

Thanet OFTO Limited

**Annual Compliance Report
Year ended 31 March 2019**

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I. Introduction

- 1.1 Thanet OFTO Limited (“Thanet OFTO”) are the licensee of the Thanet Offshore Transmission Owner Licence.
- 1.2 This report is prepared in accordance with the requirement of Amended Standard Condition E12 - C4 (Appointment of Compliance Officer) paragraph 8 which requires the Licensee to produce a report in a form approved by the Gas and Electricity Market Authority (“the Authority”)
- a. as to its compliance during the relevant year with the relevant duties; and
- b. as to its implementation of the practice, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Amended Standard Condition E12 - C2 (Separation and Independence of the Transmission Business).
- 1.3 The relevant duties of Thanet OFTO require compliance with the following conditions of the licence:
- Amended Standard Condition E12 - C1 (Conduct of the Transmission Business)
 - Amended Standard Condition E12 - C2 (Separation and Independence of the Transmission Business)
 - Amended Standard Condition E12 - C3 (Restriction on use of certain information)
 - Standard Condition E6 (Prohibition of Cross-subsidies)
 - Standard Condition E 7 (Restriction on Activity and Financial Ring Fencing)
 - Amended Standard Condition E12 - C4 (Appointment of Compliance Officer)
- 1.4 In accordance with paragraph 2 of Amended Standard Condition E12 - C2 Thanet OFTO has prepared a Compliance Statement which has been approved by the Authority and is published on Thanet OFTO’s website at www.thanetofto.co.uk

2. Compliance with the relevant duties

- 2.1 Compliance with each of the licence conditions which constitute the relevant duties which are detailed at 1.3 above are considered in sections 3 to 8 of this report.
- 2.2 As required by the Amended Standard Condition E12 - C4 paragraph 4, a Compliance Committee has been established as a permanent sub-committee of the board of Thanet OFTO. The Compliance Committee consists of two directors of Thanet OFTO each representing one of the two shareholder parent bodies being:

Shareholder parent

Balfour Beatty plc
Equitix Fund III LP

Representative director

John Sinclair
Rebecca Collins

The director with day to day responsibility for compliance with the activities of this licence is John Sinclair.

- 2.3 As required by Amended Standard Condition E12 - C4 paragraph 2 Thanet OFTO has appointed a Compliance Officer for the purpose of ensuring compliance with the relevant duties under the terms of the Licence. MHA Henderson Loggie was appointed as Compliance Officer on 17 December 2014.
- 2.4 MHA Henderson Loggie is not engaged in the management or operation of the Licensee's transmission business system, or the activities of any associated business.
- 2.5 Details on the activities of the Compliance Officer during the period covered by this report can be found in section 8 below.
- 2.6 During the period under review the Compliance Committee has had no reports of any non-compliance with licence obligations and has not received any regulatory complaints resulting in no complaints requiring to be investigated by the Compliance Officer.

3. Amended Standard Condition E12 - C1: Conduct of the Transmission Business

3.1 This condition requires that:

- I. The licensee shall conduct its transmission business in the manner best calculated to secure that, in complying with its obligations under this licence:
 - a. the licensee;
 - b. any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
 - i. any affiliate or related undertaking that intends to participate in a competitive tender exercise to be appointed as an offshore transmission owner; and
 - ii. any affiliate or related undertaking participating in a competitive tender exercise to be appointed as an offshore transmission owner;
- that is a subsidiary of, or is controlled by the ultimate controller of, the licensee;
- c. any user of the national electricity transmission system; and
 - d. any other transmission licensee

obtain no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business.

2. Except insofar as the Authority may direct, the licensee shall secure and procure separate premises, equipment, systems for recording and storing data, facilities, staff, and property from:
 - a. those owned by transmission licensee that, holds a co-ordination licence, and is responsible for co-ordinating and directing the flow of electricity onto or over the national electricity transmission system; and
 - b. those owned by an associated business of the licensee that is authorised to generate, or supply electricity.
- 3.2 Section 4 of Thanet OFTO's Compliance Statement together with its Compliance Policy details the measures taken by Thanet OFTO to ensure compliance with these requirements.
- 3.3 Although Thanet OFTO has no direct employees it has implemented processes to ensure that the relevant staff of its affiliates and related undertakings (including its principal contractors Balfour Beatty Utility Solutions Limited ("BBUS") and Balfour Beatty Investments Limited ("BBIL") shall conduct the transmission business in the manner best calculated to ensure that it complies with the licence obligations. These processes include requiring all such relevant personnel to comply with the Compliance Policy. These staff are required to sign off a contractual statement confirming that they are aware of and understand these requirements of Thanet OFTO's licence obligations and that any breaches will be dealt with by disciplinary procedures.
- 3.4 Thanet OFTO has conducted its transmission business in accordance with the terms of its Compliance Statement as confirmed by the report of the Compliance Officer.
- 3.5 With regard to the second requirement of this Licence Condition Thanet OFTO is not a holder of a co-ordination licence and does not have any associated business that is authorised to generate or supply electricity, nor does it share any resources with such entities.
- 3.6 Thanet OFTO has complied at all times during the period of this report with the requirements of amended standard condition E12 - C1.

4. Amended Standard Condition E12-C2 Separation and Independence of the Transmission Business

- 4.1 This condition requires that:

The licensee, in carrying out its licensed activities shall put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition E6 (Prohibition of Cross-subsidies), standard condition E7 (Restriction on Activity and Financial Ring Fencing) and amended standard condition E12 - C1 (Conduct of the Transmission Business).

- 4.2 In accordance with paragraph 2 of Amended Standard Condition E12 - C2 Thanet OFTO has prepared a Compliance Statement which has been approved by the Authority and is published on Thanet OFTO's website at www.thanetofto.co.uk.
- 4.3 Thanet OFTO has put in place an organisational and governance structure to ensure that it maintains managerial and operational independence from any associated business as per the requirements of Amended Standard Condition E12 - C2(4)(a).
- 4.4 The authority has issued a consent under paragraph 4(b) of Amended Standard Condition E12 - C2 to allow associated businesses of Thanet OFTO to use and have access to Thanet OFTO's premises or parts of premises; systems for the recording, processing or storage of data; equipment, facilities and property employed or engaged in respect of the transmission business; and the services of persons who are engaged in management or operation of Thanet OFTO.
- 4.5 Section 3 of Thanet OFTO's Compliance Statement details the ownership and operational structure of Thanet OFTO and sets out the measures taken to ensure compliance with the requirements of this condition.
- 4.6 The board of directors of Thanet OFTO, which is separate and independent, has approved a detailed Company Board Procedure document, which forms part of the company's management system and details controls and governance procedures and this underpins the operation of the Thanet OFTO board.
- 4.7 The Compliance Officer has reported that there were no breaches of the terms of Thanet OFTO's Compliance Statement or any non-compliance with Licence obligations during the period under review.
- 4.8 Thanet OFTO has complied at all times during the period of this report with the requirements of Amended Standard Condition E12 - C2.

5. Amended Standard Condition E12-C3: Restriction on use of certain information

- 5.1 Under the terms of this condition Thanet OFTO must not disclose or authorise access to confidential information which is defined as being any information relating to or deriving from the management or operation of the transmission business.
- 5.2 The exceptions to the requirement under 5.1 are where there is a requirement to provide information:
- to personnel engaged by Thanet OFTO in its transmission business
 - to personnel engaged by another transmission licence holder if necessary for the performance of their duties under that licence
 - required by a competent authority
 - required by the licence
 - by another legal requirement

- by the rules of the Electricity Arbitration Association or other arbitral process or tribunal
 - where Thanet OFTO has been notified it need not be treated as confidential
 - where the information is in the public domain
 - where it is necessary for the holder of a co-ordination licence to plan and develop the national electricity system
- 5.3 All directors and employees seconded from BBUS and BBIL are required to sign a contractual declaration which details the requirements that Thanet OFTO operates under in order to comply with the Licence obligations. In signing this declaration all directors and employees seconded to assist with Thanet OFTO's operations confirm that they agree and understand the requirements of Thanet OFTO's Licence obligations and that any breach will lead to disciplinary action.
- 5.4 The Compliance Officer has reported that there were no breaches of the terms of the Thanet OFTO's Compliance Statement or any non-compliance with Licence obligations during the period under review.
- 5.5 Thanet OFTO has complied at all times during the period of this report with the requirements of Amended Standard Condition E12 - C3.

6. Standard Condition E6 - Prohibition of cross-subsidies

- 6.1 Standard Condition E6 requires that:
- the licensee shall procure that the transmission business shall not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the licensee or of an affiliate or related undertaking of the licensee.
- 6.2 The only business which Thanet OFTO is engaged in is activities under its Licence. Thanet OFTO is an SPV and therefore the significant majority of its activities are governed by contracts and long-term debt funding requirements established at financial close. Such business activities are monitored by the board of directors and the independent funders who would require formal consultation before a significant change to the business would be allowed.
- 6.3 BBIL and BBUS are two affiliated businesses that provide services to Thanet OFTO.
- 6.4 BBIL provides services to Thanet OFTO in accordance with the Professional Services Agreement. These services are provided and priced on an "arm's length" basis at market prices thus the arrangement does not breach Standard Condition E6. The pricing of the Professional Services Agreement was established at financial close and formed part of the costing included within the retender submission for the Licence.
- 6.5 BBUS provides services to Thanet OFTO in accordance with the O&M agreement for an annual fee. BBUS subcontracts with third parties in providing the O&M services thus the pricing of the O&M agreement is based on the prices offered by independent third parties eliminating the risk of cross subsidisation.

- 6.6 The operation of the BBIL and BBUS agreements are regularly considered by the Thanet OFTO board, half of whom are not connected with BBIL and BBUS.
- 6.7 The Compliance Officer has reported that there were no breaches of the terms of Thanet OFTO's Compliance Statement or any noncompliance with Licence obligations during the period under review.
- 6.8 Thanet OFTO has complied at all times during the period with the requirements of Standard Condition E6.

7. Standard Condition E7: Restriction on Activity and Financial Ring Fencing

- 7.1 Standard Condition E7 requires that:
1. Save as provided by paragraphs 3 and 4 of Standard Condition E7, the licensee shall not conduct any business or carry on any activity other than the transmission business.
 2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
 - a. shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
 - b. shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the transmission business; or
 - c. investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of such requirement, recommended (by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.
- 7.2 Thanet OFTO is an SPV which is established solely for the purpose of managing and operating Thanet offshore transmission assets. Under the financing documents and the shareholder agreement there are restrictions in place which prevent Thanet OFTO from carrying out any other business activities outside of managing and operating the transmission assets.
- 7.3 Thanet OFTO is ring fenced being an SPV financed through non-recourse project finance and established as a separate legal entity which is not dependent upon the financial performance of any unauthorised business.

- 7.4 The board of Thanet OFTO have considered the nature of the activities undertaken during the period of this report and are satisfied that all the activities undertaken are permitted activities under the terms of the licence and this is confirmed within the Compliance Officer's report.
- 7.5 Thanet OFTO has complied at all times during the period of this report with the requirements of Standard Condition E7.

8. Amended Standard Condition E12-C4: Appointment of Compliance Officer

- 8.1 As required by Amended Standard Condition E12 - C4 paragraph 2 Thanet OFTO has appointed a Compliance Officer for the purpose of ensuring compliance with the relevant duties under the terms of the Licence. MHA Henderson Loggie were appointed as Compliance Officer on 17 December 2014. On behalf of MHA Henderson Loggie, the Compliance Officer role is led by Gavin Black, a partner with five years' experience of performing similar roles within the electricity and gas sectors.
- 8.2 MHA Henderson Loggie is not engaged in the management or operation of the licensee's transmission business system, or the activities of any associated business.
- 8.3 As required by the Amended Standard Condition E12 - C4 paragraph 4, a Compliance Committee has been established as a permanent sub-committee of the board of Thanet OFTO. The Compliance Committee consist of two directors of Thanet OFTO each representing one of the two shareholder parent bodies being:

Shareholder parent

Balfour Beatty plc
Equitix Fund III LP

Representative director

John Sinclair
Rebecca Collins

The director with day to day responsibility for compliance with the activities of this licence is John Sinclair.

- 8.4 The Compliance Officer has confirmed that they have received:
- a. such staff, premises, equipment, facilities and other resources; and
 - b. such access to premises, systems, information and documentation as they have required for the fulfilment of their duties as Compliance Officer.
- 8.5 The Compliance Officer's work during the period under review included:
- a. preparation of a Compliance Review Programme which detailed the work to be carried out by the Compliance Officer in order to monitor compliance with Thanet OFTO's Compliance Statement and the relevant duties under its Licence obligations.

- b. Site visits and face to face meetings with relevant personnel
 - c. review of company contracts, agreements, board minutes and other relevant documentation
 - d. review of controls and procedures in place relating to governance arrangements detailed in Thanet OFTO's Compliance Statement
 - e. enquiring whether any relevant complaints had been received during the period
 - f. advising on complaints procedure, annual compliance reporting and ongoing compliance monitoring
 - g. reporting to the Compliance Committee and the Board of Thanet OFTO.
- 8.6 During the period no complaints were received from any person in respect of a matter arising under or by virtue of the relevant duties and therefore there was no requirement for the Compliance Officer to investigate any complaint in accordance with paragraph 6 of Amended Standard Condition E12 - C4.
- 8.7 The Compliance Officer's Annual Report has been received and considered by the Compliance Committee and by the board of directors of Thanet OFTO. The board noted that the Compliance Officer reported that nothing had come to their attention during the course of their review to prevent the directors of Thanet OFTO approving a resolution to sign the required certificate under Amended Standard Licence Condition E12 - C4 9(d) that Thanet OFTO has at all times during the year to 31 March 2019 been in compliance with the relevant duties of the Licensee and that the report of the Compliance Officer fairly represents the Licensee's compliance with its relevant duties.

9. Certificate of Compliance

- 9.1 The certificate of compliance as required under Amended Standard Condition E12 - C4 9(d) is attached as Appendix I.

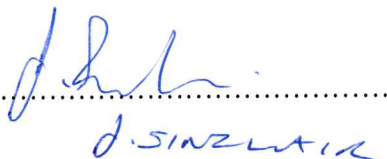
Appendix I

Certificate of compliance as required under Amended Standard Licence Condition E12 - C4 9(d)

The Board of Directors of Thanet OFTO Limited hereby confirm that the Licensee has at all times been in compliance with the relevant duties of the Licensee and that the report of the Compliance Officer fairly presents the licensee's compliance with its relevant duties.

Approved by the Resolution of the Board and signed on its behalf

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Director



A handwritten signature in blue ink, appearing to read 'D. Sinzler', is written over a dotted line. Below the signature, the name 'D. SINZLER' is printed in blue capital letters.

9 July 2019

