

# INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 31 December 2019

## General Overview

### *Present Status:*

Investors: **3i Infrastructure plc\*** and **PPP Equity PIP LP** (a fund managed by **Dalmore Capital Limited**)

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: **£217,688,534** as at **31 December 2019** (after a principal repayment of **£4,414,446** to be made on **31 December 2019**).

**\* On 6 December 2019, 3i Infrastructure plc agreed to sell its holding in WoDS Transmission PLC to funds managed by Dalmore Capital Limited. Completion is expected to take place before 31 March 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.

All audits planned in the 2019 HSE Operating Plan have been completed for the calendar year with no material concerns raised. The actions arising are being progressed and monitored through the monthly Operations and Maintenance (O&M) liaison meetings held with the O&M provider. The 2020 HSE Operating Plan has received Board approval and will be implemented accordingly.

In addition to this, an Institute of Occupational Safety and Health (IOSH) "Safety for Executives and Directors" training session was held to refresh and inform WoDST Directors and other service providers of their respective responsibilities.

### *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 18 December 2019, was 98.75%. On an equivalent reporting basis, transmission system availability for the period from 26 June 2019 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 18 December 2019 was 100%.

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## General performance (continued)

### 2. *Transmission System Availability Performance (continued)*

Performance has been affected by outages directly attributable to the sulphur hexafluoride (SF<sub>6</sub>) gas leakage remedial warranty work (the “SF<sub>6</sub> Outages”) which was noted in previous reports and is described in more detail below. However, an Exceptional Event claim submission, under the provisions of the offshore electricity transmission licence issued to WoDST, was made to the Authority in September 2019. The objective of the claim is to secure the Authority’s consent to exclude the SF<sub>6</sub> Outages from the calculation of the Company’s incentive performance availability calculation. If the impact of the SF<sub>6</sub> Outages are excluded from the calculation of the transmission availability figures referenced above, then transmission system availability since asset transfer on 25 August 2015 up until 18 December 2019 and for the period from 26 June 2019 through to 18 December 2019 would be 99.79% and 100% respectively.

The Directors consider that the Exceptional Event claim is valid based on:

- the root cause analysis of the leaks and independent expert report from GHD (the conclusion of which has been corroborated during the rectification work);
- that WoDST could not have reasonably known of, nor acted to prevent, the circumstances that led to SF<sub>6</sub> gas leakages either prior to asset transfer or until the manifestation of the SF<sub>6</sub> gas leaks following asset transfer; and
- the precedent of similar claims lodged with the Authority by other OFTOs.

### 3. *SF<sub>6</sub> gas leaks on switch gear associated with the WoDST circuits*

#### a. Repair of SF<sub>6</sub> leaks under warranty

As noted under section “2. *Transmission System Availability Performance*”, a number of SF<sub>6</sub> gas leaks were identified on 400kV switchgear equipment associated with the two WoDST circuits connecting the offshore wind farm to the onshore transmission system. These were investigated by NGET under warranty. Following a root cause analysis that was completed by NGET and their supplier (Siemens) in November 2018, it was concluded that the SF<sub>6</sub> gas leaks were found to be defects caused by poor handling of equipment prior to installation and the inadequate application of a paint protection system during installation. This in turn led to a degradation of the integrity of the SF<sub>6</sub> gas containment system. Consequently, NGET were instructed to remedy the leaks under warranty.

The remedial SF<sub>6</sub> Outages 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.

#### b. SF<sub>6</sub> Gas leakage environmental considerations

Although SF<sub>6</sub> gas is a damaging greenhouse gas, there are no specific leakage rate limits mandated by Environmental Regulations for this specific application in electricity transmission. NGET, as the UK’s largest electricity transmission operator, has developed policies and procedures for leak management, and NGET has confirmed in writing to WoDST that the leaks were being managed in accordance with NGET policies and processes. These SF<sub>6</sub> gas leaks were not considered to pose a risk to health and safety and have been actively managed and monitored by WoDST until permanently repaired.



For the period ending 31 December 2019

## General performance (continued)

### 4. Warranties

All equipment warranties have now expired. However, the 400kV switchgear warranties will be extended by at least two years 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). Two warranty defects on a harmonic filter and offshore transformer have been notified to the suppliers concerned prior to equipment warranty expiry, 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 noted in the Investor Presentation 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 and these are considered to be small scale events.
- 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.

Following recommendations from the O&M contractor, the next seabed bathymetric survey will be undertaken in Spring 2020 to examine seabed mobility and potential cable exposure areas identified in the previous bathymetric survey.

### 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 revised decommissioning plan will be prepared to conform with the changes. These include amendments 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 are in dialogue with the regulator, OFGEM and BEIS to clarify the funding arrangements for these changes in requirements.

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## 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.

## 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 31 December 2019, 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.

## 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 31 December 2019 (together the **Ratios**) are as detailed in the tables below:

<b>Ratio</b>	<b>Ratio for Relevant Period/Date (excluding undrawn PBCE)</b>	<b>Lock-Up Ratio Level (excluding undrawn PBCE)</b>	<b>Ratio for Relevant Period/Date (including undrawn PBCE)</b>	<b>Default Ratio Level (includes undrawn PBCE)</b>
Projected DSCR:	1.18	1.10x	3.08	1.05x
Historic DSCR:	1.104	1.10x	3.084	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 £32,653,280. All ratios have been calculated based on actual data through to 30 September 2019 and forecast data through to 31 December 2019 and thereafter.



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## Ratios (continued)

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

- (a) Projected DSCR – 1.18 (excluding undrawn PBCE)

Net Cashflow (Jan 20 – Dec 20)	£20,163k
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Debt Service (Jan 20 – Dec 20)	£17,143k
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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 – 1.104 (excluding undrawn PBCE)

Net Cashflow (Jan 19 – Dec 19)	£18,229k
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Debt Service (Jan 19 – Dec 19)	£16,507k
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- (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	£284,941k
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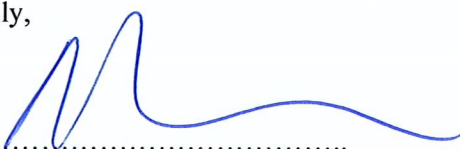
Senior Debt	£217,688k
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## Confirmations

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 £1,333,154.

Yours faithfully,



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Director

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

**19 December 2019**