

INVITATION TO TENDER FOR THE REVIEW OF THE FINANCING ARRANGEMENTS OF PROSPECTIVE PURCHASERS OF GAS DISTRIBUTION NETWORK BUSINESSES

SPECIFICATION

INTRODUCTION

This specification and the Terms and Conditions attached at Annex A will form part of the agreement between the Gas and Electricity Markets Authority (henceforth referred to as the “Authority”) and the successful tenderer. The specification sets out the Authority’s requirement for the review of financing arrangements of prospective purchasers of gas distribution network business.

No other Terms and Conditions shall prevail.

BACKGROUND

In May 2003, National Grid Transco (NGT) announced that it would consider the sale of one or more of its gas distribution networks (DNs) if such a transaction would maximise shareholder value. Any such sale would represent a fundamental change to the structure of the gas industry and would require the consent of the Authority under the terms of Transco’s licence.

On 31 August 2004, NGT announced that it had reached agreement on the sale of four DNs. Specifically:

- ◆ a consortium led by Cheung Kong Infrastructure Holdings Ltd and including United Utilities plc had agreed to purchase the North of England gas distribution network;
- ◆ a consortium led by the Macquarie European Infrastructure Fund had agreed to purchase the Wales & West gas distribution network; and
- ◆ a consortium comprising Scottish and Southern Energy plc, Borealis Infrastructure Management Inc and Ontario Teachers Pension Plan had agreed to agreed to purchase the South of England and Scotland gas distribution networks.

These agreements are subject to certain regulatory consents and approvals, including consent from the Authority.

REVIEW OF THE FINANCING ARRANGEMENTS OF PROSPECTIVE PURCHASERS

In January 2005 the Gas and Electricity Markets Authority (“the Authority”) will decide whether to grant Transco its consent in respect of the disposal of DN assets. Any consent granted to NGT to dispose of DN assets is likely to be conditional on, but not limited to, the Authority being satisfied that, under each prospective purchaser’s ownership, the respective DN licensees’ financial positions may be expected to remain stable and robust under all reasonably foreseeable conditions. Transco will not be permitted to complete its transaction until the Authority’s conditions of consent have been met.

The Authority has indicated to prospective purchasers that it wishes to receive from those who have entered into conditional sale and purchase agreements a submission detailing their financing strategy for the DN business(es) they will acquire at completion, including both details of the acquisition financing structure (bridging and permanent) and proposed approach to financing subsequent investment. As part of this, each purchaser will be required to provide a copy of its financial model for the acquisition covering a reasonable medium term period and reflecting their financial strategy.

If the Authority grants its consent in January, the Authority wishes to appoint consultants to examine the submissions of the three prospective purchasers and to report on them. The report will be expected to include, but not necessarily be limited to, a description of each potential purchaser's:

- ◆ Financing structure
- ◆ Respective rights of capital providers by class
- ◆ Funds flow under the proposed arrangements
- ◆ Governance arrangements
- ◆ Credit ratings.

The report shall also include the results of stress testing of each potential purchaser's financial model, on the basis of scenarios, to be discussed and agreed with the Authority, in which the risk parameters to which financial outcomes are sensitive are varied from the prospective purchaser's central case assumptions to test tolerance limits.

The report will be used to help the Authority form a view whether, if the acquisitions are completed, each prospective DN licensee's financial position may be expected to remain stable and robust under all reasonably foreseeable conditions. The Authority will wish to discuss the draft reports and emerging conclusions with the consultants, and may require further analysis to be undertaken before final reports are submitted.

The appointment will be conditional on the Authority granting its consent to the transaction in January.

REQUIRED EXPERIENCE & KNOWLEDGE

The Authority will require the successful company to demonstrate in their tender that the key consultants proposed for this work have a strong background in financial modelling, detailed knowledge of corporate finance and extensive experience in assessing financial structures. Tenderers are requested to confirm the names of each consultant proposed and provide full CV's detailing the qualifications and previous relevant experience of similar projects.

CONSULTANT'S ROLE

The consultant will be expected to meet with the Authority on a regular basis throughout the consultancy. It may also be necessary for the consultant to liaise with potential purchasers.

THE AUTHORITY USE OF THE CONSULTANT'S REPORT

The Authority may wish to publicly quote the consultants report. Tenderers are requested to confirm that the Authority may (at the Authority's own discretion) do so, without restriction.

OUTPUTS AND TIMETABLE

The outputs expected of the consultants are:

- A project start date of 7 February 2005
- An initial report by 28 February 2005
- A final report by 14 March 2005

PAYMENT TERMS

The Authority shall make payments thirty days in arrears from receipt of a valid invoice and of work being satisfactorily performed and delivered as determined by the Authority's Project Manager.

INVOICING

All invoices should be sent to:
Finance Section,
Ofgem, 9 Millbank,
London SW1P 3GE.

Invoices should quote the Contract reference number and the name of the Authority's Project Manager.

All claims for expenses should be accompanied by original receipts.

KEY PERSONNEL

No replacement of key personnel shall be permissible unless prior written authorisation is sought from the Authority and granted. The Authority shall not unreasonably withhold consent.

Should a replacement become necessary for whatever reason, the Contractor shall ensure that any replacement is of equal or higher calibre.

PRICE

Tenderers are required to quote a firm price (ie a price that is NOT subject to any variation) for completion of all the work. Tenderers are requested to provide a full breakdown of their firm price (to show the daily fee rate for each member of staff proposed for this project, and the number of days to be worked by each member of the contractor's staff).

CONFLICT OF INTEREST

The Authority require all tenderers to confirm whether any actual or potential conflicts of interest that exist which may prevent them from undertaking this work, and a description of the measures they would adopt if a potential conflict of interest arose during or following completion of this work.

INFORMATION REQUIRED IN TENDERS

The following information will form the Authority's evaluation criteria for all tenders received. The Authority will select the tender that it considers offers the best value for money with regard to the criteria shown. The criteria are shown in order of priority and will receive appropriate weighting.

- A full description of the proposed methodology for undertaking this work;
- A full description of the previous relevant experience possessed by the proposed personnel (including the names and full CV's of all key staff proposed);
- Confirmation of the level of accuracy the consultant expect to achieve in relation to their assessment of the financial models;
- Confirmation that the Authority may publicly quote the output of the consultants work without restriction;
- Confirmation that no actual or potential conflicts of interest currently exist, and proposals for dealing with any conflicts at a later date;
- Confirmation that the Authority's deadlines will be met;
- Confirmation that all key staff proposed are available for the duration of the work;
- Provision of a detailed project plan showing all key tasks, dates and personnel.
- Firm price (including a full breakdown of daily rates) for the provision of all services.

CLOSING DATE FOR TENDERS

The closing date for tenders is 5pm on 21 January 2005. Tenders should be returned at the address below and marked as follows:

"Tender do not open until 21st January, 5PM" in an unmarked envelope (i.e. there should be no indication of who the sender is).

Ofgem
Procurement Team
9 Millbank
London SW1E 3GE

If the Authority considers it necessary to interview shortlisted tenderers, it is expected that interviews will take place on 31 January at the Authority's central London premises. Subject to the Authority's approval, the Authority anticipate that a contract will be awarded by 4 February.

CONTACT

Any questions relating to this requirement should be addressed to
The Authority will copy questions and our answers to
all tenderers. The deadline for receipt of questions is Noon on 14 January 2005.