

INVESTOR REPORT FOR WODS TRANSMISSION PLC

For the period ending 31 December 2017

General Overview

Present Status:

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

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

O&M Guarantors: **Orsted 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: **£234,371,309 as at 31 December 2017 (after a principal repayment of £3,603,078 on 31 December 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 20 December 2017 and 98.85% transmission system availability for the period 29 June 2017 (being the day immediately following the end of the availability period reported in the last Investor Report) through to 20 December 2017. During March 2017, as previously reported, there was an unplanned outage on one circuit that affected availability for around 43 hours. Following detailed investigation, it appeared that the most likely root cause of this outage was the incorrect operation of an offshore distance protection relay. The relay was subsequently removed from the offshore location and replaced with a new relay of the same type. The recovered relay is currently being tested by the manufacturer to determine a root cause. The outcome of this investigation is expected in early 2018. WoDS has notified Ofgem that the outage caused by the incorrect operation of the relay is considered to be an Exceptional Event and has been keeping Ofgem informed of the current status and that testing is in progress. Once the investigation into the root cause has been completed this will allow WoDS to finalise the Exceptional Event claim.

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 (Orsted West of Duddon Sands (UK) Limited and Scottish Power Renewables (WODS) Limited) have now completed all of the physical snagging works to the satisfaction of the company as required pursuant to the sale and purchase agreement (the SPA). The single remaining item reported as outstanding in the June 2017 Investor Report regarding the disconnection of a metering system that is no longer needed has been resolved. The item has been confirmed as 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 and autumn 2017 as planned. The spring 2017 report was released to WoDS during the year and the latest autumn 2017 report is currently being analysed by the O&M contractor and is expected to be issued to WoDS in the near future for analysis and comment.

Under the BCA, two six monthly surveys were planned and have now been completed, the results are being used to determine the estimated cost of any project life Maintenance Works to be paid to WoDS by the Vendors. We have engaged Arup as Technical Adviser to assist in this analysis and to support discussions with the Vendors.

WoDS continues to monitor the temperature anomaly on one circuit and no further deterioration has been detected.

During August 2017 Sulphur hexafluoride (SF₆) gas leaks on certain switchgear located in the onshore substation and minor oil leaks on an offshore and onshore transformer were investigated and actions taken to remediate them. Due to the very small volumes involved, neither the oil nor gas leaks are considered significant risks to health, safety or the environment. As a result of these proactive measures the oil leaks on the transformers have been resolved and they continue to be monitored. The final resolution of the SF₆ leaks is still under review. Several small SF₆ leaks have been resolved and one leak continues to be actively managed by topping up with more SF₆ gas until repairs are carried out on the switchgear under warranty. The levels of SF₆ leakage are being closely monitored while the repair programme is being determined with support from the supplier and manufacturer. We have notified National Grid Electricity Transmission plc (NGET) of a defect claim under the warranty provisions of the original contract with them for the supply of the switchgear. NGET is currently working with the manufacturers and installers of the equipment and a root cause analysis is in progress, which will inform a remediation plan.

During August 2017, the earthing of the Fibre Optic Cables (FOC) embedded in each of the offshore export cables was inspected and connections on both circuits at the onshore transition between onshore and offshore cables were remade during planned outages to minimise any impact on the availability of the transmission system. It was confirmed that the earthing of the FOC at both the onshore and offshore substations was installed correctly as designed and conforms to good industry practice. The work in August 2017 was carried out by NKT who are the cables supplier.

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 November 2017 Mr Joe Philipsz resigned and Mr Nick Axam was appointed to the Board of WoDS (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 31 December 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 31 December 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:	1.19	1.10x	3.40	1.05x
Historic DSCR:	1.17	1.10x	3.45	1.05x
Debt Life Cover Ratio:	1.31	1.15x	1.46	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 £35,155,696. All ratios have been calculated based on actual data through to 30 September 2017 and forecast data through to 31 December 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 – 1.19 (excluding undrawn PBCE)

<u>Net Cashflow (Jan 18 – Dec 18)</u>	<u>£18,965k</u>
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Debt Service (Jan 18 – Dec 18)	£15,914k
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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 – 1.17 (excluding undrawn PBCE)

<u>Net Cashflow (Jan 17 – Dec 17)</u>	<u>£18,017k</u>
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Debt Service (Jan 17 – Dec 17)	£15,422k
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(c) Debt Life Cover Ratio – 1.31 (excluding undrawn PBCE)

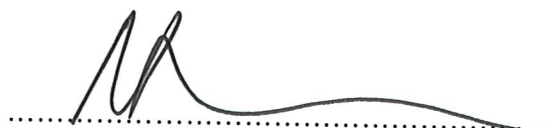
<u>NPV of Net Cashflow plus DSRA, MRA, WCRA</u> <u>Plus, the residual balance of proceeds account</u>	<u>£306,582k</u>
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Senior Debt	£234,371k
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10. We confirm that:

- (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 £894,000.

Yours faithfully,



Director

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

21 December 2017