

INVESTOR REPORT FOR GREATER GABBARD OFTO Plc

As at SEPTEMBER 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: £264,659k as at 28 September 2018 (after a principal repayment of £4,891k on 28 September 2018). The undrawn PBCE amount as at 28 September 2018 after the senior debt principal payment is £40,432k.

General Performance

The OFTO has achieved high availability over the period at 100% against an expected 99%.

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 8 short sections of de-buried cable across all 3 export cable routes. 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. A commercial tender process was run in July for rock placement re-burial. The OFTO has not yet selected a preferred bidder as it is evaluating a proposal from one contractor to use an alternative remedial method that may have operational advantages. Due to the long lead time required for a new MMO licence and weather constraints during winter, remedial works are now likely to take place in early 2019. Xodus have completed a vibration analysis that suggests that the risks to the cable from exposure are low.

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 Boskalis, 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. The insurance underwriter has been regularly appraised of the OFTO plans.

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. The OFTO issued BBUS with three further Warning Notices against the O&M contract

in August 2018. A Final Notice was issued on 19 September 2018 where compliance progress was notably slow. As a prudent risk mitigation measure, discussions have been held with an alternative O&M provider should BBUS performance deteriorate to the point where a new contract might be required.

BBUS have carried out two maintenance campaigns offshore in this period with the majority of planned maintenance tasks completed. However, there are assets that require further work that could potentially impact revenue:

- **Minor oil leaks from earthing transformers** - GA and IG offshore substations. There are several transformers with low oil levels. The OFTO has prioritised the corrective maintenance for these issues. BBUS will undertake circuit outages for a top up campaign in mid-October, ahead of the winter to ensure that all the auxiliary transformers have sufficient oil.
- **Oil leaks from transformer 1** - GA offshore substation. Both transformers now have sufficient oil reserves to cope with any cold weather in the winter. Oil levels are being carefully monitored by the control room via direct CCTV link to the gauge. A campaign to reseal the full transformer lid, requiring 3 days of circuit outage, will be undertaken in the spring of 2019.
- **Cable Sealing Ends** – Leiston onshore substation. The oil in the CSE reservoir has continued to rise very slowly, leading to a recommendation from the OEM to replace the assembly entirely. The OFTO does not consider this fault to present immediate risk and the intervention has been rescheduled for 2019.

Other maintenance issues of note include;

- **SVC modules** – Leiston onshore substation. All three modules have had faults causing outages in the last 12 months, so BBUS have undertaken maintenance campaigns on each one. HVAC units have reached their end of life and are being replaced along with two IGBT modules and a faulty coolant pump.

Regulatory and business update

1. There have been no new significant regulatory and business and performance developments since the previous Investor Report in March 2018.
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 2018.

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 £40,432k (the PBCE Letter of Credit) as at 28 September 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 28 September 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:	1.11x	1.10x	2.91x	1.05x
Historic DSCR:	1.22x	1.10x	3.20x	1.05x
Debt Life Cover Ratio:	1.36x	1.15x	1.51x	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 - 1.11

<u>Net Cashflow (Oct 18- Sep 19)</u>	24,422
Debt Service <u>(Oct 18- Sep 19)</u>	22,017

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 – 1.22

<u>Net Cash flow (Oct 17 – Sep 18)</u>	25,482
Debt Service <u>(Oct 17 – Sep 18)</u>	20,816

(c) Debt Life Cover Ratio (DLCR) – 1.36

NPV of Net Cash flow plus DSRA, ERA, WCRA <u>plus residual balance of operating account</u>	358,684
Senior Debt	264,659

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,



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Director

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

Date 28 September 2018