

**CONFIDENTIAL**

13 June 2016

Ofgem  
9 Millbank  
London  
SW1P 3GE

Initially by email  
[stephen.beel@ofgem.gov.uk](mailto: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.

[REDACTED]

[REDACTED]

[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]