

# INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 30 June 2019

## General Overview

### *Present Status:*

Investors: **3i Infrastructure plc and PPP Equity PIP 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: **£222,102,980 as at 30 June 2019 (after a principal repayment of £4,363,805 to be made on 28 June 2019).**

## 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.

### *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 2019, was 98.57%. On an equivalent reporting basis, transmission system availability for the period from 18 December 2018 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 25 June 2019 was 91.12%.

Performance has been affected by outages directly attributable to the performance of remedial sulphur hexafluoride (SF<sub>6</sub>) gas leakage 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, has commenced with the Authority. 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 25 June 2019 and for the period from 18 December 2018 through to 25 June 2019 would be 99.76% and 100% respectively.

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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) and precedent of similar claims lodged with the Authority by other OFTOs.

### **3. *Protective relay mal operation***

As previously reported, there was an unplanned outage on one circuit that affected availability for around 43 hours in March 2017, when a protective relay mal-operated and caused a short-term loss of availability of one export cable. The availability impact of this outage was a reduction of 7,233 MWh, equivalent to 2.545% of the maximum possible availability in March 2017. An Exceptional Event claim was lodged with the Authority and the relay was replaced. However, following a formal root cause analysis and completion of a technical report, no hardware, software or application fault could be identified. Consequently, while the Directors believe that the mal-operation of a protective relay device could satisfy the requirements of an Exceptional Event, given the uncertain root cause and isolated nature of the event, it was concluded that the Exceptional Event claim was unlikely to be successful and the claim was withdrawn.

Incentive performance credits invoiced and collected from National Grid Electricity Transmission plc (“NGET”) by WoDS during the year ended 31 March 2019, as part of the total availability payments that were invoiced and collected from NGET during this year, have already reflected the reduced level of incentive performance credits as referenced above.

### **4. *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 previously reported, a number of SF<sub>6</sub> gas leaks were identified on switch gear 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 commenced on 7 May 2019 and were successfully completed on 20 June 2019, which resulted in approximately 21 days of unavailability for each of the WoDST two circuits. Protective painting will continue in the coming weeks, but this activity will not affect availability.

#### **b. Transmission Services Availability Payments**

As stated under “**2. Transmission System Availability Performance**” above, WoDST has commenced an Exceptional Event claim with the Authority seeking their approval to exclude the SF<sub>6</sub> Outages from the calculation of the Company’s availability incentive performance. The Exceptional Event claim is being submitted to the Authority on the basis 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.

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The Authority has been kept informed of the progress of the SF<sub>6</sub> gas leakage remedial works programme through correspondence and a face-to-face meeting to ensure that procedural matters are complied with and concerns addressed. WoDST expects to submit a final Exceptional Event claim letter with all of the appropriate details adopted by WoDST in carrying out these remedial works to the Authority in the near future.

### c. 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 to the 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 by WoDST until permanently repaired.

### 5. Static Var Compensator

WoDST has registered warranty claims with Siemens and submitted defect notices for corrosion and minor leaks on a SF<sub>6</sub> 13.9kV circuit breaker associated with a Static Var Compensator operated by WoDST. The 13.9kV circuit breaker has been repaired under warranty.

### 6. Material Communications

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.

## Regulatory and business update

1. There have been no new significant regulatory, business and performance developments since the last Investor Report except as disclosed under "General Performance" above.
2. 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**

3. 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**

4. 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 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.

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## Project Documents

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

## Ratios

6. We confirm that the ratios calculated as at 30 June 2019 (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:	1.21	1.10x	3.18	1.05x
Historic DSCR:	1.19	1.10x	3.24	1.05x
Debt Life Cover Ratio:	1.31	1.15x	1.46	1.08x

7. 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 at paragraph 6 of the Investor Report amounted to £33,315,447. All ratios have been calculated based on actual data through to 31 March 2019 and forecast data through to 30 June 2019 and thereafter.

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

- (a) Projected DSCR – 1.21 (excluding undrawn PBCE)

Net Cashflow (Jul 19 – Jun 20) £20,375k

Debt Service (Jul 19 – Jun 19) £16,883k

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 – 1.19 (excluding undrawn PBCE)

Net Cashflow (Jul 18 – Jun 19) £19,248k

Debt Service (Jul 18 – Jun 19) £16,240k

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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 £291,125k

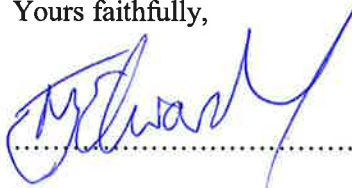
Senior Debt £222,103k

## Confirmations

9. We confirm that:

- (a) No Default has occurred and is continuing;
- (b) The statements set out in this Investor Report are accurate in all material respects;
- (c) The amount of any Restricted Payment made since the date of the last Investor Report amounted to £1,162,000.

Yours faithfully,



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Director

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

**26 June 2019**

