

Robin Rigg Offshore Transmission Assets
Ex Post Financial Cost Review

02 March 2011

Ernst & Young LLP

Private and confidential

The Office of the Gas and Electricity Markets Authority
9 Millbank
London
SW1P 3GE

02 March 2011

Dear Sir

Robin Rigg Offshore Transmission Assets – Ex Post Financial Cost Review**Introduction**

Further to the Contract Task Order dated 4 February 2010 (Task Order Number 62/023A) we have undertaken an Ex Post Financial Cost Review (“the Review”) in respect of the Robin Rigg Offshore Transmission Assets (“the Robin Rigg Transmission Assets”).

Work performed

In undertaking the Review our work comprised the review procedures as prescribed by Ofgem and set out in Appendix A to this report (“the Review Procedures”). Details of the results from the Review Procedures are set out in the body of this report.

Purpose of our report and restrictions on its use

This report has been prepared solely for the benefit of The Office of the Gas and Electricity Markets Authority (“Ofgem”).

We understand that Ofgem will disclose this report to the developer of the Robin Rigg Transmission Assets and to the preferred bidder for the Robin Rigg Transmission Assets. We consent to that disclosure on the basis that Ernst & Young LLP assumes no responsibility to any user of this report other than Ofgem and any other person that chooses to rely on it does so entirely at their own risk.

Statement of independence

Ernst & Young LLP has been appointed by E.ON AG and its subsidiary undertakings in the past in relation to a number of matters. In order to maintain our independence in undertaking the Review confidentiality and ring fencing procedures were put in place. We therefore do not consider that our independence is impaired in relation to the Review.

Yours faithfully

Ernst & Young LLP

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1. Introduction and executive summary

1.1 Introduction

1.1.1 Background

Under a new regulatory regime governing the ownership and operation of offshore electricity transmission certain offshore transmission assets that were either in the course of construction or which had been constructed are to be sold by the developer/generator and purchased via a competitive tender process by an Offshore Transmission Operator.

As part of the tender process Ofgem has undertaken an exercise to calculate the economic and efficient costs of construction of the offshore transmission assets (“the Estimated Transfer Value”). The Estimated Transfer Value is the summation of the estimated costs to complete and commission the offshore transmission asset including capital costs, interest costs, developments costs and costs associated with the tender process. Potential acquirers of the offshore transmission assets are required to use the Estimated Transfer Value as the basis for their bids.

In July 2009 Ofgem and RBC Capital Markets issued a preliminary information memorandum in relation to each relevant offshore transmission asset (“the PIM”). Each PIM contained an initial view of the Estimated Transfer Value. This initial view was updated by Ofgem following the receipt of additional information from the developers and an updated Estimated Transfer Value was set out in the First Transitional Tender Information Memorandum (“the FTTIM”) issued by Ofgem and RBC Capital Markets in September 2009.

Following completion of the construction of each offshore transmission asset Ofgem will undertake a final assessment of the total costs (“the Final Transfer Value”). The developers have provided further information to enable Ofgem to undertake this assessment.

As part of the tender process Ofgem requires independent verification of the costs incurred by the developers which are to be taken into account in the assessment of the Final Transfer Value.

1.1.2 Project costs

The total project costs of the Robin Rigg Transmission Assets can be summarised as follows:

- ▶ Estimated Transfer Value per the PIM: £58.7 million (including financing costs of £4.1 million).
- ▶ Updated Estimated Transfer Value per the FTTIM: £57.3 million (including financing costs of £2.8 million).
- ▶ The estimate of total costs provided in a spreadsheet (“the OFTO Contracts & Cost Data spreadsheet”) by the developers: £64.8 million (including financing costs of £10.9 million).¹

1.1.3 Content of this report

To verify the costs incurred by the developer which are to be included in the Final Transfer Value we have been instructed by Ofgem to undertake certain Review Procedures. This report sets out the Review Procedures that have been undertaken and their results in the following sections:

¹ The OFTO Contracts & Costs Data spreadsheet is set out at Appendix B. This document excludes financing costs and additional development costs of [REDACTED] agreed by the Developer and Ofgem.

- ▶ This section gives an overview of the relevant offshore transmission assets, an outline of the Review Procedures that we have performed and an executive summary of our findings.
- ▶ Section 2 summarises the way in which developer has recorded the costs that it has incurred, a detailed description of the Review Procedures performed and their results.
- ▶ Section 3 sets out changes in the costs included in the Estimated Transfer Value between the PIM and the FTTIM and between the FTTIM and the OFTO Contracts & Cost Data spreadsheet.
- ▶ Section 4 summarises the OFTO Contracts & Cost Data spreadsheet in total and then by the principal asset categories and identifies accrued amounts which have been not yet been paid by the developer.

The report contains a number of appendices which include supporting information, including source data provided by the developer.²

1.2 The Robin Rigg Transmission Assets

1.2.1 Location

The Robin Rigg Transmission Assets connect the Robin Rigg Wind Farms (East and West) (“the Robin Rigg Wind Farms”), located in the Solway Firth near to the ports of Workington and Maryport to the onshore distribution network at Seaton, Cumbria. The onshore distribution licensee is Electricity North West Limited.

1.2.2 History

The Robin Rigg Wind Farms (East and West) and the Robin Rigg Transmission Assets are owned by E.ON Climate & Renewables UK Robin Rigg East Limited and E.ON Climate & Renewables Robin Rigg West Limited respectively (together “the Developers”).³ Both companies are wholly owned subsidiaries of E.ON Climate & Renewables UK Limited.

Key events in the history of The Robin Rigg Wind Farms and the Robin Rigg Transmission Assets are as follows:

- ▶ 1998: E.ON Climate & Renewables UK Robin Rigg East Limited was incorporated under the then name of Eastern Twenty Six Limited, a subsidiary of Eastern Group plc. In 1999 Eastern Group plc was renamed TXU Europe Group plc.
- ▶ 2001: Eastern Twenty Six Limited was renamed Solway Offshore Limited.
- ▶ 2001: E.ON Climate & Renewables UK Robin Rigg West Limited was incorporated under the then name of Offshore Energy Resources Limited, a subsidiary of Babcock & Brown Operating Partnership LLP (50%) and IVPC Energy BV (50%).
- ▶ 2003: Solway Offshore Limited was acquired by E.ON UK Renewables Holdings Limited. At the date of acquisition the company had acquired licenses and consents necessary to construct a wind farm but construction had not commenced.
- ▶ 2004: Solway Offshore Limited was renamed E.ON UK Solway Offshore Limited. Offshore Energy Resources Limited was acquired by E.ON UK Renewables Holdings Limited (100%) and renamed E.ON UK Offshore Energy Resources Limited. At the date of acquisition the company had acquired licenses and consents necessary to construct a wind farm but construction had not commenced.

² Data provided by the developer is separately identified in the appendices to this report.

³ We note that the Robin Rigg Wind Farms do not form part of the Robin Rigg Transmission Assets that are the subject of this report.

- ▶ 2006: In December 2006, E.ON UK Solway Offshore Limited and the E.ON UK Offshore Energy Resources Limited signed contracts to commence construction of the wind farms and work commenced.
- ▶ 2008: E.ON UK Solway Offshore Limited was renamed E.ON UK Climate & Renewables UK Robin Rigg East Limited and E.ON UK Offshore Energy Resources Limited was renamed E.ON UK Climate & Renewables UK Robin Rigg West Limited.
- ▶ 2009: Construction of the wind farms and transmission assets was substantially completed, the transmission systems were energised in July 2009 (West) and December 2009 (East), the first wind turbine was switched on and limited power generation commenced.

1.2.3 Project assets

The Robin Rigg Transmission Assets comprise:

- ▶ Two subsea cables each approximately 12.5 km in length.
- ▶ Two onshore cables each approximately 1.8 km in length.
- ▶ Onshore substation.

The boundary points, set out in the PIM are:

- ▶ Offshore: Located at a point 300 millimetres below where the 132kV singles cores pass through the 132kV disconnector module base plate.
- ▶ Onshore: Located at the 132kV overhead bus-bar Palm connections to the High Accuracy Metering Unit.

1.3 Scope of the Review Procedures

1.3.1 Principles

The Review Procedures have been performed on the cash expenditure that has been incurred by the Developers in constructing the Robin Rigg Transmission Assets, in accordance with the developer compensation principles consulted upon by Ofgem with the offshore wind industry.

Taxation and non-cash items including depreciation are not included in the Cash Flow Schedule and are therefore not within the scope of the Review Procedures.

Financing costs (also referred to as 'interest during construction') are included within this report in the calculation of total project value. The calculation of financing costs has been subject to a separate review by Ofgem and is not within the scope of the Review Procedures.

1.3.2 Procedures

The Review Procedures that we have undertaken are set out in Appendix A to this report.

The Developers have provided the OFTO Contracts & Cost Data spreadsheet setting out the latest estimate of total capital and development costs which they have incurred; this schedule is attached at Appendix B.

The objective of the Review Procedures is to verify the costs included by the Developers on the OFTO Contracts & Cost Data spreadsheet by tracing a sample of costs to the Developers' accounting systems and to source documentation e.g. purchase invoices and bank statements.

The Review Procedures do not constitute an assessment as to whether the costs of construction were incurred in an economic and efficient manner. As a generality Ofgem's expectation is that developers will procure in an economic and efficient manner in order to seek to obtain a return on investment in a competitive generation market.

1.3.3 Information

Based on the OFTO Contracts & Cost Data spreadsheet prepared by the Developers Ofgem has selected a sample of costs upon which we have undertaken the Review Procedures.

In order to perform the Review Procedures we visited the Developers' premises and were provided with information and explanations as described in sections 2 to 4 of this report.

Our work is based on the OFTO Contracts & Cost Data spreadsheet attached to this report at Appendix B. With the exception of additional development costs agreed between Ofgem and the Developer of [REDACTED] which have been included in this report we have not updated our report for events or circumstances that are not reflected in the OFTO Contracts & Cost Data spreadsheet or that have occurred since it was prepared by the Developers.

1.4 Executive summary

The costs included in relation to the construction of the Robin Rigg Transmission Assets, as set out in the OFTO Contracts & Cost Data spreadsheet (updated to include additional development costs of [REDACTED]), can be summarised as follows:

Cost category	Directly incurred cost	Indirectly incurred cost	Total cost	Sample tested
Onshore substation	[REDACTED]	-	[REDACTED]	-
Submarine cable supply and install	[REDACTED]	-	[REDACTED]	[REDACTED]
Land cable supply and install	[REDACTED]	-	[REDACTED]	[REDACTED]
Connection contract costs	[REDACTED]	-	[REDACTED]	[REDACTED]
Development costs:	[REDACTED]	[REDACTED]	[REDACTED]	-
Total direct and indirect costs	[REDACTED]	[REDACTED]	£53,852,803	£35,221,411
Interest during construction			£10,918,275	-
Total project value			£64,771,078	£35,221,411

We performed the Review Procedures set out in Appendix A on a sample of the costs incurred by the Developers, as selected by Ofgem. That sample represents 65.4% of the total direct and indirect costs that could be verified.

The following exceptions were noted in the results of the Review Procedures:

- ▶ We were unable to obtain purchase invoices in respect of [REDACTED] of the sample tested. Alternative evidence in the form of contractual documentation or correspondence from the supplier was presented by the Developer.
- ▶ We were unable to agree £236,019 of the sample tested to bank statements which represents less than 1% of the total costs and total sample. Of this balance £136,025 was agreed to alternative evidence with the exception of the contingency amounts of £100,000.
- ▶ All amounts were agreed to the accounting ledgers with the exception of contingencies totalling £100,000.

In addition to the results of the Review Procedures we noted the following items:

- ▶ Costs incurred by the Developers in relation to the supply and installation of the submarine cable include an amount paid to Oceanteam for work that did not take place. Delays in construction resulted in the Developers agreeing a settlement with Oceanteam to terminate their contract. A total of [REDACTED] of the settlement payment has been attributed to the Robin Rigg Transmission Assets and is included in the above table. This represents [REDACTED] of the total settlement payment made by the Developers and is based upon the value of work not completed by Oceanteam on the Robin Rigg Transmission Assets.
- ▶ Development costs include [REDACTED] of the Developers' own staff costs. This amount is based on the Developers' estimate of the cost of time spent by their staff in managing the overall project (which is assessed in total as [REDACTED]). The Developers have estimated that [REDACTED] of this cost represents the proportion of time spent managing construction of the Robin Rigg Transmission Assets. A management representation has been obtained in relation to this allocation, this is included at Appendix H.
- ▶ We are informed by the Developers that the United Utilities contract is fully paid up; however we note that total costs included in the OFTO Contracts & Cost Data spreadsheet include contingency amounts of [REDACTED].
- ▶ The OFTO Contracts & Cost Data spreadsheet includes a contingency of [REDACTED] for expected demobilisation costs in relation to the contract with Subocean.

In relation to the latest cost estimate provided by the Developers, [REDACTED] is represented by accrued amounts; these amounts are expected to be paid once the contractors have submitted their final statements of account.

2. Review Procedures

2.1 Introduction

In order to verify the costs included on the OFTO Contracts & Cost Data spreadsheet we have performed the Review Procedures detailed in Appendix A in relation to a sample of cost items selected by Ofgem.

This section of the report contains:

- ▶ An overview of the way in which the Developers have prepared the OFTO Contracts & Cost Data spreadsheet from their underlying accounting systems.
- ▶ The results of the Review Procedures in relation to:
 - ▶ Directly incurred costs: Costs incurred by the Developers in relation to third party suppliers which were incurred in construction of the Robin Rigg Transmission Assets.
 - ▶ Indirectly incurred costs: Project management costs incurred by the Developers, a proportion of which has been allocated to the Robin Rigg Transmission Assets in the OFTO Contracts & Cost Data spreadsheet.

2.2 Preparation of the final OFTO Contracts & Cost Data spreadsheet

2.2.1 Accounting records

The OFTO Contracts & Cost Data spreadsheet was prepared by the Developers' project accountant based upon the accounting records of E.ON UK Climate & Renewables UK Robin Rigg East Limited and E.ON UK Climate & Renewables UK Robin Rigg West Limited.

An overview of how the final OFTO Contracts & Cost Data spreadsheet was put together is set out at Appendix C. The main components of the process were:

- ▶ The Developers and contractors entered into contracts for the provision of construction work.
- ▶ The contractor periodically issued applications for payment, which the Developers agreed, prior to an invoice being issued and paid.
- ▶ As the project progressed, copies of paid invoices were forwarded to the project accountant. The project accountant then calculated costs to date per contractor.
- ▶ Each month, the project accountant met with the project manager to agree costs to date and determine expected costs to completion. This data was consolidated on a monthly basis and used to monitor overall progress of the project.
- ▶ The OFTO Contracts & Cost Data spreadsheet was prepared by consolidating the monthly data, reviewing the resultant total costs for accuracy and processing final amendments for allocated costs and accruals.

The accounting records of E.ON UK Climate & Renewables UK Robin Rigg East Limited and E.ON UK Climate & Renewables UK Robin Rigg West Limited are maintained by the Developers in SAP. SAP has been used by the Developers since 2008 when it replaced E-5 which in turn replaced Sun in 2006.

The accounting records maintained in SAP do not explicitly separate amounts relating to the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms. However, the

categorisation of balances within fixed assets means it is possible to identify the costs incurred in relation to construction of certain of the Robin Rigg Transmission Assets.

2.2.2 Allocation of costs

Certain costs in the OFTO Contracts & Cost Data spreadsheet have been allocated between the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms by the Developers. This allocation has been performed on the following basis:

- ▶ Where the works and related costs were separately identifiable by reference to documentation provided by the contractor or supplier, the costs have been allocated on an actual basis (e.g. Oceanteam and Subocean who undertook cable laying services on behalf of both the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms).
- ▶ Certain costs, which relate to both the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms have been allocated using a percentage based on the Developers' assessment of the cost driver supporting the cost, for example site investigation's costs which are included as part of the Onshore Substation Costs have been allocated using a cost driver based on the number of boreholes drilled.
- ▶ Insurance costs have been calculated by the Developers based upon the cost of the assets multiplied by insurance rates.
- ▶ Development costs have been allocated using a calculation based on the proportion of the total costs of the Robin Rigg Transmission Assets in comparison to total estimated costs of both the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms, excluding insurance costs.
- ▶ Project management costs have been allocated to the Robin Rigg Transmission Assets using a proportion of ████████ of the total project management costs incurred by the Developers. The ████████ allocation is based on the Developers estimate of project management time and cost relating specifically to the Robin Rigg Transmission Assets. A management representation has been obtained in relation to this basis of allocation, this is included at Appendix H.

2.3 Directly incurred costs

2.3.1 Work performed

The sample of directly incurred costs selected by Ofgem in relation to the Robin Rigg Transmission Assets is set out in section 2.3.2, below.

The work performed in relation to these costs is set out in steps 1 to 6 of section 2 of the Review Procedures set out in Appendix A.

In relation to the Oceanteam and Subocean contracts these related to both the Robin Rigg Transmission Assets and the Robin Rigg Wind Farms. In undertaking the Review Procedures we have reviewed data relating to the contract as a whole and have then reviewed the way in which the Developers have allocated a proportion of the total contract costs to the Robin Rigg Transmission Assets.

2.3.2 Results

The results of the Review Procedures are summarised below and set out in detail at Appendix D to Appendix G.

	Total value included in Robin Rigg Transmission Assets ⁴	Value agreed to Purchase Invoices	Value agreed to Bank Statements	Value agreed to Accounting Ledgers
Prysmian Group	■	■	■	■
Subocean Group	■	■	■	■
Oceanteam Power & Umbilical Limited	■	■	■	■
United Utilities Electricity plc	■	■	■	■
Total	■	■	■	■

The following exceptions were noted in the results of the Review Procedures:

- ▶ Both the Subocean Group and United Utilities Electricity plc contracts on the OFTO Contracts & Cost Data spreadsheet include contingencies for ■■■■■. These contingencies were not agreed to purchase invoices, bank statements or the accounting ledgers.
- ▶ Costs of ■■■■■ in relation to the Subocean Group were not agreed to purchase invoice as they could not be located. Payments in respect of these amounts were agreed to bank statements and to the accounting ledgers.
- ▶ In relation to the United Utilities Electricity plc contract, ■■■■■ was not agreed to purchase invoices. The total value of the contract, excluding a contingency of ■■■■■ was agreed to contractual documentation and variation orders.
- ▶ The first payment to United Utilities Electricity plc of ■■■■■ was not verified to bank statement. Alternative evidence in the form of correspondence from the contractor confirmed that the amount was paid.

In addition in undertaking the Review Procedures we noted the following:

- ▶ Amounts included in relation to the Oceanteam contract include ■■■■■ as a result of a settlement agreement between the parties. As a result of delays Oceanteam were unable to complete a substantial proportion of the work set out in the contract with the Developers. Under a settlement agreement Oceanteam were paid a sum for this work. The Developers have undertaken a calculation which attributes ■■■■■ of the settlement sum to the Robin Rigg Transmission Assets. This amount represents ■■■■■ of the total settlement payment made by the Developers to Oceanteam. The calculation performed by the Developers has been based upon the value of the settlement payment as a proportion of the value of contractual work not completed by Oceanteam. This has then been apportioned to the Robin Rigg Transmission Assets based on the value of the work not completed on those assets.

⁴ This value is that which is included in the OFTO Contracts & Cost Data spreadsheet.

2.4 Indirectly incurred costs

2.4.1 Work performed

The sample selected by Ofgem did not include any indirectly incurred costs in relation to the Robin Rigg Transmission Assets. However, we discussed the basis of inclusion of indirectly incurred costs with the Developers.

2.4.2 Results

Development costs include [REDACTED] of the Developers' own staff costs. This amount is based on the Developers' estimate of the cost of time spent by their staff in managing the overall project (which is assessed in total as [REDACTED]). The Developers have estimated that [REDACTED] of this cost represents the proportion of time spent managing construction of the Robin Rigg Transmission Assets.⁵

⁵ This basis of allocation is referred to in section 2.2.2.

3. Variance analysis

3.1 Introduction

The total project value as set out on the OFTO Contracts & Cost Data spreadsheet (updated to include additional development costs of [REDACTED]) is £53,852,803 excluding financing costs. Changes in the total project value including financing costs over time can be summarised as follows:

- ▶ Per the PIM: £58.7 million (including financing costs of £4.1 million).
- ▶ Per the FTTIM: £57.3 million (including financing costs of £2.8 million).
- ▶ Per the OFTO Contracts & Cost Data spreadsheet provided by the Developers: £64.8 million (including financing costs of £10.9 million).

This section contains the results of the Review Procedures described in Appendix A⁶.

3.2 Reconciliation between the PIM and the FTTIM

The reconciliation between the preliminary information memorandum and the August 2009 cash flow schedule can be summarised as follows:

Project value	£
Value per PIM (including financing costs)	£58,700,000
Add:	
Decrease in project costs	£(100,000)
Less:	
Reduction in financing costs	£(1,300,000)
Value per FTTIM (including financing costs)	£57,300,000

The decrease in project costs is attributed to a rounding in the PIM value.

As stated in section 1.3.1, the calculation of financing costs has been subject to a separate review by Ofgem and is not within the scope of the Review Procedures.

⁶ Appendix A, step 7 of section 2 and step 5 of section 3.

3.3 Comparison of project value at August 2009 to final project value

The table below sets out a comparison of the total costs included in the FTTIM and the OFTO Contracts & Cost Data spreadsheet (updated to include additional development costs of [REDACTED]):

Cost category	Total cost (Aug 2009)	Total cost (final value)	Variance
Onshore substation connection	[REDACTED]	[REDACTED]	[REDACTED]
Submarine cable supply and installation	[REDACTED]	[REDACTED]	[REDACTED]
Land cable supply and installation	[REDACTED]	[REDACTED]	[REDACTED]
Connection contract costs	[REDACTED]	[REDACTED]	[REDACTED]
Development costs	[REDACTED]	[REDACTED]	[REDACTED]
Total direct and indirect costs	£54,555,766	£53,852,803	£(702,963)
Interest during construction	£2,800,000	£10,918,275	£8,118,275
Total project value	£57,355,766	£64,771,078	£7,415,312

The reduction in costs between the FTTIM and the final OFTO Contracts & Cost Data spreadsheet is attributed by the Developers to:

- ▶ As development of the Robin Rigg Transmission Assets has continued, the Developers have been able to assess with greater certainty the level of total costs.
- ▶ Recognition of hedging gains in relation to contracts denominated in Euros being included in the cost schedule. Foreign exchange hedging gains have reduced costs in relation to the submarine cable category. Specifically, as noted in Appendix D, a hedging gain of [REDACTED] has been applied to the Prysmain contract.
- ▶ Costs associated with the land cable have increased as a result of problems experienced by the contractor drilling under the railway line. As a result additional drilling costs and rectification costs have been incurred.
- ▶ An additional [REDACTED] of development costs relating to the SCADA system have been agreed between the Developer and Ofgem.
- ▶ As stated in section 1.3.1, the calculation of financing costs has been subject to a separate review by Ofgem and is not within the scope of the Review Procedures.

4. Project value

4.1 Total project value

The total value of the Robin Rigg Transmission Assets calculated by the Developers is £64,771,078. The total project value is made up of the following costs:

Expense category	Total cost
Onshore substation	██████████
Submarine cable supply and installation	██████████
Land cable supply and installation	██████████
Connection contract costs	██████████
Development costs	██████████
Total direct and indirect costs	£53,852,803
Interest during construction	£10,918,275
Total project value	£64,771,078

4.2 Payments made by the Developers

The total project value comprises amounts which have been invoiced and amounts yet to be invoiced and paid. Excluding financing costs these amounts can be summarised as follows:

Cost category	Settled amounts	Accrued amounts	Project value
Direct costs (section 2.3)	██████████	██████████	£53,352,803
Indirect costs (section 2.4)	██████████	-	£500,000
Total direct and indirect costs	██████████	██████████	£53,852,803

The above table shows that ██████████ of the total direct and indirect costs included in the project value is represented by accrued amounts.

The largest component of the accrued amounts relates to the onshore substation with an accrual of ██████████. The accrued balance has been estimated by the Developers by comparing the value of the supplier contract with amounts invoiced to date.

Appendix A Review procedures

1. Background Work

1. Ascertain the processes and policies undertaken by the developer for making payments to suppliers for all direct costs incurred for the project.
2. Ascertain the processes and policies and metrics used by the developer by which shared costs (e.g. overheads and other indirect costs which may be split between transmission and generation) have been allocated to the project.

2. Review Work – Directly Incurred Costs

1. For a selected sample contract trace expenditure from the cash flow schedule to the relevant contract or other source record.
2. From the contract trace to an invoice(s) or journal.
3. From the transaction selected in (2) trace through the purchasing systems (from Purchase Day Book or equivalent to Purchase ledger or equivalent)
4. For same transaction trace through to the payment system (from the purchase ledger through to the general / nominal ledger). Confirmation includes verification of the payment summary with the supplier and ensuring calculations are arithmetically correct and free from error.
5. For the same transaction trace the payments made from the general ledger through such that the payment can be agreed to a debit entry on the bank account (debit entry being from the companies perspective and for avoidance of doubt represents a cash expense i.e. cash outlay from the business).
6. Prepare a report detailing the contractual payments made or due their cause (ie main contract or variations or claims, and the extent to which the contract provide warranties or ongoing support and the work undertaken with an appendix for copies of the support documentation on the selected contract and allocation.
7. Compare total costs at Project Close with Project Value at August 2009. Obtain supporting information and explanations for variances between the two dates.

3. Review Work – Indirectly Incurred Costs

1. For a sample of transactions trace from the asset schedule to journal entries made on the accounting system
2. Confirm the amount allocated has been determined as prescribed in the cost allocation methodology the Developer has indicated using

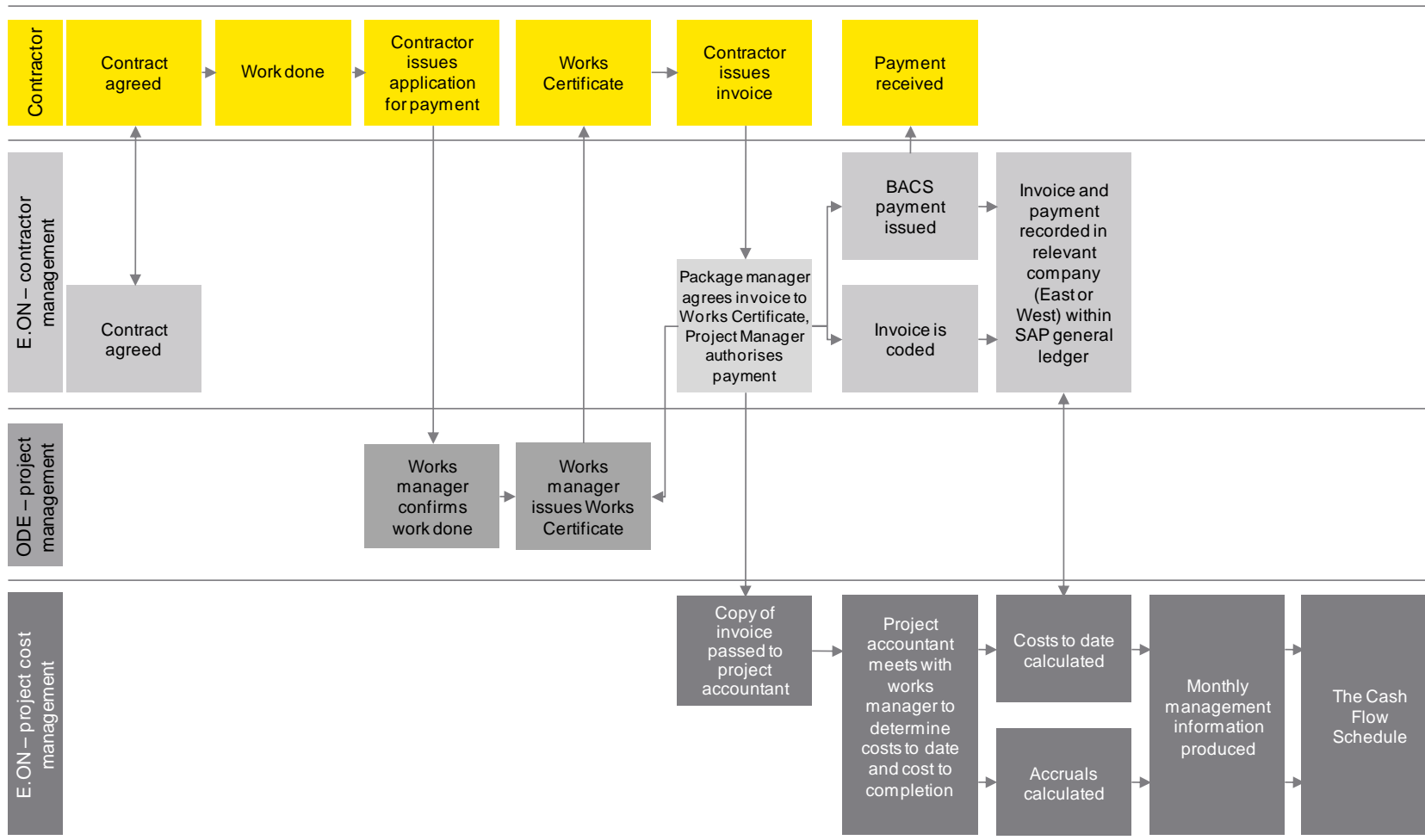
appropriate metrics in respect of the allocation of such costs between transmission and generation.

3. Confirmation includes ensuring calculations are arithmetically correct and free from error.
4. Prepare a report detailing the work undertaken with an appendix for copies of the support documentation on the selected contract and allocation.
5. Compare total costs at Project Close with Project Value at August 2009. Obtain supporting information and explanations for variances between the two dates.

Appendix B The OFTO Contracts & Cost Data spreadsheet

This appendix has been redacted in full.

Appendix C Process overview



**Appendix D Results of Review Procedures –
Prysmian Group (“Prysmian”)**

**Appendix E Results of Review Procedures –
Subocean Group (“Subocean”)**

**Appendix F Results of Review Procedures –
Oceanteam Power and Umbilical
 (“Oceanteam”)**

**Appendix G Results of Review Procedures - United
Utilities Electricity plc (“United
Utilities”)**

All of these appendices have been redacted in full.

Appendix H Management Representation