

ISSUER COMMENT

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Greater Gabbard OFTO PLC

No rating impact from proposed O&M replacement

Moody's announced today that Greater Gabbard OFTO PLC's (the OFTO's) proposal to terminate its operation and maintenance (O&M) agreement with Balfour Beatty Utility Solutions Limited (BBUS, unrated) and to replace it with a new O&M agreement with EDS HV Management Limited (EDS, unrated) or one of its affiliates would not, in and of itself and as of this time, result in the downgrade or withdrawal of the A3 rating on the OFTO's £305 million 4.137 per cent senior secured bonds due 2032 (the Obligations).

Notwithstanding high reported availability, the OFTO has assessed that BBUS' maintenance performance has been in decline since 2015. An improvement programme commenced in October 2017 following the issue of a number of warning notices by the OFTO. However, further warning notices were issued in August 2018 and a final notice was issued in September 2018.

The Lenders' Technical Adviser (the LTA) has noted that EDS is an established O&M service provider in the offshore wind energy industry, with suitable knowledge and experience to deliver the new asset management approach. The LTA has opined that the new asset management approach is a reasonable technical approach to maintaining the transmission asset and that the proposed changes would not adversely alter the risk profile of the contracts.

The new O&M agreement would run for the remaining term of the transmission licence, but the OFTO would have the ability to review the services at five yearly intervals and to terminate the agreement if amendments proposed by it could not be agreed. The OFTO would also have an ability to terminate the agreement for, inter alia, persistent breach of service levels.

The new O&M agreement would include efficiency payment incentives whereby EDS would receive a share of the financial benefit of i) availability above 98% and ii) maintenance cost outperformance. The O&M cost is not expected to be materially different from the cost under the current O&M agreement. EDS' obligations would be supported by a parent company guarantee from James Fisher and Sons PLC (unrated).

The OFTO's costs are now anticipated to be higher in 2019 and 2020 than previously forecast, largely due to the cost of remediation of identified dilapidation. Management has stated that these costs would be incurred regardless of the O&M change. The increase in costs in 2019 and 2020 could result in debt service cover ratios below the distribution lock-up level.

Moody's has determined that the proposed O&M replacement, in and of itself and at this time, would not result in the downgrade or withdrawal of the debt ratings of the Obligations.

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