if the consent described in paragraph 4.2.2 had not been obtained, then BTW2 would not be permitted to engage the services of persons who ceased to be engaged in the activities of the transmission business (to the extent it was legal to do so) until the expiry of an appropriate time. The rationale for requesting these consents is outlined in detail in the letter sent to the Authority requesting such consents and this letter is reproduced in Appendix 2.
- 4.2.6 Should any of the Licensee's affiliates or related undertakings becomes authorised under the Electricity Act 1989 to generate, supply, distribute or coordinate or direct the flow of electricity, the consents described in paragraphs 4.2.1 and 4.2.2 would cease to have effect.
- 4.2.7 The Licensee is not authorised to obtain, nor allow any affiliate or related undertaking or staff from any affiliate or related undertaking to obtain, an unfair commercial advantage from having shared access or use of the resources described in paragraph 4.2.1. Given the ownership and group structure within which the Licensee operates; the nature of the regulatory regime; the inherent low risk business model operated by the Licensee; and the nature of the resources being shared, all of which are described elsewhere in this statement, it is the opinion of the directors that the likelihood of an unfair commercial advantage being gained by any of the parties referenced above, is considered extremely low. The Company's code of conduct, described in paragraph 4.2.9 below, ensures that all relevant personnel are aware that the obtaining an unfair commercial advantage is not permitted, and in addition, the compliance officer monitors this compliance.
- 4.2.8 A copy of the BTW2 consent described in paragraph 4.2.1 and paragraph 4.2.2 can be seen here [consent under amended standard condition E12-C2.](#)

- 4.2.9 The Group has implemented processes to ensure that its employees and all other persons involved in the management or operation of BTW2's transmission business conduct the transmission business in the manner best calculated to secure that BTW2 complies with the licence conditions covered by this Statement. These processes include requiring all such employees and other persons to comply with the code of conduct set out in Appendix 1.
- 4.2.10 The Group has implemented security to premises; physical documents; and IT systems, as appropriate, to secure the confidentiality of information and only allow access by authorised persons.

#### ***4.3 Prohibition of Cross subsidies***

- 4.3.1 Under the terms of the licence, BTW2 as the transmission licence holder is not permitted to give or receive a cross-subsidy from any other business or an affiliate or related undertaking of the Licensee.
- 4.3.2 As referred to above under "Operating Model"; BTW2 primarily operates and maintains its transmission system through a series of bilateral contractual arrangements with independent third parties or where it is efficient to do so with BTI. BTI also contracts with independent third parties and has or intends to employ a limited number of employees. The nature of these arrangements means that the costs incurred within the Group are negotiated at market prices at the date the arrangements are entered into, and where costs are not directly attributed, they are allocated within the Group in a fair and equitable manner – see paragraphs 4.3.4 and 4.3.5 below.
- 4.3.3 BTW2 contracts directly with its principal external service providers e.g. Dong Energy Power (UK) Limited; but such contracts are administered by BTI. Such directly attributable costs are expected to comprise around 95% of BTW2's operating cost base.
- 4.3.4 BTI contracts for a range of common services used by its licenced undertakings' (and to be used by future licenced subsidiaries). The costs of the common services provided by BTI which cannot be directly attributed to BTW1 or BTW2 are allocated to these entities based on a number of metrics. As and when further subsidiaries are established to acquire other offshore transmission assets, and the benefits of the common services provided by BTI are extended to such subsidiaries, it will be necessary to attribute and allocate the costs of such services across the expanded Group.

- 4.3.5 The advantage of the arrangements referred to above is that it allows the Group to obtain economies of scale from the sharing of administrative services and the benefits of these economies are reflected in each of the entities by virtue of the fact that separate services do not have to be established for each entity and that there is a fair and equitable sharing of the cost of these services. Such services include the cost of IT systems, facilities, property, employee and other management services. To the extent that a cost arising from a specific activity can be attributed to a particular entity, then the consequential costs arising will be charged to that particular entity. To the extent that costs cannot be attributed to any specific entity then the costs will be allocated – using appropriate metrics including the use of time allocation where appropriate.
- 4.3.6 The nature of the operating model inherently minimises the risk of cross subsidisation as there is a separation of the ownership from those entities contracted to operate the transmission system – these entities being independent of the owners. In addition, the nature of the regulatory arrangements means that the pricing of transmission services are set for the whole of the period that the licence has been granted – 20 years. As a consequence, there is no incentive on the management, and/or any individual or individuals to intentionally receive or give a cross subsidy to or from the Licensee or its affiliates and related undertakings as it can have no impact on the revenue of the Licensee. Finally, the governance and compliance procedures outlined in this statement (including the code of conduct described in paragraph 4.2.9 above) that will or are intended to be adopted by BTW2 give the board of BTW2 reasonable assurance that they will be able to comply with this licence obligation.

## **5. Restriction on Activity and Financial Ring Fencing**

- 5.1 With certain exceptions, BTW2 as the transmission licence holder is not permitted to conduct any business or carry on any activity other than the transmission business.
- 5.2 The principal exceptions to the paragraph above, relate to: the conduct of de minimis business (as defined in Standard Condition E7) whether carried out by BTW2 or a subsidiary created for that purpose; investments acquired in the normal course of BTW2's treasury activities; investment in subsidiaries that have the sole purpose of carrying out financing activities; investment in entities that carry out the transmission business of the Licensee; and any other business activity to which the Authority has given its consent.
- 5.3 Through the operation of the MSA in providing management services to BTW2, Frontier Power Limited has to operate within certain parameters. Amongst other conditions, these operating parameters restrict Frontier Power Limited from entering into any arrangements, agreements or from carrying out any activities that are inconsistent with any operating plan approved by the board of BTW2. The approved operating plan does not pre-suppose any proposed activities or arrangements that are inconsistent with the obligations contained within this Statement.
- 5.4 The management of the Licensee operates through a series of delegated authorities and in particular, Frontier Power, in its capacity as provider of

management services, would not be permitted to enter into any business arrangement other than that of the transmission business without obtaining the permission of the directors. The directors are aware of the general prohibition relating to non-transmission business (subject to the exceptions described in paragraph 5.2) and would not permit the Licensee to engage in this prohibited activity. Finally, in the event of the failure of any of the above processes and controls, the compliance officer would bring the attention of such activity to the attention of the directors ensuring that the appropriate remedial action would be taken.

## **6. Monitoring, responsibility and reporting**

- 6.1 The board of the Licensee is responsible for ensuring that BTW2 complies with the obligations of the licence generally and this Statement in particular, and will take all reasonable measures to ensure compliance with the terms of this Statement.
- 6.2 BTW2 has appointed a compliance committee to specifically monitor compliance with the conditions of the Licence and the compliance committee reports to the board of BTW2 and that of the ultimate holding company.
- 6.3 BTW2 has appointed a compliance officer (as required by amended standard condition E12 – C4) who is responsible for facilitating compliance by the Licensee with certain conditions of the licence, including the conditions shown at paragraph 3.1 of this Statement. The compliance officer will report to the compliance committee.
- 6.4 The compliance committee, compliance officer and board of directors of BTW2 will monitor the activities of the Company in relation to compliance with all licence obligations.
- 6.5 The compliance committee is scheduled to meet on an annual basis. This committee will consider whether the Licensee has complied with its obligations under the license and will report upon its deliberations to the board of directors, including any breaches or potential breaches of licence conditions. The compliance committee will consider reports from Frontier Power (who are providing management services under the terms of the MSA) and from the compliance officer.
- 6.6 Frontier Power maintains a register of obligations which, amongst other things, records relevant obligations under the licence and they consider on a regular basis the content of this register and whether these obligations have been met. A regular review of this register is one of the management processes that allow licence obligations to be monitored and reported against.

- 6.7 In the event that Frontier Power, the compliance officer or any member of the compliance committee becomes aware of a licence breach or a potential breach, then an ad-hoc meeting of the compliance committee will be called to consider the breach or potential breach. The compliance committee will make a recommendation to the board and where appropriate the board will be convened to consider the appropriate response.
- 6.8 The duties of the compliance officer include the requirement to report annually to the compliance committee and to the BTW2 board as to his activities which will indicate the Licensee's compliance or otherwise with the obligations of this Statement in particular. Thereafter, the Licensee will report to the Authority and amongst other matters will confirm compliance or otherwise with the obligations of this Statement.

## **7 Investigation of complaints regarding compliance with this Statement**

- 7.1 The compliance officer along with his other duties, is responsible for investigating all complaints in relation to compliance with this Statement and the licence, and will be allocated such resources and assistance as necessary to carry out any such investigation as he deems necessary to complete that investigation.
- 7.2 Any complaints or queries relating to business separation should be addressed in the first instance to:

The Compliance Officer  
 Blue Transmission Walney 2 Limited  
 The American Barns,  
 Lighthorne,  
 Warwickshire CV35 0AE

## **8 Approval**

- 8.1 The boards of BTW2 and BTI have endorsed this Statement prior to its submission to the Authority for approval. The Authority has approved this Statement.

### **Document version management and amendment**

<b>Version</b>	<b>Date</b>	<b>Reason(s) issued or amended</b>	<b>Board approval</b>	<b>Effective from</b>
<b>Version 1.0</b>	<b>25 October 2012</b>	<b>Approved by Authority</b>	<b>Yes</b>	<b>25 October 2012</b>

# **Appendix 1 - Code of Conduct**

The purpose of this Code of Conduct is to ensure that employees and other relevant personnel are aware and comply with the obligations of the transmission licences granted to OFTO Licensees, as amended by the consents issued by the Authority under paragraphs 4(b) (i) and 4(b) (ii) of amended standard condition E12-C2 (Separation and Independence of the Transmission Business) of the said licences, in relation to certain compliance matters, to the extent set out below.

For the purposes of the Blue Transmission Walney 2 Limited (BTW2) Compliance Statement, all references in this Code of Conduct to “the Licensee” are to BTW2.

All employees and other relevant personnel are required to confirm their acceptance and compliance with this Code of Conduct on an annual basis.

## **1. Who must abide by the code?**

- 1.1. All employees of the Licensee or employees of its affiliates and for related undertakings involved in any activities in relation to any wholly owned subsidiaries of its parent company (Blue Transmission Walney 2 Investments Limited (BTW2I)) together with any employees of Blue Transmission Investments Limited (BTI) and its affiliates and related undertakings. For this purpose, the Licensee’s affiliates and related undertakings include BTI, BTW2I and any of their subsidiaries.
- 1.2. Employees and consultants of Frontier Power Limited engaged in the management and operation of the Licensee’s transmission business or the transmission business of any of the Licensee’s affiliates.

## **2. What requirements must be complied with and where can these be found?**

### **2.1. The Licensee’s transmission licence:**

- Standard Licence Condition E6: Prohibition of Cross-Subsidies
- Standard Licence Condition E7: Restriction on Activity and Financial Ring Fencing
- Amended Standard Licence Condition E12 - C1: Conduct of the Transmission Business
- Amended standard condition E12 – C2 (Separation and Independence of the Transmission Business).

### **2.2. S105 Utilities Act: General restrictions on disclosure of information**

# **Appendix 1 - Code of Conduct**

## **3. What are the consequences of breaching these requirements?**

3.1. Failure to comply could result in adverse consequences for the Licensee, including:

- Financial penalty
- Criminal prosecution
- Liability payments to a third party for breach of a contract
- Investigations and other enforcement action by Ofgem
- Additional and more onerous Licence conditions, and
- Serious damage to the Licensee's reputation.

3.2. Breach of this Code of Conduct will be treated as a disciplinary matter and will be reported to the Authority.

## **4. What should be done if a breach is discovered?**

4.1. Any breach of the Code of Conduct by employees or relevant personnel whether deliberate or unintentional, must be immediately reported to a member of the Licensee's Compliance Committee.

## **5. General Rules**

### **5.1. Confidential information**

5.1.1 Any information relating to or deriving from the management or operation of the Licensee's transmission business is to be treated as confidential and should not be disclosed except where the Licensee and its affiliates are permitted to disclose information by virtue of:

- i. Any requirement of a "competent authority" as defined in Amended Standard Condition E12-C3 which term includes (among others) the Secretary of State, OFGEM and the Compliance Officer;
- ii. Conditions of the transmission licence granted to the Licensee;
- iii. Any other requirements of law;
- iv. The rules of the Electricity Arbitration Association or of any judicial or other arbitral process or tribunal of competent jurisdiction;
- v. Information being provided by or relating to any person who has notified the Licensee that it need not be treated as confidential;
- vi. Where information, not being provided by or relating to any person other than the Licensee, is placed in the public domain or where such information is required for assisting the holder of a co-ordination licence (e.g. NGET), to prepare for and plan and develop the operation of the national electricity transmission system.

# **Appendix 1 - Code of Conduct**

## **5.1 Confidential information (continued)**

- 5.1.2 Here “transmission business” means the authorised businesses of the Licensee or any affiliate or related undertaking in the planning or development or construction or operation or maintenance of a transmission system.
- 5.1.3 It is therefore permissible to share information between the transmission businesses of the Licensee, or any affiliate or related undertaking, with an authorised transmission business, for the purpose of the efficient planning or development or construction or operation or maintenance of the Licensee’s transmission system.
- 5.1.4 Additionally it is permissible to share information with BTW2I, BTI and any other affiliate or related undertaking of the Licensee. For the avoidance of doubt this includes all subsidiaries of, or entities that are controlled by BTI (which includes BTW2I) provided that no unfair commercial advantage is provided. For the avoidance of doubt this also includes sharing information for the purposes of bidding for new OFTO opportunities.
- 5.1.5 An unfair commercial advantage will be presumed where there is a financial benefit obtained by either the Licensee or affiliate or related undertaking of the Licensee entering into a commercial arrangement with the Licensee since the date of licence grant and financial close where such an arrangement has not been benchmarked or market tested and is on materially different terms to any such similar arrangement entered into at licence grant and financial close and is based on the knowledge of confidential information to the Licensee.

# **Appendix 1 - Code of Conduct**

## **5.2 Employees and relevant personnel must not:**

- 5.2.1 Provide information that is commercially confidential to the Licensee to any affiliate or related undertaking of the Licensee or that of any third party, except:
  - i. to the extent that such information is required for the affiliate or related undertaking of the Licensee or third party to perform an activity under the terms of a contract which supports the management or operation of the transmission business licensed to the Licensee provided the use of such information does not confer an unfair commercial advantage as set out above and where the provision of such information is governed by suitable confidentiality restrictions; or
  - ii. to personnel of any holder of a transmission licence engaged in the external transmission activities of that transmission licence holder, to the extent necessary for the performance by such personnel of those external transmission activities, and the use by such personnel of that information for that purpose provided the use of such information does not confer an unfair commercial advantage as set out above and where the provision of such information is governed by suitable confidentiality restrictions; or
  - iii. to personnel engaged in the planning or development or construction or operation or maintenance or tendering of an external transmission system provided the use of such information does not confer an unfair commercial advantage as set out above and where the provision of such information is governed by suitable confidentiality restrictions.
- 5.2.2 Provide or receive any cross subsidy to or from the Licensee or any affiliate or related undertaking of the Licensee whether by means of direct or indirect financial assistance, or non-cost-reflective charges for services, use of facilities or otherwise.
- 5.2.3 Enter into any new commercial agreement between the Licensee and an affiliate or related undertaking after financial close unless it is on an arm's length basis and on normal commercial terms as approved through the related party contract authorisation process by the Licensee's Board.

# **Appendix 1 - Code of Conduct**

## **5.3 Employees and relevant personnel must:**

- 5.3.1 Ensure that adequate records are maintained in respect of all new services provided to the Licensee by affiliates or related undertakings since financial close so as to demonstrate that such arrangements do not confer an unfair commercial advantage and are entered into consistent with the conditions described in paragraph 5.2.3.
- 5.3.2 Ensure that the reporting requirements as specified or implied by the terms of the management services agreement are communicated in a timely manner, including:
  - i. Immediate notification of any actual or potential regulatory breaches; and
  - ii. in the manner, detail and frequency as agreed following implementation of the management services agreement
- 5.3.1 Ensure that the cost of services under any new joint contracts entered into with an affiliate or related undertaking or a third party with the Licensee and any other transmission business is fairly allocated to the Licensee and each of the transmission businesses such that there is no cross subsidy given to any transmission business.

## **6. Further Guidance/Advice**

If you need further guidance in the first instance speak to the Licensee's General Manager or Compliance Officer.

**Macquarie Capital Group Limited (UK Branch)**  
A Member of the Macquarie Group of Companies

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10 February 2012

Hannah Evans  
Policy Analyst  
Offshore  
9 Millbank  
London  
SW1P 3GE



Dear Hannah,

We, Macquarie Capital Group Limited and Barclays Infrastructure Funds Management Limited, in its capacity as manager of Barclays Integrated Infrastructure Fund LP (the "Consortium"), on behalf of Blue Transmission Walney 2 Limited (the future licensee), are writing to request your consent (should the licence be granted) in order not to comply with the requirements set out in paragraph 4 (b) of amended standard condition E12 – C2 of the Offshore Electricity Transmission Licence ("the Licence").

The Consortium is currently Preferred Bidder in relation to the Walney 2 project and is currently in the process of working through the Preferred Bidder to Financial Close process.

#### Corporate structure

Blue Transmission Walney 2 Limited is a wholly owned subsidiary of Blue Transmission Walney 2 (Holdings) Limited which is itself a wholly owned subsidiary of Blue Transmission Walney 2 Investments Limited. These companies comprise the Blue Transmission Walney 2 Group. Blue Transmission Walney 2 Investments Limited is jointly owned by Macquarie Capital Group Limited (50%) and BIF Offshore Windkraft Holdings Limited ("BOWH" - a wholly owned subsidiary of Barclays Integrated Infrastructure Fund LP, 50%) these investors in Blue Transmission Walney 2 Investments Limited being the Blue Transmission Consortium (investors).

BOWH together with Diamond UK Transmission Corporation Limited (DUTC) (a wholly-owned subsidiary of Mitsubishi Corporation) are joint and equal owners of Blue Transmission Investments Limited which through its wholly owned subsidiary Blue Transmission Walney 1 (Holdings) Limited, has a 100% interest in Blue Transmission Walney 1 Limited. These companies comprise the Blue Transmission Walney 1 Group. Blue Transmission Walney 1 Limited is the holder of an offshore electricity transmission licence relating to the operation of the Walney 1 offshore transmission system.

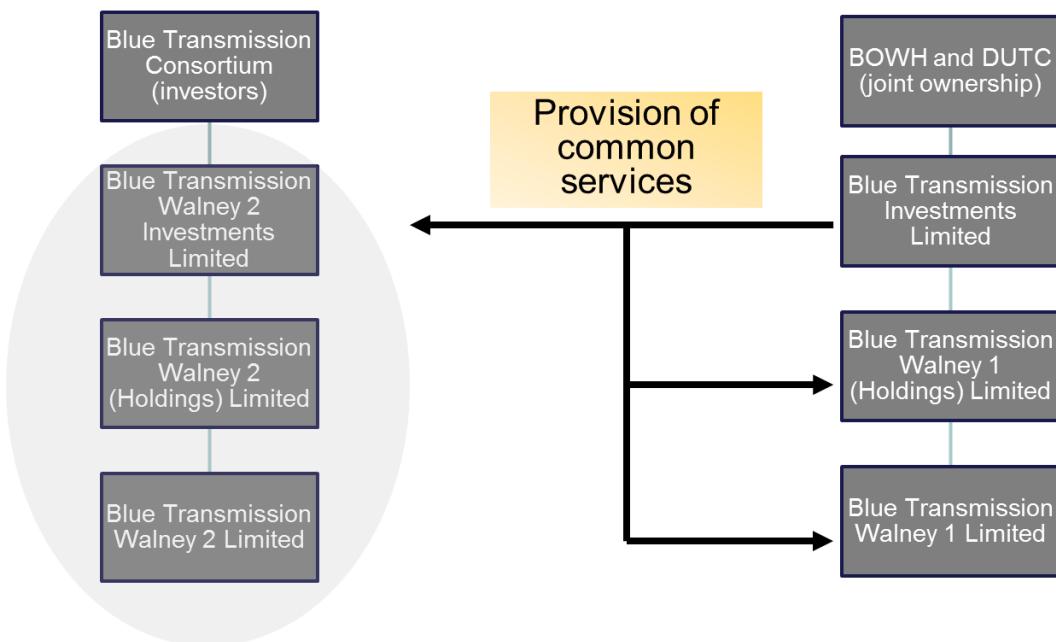
The Blue Transmission Walney 2 Group and Blue Transmission Walney 1 Group have an ultimate shareholder in common, BIF Offshore Windkraft Holdings Limited, but are independent groups of companies.

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**Macquarie Capital Group Limited (UK Branch) is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia), and its obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Capital Group Limited (UK Branch).**

Macquarie Capital Group Limited is registered in Queensland, Australia ACN 096 705 109  
Head Office: No.1 Martin Place, Sydney 2000, New South Wales, Australia. Macquarie Capital Group Limited, UK Branch is registered in England and Wales Branch No: BR009622, Company No: FC027878, VAT Registration No: GB 577 7048 00

A diagrammatic representation of the Blue Transmission Walney 2 and Blue Transmission Walney 1 Group structures and their interrelationship is shown below:



The following observations can be made in relation to the above organisation chart as follows:

- 1) That the Blue Transmission Walney 1 and Blue Transmission Walney 2 Groups are independent, and that BOWH is, should the Walney 2 OFTO licence be granted to Blue Transmission Walney 2 Limited, the common shareholder in both structures;
- 2) That it is intended that Blue Transmission Investments Limited, which currently provides common services to the companies within the Blue Transmission Walney 1 Group would provide a similar service to the Blue Transmission Walney 2 Group (companies shown as shaded in the above diagram).

#### Rationale for required consent

On 21 October 2011 the Authority issued a consent to Blue Transmission Walney 1 Limited (the licensee of the Walney 1 offshore electricity transmission system), that permitted that licensee to share premises, systems, equipment and certain other resources with its affiliates while recognising that this licensee still had to comply with its obligations under amended standard condition E12-C2 of its offshore electricity transmission licence. The principles that underpinned the request for such consent in relation to Blue Transmission Walney 1 Group to allow sharing of resources also apply to the sharing of resources with the Blue Transmission Walney 2 Group. In addition, it is proposed that there is sharing of resources between Blue Transmission Walney 1 Limited and Blue Transmission Walney 2 Limited and their respective affiliates. Transactions between these two entities and transactions between and with their affiliates (both within and between their respective groups) will be conducted at 'arms-length'.

In the letter to the Authority dated 14 March 2011, it was indicated that it was intended that Blue Transmission Investments Limited would act as a service company and provide certain common services and administrative facilities to Blue Transmission Walney 1 Limited and other Projects that the Consortium successfully closed. Consistent with that previously indicated, it is proposed that Blue Transmission Investments Limited will provide those services to Blue Transmission Walney 2 Limited – being the future licensee of the Walney 2 project when it becomes the Walney 2 Licence holder, and its affiliates. We continue to envisage that the Sheringham Shoal OFTO will also receive services from Blue

Transmission Investments Limited when that project is closed. These services and administrative facilities include, for example, provision of office premises, equipment and utilities, provision of core staff, company secretarial and external accounting services, website design and management and IT support.

### Condition E12-C2

The purpose of this note is to describe the practices, procedures and systems which Blue Transmission Investments Limited and Blue Transmission Walney 2 Limited have adopted (to comply with the obligations of the existing licensee – Blue Transmission Walney 1 Limited) or will adopt as necessary (to comply with the requirements of the licence of the future licensee Blue Transmission Walney 2 Limited) to allow each licenced business to secure compliance with their prospective obligations under Amended Standard Condition E12 – C2 (Separation and Independence of the Transmission Business) ("Condition E12-C2"). Furthermore, it will procure that in respect of a future prospective licenced business (Sheringham Shoal OFTO) it will also adopt these procedures, while at the same time conduct each transmission business in an efficient manner and without giving rise to any unfair commercial advantage. We have set out below the relevant provisions and examples of the reason for which we are seeking a consent:

Reference in Condition E12-C2	Examples of need for consent	Entities sharing the resources
<i>Paragraph 4(b)(i)(aa) – restriction on other business of the licensee to use or have access to premises or parts of premises for the management or operation of the transmission business or any external transmission activities</i>	There will be a sharing of office premises.	<ul style="list-style-type: none"> <li>• Blue Transmission Investments Limited</li> <li>• Blue Transmission Walney 1 (Holdings) Limited</li> <li>• Blue Transmission Walney 1 Limited</li> <li>• Blue Transmission Walney 2 Investments Limited</li> <li>• Blue Transmission Walney 2 (Holdings) Limited</li> <li>• Blue Transmission Walney 2 Limited</li> <li>• Sheringham Shoal OFTO and its affiliates</li> </ul>
<i>Paragraph 4(b)(i)(bb) - restriction on other business of the licensee to use or have access to data systems to which persons engaged in or in respect of the management or operation of the transmission business or any external transmission activities also have access</i>	There will be a sharing of IT systems and databases.	<ul style="list-style-type: none"> <li>• Blue Transmission Investments Limited</li> <li>• Blue Transmission Walney 1 (Holdings) Limited</li> <li>• Blue Transmission Walney 1 Limited</li> <li>• Blue Transmission Walney 2 Investments Limited</li> <li>• Blue Transmission Walney 2 (Holdings) Limited</li> <li>• Blue Transmission Walney 2 Limited</li> <li>• Sheringham Shoal OFTO and its affiliates</li> </ul>
<i>Paragraph 4(b)(i)(cc) - restriction on other business of the licensee to use or have access to equipment, facilities or property employed for the management or operation of the transmission business or any external</i>	There will be a sharing of IT equipment, website, email system, telephone systems and other office infrastructure.	<ul style="list-style-type: none"> <li>• Blue Transmission Investments Limited</li> <li>• Blue Transmission Walney 1 (Holdings) Limited</li> <li>• Blue Transmission Walney 1 Limited</li> <li>• Blue Transmission Walney 2 Investments Limited</li> <li>• Blue Transmission Walney 2 (Holdings) Limited</li> </ul>

<i>transmission activities</i>		<ul style="list-style-type: none"> <li>• Blue Transmission Walney 2 Limited</li> <li>• Sheringham Shoal OFTO and its affiliates</li> </ul>
<i>Paragraph 4(b)(i)(dd) - restriction on other business of the licensee to use or have access to the services of persons who are engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities</i>	There will be a sharing of management resources from Frontier Power Limited under a management services agreement, tax services, accounting services, credit rating agency services, technical advisory services and company secretarial services.	<ul style="list-style-type: none"> <li>• Blue Transmission Investments Limited</li> <li>• Blue Transmission Walney 1 (Holdings) Limited</li> <li>• Blue Transmission Walney 1 Limited</li> <li>• Blue Transmission Walney 2 Investments Limited</li> <li>• Blue Transmission Walney 2 (Holdings) Limited</li> <li>• Blue Transmission Walney 2 Limited</li> <li>• Sheringham Shoal OFTO and its affiliates</li> </ul>
<i>Paragraph 4(b)(ii) – able to prevent any person who has ceased to be engaged in the management or operation of the transmission business from being engaged in the activities of any other business of the licensee (or of any affiliate or related undertaking of the licensee) until the expiry of an appropriate time from the date on which he ceased to be engaged</i>	Management services agreement, as explained in detail below, allows individual OFTO or HoldCo termination, without having to terminate that agreement for other parties. The relevant personnel will need to continue to work for the remaining parties to the management services agreement.	<ul style="list-style-type: none"> <li>• Blue Transmission Investments Limited</li> <li>• Blue Transmission Walney 1 (Holdings) Limited</li> <li>• Blue Transmission Walney 1 Limited</li> <li>• Blue Transmission Walney 2 Investments Limited</li> <li>• Blue Transmission Walney 2 (Holdings) Limited</li> <li>• Blue Transmission Walney 2 Limited</li> <li>• Sheringham Shoal OFTO and its affiliates</li> </ul>

## Managerial and operational independence

In order to maintain the requisite managerial and operational independence of the transmission business of Blue Transmission Walney 2 Limited, Blue Transmission Walney 2 Investments Limited has been established as a legally separate company from its subsidiaries (including the OFTO), with its own Board of Directors.

Blue Transmission Walney 2 Investments Limited is jointly owned by Macquarie Capital Group Limited (50%) and BIF Offshore Windkraft Holdings Limited (50%). Accordingly, neither of the shareholders of Blue Transmission Walney 2 Investments Limited has a controlling interest in the licence holding entity.

The Shareholders Agreement between the members of Blue Transmission Walney 2 Investments Limited provides that Macquarie Capital Group Limited appoints 2 Directors to the Board of Blue Transmission Investments Walney 2 Limited, and Barclays Infrastructure Funds Management Limited, in its capacity as manager of Barclays Integrated Infrastructure Fund 2 Directors. The balance of the Board ensures appropriate corporate governance and independence of Blue Transmission Walney 2 Investments Limited.

As previously indicated to the Authority, Blue Transmission Investments Limited is acting as a service company to Blue Transmission Walney 1 Limited and Blue Transmission Walney 2 Limited and their respective affiliates. Blue Transmission Investments Limited employs staff and provides administrative facilities that are or will be utilised by the OFTOs and their respective affiliates. Frontier Power Limited, through a management services agreement does or will provide a range of general management services to the Blue Transmission Walney 1 and Blue Transmission Walney 2 Groups and will supervise all employees of Blue Transmission Investments Limited. In particular, Blue Transmission Investments Limited will provide services, with the management and assistance from Frontier Power Limited in accordance with the terms of the management services agreement, to enable each OFTO to:

- (a) discharge their licence obligations under the relevant OFTO Licence;
- (b) manage their relationships with contractual counterparties and industry, regulatory and other stakeholders;
- (c) carry out all required administrative and related functions in connection with their transmission businesses; and
- (d) generally operate their transmission businesses in an economic and efficient manner.

Frontier Power Limited does not own, or have any actual or contingent shareholding interest in any companies within the Blue Transmission Walney 1 or the Blue Transmission Walney 2 Groups. In addition, it does not have any actual or contingent shareholding interest in any affiliate of those groups. Consequently, it has no ownership or control over Blue Transmission Walney 1 Limited (holder of an offshore electricity transmission licence in relation to the Walney 1 OFTO) or that of Blue Transmission Walney 2 Limited (prospective holder of an offshore electricity transmission licence in relation to the Walney 2 OFTO).

Frontier Power Limited through the management services agreement will also manage contracts and other services that are provided directly to the licensee by utilising the resources (premises, utilities, equipment and employees) made available to Blue Transmission Investments Limited.

Each licenced entity (or prospective licenced entity that is successfully acquired by an entity controlled by the Consortium) has or will contract directly with their principal external service providers but such contracts will be administered by Blue Transmission Investments Limited. Blue Transmission Investments Limited has and will continue to contract for a range of common services (including the management services provided by Frontier Power Limited under a management services agreement as mentioned above) to be used by its licenced subsidiary together with the prospective licensed subsidiaries of

entities controlled by the Consortium. All costs incurred by Blue Transmission Investments Limited in fulfilling its service company role will be fully allocated across those entities receiving services in a fair and equitable manner. The management services agreement also provides for individual OFTO and/or individual HoldCo termination of that agreement without necessarily terminating the same agreement between Frontier Power Limited and other OFTOs, their respective HoldCos and/or the TopCo.

Blue Transmission Investments Limited will procure that each OFTO and, where relevant, their respective employees, its employees and Frontier Power Limited and its employees and contractors, will comply with the licence conditions.

We hope that the above provides sufficient information for your assessment of our request and we look forward to hearing from your decision.

Yours faithfully  
**Macquarie Capital Group Limited**

**Tara Davies**  
Managing Director  
Macquarie Capital

**Elise Dupuy**  
Vice President  
Macquarie Capital