GWYNT Y MÔR
OFTO

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CONFIDENTIAL

13 June 2016

Ofgem
9 Millbank
London
SW1P 3GE

Initially by email
stephen.beel@ofgem.gov.uk

For the attention of Stephen Beel

Dear Sirs

Income Adjusting Event pursuant to Amended Standard Condition E12-J3 of the offshore transmission licence of Gwynt y Môr OFTO plc (the OFTO), relating to an offshore cable outage affecting the transmission assets

As notified to Ofgem on 3 March 2015, the OFTO suffered a major fault on the subsea cable of Export Circuit 1 ("SSEC1") on 2 March 2015, 13 days after the transmission assets transferred to the OFTO. The purpose of this letter is to notify the Authority that we have now established that, in respect of relevant year 2 ending on 31 March 2016, the OFTO has incurred costs above the STC threshold amount of £1,000,000 due to this event.

We consider this fault to be within the meaning of "Force Majeure" under the STC and/or an event which the Authority should approve to be an income adjusting event due to the following reasons:

- The root cause analysis of the cable failure event indicates that the fault occurred due to damage sustained by the internal components of the cable during manufacturing (such damage being beyond the reasonable control of the OFTO).
- The manufacturing damage was not disclosed to the OFTO during the due diligence process and there is no indication that the developer knew about the manufacturing damage.
- The cable was placed on the seabed and was covered by a mattress.
- There was no indication during the period in which the cable was in operation and prior to the fault on 2 March 2015 that any manufacturing defect was present.
- Therefore, the OFTO could not have reasonably known or discovered the manufacturing fault during the due diligence process before the asset transfer or before the failure.

Based on the above, and the fundamental OFTO regime principle that OFTO should not bear construction-related risks, having taken advice from our legal advisers we believe that the SSEC1 offshore cable fault satisfies the criteria of an income adjusting event that could not have been foreseen or prevented by the OFTO.

We can demonstrate that this offshore cable outage has caused the OFTO's costs in relevant year 2 to increase by £10.2 million. These costs have been calculated based on invoices in respect of amounts paid to subcontractors and internal costs incurred by personnel dealing with the repair, including the cost of fault finding, spares, vessels, engineers, surveys, marine licence application, and testing, among others. It is worth noting that, in respect of internal time, this figure has only taken into account costs spent directly managing the repair and not general management costs.

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[redacted] the OFTO is proposing that the allowed income adjustment to cover the consequence of the cable fault should be the full cost of the repair of £10.2 million. [redacted]

The OFTO envisages for the final amount to be an amount that would ensure, so far as reasonably practicable, the financial position and performance of the OFTO are the same as if the income adjusting event had not occurred.

We would be grateful if you could provide guidance on the type of supporting information you require from us to enable the Authority to fully assess the income adjusting event and its consequences on the OFTO's financial position, as well as allow the Authority to approve the OFTO's income adjustment.

Yours faithfully

Simon Rooke
On behalf of
Gwynt y Môr OFTO plc

Enc Appendix 1: [redacted]

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STRICTLY PRIVATE AND CONFIDENTIAL

30 June 2016

Ofgem
9 Millbank
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Initially by email
Yvonne.naughton@ofgem.gov.uk

For the attention of Yvonne Naughton

Dear Yvonne

Gwynt y Môr OFTO plc (the "OFTO"): additional information in support of notices pursuant to amended standard licence condition E12 – J3

In your letter of 17 June 2016 you have requested the OFTO to provide additional information to enable the Authority to fully assess the Income Adjusting Events.

[redacted]

At this time we can provide the following information that you requested in your letter.

1. ***Details of the major fault on 2 March 2015 on SSEC1 and any previous failures/technical concerns with this cable.***

   Please see Appendix 1 for the Exceptional Event Claim and supporting Edif ERA ("ERA") report in relation to the fault on SSEC1 submitted by the OFTO to the Authority on 11 December 2015. We believe that both of these documents will resolve your Question 1 as they provide the details of the fault occurring on 2 March 2015 and outline previously known cable issues and how the OFTO addressed those prior to asset transfer.

2. ***Details of the major fault on 25 September 2015 on SSEC2 and any previous failures/technical concerns with this cable, if not already provided in the [redacted]***

   This information is covered by the [redacted] report which was enclosed with the original IAE Notice.

3. ***An explanation of why the major faults to SSEC1 and SSEC2 each constitute events of Force Majeure under the STC and what action, if any, you have taken under paragraph 8 of section G of the STC.***

   Force Majeure under the STC is defined to include any event or circumstance which is beyond the reasonable control of a party which results in or causes the failure of that party to perform any of its obligations under the STC, and includes any fault or failure of Plant and Apparatus which could not have been prevented by Good Industry Practice (each as defined in the STC).

   The OFTO considers the cable failures in respect of SSEC1 and SSEC2 each to be within the meaning of Force Majeure for the following reasons.

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Fault or failure of Plant beyond reasonable control of the OFTO

Plant is defined in the STC to include fixed and moveable items used in the transmission of electricity and would therefore include the SSEC1 and SSEC2 cables.

In respect of the failure of SSEC1, ERA concluded (amongst other things) the following:

- Evidence of mechanical damage was found on the lead sheath of one of the power cores immediately adjacent to the fault site and no corresponding damage was found on the outer serving or steel armour wires. Therefore it was concluded that the damage to the lead sheath must have been sustained during the manufacture/laying up process, prior to cable armouring.
- Corrosion of the armour of the fibre optic cable started adjacent to the mechanical damage on the power core. This suggested that the sheath of the fibre optic cable may have been damaged at the same time as the lead sheath.
- Electrical activity between the corroded armour wires and/or steel tube of the fibre optic cable and the power core damaged the power core and led to the insulation breakdown.

The cable failure on SSEC1 was concluded to be due to damage during manufacturing or laying up. As this was prior to asset transfer, the failure was beyond the reasonable control of the OFTO.

In respect of the failure of SSEC2, [redacted] concluded (amongst other things) the following:

- [redacted]
- [redacted]
- [redacted]

The cable failure on SSEC2 was concluded to be due to damage during manufacturing, storage prior to laying up or during the laying up process. As this was prior to asset transfer, the failure was beyond the reasonable control of the OFTO.

Good Industry Practice

Balfour Beatty Investments and Equitix as shareholders of the OFTO ("BBEC") conducted comprehensive technical due diligence on all aspects of the transmission assets prior to asset transfer and continued to monitor the transmission assets, including the cables, post asset transfer. There was no indication of any problems in respect of SSEC1 or SSEC2 before their respective failures.

BBEC, together with [redacted] as funders' technical adviser (the "TA") and [redacted], conducted comprehensive and thorough due diligence on all aspects of the transmission assets prior to asset transfer. On the cables in particular, they reviewed installation records, monthly cable loading history, all of the Factory Acceptance Tests ("FATs") results, Site Acceptance Tests ("SATs") results, DTS data and asset loading data made available prior to asset transfer. There was no evidence of the relevant damage to SSEC1 or SSEC2 revealed by this process. The TA concluded all acceptance test requirements of the relevant standards were met and that SSEC1 and SSEC2 were operating as expected at the time of asset transfer. To gain further confidence in the capabilities of the asset, BBEC and the TA requested that Gwynt y Môr Offshore Wind Farm Limited as generator

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("GyMOWFL") monitored and reported on the loading of the circuit to demonstrate that the assets were operating normally.

Furthermore, the relevant damage in respect of either SSEC1 or SSEC2 was not recorded in manufacturing records.

Therefore, there was nothing that the OFTO could have reasonably done to foresee, detect or prevent the failures. The OFTO could not reasonably have known about the manufacturing damage or have controlled the damage that it was not aware of, either prior to asset transfer or in the period after transfer prior to the failures occurring.

For further details of the due diligence undertaken by BBEC on the cables, please see the Exceptional Event Claim at Appendix 1.

Post asset transfer, there was no indication from monitoring the DTS data or any SCADA alarms that indicated an issue with either of the cables.

There was no planned maintenance required on the assets after transfer before the respective failures occurred and Balfour Beatty Power Transmission and Distribution ("BBPT&D"), the O&M contractor, had not carried out any works near the cables. Radar trials of vessels in the area at the time of the fault show no vessels passing close enough to cause damage. This was confirmed at the laboratory test, where no external damage was seen.

Given each of the failures resulted from damage that occurred to parts of the cables during manufacturing and/or laying up (or storage), the OFTO considers that no maintenance or monitoring that could have been carried out in the period after asset transfer that could have prevented this failure.

The OFTO took a proactive approach to due diligence on the cables and continued to act with diligence post asset transfer. The OFTO acted, at all relevant times, with the level of skill, diligence, prudence and foresight that would reasonably and ordinarily have been expected from a person in the OFTO's position.

Effect on STC obligations

The failures in respect of SSEC1 and SSEC2 resulted in the failure of the OFTO to perform its obligations under paragraph 2.1.1 of Section C of the STC in respect of those cables.

Actions taken by the OFTO under paragraph 8 of Section G

[redacted] provides a 24/7 control room services to the OFTO [redacted]. The [redacted] Control Centre received first indications of the network faults via remotely monitored SCADA, and these were initially notified by the [redacted] to the National Grid NETSO Control Centre by telephone. The standby engineer was sent to investigate on site and, following confirmation of the fault scenario, further contact with NETSO confirmed the outage requirement via issue of a formal Transmission Status Certificate ("TSC") that was circulated by email between the parties. The preparation and issue of the TSC included initial sharing of basic information about likely prognosis.

Repair plans were put in place to diagnose the exact causes of the faults and to carry out rectification works. Pursuant to the failures on SSEC1 and SSEC2, the OFTO carried out successful repairs of the assets, managing variable considerations including time, safety, numerous stakeholders and weather conditions, whilst at all times using all reasonable efforts to control and minimise costs. The main activities involved in repairing the cable included locating the fault site, tendering for the repair work, preparing and applying for the repair marine licence, taking out additional insurance to cover the works and then carrying out the actual cable repair and jointing work.

Throughout the implementation of the repair work, informal dialogue was maintained with NETSO regarding the status of the network. This mainly comprised telephone conversations between the OFTO

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(site and control centre) and the NETSO control centre. As the repairs approached completion and preparations for re-commissioning were finalised, formal processes of raising further TSCs were undertaken to allow the return to service of the assets.

Full availability was restored in respect of SSEC1 on 16 June 2015 and in respect of SSEC2 on 26 February 2016.

a. Your response should include details of the 'manufacturing damage' to the cable SSEC1, particularly evidence that it is a manufacturing fault and why it could not have been foreseen or prevented by the OFTO.

Please see the answer to Question 3 above and Appendix 1 for the Exception Event Claim and supporting ERA report referred to in the answer to Question 1 above, which we believe addresses your Question 3a. In particular, the ERA report outlines the evidence for the fault being a manufacturing fault, and the Exceptional Event Claim Narrative describes why the fault could not have been foreseen or prevented by the OFTO.

4. ***A detailed explanation as to how the amounts of £10.2m and £14.2m have been calculated, including:***

a. a breakdown of the costs incurred as a result of each IAE;

b. an explanation of each cost and how the cost is a consequence of the event including costs spent 'directly managing the repair'; and

c. invoices to support each cost.

Please see Appendices 2 and 3 for this information in relation to SSEC1 and SSEC2 faults respectively.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

1 [redacted]

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[redacted]

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[redacted]

6. ***We are obliged to publish the Notices. Can you please identify any information in your revised submissions that you consider is confidential.*** [redacted]

[redacted]

Should you require additional information to enable you to process these claims, please do not hesitate to contact me.

Yours faithfully

Simon Rooke
On behalf of
Gwynt y Môr OFTO plc

Enc. Appendix 1: Exceptional Event Narrative and Edif ERA report for SSEC1 fault
Appendix 2: SSEC1 IAE cost information and supporting documentation
Appendix 3: SSEC2 IAE cost information and supporting documentation
Appendix 4: Original IAE Notices for SSEC1 and SSEC2 with proposed redactions
Appendix 5: Additional information in support of notices with proposed redactions