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for energy consumers

Company Secretary
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Date: 19 December 2014

Dear Company Secretary,

Project Direction ref: TC Ormonde/ Offshore Cable Repair Vessel and Universal Joint / 19 December 2014

TC Ormonde OFTO Limited (TC Ormonde) submitted the Project¹ Offshore Cable Repair Vessel and Universal Joint on 25 July 2014 to us to be considered for funding through the Electricity Network Innovation Competition (NIC). In this year's decision², we³ selected the Project for funding.

We have issued this Project Direction to TC Ormonde. It contains the terms to be followed by TC Ormonde as a condition of the Project Offshore Cable Repair Vessel and Universal Joint receiving funding through the Electricity NIC. It must comply with these terms, which can be found in the schedule to this Project Direction.

Project direction

Paragraph 5.66 of the Electricity NIC Governance Document states that a Project Direction will:

- set out the Project-specific conditions that the Network Licensee is committing to in accepting funding;
- require the Network Licensee to undertake the Project in accordance with the commitments it has made in the Full Submission. Where appropriate, the Project Direction may therefore include extracts from the Full Submission or refer to specific sections of the Full Submission;
- set out the Approved Amount for the Project, that will form part of the calculation contained in the funding direction issued by the Authority under chapter 7 of the Governance Document;
- set out the Project budget that the Network Licensee must report against and how variances against the Project budget will be reported and approved; and

¹ Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

² [Decision on the second year Electricity Network Innovation Competition.](#)

³ The terms 'the Authority', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this letter. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Authority.

- the mechanism for the Network Licensee receiving the Approved Amount is set out in Section Three of the Funding Direction.

These are described for the Project Offshore Cable Repair Vessel and Universal Joint Project in the schedule to this Project Direction.

Decision

Provided TC Ormonde complies with the NIC Governance Document and with the schedule to this Project Direction, the Offshore Cable Repair Vessel and Universal Joint Project is deemed to be an Eligible NIC Project⁴.

This Project Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Yours faithfully,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy
For and on behalf of the Authority

⁴ Eligible NIC Project has the meaning given in definitions of the Electricity Transmission licence.

Schedule to Project Direction

1. TITLE

Project Direction ref: TC Ormonde / Offshore Cable Repair Vessel and Universal Joint / 19 December 2014

2. PREAMBLE

This Project Direction issued by the Gas and Electricity Markets Authority (the "Authority") to TC Ormonde OFTO Limited ("TC Ormonde") (the "Funding Licensee") pursuant to the Electricity NIC Governance Document issued pursuant to Part E of Amended Standard Condition E12-J11 (Network Innovation Competition) of the Electricity Transmission Licence (the "Licence") sets out the terms to be followed by the Funding Licensee in relation to Offshore Cable Repair Vessel and Universal Joint (the "Project") as a condition of the Project being funded under the NIC and the Funding Return Mechanisms¹.

Unless otherwise specified, defined terms in this Project Direction have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

References to specific sections of the Funding Licensee's Full Submission in this Project Direction are, for ease of reference, made by referring to the section number in the Funding Licensee's Full Submission pro-forma.

3. Condition Precedent

The Funding Licensee will not access any funds from the Project Bank Account until it has signed an initial contract with the Project Partner named in Table 1 for the initial phase of the Project. The Project will not commence and condition 7 of this Project Direction will not apply until the initial contract with the Project Partner has been signed and the Funding Licensee has notified the Authority that the initial contract is in place.

If the initial contract is not signed by 30 June 2015, then the Project must be halted (complying with paragraphs 8.30-8.34 of the NIC Electricity Governance Document). In this event the Approved Amount will be returned to customers and the Funding Licensee will retain its compulsory contribution but will not be eligible for the Successful Delivery Reward.

Table 1 Condition Precedent

Global Marine Systems Ltd

4. COMPLIANCE

The Funding Licensee must comply with Amended Standard Condition E12-J11 of the Licence and with the NIC Governance Document (as may be modified from time to time in accordance with Amended Standard Condition E12-J11 and as modified and/or augmented in respect of the Project by this Project Direction) and with this Project Direction.

Any part of the Approved Amounts that the Authority determines not to have been spent in accordance with this Project Direction (or the Electricity NIC Governance Document) is deemed to be Disallowed Expenditure.

Pursuant to Amended Standard Condition E12-J11.8 of the Licence Disallowed Expenditure is revenue received (whether by the Funding Licensee or by another Licensee) under the NIC and Funding Return Mechanisms that the Authority determines not to have been spent

¹ The Funding Return Mechanism is defined in part C of Amended Standard Condition E2-J11.

in accordance with the provisions of the Electricity NIC Governance Document or with those of the relevant Project Direction.

Pursuant to paragraph 8.48 of the Electricity NIC Governance Document, Disallowed Expenditure includes any funds that must be returned if the Project is halted without Ofgem's² permission, any funds that have not been spent in compliance with the approved Project Budget contained within the Project Direction, and any unspent funds on the completion of the Project.

5. APPROVED AMOUNT FOR THE PROJECT

The Approved Amount is £9,016,330.

6. PROJECT BUDGET

The Project Budget is set out in Annex 1 of this Project Direction. The Funding Licensee must not spend more than 110% of any category total (e.g. "Labour") in Annex 1 without the Authority's prior written consent (such consent is not to be unreasonably withheld).

The Funding Licensee will report on expenditure against each line under the category total in the Project Budget, and explain any projected variance against each line total in excess of 5% as part of its detailed report which will be provided at least every six months, in accordance with paragraph 8.17 of the Electricity NIC Governance Document. Ofgem will use the reported expenditure and explanation to assess whether the funding has been spent in accordance with the Electricity NIC Governance Document and with this Project Direction.

For the avoidance of doubt this reporting requirement does not change or remove any obligations on the Funding Licensee with respect to reporting requirements that are set out in the Electricity NIC Governance Document.

7. PROJECT IMPLEMENTATION

The Funding Licensee must undertake the Project in accordance with the commitments it has made in the Full Submission approved by the Authority pursuant to the Electricity NIC Governance Document and with the terms of this Project Direction. These include (but are not limited to) the following:

- (i) undertake the Project in accordance with the description set out in Section 2 (Project Description);
- (ii) provide a Network Licensee Compulsory Contribution of £1,032,900;
- (iii) complete the Project on or before the Project completion date of 31 July 2018; and
- (iv) disseminate the learning from the Project at least to the level described in Section 5 (Knowledge Dissemination).

8. APPLICATION AND DECISION TO PROCEED WITH FULL PROJECT

Following the initial phase of the Project, and by no later than 31 December 2016, the Funding Licensee must submit an application to the Authority making a recommendation to either proceed with the full Project or halt the Project.

² Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'Authority' 'we' and 'us' are used interchangeably in this Project Direction.

1. Making a recommendation to proceed with the full Project

Where the Funding Licensee recommends proceeding with the full Project, it must demonstrate in its application - with appropriate evidence - that it has met the terms of conditions 9, 10 and 11 of this Project Direction. The Authority will consider this application and determine if the Funding Licensee may continue with the Project.

Where the Authority determines that any of conditions 9, 10 or 11 have not been met the Funding Licensee will have two months from the date of the Authority's determination to either address the Authority's concerns and re-submit its application or halt the Project (complying with paragraphs 8.30-8.34 of the NIC Electricity Governance Document).

If the re-submitted application fails to address the Authority's concerns the Project will be halted and unspent funds will be returned to customers.

If the Authority determines the Project should proceed, the Funding Licensee must sign a contract with its project partner for the remainder of the Project before accessing any further funding.

2. Making a recommendation to halt the Project

Where the Funding Licensee recommends halting the Project it must make this request complying with paragraphs 8.30-8.34 of the NIC Electricity Governance Document.

9. ENGAGEMENT WITH RELEVANT NETWORK LICENSEES

As part of the application to the Authority to satisfy condition 8 of this Project Direction, the Funding Licensee must demonstrate appropriate engagement with all relevant Network Licensees. The aim of this condition is to maximise the future use of the offshore cable repair vessel and universal cable joint.

Should the Funding Licensee have difficulty engaging with relevant Network Licensees it should make Ofgem aware of these difficulties before submitting its application to the Authority.

There are two parts of this condition. The Funding Licensee must comply with both parts.

PART 1 – TRANSMISSION OWNERS

The Funding Licensee must demonstrate appropriate engagement with the Transmission Owners ("TOs") listed in Table 2. This engagement must relate to the specification of the offshore cable repair vessel and of the universal cable joint described in the Full Submission ("the Products"). The Funding Licensee must demonstrate that it has made reasonable attempts to consult with the TOs on the specification of the Products. It must document the feedback it has received from the TOs and demonstrate how feedback has been incorporated into the Product specifications if reasonable. The Funding Licensee must otherwise explain why feedback has been disregarded. It must explain the further engagement it has agreed with the TOs for the remainder of the Project. The Authority will determine what is reasonable or appropriate in the circumstances.

PART 2 – OFFSHORE TRANSMISSION OWNERS

The Funding Licensee must demonstrate that it has taken all reasonable steps to secure the agreement of all of the Offshore Transmission Owners ("OFTOs") listed in Table 3 that they will actively participate in the Project. Active participation is considered to include –

- Evidence that the OFTO supports the aim of the Project, its methodology and the proposed outputs.

- The OFTO having reviewed and accepted - in principle - the terms of accessing the Products after the Project.
- The OFTO agreeing to provide reasonable access to any technical cable information it holds which is required for the development of the Products.

Table 2 – TOs

National Grid Electricity Transmission Plc (in its role as a GB transmission owner)
Scottish Hydro Electricity Transmission Plc
SP Transmission Limited
All parties in Table 3 below.

Table 3 – OFTOs

TC Barrow OFTO Ltd
TC Robin Rigg OFTO Limited
TC Gunfleet Sands OFTO limited
TC Lincs OFTO Limited
Blue Transmission Sheringham Shoal Limited
Blue Transmission Walney 1 Limited
Blue Transmission Walney 2 Limited
Greater Gabbard OFTO Plc
Blue Transmission London Array Limited

10. OTHER ENGAGEMENT

As part of the application to the Authority to satisfy condition 8, the Funding Licensee must demonstrate appropriate engagement with other key stakeholders. The aim of this condition is to maximise the future use of the offshore cable repair vessel and universal cable joint.

There are three parts of this condition. The Funding Licensee must comply with all three parts.

PART 1 – ATLANTIC CABLE MAINTENANCE REPAIR CLUB

The Funding Licensee must provide evidence that the Atlantic Cable Maintenance Repair Club members agree to the arrangements for allowing all OFTOs and TOs to join the club and use the converted vessel. This evidence should demonstrate that ACMA has agreed that substantially the same terms for joining and participating in the club will be available to all TOs (as listed in Table 2) as are available to telecom cable owners.

PART 2 – CABLE INSURERS

The Funding Licensee must demonstrate engagement with an appropriate range of insurance providers on how the terms for insuring OFTO offshore electricity cables will be affected by the new method of repair. This evidence must include evidence of the discussions held and where possible should include written documentation from the insurers explaining the impact of repairs on the insurance of the cables.

PART 3 – CABLE MANUFACTURERS

The Funding Licensee must demonstrate engagement with an appropriate range of cable manufacturers and should show that for typical warranty terms there will be no impact on the warranty of the sections of the offshore cable that have not been jointed with the new universal joint. If the Funding Licensee finds that there would be an impact on the warranty of the sections of the offshore cable that have not been jointed with the new universal

joint, it must notify Ofgem of the impact as part of the application to satisfy condition 8.

11. SHARING MECHANISM

The Authority must have implemented a 'sharing mechanism'. This sharing mechanism would have the effect of appropriately sharing savings that result from the actual deployment of the offshore cable repair vessel between existing OFTOs and transmission customers. Prior to this, the Funding Licensee must facilitate discussions with the OFTOs listed in Table 3.

12. RESTRICTED PROJECT BUDGET

Prior to the Authority determining whether conditions 9, 10 and 11 of this Project Direction have been complied with the Funding Licensee must not spend more than £410,000.

13. REPORTING

Ofgem will issue guidance (as amended from time to time) about the structure and content of the reports required by paragraph 8.17 of the Electricity NIC Governance Document. The Funding Licensee must follow this guidance in preparing the reports required by paragraph 8.17 of the Electricity NIC Governance Document.

As required by paragraph 8.22 of the Electricity NIC Governance Document, the Funding Licensee must inform the Authority promptly in writing of any event or circumstance likely to affect its ability to deliver the Project as set out in its Full Submission.

14. COST OVERRUNS

The maximum amount of Contingency Funding that the Funding Licensee can request as additional funding for cost overruns relating to the Project is 5%³.

15. INTELLECTUAL PROPERTY RIGHTS (IPR)

In Section 5 (Knowledge Dissemination) the Funding Licensee has stated that the Project does conform to the default IPR arrangements set out in Section Five of the Electricity NIC Governance Document and must therefore undertake the Project in accordance with the default IPR arrangements.

16. SUCCESSFUL DELIVERY REWARD CRITERIA

The Project will be judged by the Authority for the purposes of the NIC Successful Delivery Reward against the Successful Delivery Reward Criteria set out in Table 3⁴ below (that comply with paragraphs 5.26 – 5.29 of the Electricity NIC Governance Document).

Table 4. Successful Delivery Reward Criteria

Successful Delivery Reward criterion	Evidence
Complete Initial Phase <ul style="list-style-type: none">GMSL completes the detailed design needed before seeking a fixed priceGMSL completes fixed-price offerACMA agreementCriteria to be met by September 2016.	<ul style="list-style-type: none">Fixed price offer made by GMSL as specified in Memorandum of Understanding (MoU).ACMA approval

³ This is the amount requested by the Funding Licensee in its Full Submission.

⁴ These are the Successful Delivery Reward Criteria set out in the Funding Licensees Full Submission

<ul style="list-style-type: none"> • Since the purpose of the initial phase is to determine whether there are critical risks that would lead to project cancellation, and to do so while expenditure levels are only a few percent of the total budget, if new information is discovered that leads to project cancellation before the initial phase is complete, the success criteria should still be met. 	
<p>Vessel Modification</p> <ul style="list-style-type: none"> • The modifications to the <i>Wave Sentinel</i> required for power cable repairs as listed in the Annex to the MoU are to be completed. • Criteria to be met by September 2017. 	<ul style="list-style-type: none"> • Completion of DP2 sea trials following completion of vessel modifications (but not the jointing sea trial which is captured in criteria below).
<p>Universal Joint</p> <ul style="list-style-type: none"> • The successful HV testing of a universal joint test articles to the standards referred to in section 5.2 of Appendix 4 of the funding application, or as otherwise agreed by potential users. • Sea trial of joint • Criteria to be met by June 2018. 	<ul style="list-style-type: none"> • Test report issued by independent test witness. • Tests passed.
<p>Project Close</p> <ul style="list-style-type: none"> • A project close report consolidating all of the lessons learned from the project and making proposals in respect of how to further develop the vessel and joint concepts. • Criteria to be met by July 2018. 	<ul style="list-style-type: none"> • Project close-down report issued.

The maximum amount of the NIC Successful Delivery Reward (which will not exceed the Licensee Compulsory Contribution) that the Project will be eligible for is £1,032,900.

If the process of meeting the requirements specified in condition 11 causes a delay in the achievement of the first SDRC – Complete Initial Phase - then the Funding Licensee may propose revisions to its SDRCs. Such revisions should be proposed through the change request process (as specified at 8.22 and 8.23 of the Governance document) and must only reflect the length of delay caused by the condition 11 obligation.

17. USE OF LOGO

The Funding Licensee and Project Partners, External Funders and Project Supporters⁵ may use the NIC logo for purposes associated with the Project but not use the Ofgem or Ofgem E-Serve logos in any circumstances.

18. AMENDMENT OR REVOCATION

As set out in the Electricity NIC Governance Document and in this Project Direction, this Project Direction may be amended or revoked under the following circumstances:

⁵ As listed in Box 1.6 in Section 1 of the Full Submission pro-forma.

- (i) if the Funding Licensee considers that there has been a material change in circumstance that requires a change to the Project Direction, and the Authority agrees (paragraph 8.23 of the Electricity NIC Governance Document); and/or
- (ii) if Ofgem agrees to provide Contingency Funding, which requires the re-issue of the Project Direction (paragraph 8.42 of the Electricity NIC Governance Document); and/or
- (iii) if the Funding Licensee applies for Discretionary Funding to cover a decrease in Direct Benefits and the Authority decides it would be in the best interest of customers to make changes to the Project Direction before the Discretionary Funding would be awarded (paragraph 8.42 of the Electricity NIC Governance Document).

A request by the Funding Licensee for amendment of this Project Direction or halting of the Project should not be unreasonably withheld.

19. HALTING OF PROJECTS

This Project Direction is subject to the provisions contained in paragraphs 8.30 to 8.34 of the Electricity NIC Governance Document relating to the halting of projects. By extension, this Project Direction is subject to any decision by the Authority to halt the Project to which this Project Direction relates and to any subsequent relevant Funding Direction issued by the Authority pursuant to Amended Standard Condition E12-J11 of the Licence.

In the event of the Authority deciding to halt the Project to which this Project Direction relates, the Authority may issue a statement to the Funding Licensee clarifying the effect of that halting decision as regards the status and legal force of the conditions contained in this Project Direction.

NOW THEREFORE:

In accordance with the powers contained in the Electricity NIC Governance Document issued pursuant to Part E of Amended Standard Condition E12-J11 of the Licence the Authority hereby issues this Project Direction to the Funding Licensee in relation to the Project.

This Project Direction constitutes notice of reasons for the Authority's decision pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

ANNEX 1: PROJECT BUDGET

Cost Category	Cost (£k)
Labour	
	420.00
Equipment	
	-
Contractors	
	9,039.00
IT	
	-
IPR Costs	
	-
Travel & Expenses	
	20.00
Payments to users	
	-
Contingency	
	850.00
Decommissioning	
	-
Other	
	-
Total	10,329.00