

OFTO Tender Round 6 (TR6) Launch Event



Cathryn Scott
Jourdan Edwards
09/10/18

Welcome

Cathryn Scott,

Director, Wholesale Markets and Commercial,
Ofgem

| | Time |
|---|----------------------|
| Welcome & Overview of the OFTO Regime Cathryn Scott, Director, Wholesale Markets and Commercial, Ofgem | 10.00 – 10.10 |
| Introduction to Tender Round 6 (TR6) & Changes to the Tender Process Jourdan Edwards, Head of the OFTO Regime, Ofgem | 10.10 – 10.30 |
| TR6 Projects – Project overviews and key highlights <ul style="list-style-type: none">- Beatrice- Hornsea 1- East Anglia ONE | 10.30 – 11.30 |
| OFTOs – Market Update David MacGray, Director, PwC | 11.30 – 11.45 |

| | Time |
|--|----------------------|
| Panel Q&A <ul style="list-style-type: none"> • Cathryn Scott, Director, Ofgem; • David MacGray, Director, PwC; • Vanda Hamidi, Project Director, Atkins; • Steve Wilson, Project Director, SSE • Duncan Clark, Programme Director, Ørsted; • Michael Hotze, OFTO Package Manager / Richard Britton, Head of Regulated Transactions, Scottish Power; | 11.45 – 12.15 |
| Next Steps Jourdan Edwards, Head of the OFTO Regime, Ofgem | 12.15 – 12.20 |
| Close and Networking Opportunity | 12.20 – 13.30 |

Our objectives for the OFTO regime

- (i) Deliver transmission infrastructure to connect offshore generation:
 - on a timely basis;
 - ensure that OFTOs are robust; and
 - deliver transmission services successfully over the licence period
- (ii) Provide certainty and best value to consumers through the competitive process; and
- (iii) Attract new entrants to the transmission sector.

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Tender rounds we have initiated
TR1 2009, TR2 2010, TR3 2014, TR4 2016, TR5 2016

21

Total number of projects in the first 5 tender rounds

16

Operational OFTOs in place

4.6GW

Approximate number of gigawatts of electricity connected through
OFTOs by all the projects in TR1, TR2, TR3 and TR4

Over 99%

OFTO availability performance since the first licence grant

£3.1bn

Investment to date (*up to and including TR4*)

£600m
to £1.1b

Savings to consumers from TR1-3 as estimated by independent
evaluation (*Evaluation of OFTO Tender Round 2 and 3 Benefits, 2016*)

5

TR5 Projects:

Dudgeon, Race Bank, Rampion, Galloper, Walney Extension

2.37GW

Approximate number of gigawatts of electricity through 5 OFTOs

£2bn+

Total Investment Opportunity

Tender Round 6 (TR6)

Jourdan Edwards

Head of the OFTO Regime, Ofgem

Changes to the Tender Process

- 8 March 2018 - Ofgem released an open letter "OFTO Tender Process Policy Consultation For Future Tender Rounds"
- This document placed potential proposals to amend the tender process which outlined two potential changes
 - **Moderate**
 - Converting the ITT to a threshold
 - Lowest price qualifying bidder being appointed
 - Consider removing further questions from the ITT questionnaire
 - **Significant**
 - No bidder shortlist at EPQ
 - No robustness questions at ITT
 - Lowest bidder appointed

Objectives:

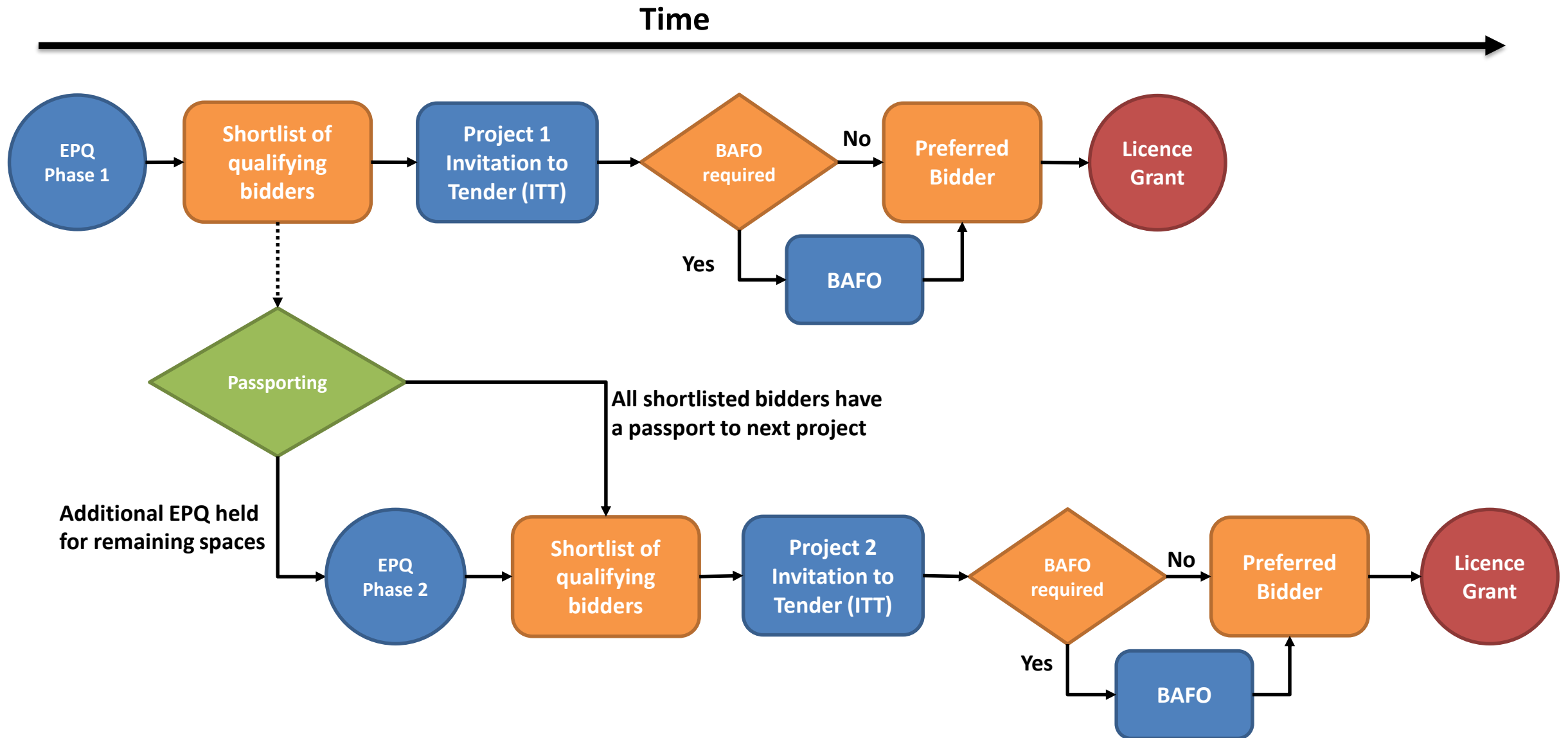
- Deliver transmission infrastructure to connect offshore generation, on a timely basis, and ensure that OFTOs are robust and can deliver transmission services successfully over the licence period;
- Provide certainty and best value to consumers through the competitive process;
- Attract new entrants to the transmission sector; and
- Undertake streamlined and efficient tender processes.

Responses:

- Owing to wide scope of the consultation, there were many varying views on the proposals as well suggestions outside of our change packages.
- General views from the responses was that significant change was not supported.
- Ensuring deliverability/robustness of the bid submissions was a key feature of responses.

Changes to the TR6 Process

| | | | |
|----------------------|--|--------------------------------------|----------------------|
| EPQ | Up to 8 shortlisted bidders | EPQ Passporting | |
| ITT | Pass threshold of deliverability increased | Section 8 blended in to Sections 3-6 | Lowest TRS Appointed |
| Process Improvements | Greater tender guidance | Refining ITT questions | Standardised VDD |
| Licence | 25 year revenue term | | |



TR6 Projects

- **Beatrice**

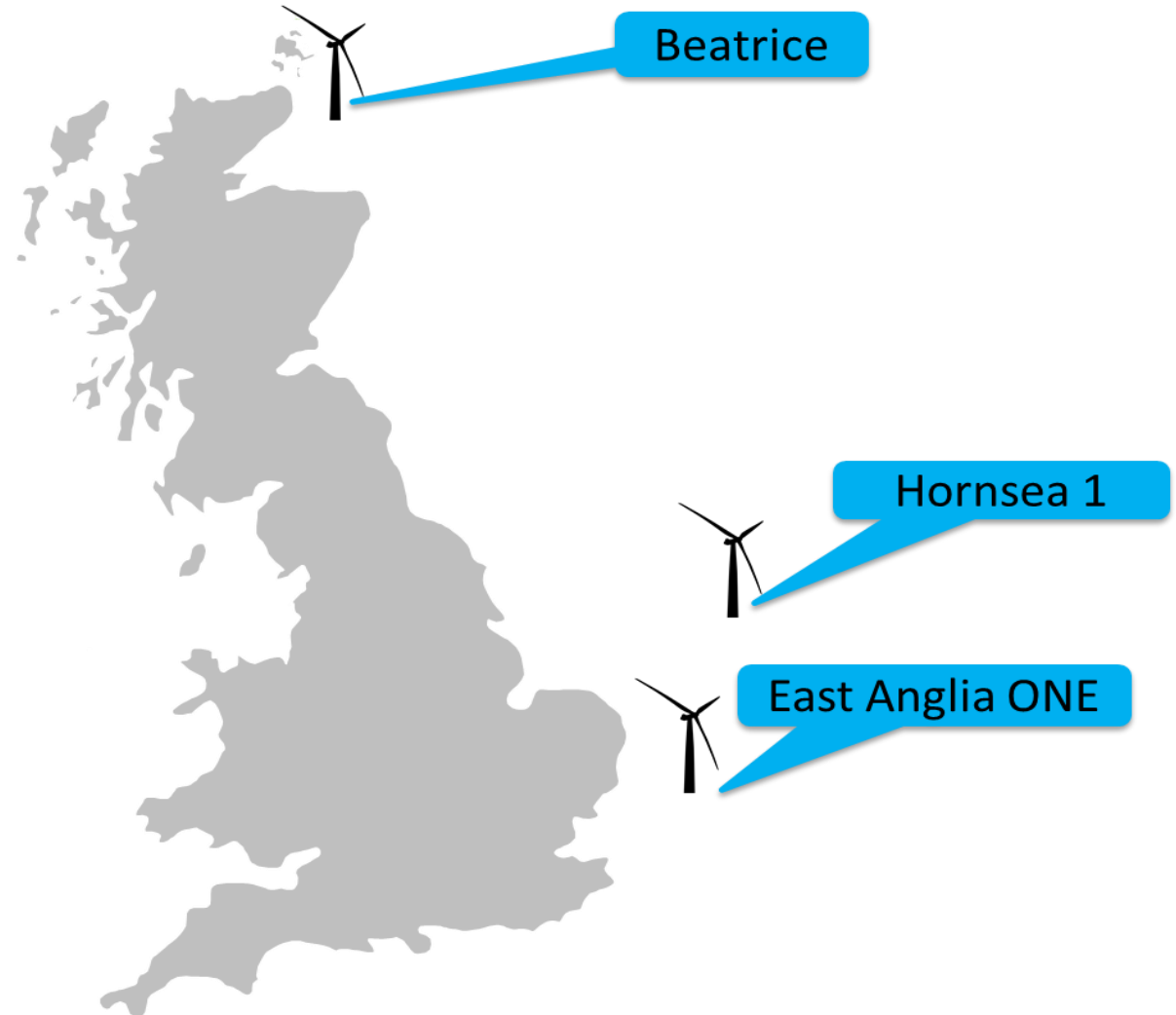
- 13km from Caithness Coast
- 588MW
- ITT – Est. April 2019

- **Hornsea 1**

- 120km from Yorkshire/Lincolnshire Coast
- 1.2GW
- ITT – Est. June 2019

- **East Anglia ONE**

- 43km from Suffolk Coast
- 714MW
- ITT – Est. February 2020



OFTOs – Market Update

David MacGray

Director, PwC

Corporate Finance

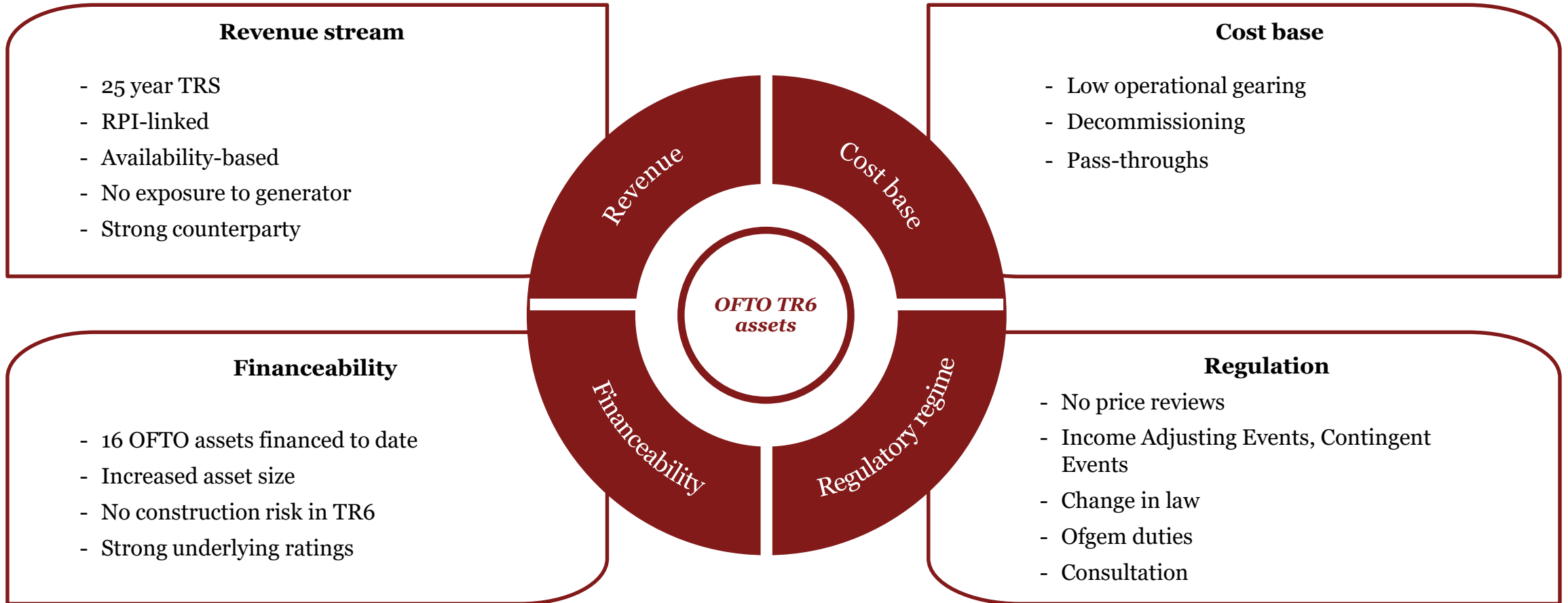
OFTO Tender Round 6

Market update

9th October 2018

pwc

Key characteristics



Financial markets

Sources of debt

Previous OFTOs have been financed by each of:

- Commercial bank (project finance)
- Private placement bonds
- Public bonds

EIB lending / credit enhancement no longer available in UK

UK Treasury Guarantee scheme credit enhancement product available but only at commercial rates

Lender & investor proposition

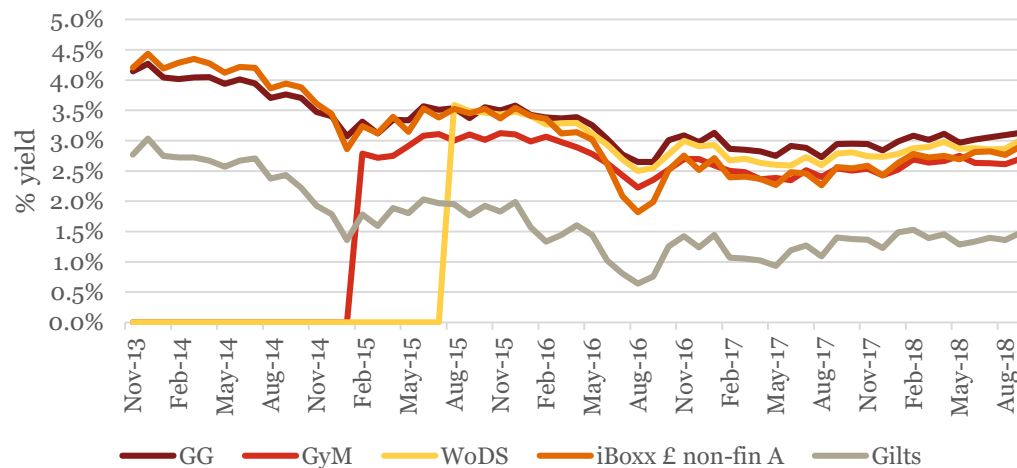
OFTO assets provide stable, RPI-linked returns and the structure supports investment grade ratings

Limited volumes of new project finance opportunities within the UK

Spreads for existing OFTO bonds have stayed tight and relatively stable over past few years

Secondary market (selected transactions below)

OFTO/iBoxx vs gilts



| OFTO | Buyer | Stake (%) | Transfer Value | Trans. size GBP(m) |
|-----------------|--|-----------|----------------|--------------------|
| Greater Gabbard | Equitix Fund IV | 33.33 | 317 | N.d. |
| Greater Gabbard | Equitix Fund IV | 33.33 | 317 | 25.5 |
| West of Duddon | Pensions Infrastructure Platform (PIP) PPP Equity Fund | 50 | 269 | N.d. |
| Thanet | Equitix Fund III | 80 | 164 | 40 |
| Walney 1 | Diamond Transmission Corporation | 50 | 105 | N.d. |

Financial submissions

Financial submission requirements will broadly follow those seen in Tender Round 5.

However, some changes are being considered to help bidders consider a range of financial structures...

Financial structures

To allow bidders to effectively price a range of viable financial structures, we are considering providing a **wider range of:**

- Bond **spread** assumptions for different ratings
- Reference rate **tenors**
- **Settlement** basis (i.e. 3m vs 6m)

Implications

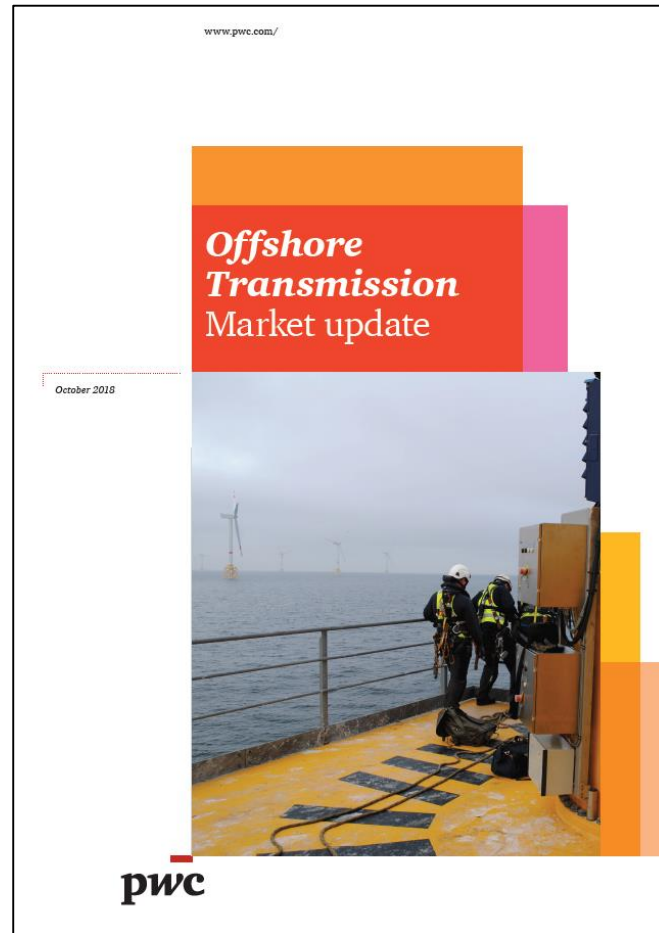
Where a range of assumptions are provided, the Market Rate Adjustment (MRA) mechanism will only cover those assumptions chosen by bidders.

Supporting evidence

Bidders will need to demonstrate deliverability of any financial solution.

Where bond solution is chosen, we are considering requiring a rating assessment (RES/RAS) to be submitted as supporting evidence at ITT.

Please see our publication for more information...





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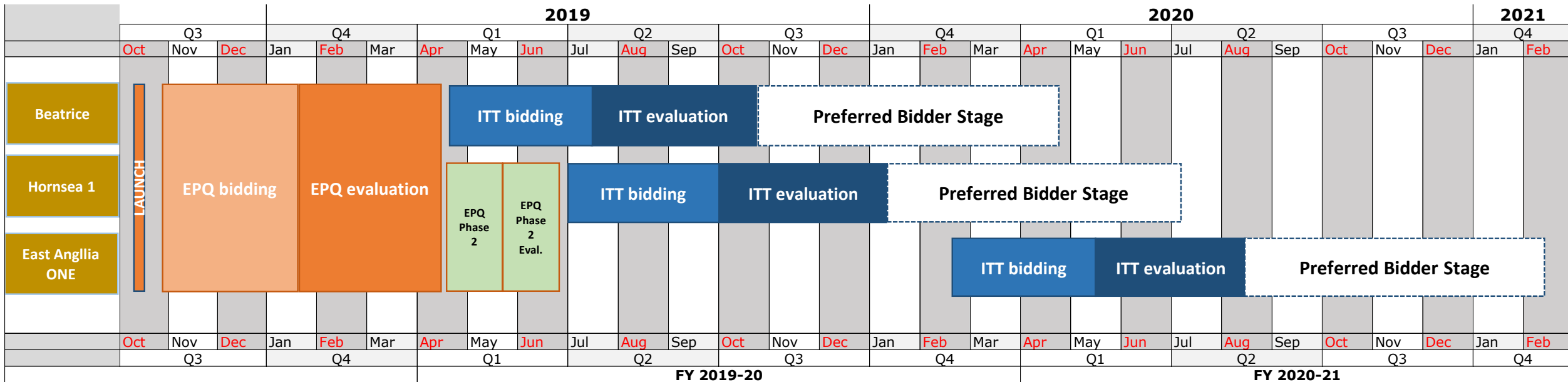
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Panel Q&A

Next Steps

Jourdan Edwards

Head of the OFTO Regime, Ofgem



Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.