



Grant Thornton

**Ex Post Cost Review of Gwynt Y Mor Wind Farm
Transmission Assets**

As at 14 January 2014

CONTENTS

1	Executive Summary	1
2	Introduction	7
3	The Gwynt-Y-Mor Ex Post Review	11

APPENDICES

1	Invoice testing
2	NKT invoice review
3	Siemens invoice review
4	Visser & Smit invoice review
5	Global Marine invoice review
6	Indirect costs review
7	Movements between the cost templates

1 EXECUTIVE SUMMARY

1.1 Grant Thornton UK LLP (Grant Thornton) has been instructed by Ofgem to carry out a review (in accordance with our instructions set out below) of the ex post cost information prepared by Gwynt Y Mor Offshore Wind Farm Limited (GOWFL), for the transmission assets (the Transmission Assets) of the Gwynt Y Mor Offshore Wind Farm (the Wind Farm), as set out in further detail at paragraphs 2.7 and 2.8.

1.2 The Wind Farm is being developed as an unincorporated joint venture through a limited company, GOWFL. The company is ultimately owned by RWE Innogy GmbH, Siemens AG and Stadwerke Munchen GmbH (collectively the Developers), and is managed on behalf of the Developers on a day to day basis by GOWFL.

1.3 The review has sought to determine whether the Developers have procedures in place for managing directly and indirectly incurred costs, and to carry out certain testing on whether the Developers' latest assessment of the costs of the Transmission Assets recorded in the cost template provided to Ofgem on 5 December 2013 (the 5 December 2013 Cost Template) have been incurred as stated. Further detail of our work is set out in Section 3, supplemented in Appendices 1 to 7, and is summarised as follows:

- establish the processes and policies undertaken by the Wind Farm for making payments for directly and indirectly incurred costs;
- in relation to directly incurred costs, for selected contracts trace expenditure through the purchasing and payments system and reconcile the costs included on the invoice schedule to the 5 December 2013 Cost Template;
- in relation to indirectly incurred costs, for a sample of transactions, trace expenditure through the accounting system, and confirm the amount allocated has been correctly applied in accordance with the stated allocation methodology, using appropriate metrics in respect of the allocation of costs between transmission and generation; and
- compare the costs at 5 December 2013 to the Indicative Transfer Value at October 2012, and obtain explanations for significant variances arising between the two dates.

- 1.4 This report reflects the 5 December 2013 Cost Template together with information and explanations received by Grant Thornton up to and including 14 January 2014. Our report does not therefore reflect any information or the outcome of discussions held after that date.
- 1.5 GOWFL has prepared cost templates setting out its assessment of the costs of the Transmission Assets throughout the development of the Wind Farm project. We reviewed earlier versions of cost templates submitted between November 2010 and August 2012 (the ex ante review) which culminated in the submission of our draft reports on 9 March 2011 and 12 October 2012. Our later report was considered by Ofgem in establishing the project's Indicative Transfer Value set in October 2012¹.
- 1.6 GOWFL has submitted the 5 December 2013 Cost Template to Ofgem setting out its current assessment of the costs incurred in the development of the Wind Farm's Transmission Assets and it is this cost template that has been used in our work. The 5 December 2013 Cost Template is summarised below:

TABLE REDACTED AT DEVELOPER'S REQUEST.

- 1.7 The 5 December 2013 Cost Template reflects an increase in the cost of the Transmission Assets of £ [REDACTED] million from the October 2012 Indicative Transfer Value. The reasons for the increase between cost assessments are set out in more detail at paragraph 3.33 and Appendix 7, with the principal reasons being the increase in transaction costs as a result of the inclusion of parent company guarantee (PCG) costs to reflect PCGs required within the contracts for the sale of the Transmission Assets, and an increase in submarine cable installation costs due to issues in the laying of the cables.

SUMMARY OF FINDINGS

The Wind Farm's payment processes

- 1.8 We were instructed by Ofgem to establish the Wind Farm's processes for making payments to suppliers for directly and indirectly incurred costs. Part of our review included consideration of the systems for recording costs.

¹ Letter from Ofgem to the Wind Farm dated 31 October 2012 "Indicative Transfer Value for the Gwynt – y – Mor (GYM) project and comfort on funding"

- 1.9 The Wind Farm's accounting records were included within RWE Npower Renewables Limited's (RWE) accounting system during the initial stages of the development. These accounting records were then migrated at the end of 2008 onto a separate accounting ledger on the SAP accounting system, and this ledger has continued to be used by the Wind Farm since the migration.
- 1.10 GOWFL has confirmed that all historic accounting records have been maintained across this system change.
- 1.11 GOWFL has confirmed that all large value contracts for the Wind Farm have been subject to a competitive tendering process. Based upon our review it appears GOWFL have suitable systems in place for the approval and payment of invoices to contractors, including contract variations, and has further systems in place to ensure that, where appropriate, the allocation of costs between the Transmission and Generation Assets is properly recorded.

Directly incurred costs

- 1.12 We were instructed by Ofgem to carry out certain procedures (as detailed at paragraph 3.14) on the costs payable by the Wind Farm to Siemens for electrical works both onshore and offshore and the manufacture of the offshore platform topside, NKT Cables for the supply of the submarine cables and Global Marine for the installation of the submarine cables.

1.13 We were subsequently asked by Ofgem to extend our procedures to costs payable by the Wind Farm to Visser & Smit for remedial works on the submarine cable. These four contracts amounted to £[REDACTED] million and represent [REDACTED]% of the overall capital cost excluding interest during construction. These procedures have been carried out as required and a summary of our findings is set out below:

TABLE REDACTED AT DEVELOPER'S REQUEST.

1.14 We have checked that 90.7% of the amounts due to the contractors have been paid.

1.15 Accrued amounts represent firm amounts still to be paid, or variation orders agreed in principle but not yet paid. Estimated amounts represent costs/amounts which have not yet been agreed with Siemens, but are GOWFL's best estimate of the amounts payable.

1.16 We have checked the basis for calculation of the accrued and estimated amounts and consider that these amounts have been determined appropriately based upon the underlying evidence that we have seen.

Indirectly incurred costs

1.17 We were instructed by Ofgem to carry out certain procedures (as detailed in paragraph 3.18) in relation to the following costs payable by the Wind Farm:

TABLE REDACTED AT DEVELOPER'S REQUEST

1.18 Our work in relation to these costs is summarised below:

Project management support services costs

1.19 We have been provided with a breakdown of project management support services costs, and carried out a test of these costs to underlying records. Costs incurred to date have been allocated to the Transmission Assets based upon the time spent between the transmission and generation businesses by GOWFL's staff and the external contractors who have worked on the Wind Farm development.

1.20 Estimated time costs have been allocated to the Transmission Assets based upon the time spent by employees and contractors on activities relating to the Transmission Assets as a proportion of total employees and contractors time on the Wind Farm project as a whole, with a single rate being used between January 2009 and December 2010 before time records were maintained, and then monthly rates used thereafter based upon timesheet records. This allocation methodology is in line with that employed on similar projects.

PCG costs

1.21 The 5 December 2013 Cost Template includes an amount of £ [REDACTED] for the costs that the Wind Farm will have to pay to the Developers for providing PCGs to the purchaser of the Transmission Assets.

1.22 The charge in the 5 December 2013 Cost Template has assumed that the Wind Farm will pay a guarantee to the Developers at a rate of [REDACTED]% of the total Transmission Assets costs for years one and two after the sale, followed by [REDACTED]% of half of the total Transmission Assets costs for years three and four.

1.23 The Developers consider that inclusion of this cost within the 5 December 2013 Cost Template is appropriate as, in providing these guarantees to the purchaser of the Transmission Assets, the Developers will need to put funds aside in case of claims, and therefore will need to raise funds from elsewhere.

- 1.24 We do not know to what extent funds are actually kept aside, but this will as a minimum create a contingent liability for the parent. Whilst we consider that PCG fees are sometimes charged and can be at rates significantly higher than that applied here, we cannot comment on whether such costs would fall within the legal definitions of what is to be included within a transfer value.
- 1.25 In the event that Ofgem decides that PCG costs should be included within the 5 December 2013 Cost Template, the provision for these costs should be recalculated based upon the Final Transfer Value once the Transmission Assets are complete.

CONCLUSIONS

- 1.26 Our review of the Wind Farm's processes and procedures has indicated that it has policies for the approval and payment of goods and services received, including for the allocation of costs where appropriate between the Transmission and Generation Assets.
- 1.27 On the basis of our review of the information and explanations received to date in relation to the sample of directly and indirectly incurred costs that we have been asked to review, we can confirm that they are supported by invoices, ledgers and bank statements that indicate that they have been incurred or are due or (in the case of estimates) are a reasonable current estimate for the relevant cost included within the 5 December 2013 Cost Template, subject to Ofgem's position regarding the inclusion of PCG costs.
- 1.28 Following our review of the information and explanations received to date in relation to the sample of indirectly incurred costs that we have been asked to review, we can confirm that the sample of directly and indirectly incurred costs tested are supported by invoices that indicate that they have been incurred or are due.

2 INTRODUCTION

INSTRUCTIONS

- 2.1 Grant Thornton has been instructed by Ofgem to prepare a report on our review of the cost information and 5 December 2013 Cost Template for the Transmission Assets of the Wind Farm, prepared for Ofgem by GOWFL (the ex post review). This review is limited to the procedures set out in more detail in section 3, and in particular to a sample of costs which have been selected by Ofgem.
- 2.2 Throughout the development of the Wind Farm, Ofgem has required the Developers to submit cost templates which set out both estimates and actual costs that will be/have been incurred in relation to the Transmission Assets.
- 2.3 In March 2011 and October 2012 we conducted reviews of cost templates for the Transmission Assets prepared between November 2010 and August 2012 (the ex ante review). At this stage substantive construction works for the Wind Farm had yet to take place and there was a degree of uncertainty over a number of costs. As such, the Indicative Transfer Value included a contingency provision which equated to just over [REDACTED] % of the Transmission Asset costs.
- 2.4 Further to the ex ante review, Ofgem set the Indicative Transfer Value for the Transmission Assets in October 2012. This was based upon the Transmission Asset costs included in our draft report of 12 October 2012, and adjusted for particular issues that had been highlighted in our draft report, and by Ofgem's technical consultants as follows:

TABLE DELETED AT DEVELOPER'S REQUEST

2.5 The principal changes between the project costs set out in our draft ex ante review report of 12 October 2012 and the Indicative Transfer Value relate to:

- Ofgem's non acceptance of particular allocation rates used in the cost assessment prepared for the purposes of the ex ante review (£[REDACTED] million). GOWFL has amended the calculations to address Ofgem's specific concerns, and the allocations used in the 5 December 2013 Cost Template have incorporated these amendments;
- the incorrect inclusion of the 33kV switchgear and related commissioning activities on the Generation/Transmission boundary within the cost template prepared for the purposes of the October 2012 ex ante review. These costs were excluded from the Indicative Transfer Value and were also not included in the 5 December 2013 Cost Template.

2.6 At the current point in time, development work on the Transmission Assets is largely complete, with the Wind Farm expected to become fully operational in 2014.

2.7 The main objective of the ex post review is to substantiate a sample of costs included within the 5 December 2013 Cost Template, and to compare certain sample costs actually incurred by the Wind Farm in relation to its Transmission Assets to those costs that had been expected to be incurred at the time of the ex-ante review.

2.8 The main purpose of the ex post review of the Wind Farm's Transmission Assets is to determine whether a sample of items selected by Ofgem which have been included within the 5 December 2013 Cost Template prepared by GOWFL for the Transmission Assets are appropriately stated, and whether selected costs not directly attributable to either the generation or transmission businesses have been allocated to the Transmission Assets on a reasonable basis. In particular, we have been asked to:

- establish the processes and policies undertaken by GOWFL for making payments to suppliers for directly and indirectly incurred costs;
- in relation to directly incurred costs, for selected contracts trace expenditure from the cashflow schedule to the contract, invoice, the accounting ledgers of the Wind Farm, and to bank statements, and reconcile the costs included on the invoice schedule to the 5 December 2013 Cost Template;

- in relation to indirectly incurred costs, for a sample of transactions trace from the 5 December 2013 Cost Template to journal entries made on the accounting system, and confirm the amount allocated has been determined as prescribed in the cost allocation methodology that GOWFL has indicated, using appropriate metrics in respect of the allocation of costs between transmission and generation;
- compare the costs at December 2013 to the Indicative Transfer Value at October 2012, and obtain explanations for variances between the two dates.

2.9 This work does not constitute an audit performed in accordance with Auditing Standards.

2.10 If further information is produced and brought to our attention after service of this report, we reserve the right to revise our opinions as appropriate.

2.11 Except to the extent set out in this report, we have relied upon the documents and information provided to us as being accurate and genuine. To the extent that any statements we have relied upon are not established as accurate, it may be necessary to review our conclusions.

2.12 The report has been prepared using Microsoft Word and Microsoft Excel. The report may contain minor rounding adjustments due to the use of computers for preparing certain calculations.

RESTRICTION ON CIRCULATION

2.13 Grant Thornton does not accept or assume responsibility, duty of care, liability or other obligation to any third party other than Ofgem who as a result, either directly or indirectly, of disclosure of the whole or any part of this report by Ofgem receives, reads or otherwise obtains access to this document. Any party relying on this report does so entirely at their own risk.

2.14 In the preparation of our report Grant Thornton has been provided with material by Ofgem (and by third parties at Ofgem's request) relating to third parties. We have relied upon warranties and representations provided by Ofgem that (i) Ofgem is fully entitled to disclose such information to us for inclusion within our report, free of any third party rights or obligations and (ii) Ofgem will only permit circulation of this report in accordance with any rights to confidentiality on the part of any third party. Any objections to the inclusion of material should be addressed to Ofgem. Accordingly, Grant Thornton acknowledges no duty or obligation whatsoever to any party in connection to the inclusion in the report of any material referring to any third party material or the accuracy of such material.

DISCLOSURES OF INTEREST

2.15 To the best of our knowledge, we have no connection with any of the parties or advisors involved in the Wind Farm development that would in any way impact upon our independence in preparing this report.

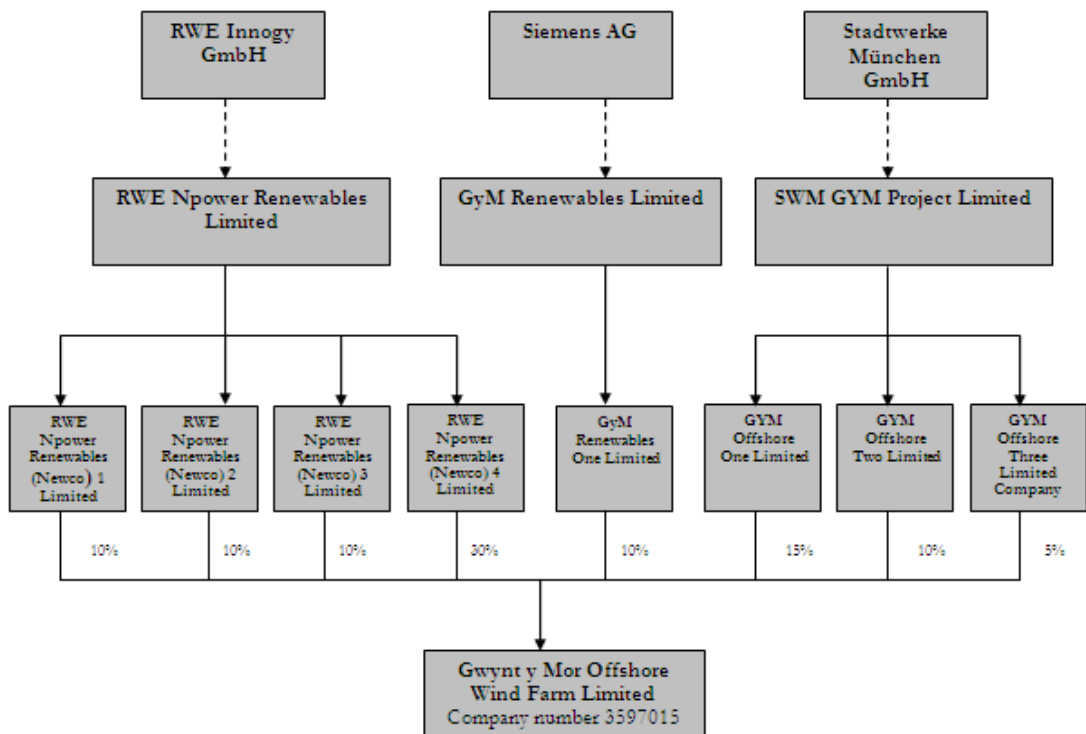
FORMS OF REPORT

2.16 This report may have been made available to recipients in electronic as well as hard copy format. Multiple copies and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed electronic copy should be regarded as definitive.

3 THE GWYNT-Y-MOR EX POST REVIEW

INTRODUCTION

- 3.1 The Wind Farm is being built in Liverpool Bay, 15 kilometres (nine miles) off the North Wales coast, and will comprise of 160 turbines with a capacity of 3.6 MW each, providing a maximum generation capacity of 576 MW of power.
- 3.2 The Wind Farm is owned and financed by three shareholders under an Unincorporated Joint Venture through a limited company, GOWFL. RWE Innogy GmbH holds a 60% stake in the joint venture, Stadtwerke Munchen 30% and Siemens 10%. All three shareholders are financing the project on their respective balance sheets through a number of special purpose vehicles (SPVs). GOWFL confirmed that the ownership structure of the Wind Farm, as is set out below, has remained unchanged since our ex-ante report:



INFORMATION PROVIDED

3.3 Grant Thornton has relied upon the following information in reviewing the cost assessment for the Wind Farm's Transmission Assets:

- the 5 December 2013 Cost Template, which includes actual costs incurred up to August 2013 and estimates of costs that will be incurred from that date up to completion of the Wind Farm development, together with a list of reconciling items between the cost template at October 2012 to the Indicative Transfer Value of October 2012 (as detailed in paragraph 2.4 above);
- schedules of invoices prepared for the contracts selected for review by Ofgem, together with copies of invoices, certificates and bank statements showing payment of the invoices recorded;
- schedules providing supporting information for the internal project management costs;
- information and explanations provided to us by GOWFL. This included a visit to GOWFL's offices on 9 December 2013 to discuss the Transmission Assets, and subsequent telephone calls and email correspondence with the GOWFL staff responsible for the preparation of the 5 December 2013 Cost Template.

EX POST REVIEW

3.4 The main purpose of the ex post review is as set out in section 2.

3.5 The 5 December 2013 Cost Template for the Transmission Assets of the Wind Farm is summarised below:

TABLE REDACTED AT DEVELOPER'S REQUEST

THE WIND FARM'S FINANCIAL PROCESSES

Accounting systems

3.6 The Wind Farm has undergone minimal changes in its accounting system since incorporation with the main changes as follows:

- at project inception, development costs were recognised within the RWE accounting ledgers in SAP;
- towards the end of 2008 these costs were migrated to a separate accounting ledger on SAP;
- following this migration the Wind Farm's costs have continued to be recorded on this separate accounting ledger on SAP.

- 3.7 GOWFL has confirmed that all historic accounting records have been retained and we have used them to trace payments as part of our testing.
- 3.8 On a monthly basis, the costs incurred by the Wind Farm are downloaded from SAP and then filtered by each package. Costs are reviewed by the package managers and quantity surveyors. Following this review a decision is made to accrue any work performed which has yet to be posted to SAP (eg where a certificate has not yet been raised for work done). The costs incurred by the Wind Farm, together with any required accruals, are collated centrally, and it is this information which has been used in preparation of the cost templates for the Transmission Assets. This information is circulated to the joint venture partners.
- 3.9 Wherever possible, costs are allocated directly to the Transmission Assets or the Generation Assets based upon the services provided.
- 3.10 Indirect costs are allocated as follows:
- for those non-staff costs which apply to the whole Wind Farm development, an amount is apportioned to the Transmission Assets based on the percentage of the overall capital of the Wind Farm project which specifically relates to the Transmission Assets;
 - indirect personnel costs are allocated to the Wind Farm project on the basis of time spent on the Transmission Assets as a percentage of time spent on the Wind Farm project as a whole, and this is determined on a monthly basis through the completion of timesheets. These costs are charged to the Wind Farm project with an uplift of [REDACTED]% of salary costs (ie the total cost to the Transmission Assets is [REDACTED]% of salary costs) to cover the costs of support functions such as non-project financial support, legal costs and office costs. This rate was determined in the investor agreement. However, as the amount of internal staff used on this project was less than had originally been anticipated due to greater use of contractors, whose time costs are charged directly, the amount of overheads charged to the project is less than expected.

Process for making payments

- 3.11 The main process used by GOWFL for making payments for both directly and indirectly incurred costs, is set out below:

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Contract variations

3.12 The process for payment of contract variations is similar to the general invoice system set out above with the following differences:

DELETED AT DEVELOPER'S REQUEST

REVIEW OF DIRECTLY INCURRED COSTS

3.13 Ofgem has selected the following four contracts of directly incurred costs for review:

TABLE REDACTED AT DEVELOPER'S REQUEST

3.14 Ofgem has directed that our work in relation to these contracts covers the following:

- trace expenditure from the cash flow schedule to the relevant contract or other source record, and from the contract trace to an invoice(s) or journal;
- trace the invoice through the purchasing systems;
- trace the invoice through to the payment system;
- trace the payments through to the bank account.

3.15 Our detailed testing in relation to these contracts is set out in Appendices 1 to 5, and our findings are summarised in the following table:

TABLE REDACTED AT DEVELOPER'S REQUEST

Invoices paid

3.16 Our review of invoices paid by GOWFL that relate to the four contracts selected by Ofgem raised no areas of concern.

Accrued and estimated amounts

3.17 Our review of accrued and estimated amounts in relation to the Siemens contract raised no areas of concern.

REVIEW OF INDIRECTLY INCURRED COSTS

3.18 Ofgem has selected the following costs for testing:

TABLE REDACTED AT DEVELOPER'S REQUEST

3.19 Ofgem has directed that our work in relation to project management support services costs covers the following:

- for a sample of transactions trace from the asset schedule to journal entries made on the accounting system;
- 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;
- ensure calculations are arithmetically correct and free from error;
- compare total costs at Project Close with Project Value at October 2012.

3.20 Ofgem has directed that our work in relation in relation to PCG costs should establish whether the costs are reasonable.

Project management support services costs

3.21 The Developers have provided us with a spreadsheet that shows their workings in relation to the project management support services costs, and these amounts are as follows:

TABLE REDACTED AT DEVELOPER'S REQUEST

3.22 Project management support services costs represent the costs of salaried employees from GOWFL who work on the Wind Farm, together with the costs of contractors, external legal advice and project compliance.

3.23 On the instructions of Ofgem, we selected five transactions within project management support services costs, choosing five employees or contractors from a listing of project personnel, and requesting supporting documentation to cover all costs for April 2013, which were traced through to the 5 December 2013 Cost Template. For these transactions we have conducted the following tests, which are set out in Appendix 6:

- all transactions for the selected personnel were agreed to underlying invoices
- all transactions for the selected personnel were agreed to the schedule used to calculate monthly staff cost allocation rates

- all transactions were agreed to bank statements
- all transactions were traced through the Wind Farm systems to the 5 December 2013 Cost Template.

3.24 Our testing of project management support services costs has identified no areas of concern.

PCG costs

3.25 The 5 December 2013 Cost Template includes PCG costs of £[REDACTED].

3.26 This represents the estimated cost that the Wind Farm will incur as a result of the Developers being required to provide PCGs to the buyer of the Transmission Assets and charging for those PCGs.

3.27 The principle applied by the Developers in charging PCG costs is that external costs arise to a company from the issue of PCGs following the disclosure of such arrangements as contingent liabilities in a company's financial statements. The level of PCGs issued by any company is stated to affect its external credit rating assessments and therefore its cost of credit.

Determination of the PCG rate

3.28 The Developers of the Wind Farm each charge different rates for PCGs issued to the SPVs which collectively own the Wind Farm.

3.29 TABLE REDACTED AT DEVELOPER'S REQUEST

3.30 TABLE REDACTED AT DEVELOPER'S REQUEST

Calculation of PCG costs

3.31 TABLE REDACTED AT DEVELOPER'S REQUEST

3.32 We consider that as the guarantee is based on the purchase price it would be more appropriate to calculate PCG costs based on the Final Transfer Value of the Transmission Assets once it is determined. As such, an adjustment in the cost template will be required in this regard. However, this adjustment is dependent upon whether Ofgem considers that such costs can be included within the Final Transfer Value.

MOVEMENTS IN THE COST ASSESSMENT

3.33 The movements between the Indicative Transfer Value set in October 2012 and the most recent cost assessment of December 2013 are summarised in the following table:

TABLE REDACTED AT DEVELOPER'S REQUEST

3.34 The principal reasons for the increase in costs between the Indicative Transfer Value set in October 2012 and the 5 December 2013 Cost Template are:

REDACTED AT DEVELOPER'S REQUEST

IMPACT OF COST ASSESSMENT REVIEW

- 3.35 Following our review of the 5 December 2013 Cost Template, as detailed above, we consider that there are no amendments to be made to the cost template.
- 3.36 We understand that Ofgem has yet to make a decision as to whether PCG charges payable to the Developers based upon transactional guarantees should be included within the Final Transfer Value for the Transmission Assets. However, on the basis of the calculation submitted by GOWFL, we consider that if the PCG charge was included it would need to be recalculated to reflect the value of the Transmission Assets as the time of sale.

GRANT THORNTON UK LLP

Grant Thornton UK LLP

London

11 February 2014

1 INVOICE TESTING

NKT

- 1.1 The 5 December 2013 Cost Template includes an amount of £ [REDACTED] payable to NKT Cables GmbH for the supply of the export cables, which is made up as follows:

TABLE DELETED AT DEVELOPER'S REQUEST

Review of amounts paid

- 1.2 We obtained a schedule of all invoices received under the NKT contract which recorded 10 purchase invoices. This is included at Appendix 2.

Vouching to invoices

- 1.3 We agreed all 10 invoices recorded on the schedule to the underlying invoice.

Vouching to purchase ledger

- 1.4 We agreed all 10 invoices to the purchase ledger.

Vouching to bank statements

- 1.5 We agreed the payment of all 10 invoices to bank statements.

SIEMENS

- 1.6 The 5 December 2013 Cost Template includes an amount of £ [REDACTED] payable to Siemens for electrical works on the offshore and onshore substation.
- 1.7 The contract between the Wind Farm and Siemens includes amounts for both the generation and transmission businesses, together with a small number of generic costs amounting to £ [REDACTED] million which have been allocated between the generation and transmission businesses based upon the proportion of costs that are directly attributable to either the generation or transmission businesses.

- 1.8 The breakdown of amounts within the Siemens contract, and the amounts allocated to the Transmission Assets are set out below:

TABLE REDACTED AT DEVELOPER'S REQUEST

Review of amounts paid

- 1.9 We obtained a schedule of all invoices received under the Siemens contract which recorded [REDACTED] purchase invoices. Unlike other suppliers, rather than issue single invoices to the Wind Farm for work done, Siemens issues separate purchase invoices to the eight SPVs which own the Wind Farm, with each invoice representing a proportion of the amount of the work undertaken, based upon each SPVs shareholding in the Wind Farm.
- 1.10 For example, if Siemens had undertaken work to the value of £[REDACTED], GYM Renewables One Limited, which has a 10% shareholding in the Wind Farm, would be invoiced £[REDACTED].
- 1.11 In light of the large number of invoices, it was agreed with Ofgem that our testing would comprise:
- testing of all invoices issued to one specific SPV
 - testing of the invoices issued to all SPVs for two payment certificates.
- 1.12 As a result, we tested all invoices issued by Siemens to RWE Npower Renewables (Newco) 1 Limited and the invoices issued to all SPVs in relation to payment certificates [REDACTED] and [REDACTED], amounting to [REDACTED] invoices in total. Our testing is set out on Appendix 3.

Vouching to invoices

- 1.13 We agreed all 51 selected invoices on the Siemens invoice schedule to the underlying invoice.

Vouching to purchase ledger

- 1.14 We agreed all 51 selected invoices to the purchase ledger.

Vouching to bank statements

- 1.15 We agreed the payment of all 51 invoices to bank statements.

Accrued and estimated amounts

- 1.16 The accrued amounts in relation to the Siemens contract represent applications for payment which had been received by August 2013, but which had not been certified by the package managers, together with known future milestone and variances which will be paid.

1.17 The estimated amounts in relation to the Siemens contract represent GOWFL's assessment of the likely costs that will be paid by the Wind Farm:

- Estimated sums in relation to time and materials. Final amounts which are payable for time and materials are currently under negotiation between Siemens and GOWFL, with the amount included in the 5 December 2013 Cost Template representing GOWFL's best estimate of the future amounts that will be paid
- Claims. As a result of project delays, both Siemens and the Wind Farm have sought compensation from each other under the terms of the contract. Negotiations have been on-going and GOWFL currently expects REDACTED AT THE DEVELOPER'S REQUEST
- Commissioning Vessel. The Wind Farm has commissioned a vessel from Siemens for accommodation for the final project commissioning work on the project. This cost has only been agreed at the end of the project. GOWFL has made a considered estimate that the costs attributable to the Transmission Assets in this regard will amount to £ [REDACTED].

Allocation of costs

1.18 We have reviewed the calculations prepared by GOWFL in relation to the Siemens contract, and are satisfied that the costs have been allocated to the Transmission Assets appropriately.

VISSER & SMIT

- 1.19 The 5 December 2013 Cost Template includes an amount of £[REDACTED] payable to Visser & Smit for work carried out for the installation of the submarine cables, which is made up as follows:

TABLE REDACTED AT DEVELOPER'S REQUEST

Review of amounts paid

- 1.20 We obtained a schedule of all invoices received under the Visser & Smit contract which recorded 20 purchase invoices. This is included at Appendix 4.

Vouching to invoices

- 1.21 We agreed all 20 invoices recorded on the schedule to the underlying invoice.

Vouching to purchase ledger

- 1.22 We agreed all 20 invoices to the purchase ledger.

Vouching to bank statements

- 1.23 We agreed the payment of all 20 invoices to sterling bank statements.

GLOBAL MARINE

- 1.24 The 5 December 2013 Cost Template includes an amount of £[REDACTED] payable to Global Marine for work carried out for the installation of the submarine cables, which is made up as follows:

TABLE REDACTED AT DEVELOPER'S REQUEST

Review of amounts paid

- 1.25 We obtained a schedule of all invoices received under the Global Marine contract which recorded 27 purchase invoices. This is included at Appendix 5.

Vouching to invoices

- 1.26 We agreed all 27 invoices recorded on the schedule to the underlying invoice.

Vouching to purchase ledger

- 1.27 We agreed all 27 invoices to the purchase ledger.

Vouching to bank statements

- 1.28 We agreed the payment of all 27 invoices to bank statements.

2 NKT INVOICE REVIEW

TABLE REDACTED AT DEVELOPER'S REQUEST

3 SIEMENS INVOICE REVIEW

TABLE REDACTED AT DEVELOPER'S REQUEST

TABLE REDACTED AT DEVELOPER'S REQUEST

4 VISSER & SMIT INVOICE REVIEW

TABLE REDACTED AT DEVELOPER'S REQUEST

5 GLOBAL MARINE INVOICE REVIEW

TABLE REDACTED AT DEVELOPER'S REQUEST

6 INDIRECT COSTS REVIEW

TABLE REDACTED AT DEVELOPER'S REQUEST

7 MOVEMENTS BETWEEN THE COST TEMPLATES

- 7.1 We have been instructed to compare the total Transmission Asset costs set out in the 5 December 2013 Cost Template with the total Transmission Asset costs included within the Indicative Transfer Value at October 2012, and to obtain explanations for variances between the two dates. These movements, prior to any adjustments detailed in this report, are summarised as follows:

TABLE REDACTED AT DEVELOPER'S REQUEST

- 7.2 We have sought explanations from GOWFL for the reasons for the significant movements in each of the cost categories and these are summarised below:

TRANSACTION COSTS

- 7.3 There has been an increase in transaction costs of £ [REDACTED] million. This is principally due to the inclusion of PCG charges of £ [REDACTED] million as set out further in Section 3 of the report.
- 7.4 The other key movements within transaction costs are the inclusion of external legal fees of £ [REDACTED] million, which are the anticipated legal fees relating to transfer of the Transmission Assets, and internal time costs of £ [REDACTED] million. The internal time costs were originally included within project management costs, thus having no net impact on the overall Transmission Assets costs.

OFFSHORE SUBSTATION COSTS

- 7.5 There has been an increase in offshore substation costs of £ [REDACTED] as a result of the following:

REDACTED AT DEVELOPER'S REQUEST

SUBMARINE CABLE SUPPLY AND INSTALLATION

- 7.6 There has been an increase in submarine cable supply and installation costs of £[REDACTED] million ([REDACTED]%) as a result of the following:

REDACTED AT DEVELOPER'S REQUEST

LAND CABLE SUPPLY AND INSTALLATION

- 7.7 REDACTED AT DEVELOPER'S REQUEST

ONSHORE SUBSTATION

- 7.8 REDACTED AT DEVELOPER'S REQUEST

GENERAL DEVELOPMENT COSTS

- 7.9 There has been an increase in general development costs of £[REDACTED] million ([REDACTED]%) due to the following:

REDACTED AT DEVELOPER'S REQUEST

CONTINGENCY COSTS

- 7.10 There has been a decrease in contingency costs of £[REDACTED] million (100%). This is due to the project having progressed to such an extent that all works requiring contingencies have been completed or have been sufficiently progressed so as to have incurred the majority of total expected costs.



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