

CONFIDENTIAL

22 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 (the "Licence") of Thanet OFTO Limited (the "OFTO"), relating to an offshore cable outage affecting the transmission assets

As notified to Ofgem on 24 February 2015, the OFTO suffered a major fault on the subsea cable of Export Circuit 1 (the "Cable") on 23 February 2015. The purpose of this letter is to notify the Authority that we believe 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.

[REDACTED]

On the basis of the draft report (the "Report")¹ prepared by [REDACTED] and addressed to the insurer's loss adjuster [REDACTED] (see Appendix 1), 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:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹ We acknowledge that the Report is in draft form and that the Authority will require the final report before assessing the event in full. Kindly note that this letter is being shared with the Authority now in the interests of time.

[REDACTED]

[REDACTED]

[REDACTED]

On the basis of the Report, the above points and the fundamental OFTO regime principle that OFTO should not bear construction-related risks, we believe that the Cable fault satisfies the criteria of an income adjusting event that could not have been foreseen or prevented by the OFTO.

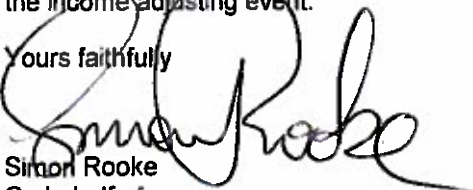
We can demonstrate that offshore cable outage has caused the OFTO's costs in relevant year 2 to increase by £11.7 million. These costs have been calculated based on invoices in respect of amounts paid to subcontractors and internal costs incurred by personnel dealing with the repair, including the cost 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.

[REDACTED]

[REDACTED]

In addition to the final report prepared by [REDACTED], all of which the OFTO will communicate to the Authority as soon as it is able to, we would be grateful if you could provide guidance on any further information you require from us at this stage to enable the Authority to fully assess the income adjusting event.

Yours faithfully



Simon Rooke
On behalf of
Thanet OFTO Limited

Enc Appendix 1: [REDACTED] Thanet Export Cable-Report

STRICTLY PRIVATE AND CONFIDENTIAL

30 June 2016

Ofgem
9 Millbank
London
SW1P 3GE

Initially by email
Yvonne.naughton@ofgem.gov.uk

For the attention of Yvonne Naughton

Dear Yvonne

Thanet OFTO Limited (the "OFTO"): additional information in support of notices pursuant to amended standard licence condition E12 – J3

In your letter of 17 June 2016 you requested Gwynt y Môr OFTO plc to provide additional information to enable the Authority to fully assess the Income Adjusting Events in respect of the Gwynt y Môr OFTO. In anticipation of the similar request with regards to the Income Adjusting Event in respect of the Thanet OFTO (as notified to the Authority on 22 June 2016), the OFTO has put together certain supporting information to enable the Authority to start assessing the OFTO's claim relating to the offshore cable outage of 23 February 2015. We will continue to provide you with additional relevant information as and when it becomes available.

1. Details of the major fault on 23 February 2015 on Export Circuit 1 ("EC1") and any previous failures/technical concerns with this cable.

Please see Appendix 1 for the [REDACTED] and supporting [REDACTED] report, which was also submitted with the original notice, in relation to the fault submitted by the OFTO to the Authority on 8 April 2016. These documents provide the details of the fault occurring on 23 February 2015 and outline previously known cable issues and how the OFTO addressed those prior to asset transfer.

2. An explanation of why the major fault constitutes an event 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 failure in respect of EC1 to be within the meaning of Force Majeure for the following reasons.

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 EC1 cable.

In respect of the failure of EC1, [REDACTED] concluded (amongst other things) the following:

[REDACTED]

█ [REDACTED]

█ [REDACTED]

The cable failure was concluded to be due to manufacturing defects. The fault (having occurred during the manufacturing process) occurred prior to asset takeover and was therefore beyond the reasonable control of the OFTO.

Good Industry Practice

[REDACTED]

[REDACTED]

The OFTO conducted comprehensive and detailed technical due diligence on all aspects of the transmission assets prior to asset takeover and continued to monitor the transmission assets (including EC1) post asset takeover. There was no indication of any problems in the region of the cable on which the failure occurred at any point prior to the failure.

[REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The OFTO could not reasonably have known about the extent of the manufacturing defects or controlled the damage it was not aware of, either prior to asset transfer or in the period post transfer prior to the failure occurring. The OFTO took a proactive approach to due diligence on the cables [REDACTED]

[REDACTED] 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 failure in respect of EC1 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 the cable.

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 fault via remotely monitored SCADA, and this was 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.

A repair plan was put in place to diagnose the exact cause of the fault and to carry out rectification works. Pursuant to the failure on EC1, the OFTO carried out successful repairs of the assets, managing variable considerations including time, safety, numerous stakeholders and tidal 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 (site and control centre) and the NETSO control centre. As the repair 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 of EC1 was restored on 7 July 2015.

3. **A detailed explanation as to how the amount of £11.7m has 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 Appendix 2 for this information in relation to EC1 fault.

4. **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
Thanet OFTO Limited

- Enc. Appendix 1: [REDACTED] report for Export Circuit 1 fault
Appendix 2: Export Circuit 1 IAE cost information and supporting documentation
Appendix 3: Original IAE Notice for Export Circuit 1 with proposed redactions
Appendix 4: Additional information in support of the original notice with proposed redactions