

INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 30 June 2020

General Overview

Present Status:

Investors: **Funds managed by Dalmore Capital Limited** (PPP Equity PIP LP, Dalmore Infrastructure Investments 31 LP, Dalmore Infrastructure Investments 32 LP, Dalmore Infrastructure Investments 33 LP)

O&M Contractor: **Ørsted West of Duddon Sands (UK) Limited and Scottish Power Renewables (WODS) Limited**

O&M Guarantors: **Ørsted Wind Power Holdings A/S and Scottish Power UK PLC**

Security Trustee: **HSBC Corporate Trustee Company (UK) Limited**

Principal Paying Agent: **HSBC Bank PLC**

Technical Adviser: **Ove Arup & Partners Limited**

Insurance Adviser: **Marsh Ltd**

Ratings by Moody's Investors Service Limited: **A3**

Outstanding Principal Amount: **£212,797,746 as at 30 June 2020 (after a principal repayment of £4,890,788 to be made on 30 June 2020).**

General performance

1. Health and Safety Performance

The health and safety performance of WoDS Transmission PLC ("WoDST") since asset transfer has been good with no reportable incidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

The 2020 HSE Operating Plan is being implemented with the exception of site-based process reviews which have been postponed due to Covid-19 restrictions. The postponed process reviews will be rescheduled when suitable mitigants have been established or when restrictions have been relaxed. The actions arising from the 2019 HSE process reviews are complete with the exception of two actions that are planned for completion by August 2020. Any findings from the offsite and onsite process reviews scheduled for 2020 when complete will be progressed and monitored through the monthly Operations and Maintenance (O&M) liaison meetings held with the O&M provider.

As a result of Covid-19, WoDST and its associated organisations have ensured that working practices comply with government guidelines. In support of this WoDST, in partnership with other OFTOs through the Energy Network Association, has liaised with the Department for Business and Industrial Strategy (BEIS) to open up communication channels and ensure lockdown restrictions allow for suitable OFTO activities in operating and maintaining key national infrastructure. This includes arrangements for foreign key workers. Management Services provider (Frontier Power Limited) executives and the Directors of the Company commenced working-from-home arrangements in March, while the O&M provider continues to work on-site.

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2. Transmission System Availability Performance

Cumulative transmission system availability calculated on a basis consistent with that reported to the Gas and Electricity Markets Authority (the “Authority”) since asset transfer on 25 August 2015 up until 25 June 2020, was 99.71% (reflecting a successful Exceptional Event claim – see “2.2 System Availability Performance for the performance year ended 31 December 2019” below). On an equivalent reporting basis, transmission system availability for the period from 19 December 2019 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 25 June 2020 was 99.03%.

2.1. System Availability Performance from 1 January 2020 to 25 June 2020

System availability performance for the period 1 January 2020 to 25 June 2020 of 98.96% was consistent with our expectations. Maintenance and repair work to SVC 13.9kV circuit breaker 2K0B and Offshore Transformer GT2 required an outage of one of the two transmission circuits between 21 and 25 April 2020. This outage is expected to reduce the annual availability of the system to approximately 99.60%, assuming that full availability is maintained for the rest of the annual performance period ending 31 December 2020, which is line with the financial model assumption.

2.2. System Availability Performance for the performance year ended 31 December 2019

As noted in the previous investor report, a number of SF₆ gas leaks were identified on 400kV switchgear equipment associated with the two WoDST circuits connecting the offshore wind farm to the onshore transmission system. Following a root cause analysis by National Grid Electricity Transmission plc (“NGET”) and their supplier (Siemens) in November 2018, it was concluded that the SF₆ gas leaks were found to be caused by poor handling of equipment prior to installation and the inadequate application of a paint protection system during installation.

The outages to remedy the SF₆ leaks were successfully completed on 20 June 2019, which resulted in approximately 21 days of unavailability for each of the WoDST two circuits. Protective painting was completed in September 2019 with no further unavailability incurred.

An Exceptional Event claim was lodged with the Gas and Electricity Markets Authority (“the Authority”) on 5 September 2019, who subsequently determined on 3 June 2020 that the circumstances giving rise to the outages associated with the SF₆ related remedial repairs met the definition of an Exceptional Event under the offshore transmission owner licence issued to WoDST. The Authority therefore directed that the outages associated with the SF₆ related remedial repairs should be wholly excluded from the measure of system availability incentive performance for the performance year ended 31 December 2019. As a consequence, system annual availability performance for the year ended 31 December 2019, calculated in accordance with the requirements of the incentive mechanism contained within the WoDST offshore transmission owner licence has now been restated from 95.40% to 100%.

The Authority’s acceptance of the Exceptional Event claim in respect of the outages caused by the SF₆ related remedial repairs, will allow WoDST to adjust its prices to recover £1.1m in performance credits for the performance year ended 31 December 2019 from National Grid Electricity System Operator Limited. The collection of these performance credits will commence no later than 1 April 2021.

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3. Covid-19 and its impact on Operations and Maintenance

The outbreak of the Covid-19 pandemic has not unduly affected the Operations and Maintenance activities by the O&M provider. Mitigations have been established to enable safe working in accordance with government guidelines for the energy sector and all essential maintenance and statutory inspections have been carried out as planned. Lower priority activities, for example process reviews requiring site visits, have been postponed until suitable relaxation of Covid-19 associated restrictions come into force.

4. Warranties

All equipment warranties have now expired with the exception of the 400kV switchgear warranties which will be extended by at least two years, subject to negotiation, from the completion of the remedial work noted above. WoDST is in discussion with NGET to extend this by a further two year (total four years). Prior to the equipment warranty expiry, two warranty defects on a harmonic filter and offshore transformer were notified to the suppliers concerned, however, these have not been rectified to date. These defects are not expected to affect availability performance and will be managed within normal operations and maintenance activity.

5. Bathymetric Survey

As previously reported in the Investor Presentation dated 1 August 2019, the bathymetric survey undertaken in November 2018 and the subsequent report in March 2019 confirmed the status of offshore cable burial and offshore platform condition:

- Cable free spans - No cable free spans have been observed however some possible minor cable exposures have been identified along some stretches of cable.
- Barrow Crossing - The remediated areas of the crossing are currently stable: To the east and west of the crossing, there is continued seabed change that has led to some minor cable exposures.
- Offshore substation - The offshore substation shows some scour at the south western platform leg however the structural integrity remains sound: This scour, which was identified in previous surveys, is developing over time and has lowered the seafloor however the O&M contractor has confirmed that the structural integrity of the foundations remains satisfactory.

None of these findings are considered to have an impact on the integrity of the assets.

Following recommendations from the O&M contractor, the next seabed bathymetric survey is expected to be undertaken sometime in July or August 2020 to examine seabed mobility and potential cable exposure areas identified in the previous bathymetric survey.

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6. *Material Communications*

The Marine Management Organisation has confirmed that all post-construction monitoring required under the WoDST marine licence has been completed and discharged with no further work being required in relation to monitoring.

There have been no material communication or reports delivered by WoDST or the National Electricity Transmission System Operator pursuant to the terms of any Transaction Authorisation since the date of the last Investor Report.

7. *Decommissioning*

Following the publication of revised Decommissioning Guidelines by the Department for Business, Energy and Industrial Strategy (BEIS) in March 2019, a number of amendments were introduced including changes to the security provisions required which now must exclude scrap value to offset the cost of decommissioning and include VAT on the resulting costs.

WoDST, along with other OFTOs through the ENA OFTO Forum, are in dialogue with the Authority and the Government department, BEIS to clarify the implementation of the funding arrangements for the change in requirements. Until such time as clarification is provided, the submission of a revised decommissioning plan has been deferred.

Regulatory and business update

There have been no new significant regulatory, business and performance developments since the last Investor Report except as disclosed under “General Performance” above.

There have been no significant announcements/publications by the Authority by or relating to the Security Group since the last Investor Report.

Since the publication of the last Investor Report on 19 December 2019, 3i Infrastructure plc exited the project and sold their interests in the project to funds managed by Dalmore Capital Limited on 3 January 2020. As a consequence, Mr Matthew Edwards and Mr John Cavill resigned from the Board on 3 January 2020. On 18 February 2020, Mr Graham Farley was appointed to the Board.

Current Hedging Position

An inflation hedging agreement is in place to swap a portion of the revenues over the life of the fixed rate secured bonds due August 2034.

Current availability / drawn amounts under the PBCE

The European Investment Bank (the PBCE provider) has provided a letter of credit that allows WoDST, in specified circumstances, to draw down certain amounts. At 30 June 2020, WoDST was entitled (subject to specified conditions) to draw down under the letter of credit a maximum amount with a value equivalent to 15% of the outstanding principal amount of the fixed rate secured bonds due August 2034.

No amount of the PBCE letter of credit has been drawn down as at the date of this report and WoDST has no current plans to draw down under this facility.

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Project Documents

There have been no amendments to, or replacement of, any Project Document since the last Investor Report.

Ratios

We confirm that the ratios calculated as at 30 June 2020 (together the **Ratios**) are as detailed in the tables below:

Ratio	Ratio for Relevant Period/Date (excluding undrawn PBCE)	Lock-Up Ratio Level (excluding undrawn PBCE)	Ratio for Relevant Period/Date (including undrawn PBCE)	Default Ratio Level (includes undrawn PBCE)
Projected DSCR:	1.15	1.10x	2.97	1.05x
Historic DSCR:	1.14	1.10x	3.03	1.05x
Debt Life Cover Ratio:	1.31	1.15x	1.46	1.08x

We confirm that the Ratios have been calculated using the most recently available financial information required to be provided by the Obligors under Schedule 2 (Obligor Covenants) of the Common Terms Agreement. The undrawn PBCE amount included in the calculation of the relevant Ratios included within the table shown above amounted to £31,919,662. All ratios have been calculated based on actual data through to 31 March 2020 and forecast data through to 30 June 2020 and thereafter.

We set out below the computation of the Ratios for your information:

(a) Projected DSCR – 1.15 (excluding undrawn PBCE)

Net Cashflow (Jul 20 – Jun 21) £20,117k

Debt Service (Jul 20 – Jun 21) £17,520k

Net Cashflow is comprised of Gross Revenue less Operating Costs, Capital Costs and Taxes.

Gross Revenue is net of RPI swap payments and movements in and out of the Decommissioning Reserve Account (DRA) and Working Capital Reserve Account (WCRA).

Debt Service includes all scheduled payments of interest and principal payable in respect of senior debt and any termination payments then due and payable under any hedging agreement.

(b) Historic DSCR – 1.14 (excluding undrawn PBCE)

Net Cashflow (Jul 19 – Jun 20) £19,322k

Debt Service (Jul 19 – Jun 20) £16,904k

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Ratios (continued)

- (c) Debt Life Cover Ratio – 1.31 (excluding undrawn PBCE)

NPV of Net Cashflow plus DSRA, MRA, WCRA

Plus, the residual balance of the proceeds account £279,703k

Senior Debt £212,798k

Confirmations

We confirm that:

- (d) No Default has occurred and is continuing;
- (e) The statements set out in this Investor Report are accurate in all material respects;
- (f) The amount of any Restricted Payment made since the date of the last Investor Report amounted to £1,124,840.

Yours faithfully,



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Director

Signing without personal liability, for and on behalf of **WoDS Transmission PLC**

26 June 2020