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Greenlink Interconnector – FPA timetable update

Dear Stuart,

Thank you for meeting with Greenlink on 26 July 2018 to discuss the project's proposed phased FPA timetable.

Following our discussion, we set out below key components of Greenlink's proposed FPA process:

- (a) Greenlink's project programme through to financial close;
- (b) a phased FPA programme;
- (c) Greenlink's proposed process to request variations to selected cap & floor parameters to facilitate project financing;
- (d) the contents of Greenlink's phased FPA submissions;
- (e) alignment of CRU's IPA and FPA; and
- (f) alignment of Ofgem's final FPA review and financial close

We expand on each of these points below to demonstrate that Greenlink is on track to achieve its development milestones, commence the construction phase in 2020 and commence operations in 2023.

(a) Greenlink's project programme through to financial close

We provided a regulatory timetable to Ofgem and CRU (together the NRAs) in November 2017 to achieve IPA in Ireland by September 2018 and commence a phased FPA process immediately thereafter. To date Greenlink has met the milestones of the project timetable and is on course to maintain the programme through to financial close in mid-2020.

The project programme has been developed by Greenlink with its technical, financial and legal advisors to achieve competitive procurement and efficient debt raising processes, while respecting all permitting and consenting laws and providing adequate time for the NRAs to review the project to provide regulatory certainty. The core elements of the programme consist of:

EPC Procurement Process

Greenlink appointed consultant engineer, WSP, in March 2018 to assist in the procurement process. In May 2018 WSP started the first part of a three-part EPC procurement programme by undertaking a Market Consultation. WSP approached major companies operating in the HVDC market, including all the top tier suppliers with a series of project specific questions including:

- proposed procurement procedure and process;
- commercial framework including the procurement lotting strategy, form and duration of the contract;
- technical design and performance parameters;
- preliminary construction methodology;
- maintenance and services provision in operational phase; and
- initial pricing data with breakdown of the main scope of supply elements.

Greenlink and WSP have completed an initial analysis of the responses of the Market Consultation to inform the preparation of an Expression of Interest (EOI) and develop a pre-qualification questionnaire (PQQ) for suppliers.

Greenlink and WSP will commence an OJEU compliant procurement process by issuing a request for suppliers to submit a completed EOI in time to target its return ahead of an initial FPA submission at the end of September 2018. The PQQ will be issued at the same time as the EOI, for which returns and evaluation are targeted for October 2018.

In the second stage of the EPC procurement process, Greenlink will issue an invitation to negotiate (ITN) in November 2018 and anticipate receiving the first tender submissions from suppliers by early March 2019.

Greenlink proposes to make a further FPA submission to the NRAs at the end of March 2019, which would be based on these ITN tender returns. A report of tender submissions would be provided to the NRAs as evidence in support of the submission.

In the third stage of the EPC procurement process, Greenlink will issue a further ITN to a shortlisted number of suppliers in June 2019 with a target second tender submission from these suppliers in August 2019.

Greenlink will select a Preferred Bidder in October 2019.

Greenlink proposes to make a further FPA submission by end October 2019, which would allow Greenlink to incorporate the second ITN tender returns and details of the Preferred Bidder to the NRAs. A report of the tender submissions would be provided to the NRAs as evidence in support of the submission.

Financing

Greenlink is proposing that the construction of the project will be financed utilising capital from the private sector. Alongside the equity funding from the project's shareholders, Greenlink believes that to achieve an optimal and cost-effective structure, non-recourse project financing underpinned by a symmetric cap & floor regulation in UK and Ireland is likely to be utilised. The project therefore needs to be arranged in a way

that is conducive to such a structure. To this end Greenlink and its financial advisor, KPMG, approached European market-leading lenders in June and July 2018 to discuss the financing of cap & floor interconnectors and obtained lenders feedback on key parameters in the context of providing cost-effective project finance. The feedback from lenders will inform Greenlink's request to the NRAs to vary certain parameters of the cap & floor regulation to facilitate project finance. Greenlink will continue discussions with the NRAs on proposed variations through to June 2019 with a view to obtaining agreement on the final cap & floor regulation that can be provided to lenders as the basis of a competitive debt raising exercise commencing in November 2019 and concluding at financial close mid-2020.

Permitting and Consenting

During 2017 and the first half of 2018 Greenlink determined its preferred cable route selection and will complete its onshore ground investigations and surveys by end 2018. Following completion of the analysis of the marine surveys, Greenlink will make its major consent applications in Ireland and UK in March 2019 and expects the consenting process to complete by March 2020 in advance of financial close in mid-2020.

Grid Connections

Greenlink will submit a modification application to National Grid (NGET) to make some minor modifications to Greenlink's bilateral grid agreements with NGET for the connection at the Pembroke substation. These modifications will update the programme dates in the grid agreements to align with the current project programme dates and will update technical aspects of the grid connection.

Greenlink is mid-way through discussions with EirGrid on the connection at Great Island. EirGrid have confirmed it will issue a connection offer to Greenlink with the connection ready to operate once site related works are completed. Discussions with EirGrid and NGET have commenced regarding operational Tripartite and Bilateral Interconnector Agreements.

(b) A phased FPA programme

We have discussed with Ofgem our proposal for a phased FPA submission process whereby there would be three milestone dates at which time Greenlink would submit to the NRAs an update on the procurement process including the latest cost information available from the supply chain. The three milestones are identified and described in more detail in part (a) of this letter. This phased FPA process takes account of the timing of the development of Greenlink, which in turn has been driven by the regulatory approval processes of the NRA's.

This approach would allow Greenlink to meet the project programme while also allowing the NRAs certainty over what information will be available at each point in the process, including the firmness of the cost information, allowing for planning of the review process and ensuring the review process is as efficient as possible. A phased FPA will allow Greenlink to maximise competitive tension through the procurement process, thereby minimising project costs which is in the best interests of consumers.

To recap, the proposed targeted milestone dates are:

- i. 30 September 2018 for initial FPA submission;
- ii. end March 2019 for updated cost information from the supply chain tenders following stage 1 of the EPC procurement process; and
- iii. 31 October 2019 for further updated cost information following stage 2 of the EPC procurement process and appointment of a preferred bidder.

In our view, the phased FPA approach that has been proposed by Greenlink allows Ofgem to take a more project-specific and pragmatic approach to the FPA process, while still delivering the important benefits to Greenlink that flow from an initial FPA submission being made to Ofgem in September 2018. Further details on the submission in September 2018 are provided below.

(c) Greenlink's proposed process to request variations to selected cap & floor parameters to facilitate project financing

Greenlink's objective is to achieve symmetrical cap & floor regulation between Ofgem and CRU to facilitate a single project financing structure and to minimise financing costs in order to maximise value to consumers. We recognise both NRAs will have country specific metrics that will need to be reflected in the cap & floor's special conditions. However, an agreement on the broad parameters of cap & floor between the NRAs at an early stage will allow Greenlink to advance its financing process in parallel with the EPC procurement process and increase the overall efficiency of the development timetable.

Based on feedback from lenders, Greenlink and KPMG have identified a number of items of the cap & floor structure that are challenging for a project financing structure. These items were discussed between Greenlink and Ofgem on 22 May 2018 and continue to a subject of discussion between us. Greenlink will make a draft submission of its proposed variations in August 2018 and following discussions with Ofgem and receiving feedback, Greenlink will make a full and final request for variations by end of 2018. Greenlink is expecting agreement of the cap & floor variations by mid-2019. Certainty on the cap & floor regulatory regime will be a pre-requisite to achieve a successful debt funding competition. Clearly a similar process will have to be undertaken with the CRU.

(d) Overview of the contents of Greenlink's initial phased FPA submissions;

Greenlink proposes to include the following elements in its initial FPA submission at the end of September 2018:

- Description of the Greenlink Interconnector project including the technical design and performance requirements.
- Details of the pricing received from the Market Consultation as part of the first stage of the EPC procurement process. This will include an analysis of the degree of certainty that can be applied to the costs received to date from the market and the expected timelines for increased certainty on those costs which will be shared with Ofgem. These expected timelines will be based on the EPC procurement programme and the timing

for receipt of responses from the pre-qualified suppliers at each of the two stages of the formal tender process.

- An analysis of any cost variances from IPA cost submission and an analysis of the source of any variations.
- A list of companies that have submitted an EOI for the supply, installation and testing of equipment.
- Details of the contracting approach Greenlink intends to take for EPC contracts. Greenlink is currently developing the contracting strategy and the draft contracts with WSP and Greenlink's legal advisor, CMS.
- Detailed information of the next steps in the EPC procurement process for the project and timelines for same.
- Details of the operating and maintenance services strategy and requirements.
- An update of the development status of Greenlink, including evidence of the commencement of sub-sea surveys.

The initial FPA submission will also include details on the proposed financing structure for the construction phase including:

- an overview of the proposed financial structure envisaged utilising non-recourse project finance; and
- the approach to debt finance raising and the criteria and market feedback used to establish the preferred financing solution.

Greenlink, with its advisors are currently preparing the documentation with supporting evidence to make a submission by the end of September 2018.

Cost and technical information for the September 2018 submission

As referenced above in the *EPC Procurement Process*, WSP has commenced an extensive procurement process. The information to be included as items 1 (project narrative) and 2 (cost assessment template) will be based on the results from the Market Consultation process. These results do not reflect the benefit of a competitive process which will be demonstrated going forward once first and second round tender results are received as part of the EPC procurement process.

(e) Alignment of CRU IPA and FPA

Greenlink has had discussions with CRU in relation to the FPA process. It is Greenlink's view that an Irish regime that is symmetrical (insofar as Irish law and regulation permits) with Ofgem's cap & floor regime will avoid unnecessary obstacles for financing and associated structuring costs and will ensure that the commercial drivers in the operating phase are not

influenced by misaligned regulatory regimes. To achieve this, Greenlink is seeking to align the FPA processes of Ofgem and CRU.

In CRU's 'Greenlink Electricity Interconnector' consultation paper published on 18 June 2016 (CRU/18/119), CRU set out its intention to align the cap & floor regime and FPA process with that of Ofgem, and stated that:

- (a) it intends to develop its final project assessment process in co-operation with Ofgem and that this would be likely to occur in 2019 – 2020 (page 42);
- (b) it intends to align its approach to assessing variations to the cap & floor regime with Ofgem's (page 41); and
- (c) its IPA decision due to be published in September 2018 will be similar to Ofgem's IPA on Greenlink (page 40).

Greenlink considers that a tripartite meeting would allow the NRAs to discuss their respective FPA timetables. We have discussed this with both NRAs and suggest a meeting in October 2018 once CRU has made its IPA decision.

(f) Alignment of Ofgem's final FPA review and financial close

During our previous discussions we identified the need for full alignment of the final FPA and financial close processes. In particular the need to address potential risks for NRAs and project lenders arising between the final FPA review and financial close. Greenlink would like to discuss an alternative sequence that would address these risks and reduce the duration of the overall FPA process, including a parallel development of the special conditions and the scope of the post construction review as part of the final FPA decision.

The combination of the numerous workstreams described above, including the EPC procurement, consenting and permitting, and debt raising is common in project financing structures. Greenlink is confident that with the phased FPA process proposed in this letter, these workstreams can be developed in parallel and conclude at financial close, leading to the construction phase and build out of the project. We believe that the proposed phased approach (including the initial submission by the end of September 2018) satisfies Ofgem's requirements for Greenlink's FPA process and we would be grateful if Ofgem could confirm that the proposed approach is acceptable. We would be pleased to discuss further the phased FPA timetable with Ofgem.

Sincerely,

Simon Ludlam
Project Director

cc Mike O'Neill, Element Power CEO