

To:

**The General Manager
Gwynt y Mor OFTO plc
350 Euston Road
Regents Place
LONDON NW1 3AX**

**DIRECTION UNDER PARAGRAPH 10 OF AMENDED STANDARD CONDITION E12-J4 OF THE
OFFSHORE TRANSMISSION LICENCE**

Whereas:-

1. Gwynt y Mor OFTO plc (the “Licensee”) is the holder of an offshore transmission licence (the “Licence”) granted under section 6(1)(b) of the Electricity Act 1989 (the “Act”).
2. The Gas and Electricity Markets Authority (the “Authority”) gave notice in accordance with Paragraph 12 of Amended Standard Condition E12-J4 of the Licence to the Licensee on 4 February 2016 (the “Notice”).
3. No representations were made by the Licensee in response to the Notice.
4. In accordance with Paragraph 10 of Amended Standard Condition E12-J4:
 - a) the Licensee considers that the transmission service reduction on the Licensee’s transmission system commencing on 1 July 2015 and ending on 25 July 2015 was wholly caused by an exceptional event;
 - b) the Licensee notified the Authority of the event on 7 July 2015, within 14 days of its occurrence;
 - c) the Licensee has provided details of the reduction in system availability that the Licensee considers resulted from the exceptional event and further information required by the Authority in relation to the event; and
 - d) the Authority is satisfied, for the reasons specified in Annex 1, that the event notified under sub-paragraph (b) above was an exceptional event.
5. In accordance with Paragraph 11 of Amended Standard Condition E12-J4, the Authority is satisfied, for the reasons specified in Annex 1, that the Licensee took steps, consistent with Good Industry Practice, to manage the impact of the event on the availability of services (both in anticipation of the event and after the event had occurred).

Now therefore:

6. The Authority directs that the Licensee's reported system incentive performance be adjusted to offset the full duration of the outage: reported system incentive performance for incentive year 3 (beginning 1 January 2015) month 7 (July) will be increased by 83,754 MWhrs to fully offset the impact of this event¹.

This direction constitutes notice pursuant to section 49(1)(c) of the Act.

Dated: 24 February 2016

Stephen Beel
Partner, Competitive Networks

Duly authorised by the Authority

¹ Availability is measured in Megawatt Hours (MWh). The impact of the event on system availability was 83,754 MWh. The interruption lasted for 25 days, 7 hours and 39 minutes (607 hours and 39 minutes). The system capacity of each cable at Gwynt y Mor is 138MW. The duration in hours multiplied by the system capacity gives the total impact of the interruption in MWh.

ANNEX 1 - THE AUTHORITY'S REASONS FOR ISSUING A DIRECTION UNDER PARAGRAPH 10 OF AMENDED STANDARD CONDITION E12-J4

1 Introduction

1.1 This Annex sets out the reasons for the Authority's decision to issue a direction under Paragraph 10 of Amended Standard Condition E12-J4 of the offshore transmission licence (the "Licence"), granted to Gwynt y Mor OFTO plc (the "Licensee") under section 6(1)(b) of the Electricity Act 1989.

1.2 The direction adjusts the Licensee's reported system incentive performance for the incentive period commencing on 1 January 2015.

1.3 The structure of the rest of this Annex is as follows:

- Section 2 sets out the exceptional event notification submitted by the Licensee for consideration under Paragraph 10 of Amended Standard Condition E12-J4 of the Licence;
- Section 3 sets out the Authority's reasons for its decision on whether the notified event was an exceptional event; and
- Section 4 sets out the Authority's directed adjustment to the Licensee's reported system incentive performance.

2 Exceptional event notification submitted by the Licensee

2.1 The Licensee notified the Authority on 7 July 2015 that it considered a transmission service reduction that commenced on 1 July 2015 (and subsequently concluded on 25 July 2015) was caused wholly by an exceptional event.

2.2 The Licensee submitted a technical report to the Authority in support of this claim, which had been approved by Mott McDonald. The report found that the root cause of the failure was an installation defect in a bellows section of the gas insulated busbar on circuit 1. A spacer had not been fitted between the connectors in the busbar; this created a poor connection between the two connectors; and this in turn led to a high resistance connection and an internal flashover. Construction work at Gwynt y Mor was completed in 2013, around eighteen months prior to the date on which the Licence was granted to the Licensee.

3 Authority's reasons for its decision on the event

3.1 The Authority considered this claim against the terms of the licence using the general approach on the evaluation of exceptional events set out in an open letter published on 22 October 2014. The Authority is satisfied that the event was an exceptional event as defined under Amended Standard Condition E12-J1 of the Licence for the following reasons:-

- The Licensee identified that the transmission service reduction resulted from an installation defect in the busbar on circuit 1;
- The installation of the busbars was carried out at least eighteen months prior to the date the Licence was granted on 12 February 2015 and the point at which the offshore transmission

system was transferred to the Licensee. The busbars are located high in the switchroom, and are generally regarded as maintenance-free, requiring inspection after 25 years. As such the Licensee could not reasonably have known about this fault, especially as it occurred just five months after licence grant;

- There was no indication prior to the failure on 1 July 2015 that any installation defect was present. The Licensee conducted due diligence of the transmission assets prior to asset transfer which did not disclose the installation fault. There was also no indication that the developer of the assets was aware that the busbar had been installed incorrectly. Since asset transfer, the Licensee had adequate systems and processes in place to monitor the operation of the transmission assets. These did not indicate that there was any defect in the busbar. As such the Licensee could not have reasonably acted to prevent the failure event;
- The event was therefore beyond the reasonable control of the Licensee.

4. Authority's adjustment to the reported system incentive performance under Paragraph 10 of Amended Standard Condition E12-J4.

4.1 In accordance with Paragraph 11 of Amended Standard Condition E12-J4, the adjustment to reported system incentive performance shall be based on the extent to which the Authority is satisfied that the Licensee had taken steps, consistent with Good Industry Practice, to manage the impact of the event on the availability of services (both in anticipation of the event and after the event has occurred).

4.2 The Authority is satisfied that the Licensee acted in accordance with Good Industry Practice for the following reasons:-

- The Licensee has in place (and had in place prior to the busbar failure) operational and maintenance procedures which are consistent with Good Industry Practice. Specifically we note that the Licensee had in place adequate procedures to monitor cable conditions, adequate resources to perform monitoring and maintenance, and procedures to respond to a fault on its transmission system.
- After the occurrence of the busbar failure, the Licensee took prudent and timely steps to identify the root cause of the fault and mobilised appropriate resources to repair the fault in a timely manner. These steps were also consistent with Good Industry Practice.

4.3 Therefore, the Authority directs that the Licensee's reported system incentive performance be adjusted to offset the full duration of the outage: reported system incentive performance for incentive year 3 (beginning 1 January 2015) month 7 (July) be adjusted by 83,754 MWhrs to fully offset the impact of this event.

4.4 The duration of this outage was 25 days with an impact of 83,754 MWhrs. The Authority considers that within this period it is reasonable to assume that the Licensee would have been operating at full availability and so it is appropriate, given that they took reasonable steps to minimise the outage and followed Good Industry Practice, to adjust the availability to cover 100% of

the reported system incentive performance to offset the impact of the exceptional event. However, for longer outages the Authority may consider whether it would remain appropriate to adjust the availability back to a level of 100% for the relevant period or whether an alternative level of availability, for example based on longer-term average observed availability for OFTO assets, would be more appropriate.