

# INVESTOR REPORT FOR GREATER GABBARD OFTO Plc

As at MARCH 2018

## General Overview

### *Present Status:*

Investors: Equitix Capital Investors UK Cable Limited and Equitix Transmission 2 Limited

O&M Contractor: Balfour Beatty Utility Solutions Limited (“BBUS”)

O&M Guarantor: Balfour Beatty Group Limited

Security Trustee: Deutsche Trustee Company Limited

Principal Paying Agent: Deutsche Bank London Branch

Technical Adviser: Mott MacDonald Limited

Insurance Adviser: Willis Limited

Ratings by Moodys Investors Services Limited: A3

Outstanding Principal Amount: £269,549k as at 29 March 2018 (after a principal repayment of £5,630k on 29 March 2018). The undrawn PBCE amount as at 31 March 2018 after the senior debt principal payment is £41,129k.

## General Performance

The OFTO has achieved high availability over the period at 99.22%\* against an expected 99%. In early March, there was a short transmission system outage, affecting 10% of the system, for a 14 day period. This was caused by low oil levels in one of two transformers on the Galloper (GA) substation. BBUS have been issued with a Warning Notice concerning sub-optimal maintenance of the transformers on the GA substation.

\*Provisional figure pending BBUS final report.

Monitored Operating Costs remain between the 80% and 120% band as required by the project agreements. Although the final 2018-19 maintenance forecast is likely to exceed the budget, the OFTO will be able to meet its Ratio requirements.

The report from the subsea surveys, issued in late 2017, confirmed that there were 6 short sections of de-buried cable across all 3 export cable routes. This is not a live fault but still represents a risk to OFTO asset integrity. The work to reduce this risk is being undertaken as a project, separate from normal O&M activity. A technical consultant (Xodus) has been engaged directly by the OFTO to support data and risk analysis and the execution of a remedial action plan. The goal of the project is to directly contract a specialist, carrying suitable liability, to complete the necessary remedial works in the summer of 2018. The OFTO lead insurer, CODAN, has been consulted a number of times and is comfortable with progress and plans.

Export Cable 1 & 3 spare fibre results show no signs of further deterioration or change in condition. Earlier Export Cable 2 tests confirm that all fibres now have open circuits at approximately 0.75km and are therefore broken. A reactive plan for the repair of Export Cable 2 is in place with VBMS Ltd, an experienced repair specialist. The OFTO does not plan to attempt a pre-emptive repair as the benefits do not justify the costs and the risks. CODAN have been regularly appraised of the OFTO plans.

In the second half of 2017, as part of an initiative to improve the O&M contractor's performance, the OFTO issued BBUS with a number of Warning Notices against the O&M contract. A Final Notice was issued in September where compliance progress was notably slow. With BBUS executive sponsorship, the O&M contractor has been running an improvement plan since October 2017, however the results have been inconsistent and concerns remain open. The OFTO board continues to engage BBUS at a senior and executive level to push for contract compliance. As a prudent risk mitigation measure, a detailed contingency plan is being drawn up to transition to an alternative O&M provider. This plan will be discussed with stakeholders in Q2 2018.

BBUS have carried out two maintenance campaigns offshore in this period with a number of tasks completed. However, there are faults requiring further work that could lead to loss of revenue:

- **Cable Sealing Ends** – Leiston onshore substation. The oil in the CSE reservoir has continued to rise leading to a recommendation from the OEM to replace the assembly entirely. The OFTO has held several site visits, started an ITT process. It has invited commercial proposals from five cable industry specialists, including BBUS, with a view to completing the replacement works in August 2018.
- **Oil leaks from transformer 1** - GA offshore substation. Initially reported in 2017 as slow acting and minor in nature, these accelerated in the colder weather leading to the outage in March. Corrective maintenance plans and enhancements to transformer condition monitoring have been brought forward to early Q2 to reduce the risk to availability.

Other maintenance issues of note include;

- Onshore cable earthing faults. These will be resolved later in the year during a planned outage that will also address scheduled maintenance tasks on the off shore substations.
- SVC1 plus controller – Leiston onshore substation. SVC1 suffered a 5 month outage [not availability affecting] between July and November last year. The root cause of this fault was eventually traced to a failed control board that caused the main supply breaker to open during re-start sequences. Siemens product engineers made numerous site visits. They had to upgrade the firmware to localise the problem and replace two failed IGBT units in addition to the control board before successfully restarting. The system has been in fault free operation since 21 November 2017. No significant changes to the asset integrity plan were required as a result of the investigation. However fault management protocols have been overhauled as much of the delay was caused by the time it took for BBUS and their subcontractor SIEMENS to assign the appropriate technical resources to the investigation.
- Following OFTO Warning Notices, from late 2017, BBUS upgraded their asset management systems and rebuilt their detailed maintenance planning processes. They issued a full maintenance plan for the coming regulatory year on 31 Jan. The OFTO has requested a number of changes and structural improvements but it is anticipated that the plan will be signed off by the end of March.

Post-close Developer works are complete except for:

- GASUB Helideck was to be re-classified as a Heli-hoist Only Platform. This is yet to happen as it has become apparent, after a condition survey was carried out, that several installed systems (Heli decks, cranes and life support systems) are surplus to requirements as the platforms are not manned. These will be dealt with later as part of a project to be defined.
1. There have been no new significant regulatory and business and performance developments since the previous Investor Report in March 2017.

2. There have been no significant announcements/publications by the Authority by or relating to the Security Group since the previous Investor Report in March 2017.

### Current Hedging Position

3. A hedging agreement is in place to swap c64% of revenue over the life of the senior debt term on a pari passu basis to mitigate risks associated with lower than expected RPI.

### Current availability / drawn amounts under the PBCE

4. The European Investment Bank (the PBCE Provider) has provided a letter of credit for an amount of £41,129k (the PBCE Letter of Credit) as at 29 March 2018 as a form of subordinated credit enhancement for the Issuer in relation to the bonds and the hedging arrangements. No amounts have been drawn from the letter of credit as at 29 March 2018.

### Ratios

5. We confirm that the ratios (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:	1.20x	1.10x	3.10x	1.05x
Historic DSCR:	1.16x	1.10x	3.14x	1.05x
Debt Life Cover Ratio:	1.37x	1.15x	1.52x	1.05x

6. 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.

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

The numerator excludes the PBCE letter of credit facility

Senior Debt excludes mark-to-market liabilities under hedging agreements

- (a) Projected DSCR - 1.20

<u>Net Cashflow (Apr 18- Mar 19)</u>	25,420
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Debt Service (Apr 18- Mar 19)	21,261
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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 Emergency Reserve Account (ERA), 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

<u>Net Cash flow (Apr 18- Mar 19)</u>	<u>24,630</u>
Debt Service (Apr 18- Mar 19)	21,164

(c) Debt Life Cover Ratio (DLCR) – 1.52

<u>NPV of Net Cash flow plus DSRA, ERA, WCRA plus residual balance of operating account</u>	<u>410,968</u>
Senior Debt	269,549

We confirm that:

- (d) No Default has occurred
- (e) the statements set out in this Investor Report are accurate in all material respects;
- (f) No Restricted Payment has been made since the previous Investor Report in March 2018.

Yours faithfully,



Director

Signing without personal liability, for and on behalf of **Greater Gabbard OFTO Plc** for and on behalf of each Obligor

Date 29 March 2018