

Offshore Transmission Banker Day

Bob Hull, Acting Managing Director, Commercial, Ofgem E-Serve

Stephanie McGregor, Associate Director, Offshore Transmission

Steve Beel, Senior Manager, Tenders and Transactions

Patrick Holland, Director, RBC Capital Markets

1 October 2009

9.00 **Registration**

9.30 – 11.30 **Main Presentation**

- 1. General Update : Bob Hull (15min)*
- 2. Transitional Round 1 progress & steps to preferred bidder : Stephanie McGregor (25min)*
- 3. Process to asset transfer : Stephen Beel (20min)*
- 4. OFTO Debt considerations : Patrick Holland (20min)*
- 5. Q&A (30min)*

11.30-12.00 **Morning coffee**

Section 1

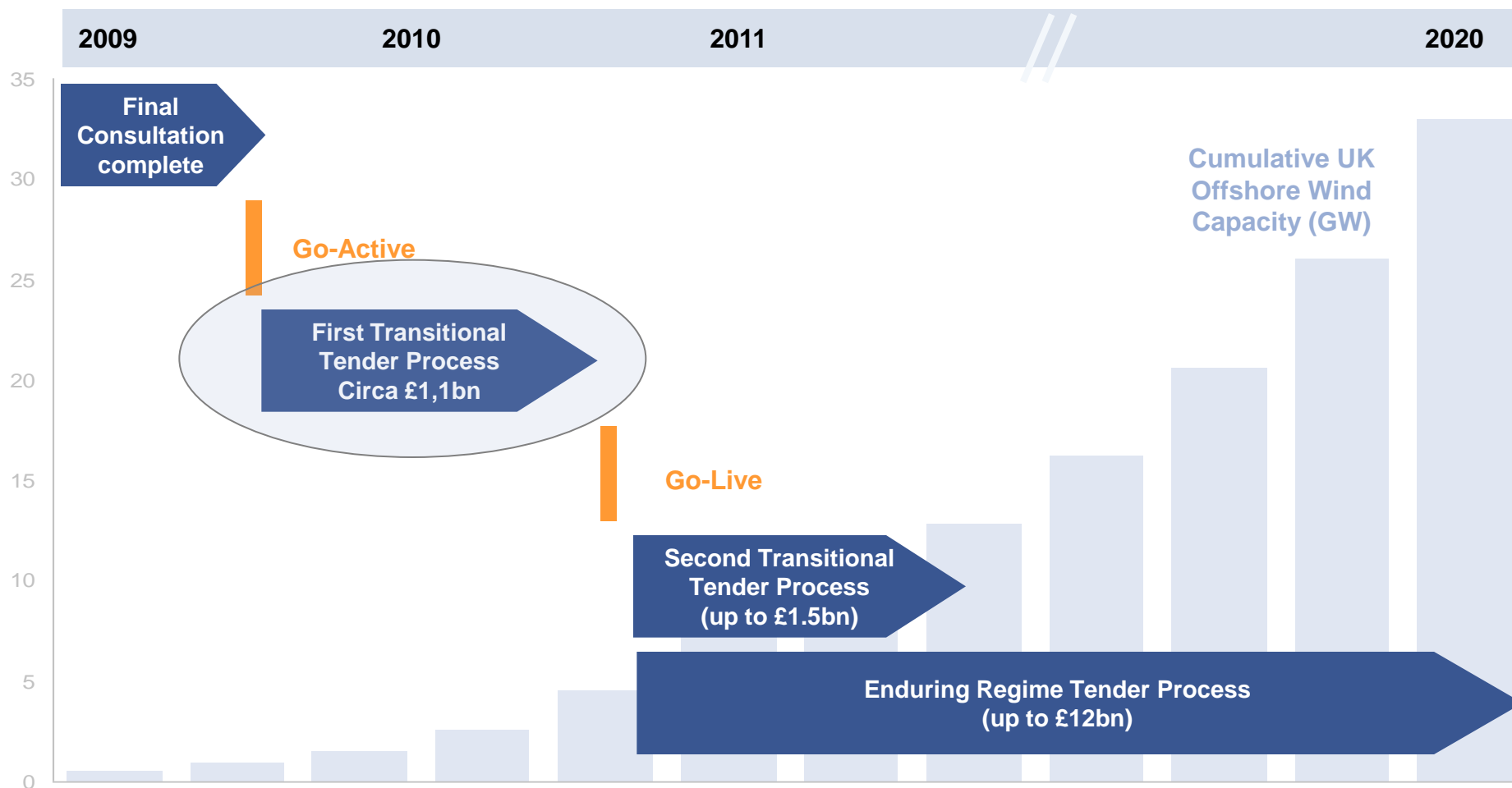
General Update

Bob Hull

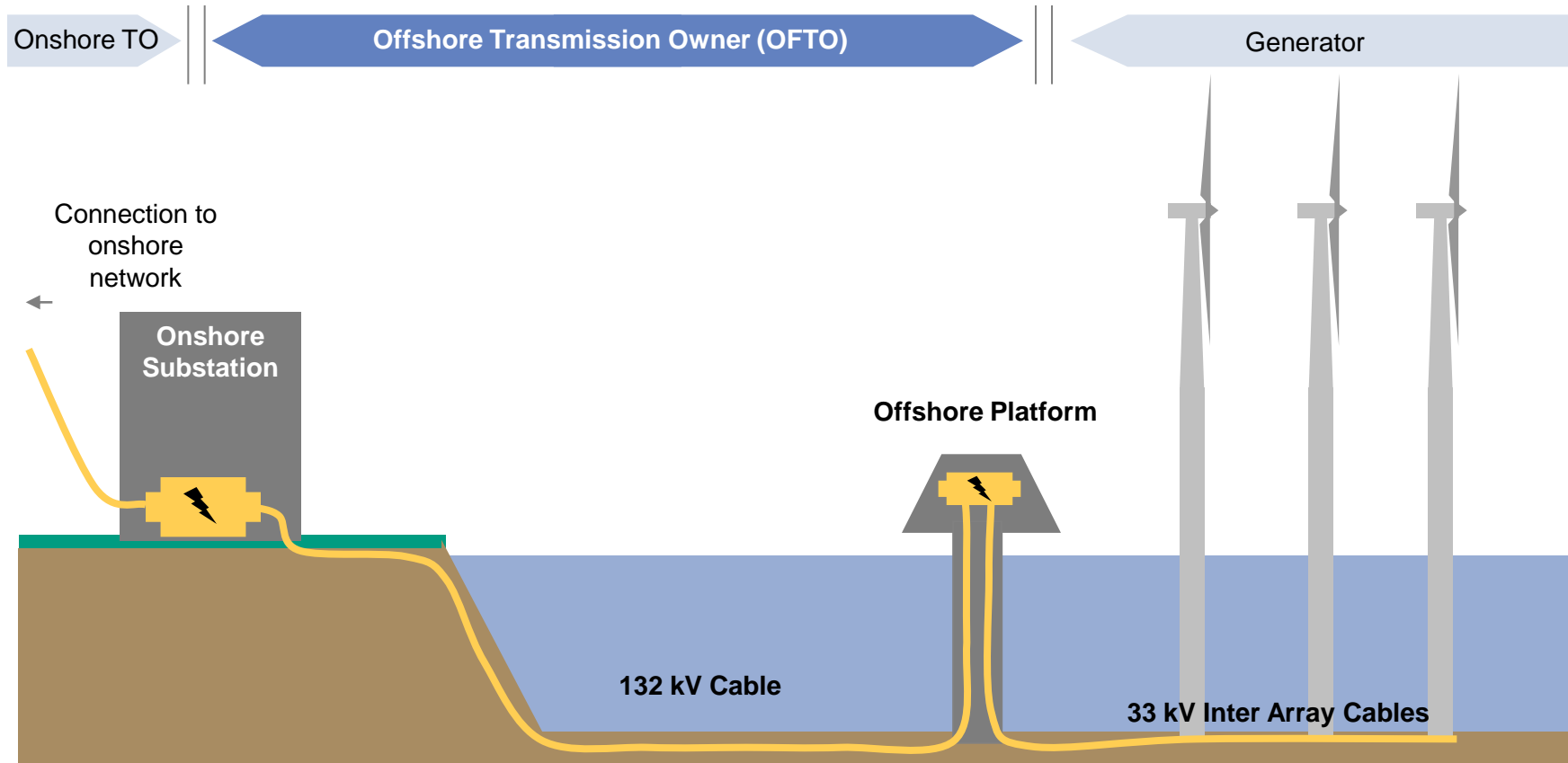
Background – UK committed to Offshore Wind

- **Binding EU renewables energy target**
 - UK Committed to offshore wind
 - 600 MW operational
 - 8GW under construction
 - up to 39GW expected in total by 2020
- **Offshore transmission – latest developments**
 - Go Active achieved - 24th June 2009
 - tender commenced 22nd July 2009
 - 9 projects qualified as Transitional with a combined asset value of £1,1bn
 - Preferred Bidder expected in Spring 2010
 - Go Live June 2010
 - planning commenced for future rounds

Offshore Regulatory Regime Timeline



Overview of Investment Opportunity



Overview of Regulatory Regime

Low Risk Revenue Stream

- 20 year revenue stream from GBSO
- availability based
- no automatic periodic regulatory review
- no construction, energy or stranding risk
- low counterparty risk – no generator exposure
- well defined and proven regulatory regime – extending onshore precedent
- well defined tender process
- upside: performance on operating costs, increased capacity, certain on regulated services and reactive power

Revenue Adjustments

- availability incentives and penalties both capped at 10% of revenue
- Post-construction revenue adjustments to reflect final transfer value
- revenue fully indexed to RPI
- cost pass through and pre-defined adjustments for business rates, Ofgem costs, leases, code changes
- pass through of extra decommissioning costs if change of law
- incremental capex up to cumulative 20%
- possible extension or re-tender at the end of the revenue stream

Overview of Investment Opportunity

Opportunity to enter UK transmission

- rare opportunity to enter the UK transmission sector for new entrants
- strong political and regulatory support for UK offshore transmission

New regime to support development of offshore wind

- limited regulatory intervention
- long term low risk regime

Robust and transparent competitive process

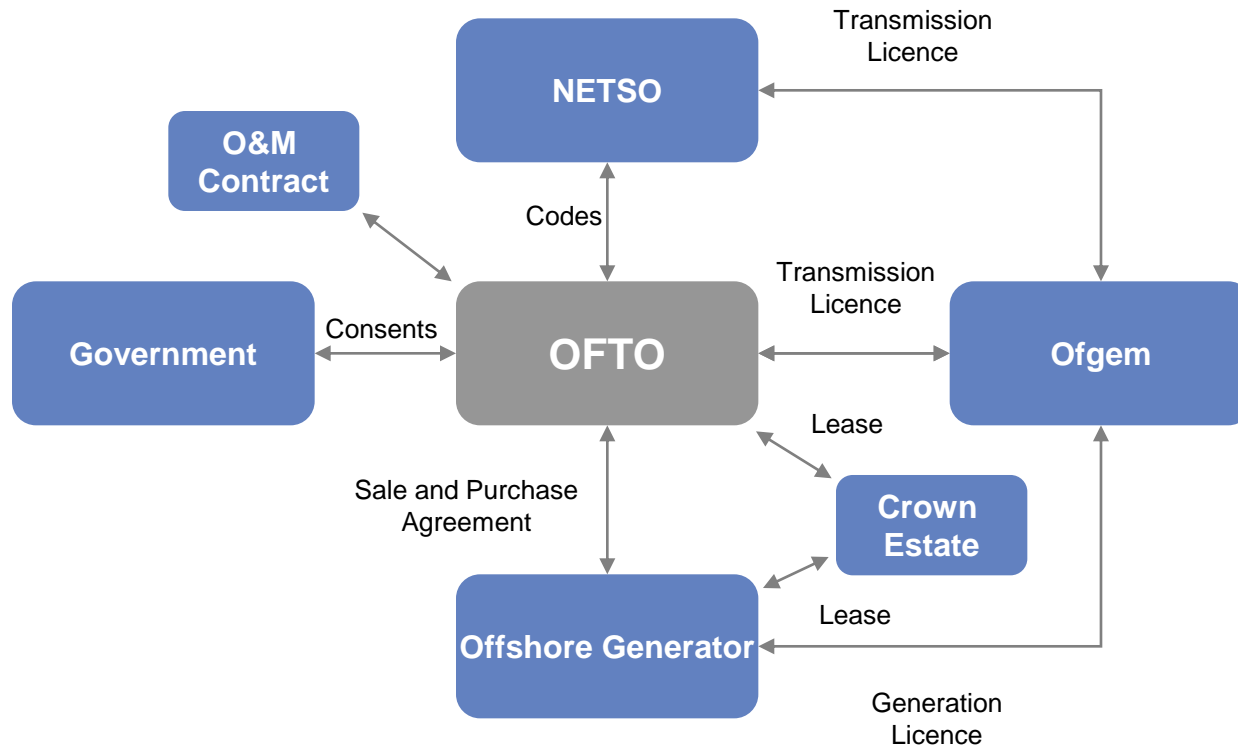
- structured to ensure fair and transparent process
- qualification stages followed by ITT stage with data room access

Long term opportunity

- up to £15 billion of transmission assets
- early participation will provide valuable experience for the enduring regime

Regulatory Regime

OFTO Commercial Structure



Key Documents - status

Codes

Updated and available on
Ofgem's website

Transmission Licence

Updated Special
Conditions now available
on Ofgem's website

SPA

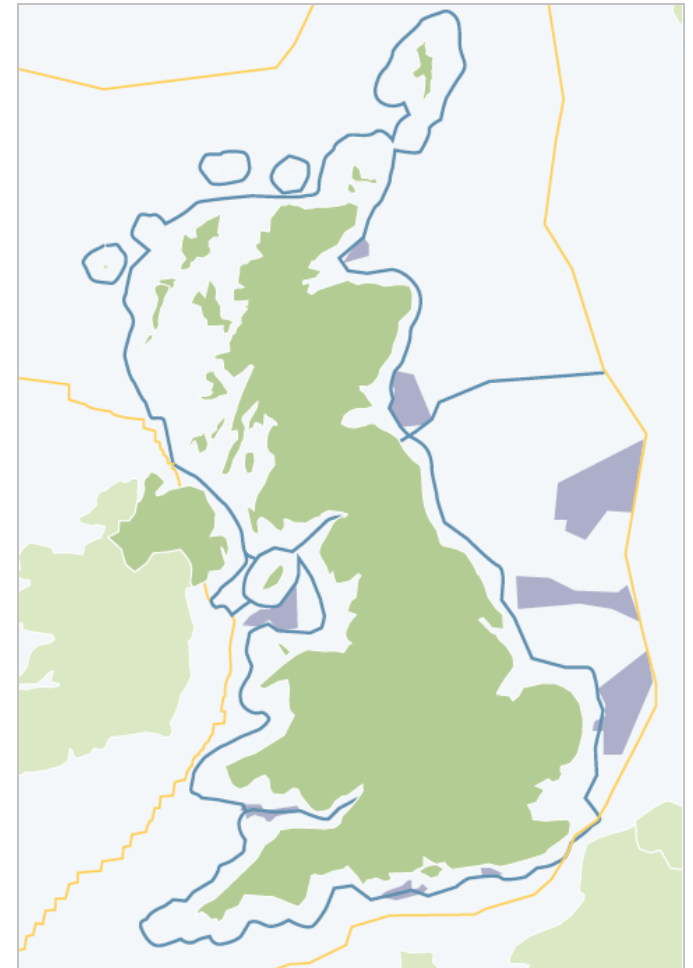
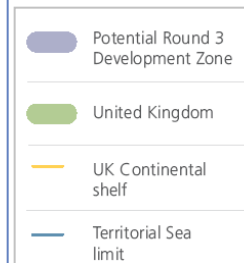
Model agreement
available on Ofgem's
website

Project Specific versions
currently being updated

Development of offshore networks in Round 3

- regime and tender process designed to allow flexibility for the future
- GBSO required to provide enhanced network planning information
- developers can recover efficient pre-construction costs
- two possible approaches:
 - Point to point connections
 - Integrated offshore transmission networks

UK Round 3 Development Zones

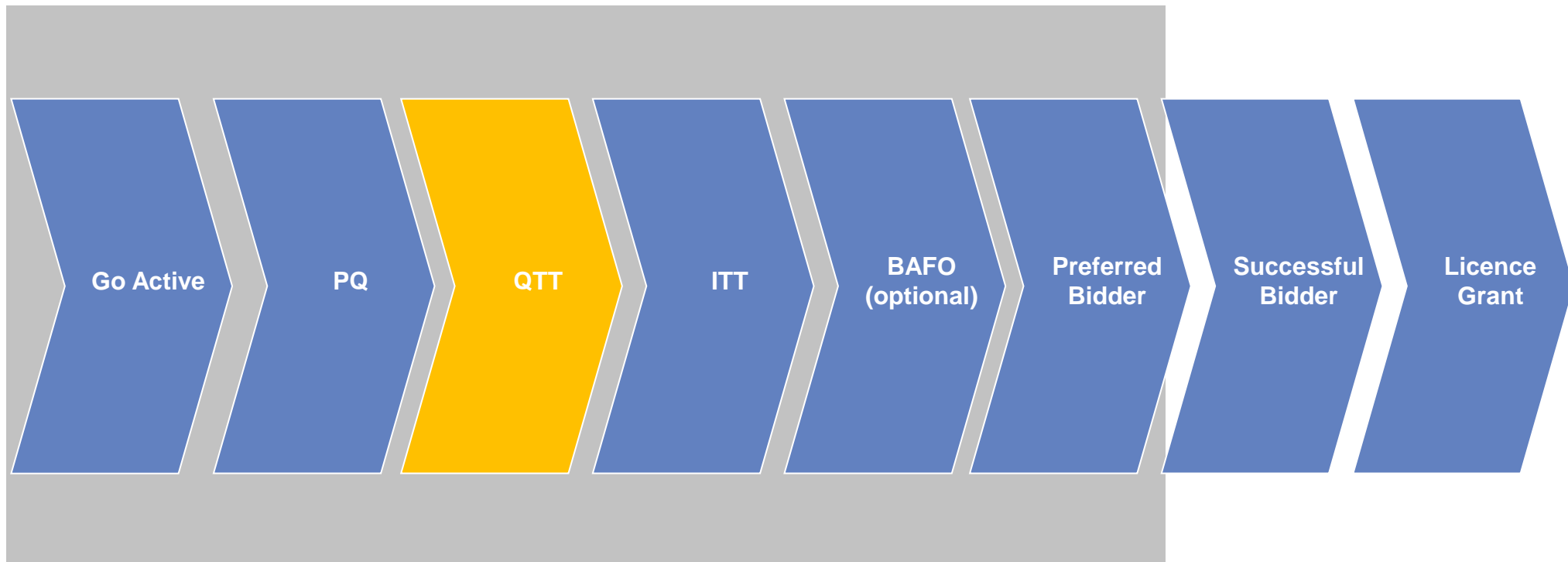


Section 2

Transitional Round 1 and steps to preferred bidder

Stephanie McGregor

The Tender Process

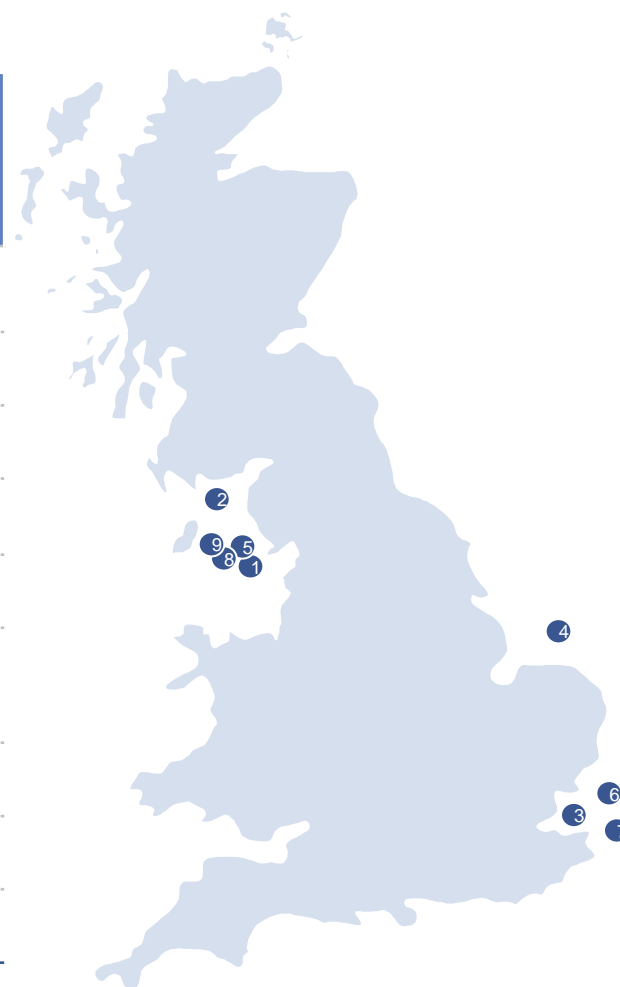


Transitional Round 1 Tender is underway...

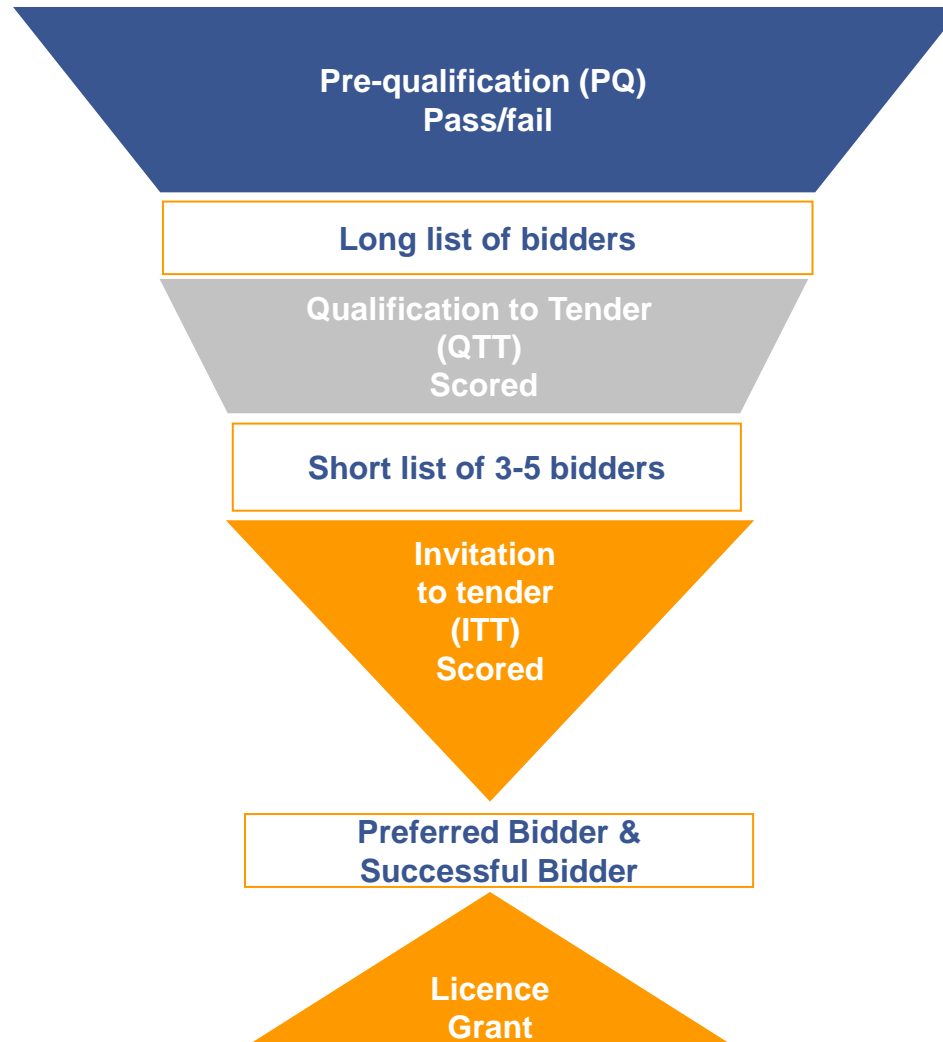
- Tenders commenced (PQ) 22nd July
- Long list of 13 qualifying applicants announced & QTT commenced 23 September 2009
 - *ABN Amro Infrastructure Capital Management*
 - *Balfour Beatty Capital Limited*
 - *Dong Energy Sales & Distribution A/S*
 - *Equitix (consortium Equitix & AMP)*
 - *ESB International Limited*
 - *Frontier Power Consortium (consortium Frontier Power Limited & Infracapital Partners)*
 - *Imera Limited*
 - *Macquarie Capital Group Limited*
 - *National Grid Offshore Limited*
 - *SSE Offshore Transmission Limited*
 - *Statkraft UK Ltd/StatoilHydro UK Holdings Ltd consortium*
 - *RWE Npower*
 - *Transmission Capital Partners (consortium International Public Partnerships, Transmission Capital Ltd and Amber Infrastructure Ltd)*
- QTT information being released to qualifying applicants

9 projects have satisfied the Tender Entry Conditions...worth £1.1billion

Project	Developer(s)	MW	Expected Completion Date
Barrow	DONG Energy, Centrica	90	Operating
Robin Rigg	E.On	180	Sept 09
Gunfleet Sands I & II	DONG Energy	164	July 09
Sheringham Shoal	StatoilHydro, Statkraft	315	Q1 11
Ormonde	Vattenfall	150	Jul 11
Greater Gabbard	SSE/Airtricity, RWE Innogy	504	Mar 11
Thanet	Vattenfall	300	Oct 10
Walney 1	DONG Energy	178	Apr 11
Walney 2	DONG Energy	183	Oct 11



Tender Milestones



Next Steps

Qualification To Tender Stage - Scored/Ranked

Duration for submission – 4 weeks

Requirements

- consistency with PQ stage
- desired Project IRR, with clear identification of assumptions per project and approach Indicative Tender Revenue Stream
- financial strategy
- risk management approach
- proposed management and operational approach
- takeover and operational plan
- final shareholding and consortium structure
- initial SPA commercial considerations

Material available

- previous PQ material
- Tender Information Memorandum
- project specific Information Memoranda (x9)
- Tender Entry letters (x9)
- Tender Guidance Notes 1) Process to Asset Transfer 2) OFTO of Last Resort 3) OFTO Generic Special Licence Conditions
- draft Model SPA & SPA commentary on key issues

**Select SHORT LIST
for each project**

Next Steps

Invitation To Tender Stage - Scored/Ranked

Duration for submission – 8 weeks

Requirements

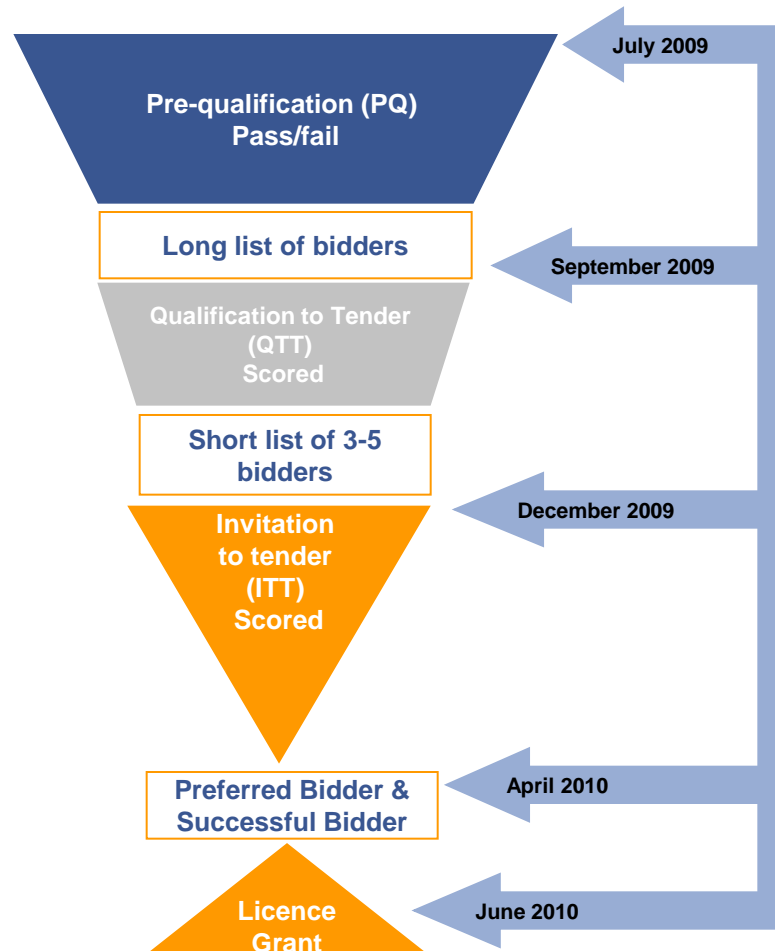
- payment of tender fees
- detailed and final project specific OFTO proposals based on 8 week due diligence
- firm revenue stream (modelled)
- final financial strategy
- operations and management plans
- acceptance of SPA
- takeover and operations

Material available

- previous PQ & QTT material
- fully populated data rooms for each project (updated regularly by Developers in accordance with written undertaking to Ofgem)
- draft project specific special licence conditions
- draft project specific derogations
- Ofgem Cost Assessment Information

**Select PREFERRED BIDDER
for each project**

Timetable



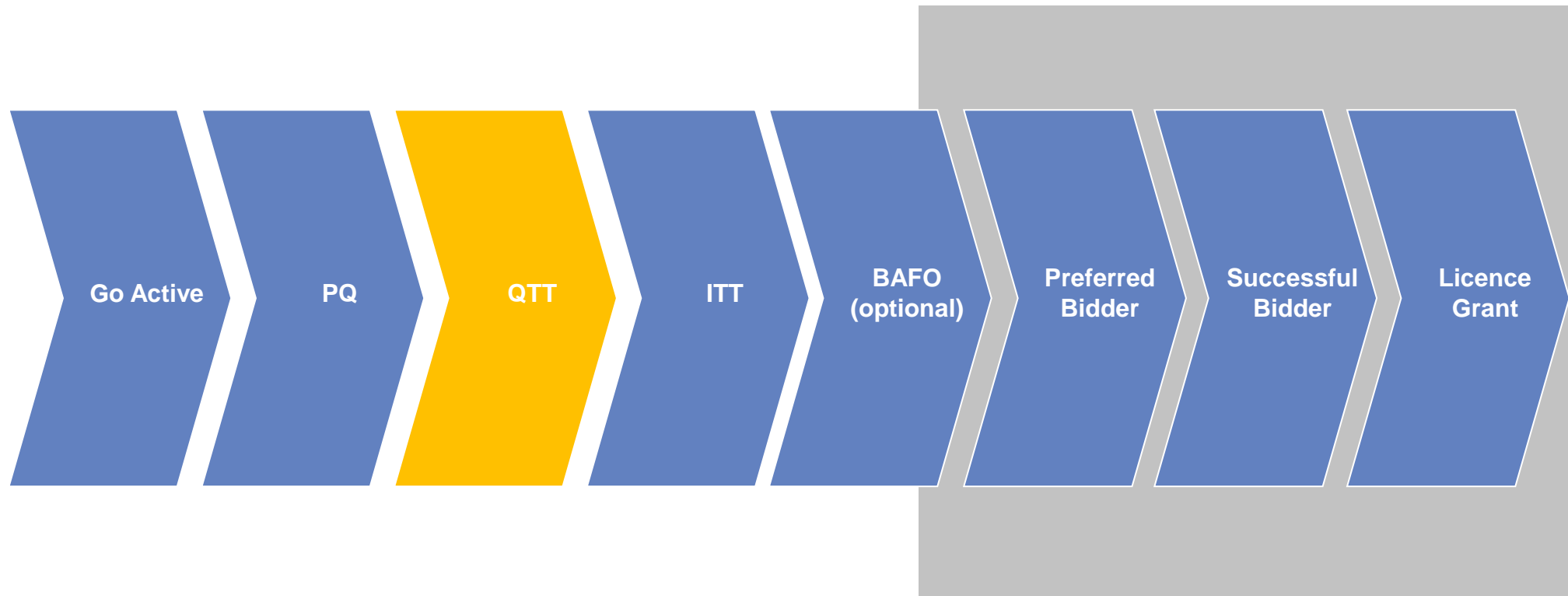
22-24 September	Notify applicants Publish qualifying long list
End September	Pre-qualifying bidders enter into a Confidentiality Agreement
End September	Commence QTT (publication of Information Memoranda and QTT documentation)
12 October	Deadline for QTT clarifications
27 October	Deadline for QTT submissions
By 14 December	Notify qualifying bidders Publish qualifying short list per project Commence ITT stage Data room access
Early March 2010	Deadline for ITT submissions
Late April 2010	Announce Preferred Bidder
June 2010	Grant licence

Section 3

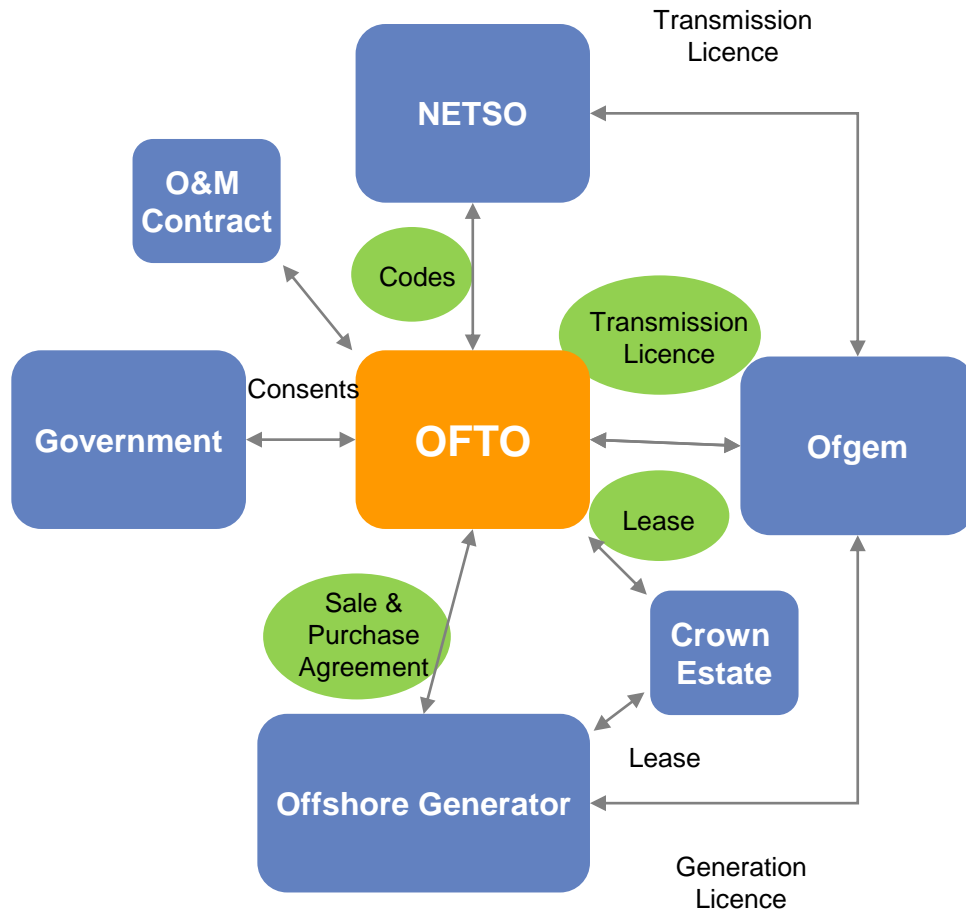
Process to Asset Transfer

Steve Beel

The Tender Process



Transfer features



Transaction comprises:

- Grant of an OFTO licence
- Transfer Agreement (SPA) – exchange of assets for funds
- Industry codes documentation
- Other operational agreements, e.g. reactive power

Key Parties:

- Ofgem
- OFTO
- Developer
- NETSO
- Others, including Crown Estate

Asset transfer principles

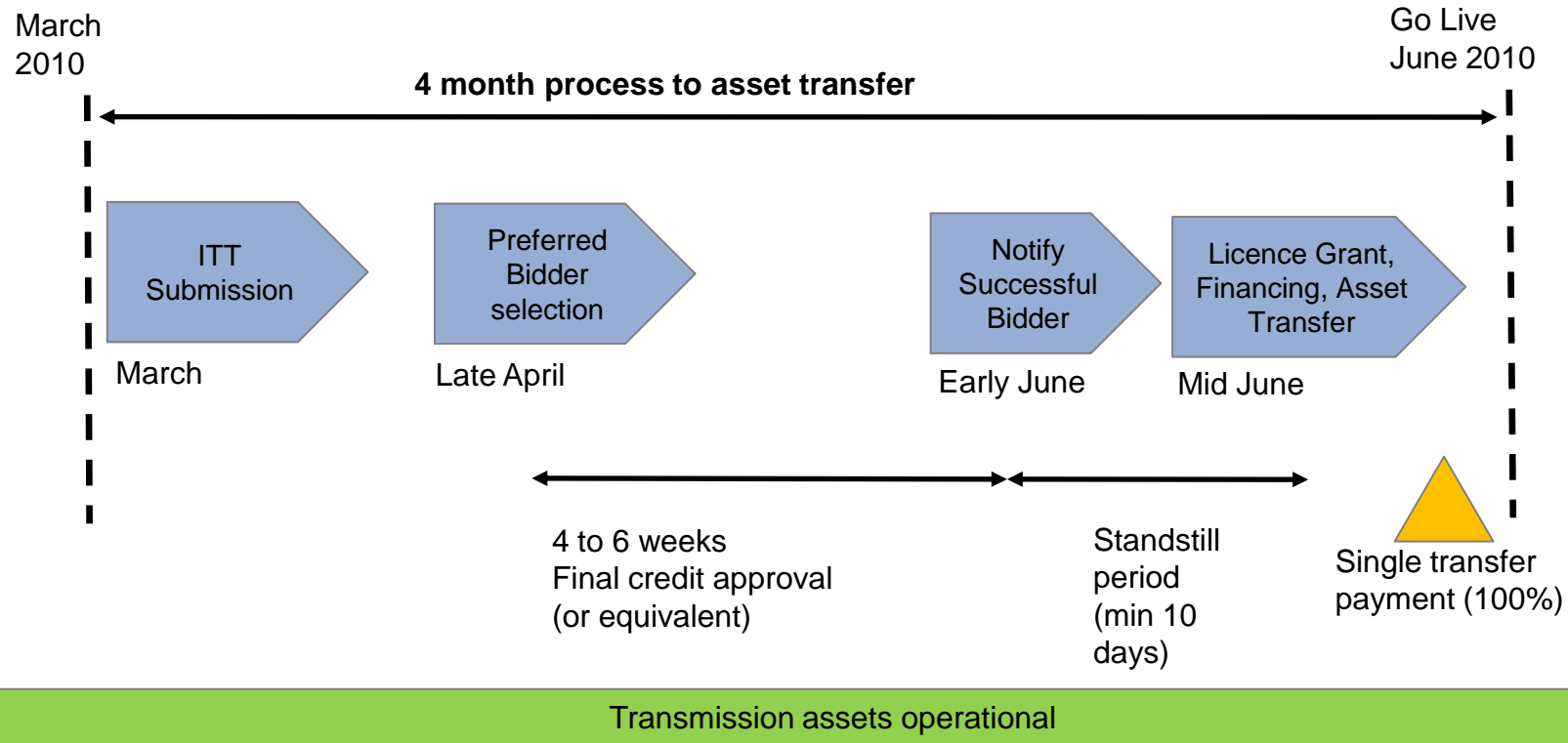
- licence required for operational assets at and from Go Live
- transaction docs developed during tender process and in final form at ITT submission
- industry related documents (including licence) are non-negotiable
- seabed leases prepared in parallel by Crown Estates
- licence grant, completion of financing and asset transfer are co-terminus
- transfer payment for projects operational **before** Go Live based on final assessment
- initial transfer payment (75%) for projects operational **after** Go Live based on estimate, followed by final transfer payment (balance) based on ex-post assessment
- licence mechanism for revenue adjustments post asset transfer

Two distinct models of transfer

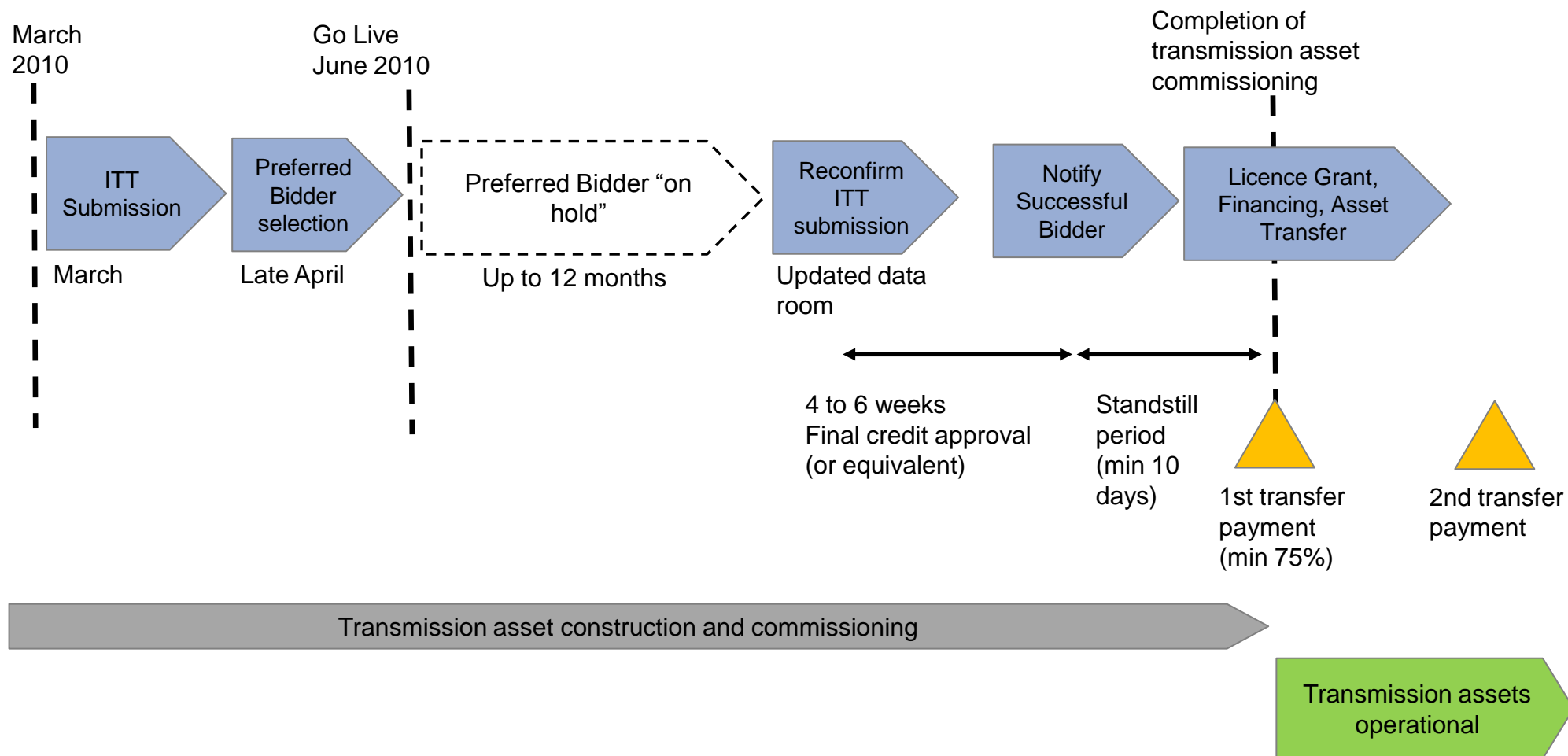
The project and transaction characteristics demand two model approaches, for:

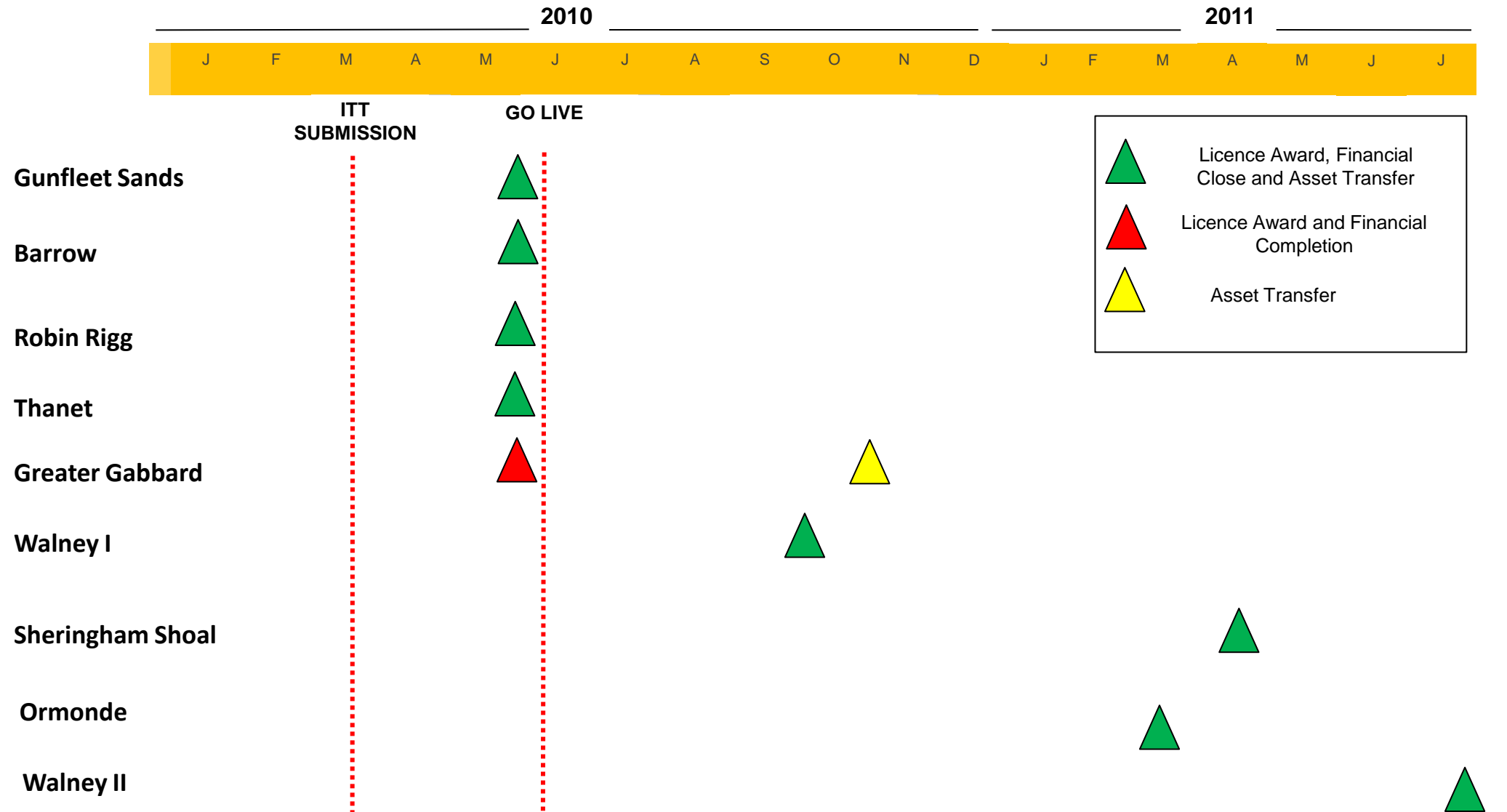
1. projects operational before Go Live
2. projects operational after Go Live

Projects operational before Go Live



Projects operational after Go Live





Consequences of applying asset transfer models

- what do we expect an ITT submission to comprise?
 1. credit-committee approved term sheets
 2. technical due diligence complete (for projects operational at Go Live)
 3. commitment within a specified timescale to:
 - execute the SPA with developer
 - agree to the grant of an offshore transmission licence
 - accede to relevant industry codes and framework (e.g. STC)
 - execute defined project contracts, such as SPV, subcontracts, etc.
 - finalise financing documents
- all documents therefore in final form at ITT submission
- opportunities to amend any documents after ITT will be very limited
- projects operational after Go Live will provide for confirmation due diligence

Section 4

OFTOs Debt Considerations

Patrick Holland, Director, RBC Capital Markets

Introduction

- Revenue Stream
- Investment highlights
- Key risks and mitigants
- Key debt terms and considerations
- What next?

The Revenue Stream

Low risk revenue stream

- Well defined regulatory regime – extension of the onshore precedent
- 20 year revenue stream from NETSO
- Availability based
- No automatic periodic regulatory review
- No construction, energy or stranding risk
- Low counterparty risk – no exposure to generator
- Upside – out-performance on opex, non-regulated services, reactive power

Revenue adjustments

- Availability incentives and penalties capped at 10%
- Post-construction revenue adjustments to reflect final transfer value
- Fully indexed to RPI
- Full pass-through of:
 - Ofgem costs
 - business rates, lease rentals, licence fees
 - effects of code changes
 - extra decommissioning costs due to change in law
- Incremental capex up to 20%
- Possible extension or re-tender at end of revenue stream

Investment Highlights

Attractive investment sector

- Strong political and regulatory support for UK offshore wind
- Rare opportunity for new entrants to enter the UK transmission sector
- Relatively low risk asset class

Robust new regulatory regime

- 20 year revenue stream with limited regulatory intervention
- Pass through of certain key costs
- OFTO protected from wind farm operating risk and risk of stranding
- Upside potential: opex, non-regulated services, increased capacity

Transparent competitive process

- Well defined tender process, structured to ensure level playing field and transparency
- Two qualification stages followed by ITT stage with data room access
- High quality list of pre-qualified parties now announced

Long term opportunity

- A number of phases over several years: potentially £15 bn of assets
- Early participation will provide valuable experience for the enduring regime
- Enduring regime offers design and construction opportunities

OFTO Key Risks and Mitigants

Availability

- Ofgem target availability of 98% is generally lower than developers' design/expected availability levels
- High historical availability of interconnectors where public information is available
- OFTO exposure capped at 10% of revenue stream annually

Operating and insurance costs

- Transmission opex is typically relatively low
- Interface and/or O&M agreements with generator will help maximise efficiency and minimise cost; pass through of certain key costs
- Insurance cover available; structure and cost will be the issue

Financing costs

- Ofgem will require fixed interest rate and/or interest rate hedging
- Revenue stream will be 100% RPI linked [and Ofgem will mandate hedging of inflation]
- Any refinancing gain/upside will be for the account of the OFTO

Decommissioning

- Current decommissioning requirements are relatively benign
- Removal and disposal of topsides; foundations and buried cable generally cut off at or below seabed and left in situ
- OFTO protected against impact of change in law through revenue adjustment mechanism

Key Debt Milestones

Pre-Qualification ("PQ")	<ul style="list-style-type: none"> Demonstrate generic ability to raise debt finance 	
Qualification to Tender ("QTT")	<ul style="list-style-type: none"> Overview of funding strategy and more detail on ability to raise debt finance on selected projects Project IRR and associated assumptions Bank letters of comfort 	
Invitation to Tender ("ITT")	<ul style="list-style-type: none"> Bidder due diligence complete Conditional credit-committee approved term sheets 	
Preferred Bidder ("PB") to Successful Bidder	<ul style="list-style-type: none"> 4-6 week period to obtain final credit approval, negotiate and finalise loan documentation Notification of Successful Bidder, subject to standstill period 	<ul style="list-style-type: none"> "On hold" period post PB up to 12 months Reconfirmation ITT submission 4-6 week period to obtain final credit approval and finalise loan documentation Notification of Successful Bidder, subject to standstill period
Licence Award and Asset Transfer	<ul style="list-style-type: none"> Grant of licence Asset transfer, funding <p>Model 1</p>	<ul style="list-style-type: none"> Grant of licence Asset transfer, funding <p>Model 2</p>

Debt Characteristics

- Project financing, concession financing, acquisition financing ... or utility financing?
- Project / concession financing:
 - Cash flow based lending
 - DSCRs, lock-ups, cash sweeps, etc.
 - Long term debt profile, fully amortising over 20 years
- Acquisition financing:
 - No / limited construction risk (transitional regime)
 - SPA, terms of transfer, warranties, etc.
- Utility financing:
 - Regulated industry
 - Potentially investment grade debt profile

Key Debt Terms

- Key features of a competitive debt financed bid:
 - Cash flow based lending
 - Debt tenor — or debt sized — at or close to 20 years
 - Relatively tight DSCR profiles/triggers
 - Target investment grade debt profile
 - Reserve accounts at modest levels
 - Note: no clawback of ‘refinancing gains’
 - Security requirements
- Underwritten offers vs. club deals:
 - The less banks at the table the better
 - Limited / capped price flex
 - Effective rate hedging strategy

Key Debt Considerations

- Key internal issues for lenders to consider:
 - Timing of engagement / approvals
 - Generic credit approvals ... before identification of preferred bidder
 - Who should you support ... ?
 - (soft) staple
 - single bidder
 - multiple trees
 - How long can you hold commitments ... pricing
 - Two step funding; size of second drawing unknown at closing
- Other debt related issues:
 - Bank or bond ... public vs. private?
 - Hedging

What Next?

- What should the banks be doing next?
 - Review the list of pre-qualified parties ... and start talking to them
 - Consider appetite to lend:
 - internal 'positioning' papers
 - decide which clients
 - generic due diligence
 - project specific due diligence – IMs available via bidders
- Start considering key debt terms:
 - ticket size
 - gearing limitations
 - debt tenor, repayment profiles, DSCRs, etc.
 - reserve accounts
 - security requirements