<u>Question 1: Do you have any views on the project finance variations requested by developers?</u>

Variation 1: Reduce the default five-year revenue assessment period to one year

We tend to share the views of the developers that a longer revenue assessment period is challenging to support project finance debt. Project finance is reliant on a stable and largely predictable cashflow in order to meet defined debt service obligations. Potentially having to wait up to 5 years (or more depending on how quickly settlement would occur) would be inconsistent with a project financing. Having one year assessments is more closely aligned with the typical cash flow profile in a project financing.

Variation 2: Consider changes to the principle underpinning our minimum availability threshold of 80%

The risk that a project loses the support of floor revenue at a certain availability threshold could cause potential issues, particularly as it would potentially be a non-linear reduction in expected revenues. Any availability threshold would be subject to further due diligence, particularly around expected and achieved availability on similar interconnectors and any potential regulatory support/relief for non-fault claims/outages. We note that the OFTO's revenue floor of 90% of base case has created an asset class that attracts very competitive finance terms.

Variation 3: Broaden our definition of force majeure under the default regime to include additional events necessary for enabling project finance funding

We would need to understand the reason that Ofgem has sought to narrow the definition of FM compared to similar projects (e.g. OFTOs). We would support the developers views to align FM definitions accordingly.

Variation 4: Use project-specific actual cost of debt and gearing to set the cap and floor levels, rather than the default notional cost of debt and gearing

We agree with developers that when setting the tariff that this is aligned to the actual cost of debt rather than a reference for a different asset class. This basis risk may be too large for lenders to bare and would also make it more difficult to hedge. As such, we believe any WACC component in the tariff should reflect the true gearing/cost of debt.

Variation 5: Maintain 25-year regime length

We share the developers concerns that requiring a firm deadline for connection after which the duration of the contract reduces increases risk to the project. In other jurisdictions, there is typically a day-for-day relief for events outside of the control of the owner/contractor. This is particularly heightened where operating offshore where construction works can be impacted by weather/sea conditions. If the project is exposed to a reduction in contract length, this may have an adverse impact on the tenors achievable on project finance debt.

<u>Greenlink Specific Variations:</u>

Additional non-controllable costs

We would expect that an increased cost provision and/or agreement that events that are outside of the Project's control should be capable of being recovered. For example, a number of Change in Law provisions require both parties to maintain the position held prior to the Change in Law taking place.

Exchange rate changes between FPA and Financial Close

We agree that the tariff should be capable of adjustment for changes to foreign exchange and interest rates at Financial Close.

Threshold for Income Adjusting Events(IAEs)

The ability of the project to be able to absorb additional costs would be subject to financial modelling due diligence. Developers and/or Ofgem should consider the impact to Debt Service Cover Ratios due to increased costs that do not meet the threshold.

Incentives when revenues are above the cap.

We do not believe this to be a key bankability point.

<u>Neuconnect Specific Variations:</u>

Modifications to the PCR

We share some concerns with Neuconnect regarding the scope of Ofgem's Post Construction Review and the potential for the floor revenue to be significantly reduced following review. We would suggest that any measures which could reduce revenues post-construction should be well understood and adequately mitigated to support limited recourse project finance.

NETSO payments

We would expect timely recovery of floor revenues and that this period be reduced to ensure that volatility in cash flows are limited. Having to wait significant periods of time for reimbursement would have large working capital issues for projects.

<u>Question 2: Do you agree with our categorisation of key and additional variations? Are there any additional factors we should consider?</u>

We have outlined above our views on the variation requests above.

<u>Question 3: Is there additional evidence that we should take into account when considering the implications for consumers and developers of either granting or rejecting the key variation requests?</u>

We do not have specific evidence to provide at this moment in time.