

## INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 30 June 2017

### General Overview

#### *Present Status:*

Investors: **3i Infrastructure plc and PPP Equity PIP LP**

O&M Contractor: **Dong Energy West of Duddon Sands (UK) Limited and ScottishPower Renewables (WODS) Limited**

O&M Guarantors: **Dong Energy 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: **£237,974,387 as at 30 June 2017 (after a principal repayment of £3,557,344 on 30 June 2017).**

### General performance

WoDS Transmission PLC (WoDS)'s operational performance has exceeded expectations and has recorded 99.81% transmission system availability since asset transfer date on 25 August 2015 through to 28 June 2017 and 99.58% transmission system availability for the period 22 December 2016 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 28 June 2017. During March 2017, there was an unplanned outage on one circuit that affected availability for around 43 hours. Following detailed investigation, it appears that the most likely root cause of this outage is the incorrect operation of an offshore distance protection relay. The offshore distance relay is now scheduled for replacement later this summer and in the meantime the operation of the relay is being closely monitored. Once the defective relay has been replaced it will be subject to diagnostic bench testing by the manufacturer as part of the root cause analysis. WoDS has notified Ofgem that this event is considered to be an Exceptional Event and that further root cause analysis investigations are continuing to allow the Exceptional Event claim to be finalised.

The O&M Contractor continues to deliver HSE management in relation to the offshore transmission assets owned by WoDS. HSE performance since asset transfer has been good with no reportable incidents.

The Vendors (Dong Energy West of Duddon Sands (UK) Limited and Scottish Power Renewables (WODS) Limited) have now completed the physical snagging works to the satisfaction of the company as required pursuant to the sale and purchase agreement (the SPA). However, one snagging related item that requires no physical intervention (disconnection of metering) has an agreed solution with the Technical Advisor and will be confirmed closed as part of the Technical Advisor annual reporting process.

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## General performance (continued)

Following the completion of the agreed works during last year as required under the Cable Burial Agreement (the CBA), the Barrow Crossing Agreement (the BCA), together with the agreed additional works to address a further instance of seabed scour at KP 8.8, routine seabed surveys were undertaken during spring 2017 as planned and to schedule. The reports from these surveys are awaited.

Under the BCA, two six monthly surveys were planned, the results from which will be used to determine the estimated cost of any project life Maintenance Works to be paid to WoDS by the Vendors. The first of these surveys was carried out in May 2017 and, again, the results are awaited.

WoDS continues to monitor the Temperature Anomaly on one circuit and no further deterioration has been detected. The Vendors have been informed that it is the Company's view that the indemnity provided under the SPA should remain in force for the remainder of the agreed four-year term.

Following recent routine maintenance inspections, the O&M contractor has advised of two Sulphur hexafluoride (SF<sub>6</sub>) gas leaks on certain switchgear located in the onshore substation and minor oil leaks on an offshore and onshore transformer. Due to the very small volumes involved, neither the oil or gas leaks are considered significant risks to health, safety or the environment; the SF<sub>6</sub> leak is being monitored, and if required, the switchgear equipment can be topped up with more SF<sub>6</sub> gas until the switchgear is repaired by Siemens under warranty later this summer under the supervision of National Grid. Further investigation of the source of the minor oil leaks on the transformers is needed to determine the source, potential severity and corrective action that may be needed. The oil reservoirs contain sufficient oil to ensure the safe operation of the equipment. Both affected transformers are under warranty.

The earthing of the Fibre Optic Cables (FOC) embedded in each of the offshore export cables has been inspected offshore and onshore by NKT, the submarine cable supplier, and the O&M Contractor. Further to these inspections, NKT has recommended that the earthing of the FOC should be remade by them at the onshore connection on one of the circuits. This work is scheduled to be carried out later this summer and planning for the work and any associated outage is underway with the aim of combining work into the existing outage programme to minimise any impact on availability. Arrangements will be made to check the offshore FOC connections at the same time.

WoDS is managing and discharging its transferred obligations under the Marine Licence successfully and is procuring a pre-emptive marine licence with the Marine Management Organisation to cover for anticipated planned maintenance and for unplanned works such as marine cable faults, this follows good industry practice.

There have been no material communication or reports delivered by WoDS 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.
3. Since the last Investor Report, on 23 February 2017 Mr Matthew Edwards was appointed to the Board of WoDS (the **Board**) and there have been no resignations from the Board..

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## Current Hedging Position

4. 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

5. The European Investment Bank (the PBCE provider) has provided a letter of credit that allows WoDS, in specified circumstances, to draw down certain amounts. At 30 June 2017, WoDS 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 WoDS has no current plans to draw down under this facility.

## Project Documents

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

## Ratios

7. We confirm that the ratios calculated as at 30 June 2017 (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  | 3.50  | 1.05x                                       |
| Historic DSCR:         | 1.16  | 1.10x  | 3.50  | 1.05x                                       |
| Debt Life Cover Ratio: | 1.32  | 1.15x  | 1.47  | 1.08x                                       |

8. 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 7 of the Investor Report amounted to £35,696,158. All ratios have been calculated based on actual data through to 31 March 2017 and forecast data through to 30 June 2017 and thereafter.

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## Ratios (continued)

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

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

|                                       |                |
|---------------------------------------|----------------|
| <u>Net Cashflow (Jul 17 – Jun 18)</u> | <u>18,990k</u> |
|---------------------------------------|----------------|

|                                |         |
|--------------------------------|---------|
| Debt Service (Jul 17 – Jun 18) | 15,643k |
|--------------------------------|---------|

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 – 1.16 (excluding undrawn PBCE)

|                                       |                |
|---------------------------------------|----------------|
| <u>Net Cashflow (Jul 16 – Jun 17)</u> | <u>17,577k</u> |
|---------------------------------------|----------------|

|                                |         |
|--------------------------------|---------|
| Debt Service (Jul 16 – Jun 17) | 15,204k |
|--------------------------------|---------|

(c) Debt Life Cover Ratio – 1.32 (excluding undrawn PBCE)

|  |                 |
|--|-----------------|
| <u>NPV of Net Cashflow plus DSRA, MRA, WCRA</u><br><u>Plus, the residual balance of proceeds account</u> | <u>313,410k</u> |
|--|-----------------|

|             |          |
|-------------|----------|
| Senior Debt | 237,974k |
|-------------|----------|

10. 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 £1,640,000.

Yours faithfully,



.....

Director

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

**29 June 2017**