



K.16 Financial Plan - Final
Commercial -Project Management



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Key Words

Key Word	Description
Business as usual	The normal execution of operations within an organization
Carbon	An element, but used as shorthand for its gaseous oxide, Carbon Dioxide, CO ₂ .
Carbon Dioxide	A greenhouse gas produced during the combustion process, the chemical symbol for which is CO ₂ .
Carbon Capture and Storage	A technology which reduces carbon emissions from the combustion based power generation process and stores it in a suitable location
CAPEX	Capital expenditure
Capture	Collection of CO ₂ from power station combustion process or other industrial facility
Contingent equity	Equity that only becomes such once a contingency, or defined occurrence, happens
DECC	Department of Energy and Climate Change.
Developer	The developer is Capture Power Limited.
Financial Adviser	A professional who renders financial services to clients.
Financial Close	The point at which the final investment decision is taken and the Notice to Proceed with the Implementation Phase is issued
EPC	Engineering, procurement and construction contract.
Export credit agency	Known in trade finance as an ECA or investment insurance agency is a private or quasi-governmental institution that is as an intermediary between national governments and exporters to issue export financing
Multilaterals	Financial institutions that have been established (or chartered) by more than one country, and hence are subjects of international law
OPP Process	The flow of input and output streams through the Oxy Power Plant
Oxyfuel	The technology where combustion of fuel takes place with oxygen replacing air as the oxidant for the process, with resultant flue gas being high in CO ₂
Oxy Power Plant	A power plant using oxyfuel technology
Pipeline	The long pipe used for conveying CO ₂ from the power plant to the storage facilities
PPP / PFI	A form of procurement where the public sector procures services over a prescribed concession period (frequently 20 years or more) in a manner which leaves the risk of ownership and efficient operation of the project facilities with a private sector supplier
Project finance	The long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors
Storage	Containment of CO ₂ in suitable pervious rock formations located under impervious rock formations usually under the sea bed
Transport	Transfer of processed CO ₂ from the capture and process unit by pipeline, to the permanent storage
White Rose	The White Rose Carbon Capture and Storage project

Executive Summary

The Financial Plan was generated as part of the Front End Engineering Design (FEED) contract with the Department of Energy and Climate Change (DECC) for White Rose, an integrated full-chain Carbon Capture and Storage (CCS) Project. This document is one of a series of Key Knowledge Deliverables (KKD) from White Rose to be issued by DECC for public information.

White Rose comprises a new coal-fired ultra-supercritical Oxy Power Plant (OPP) of up to 448 MWe (gross) and a Transport and Storage (T&S) network that will transfer the carbon dioxide from the OPP by pipeline for permanent storage under the southern North Sea. The OPP captures around 90% of the carbon dioxide emissions and has the option to co-fire biomass.

Delivery of the project is through Capture Power Limited (CPL), an industrial consortium formed by General Electric (GE)¹, BOC and Drax, and National Grid Carbon Limited (NGCL), a wholly owned subsidiary of National Grid.

This report, as the summary of the final Financial Plan delivered to DECC, provides an overview of the strategy, structuring, planning and execution of the financing of this complex project.

¹ CPL was formed in December 2013 between Drax, BOC and Alstom UK Holdings Limited. In November 2015 General Electric acquired the energy businesses of Alstom including its interests in CPL.

1 Introduction

1.1 Background

The White Rose Carbon Capture and Storage Project (White Rose or the Project) is an integrated full-chain CCS project comprising a new coal-fired Oxy Power Plant and a Transport and Storage network that will transfer the carbon dioxide from the OPP by pipeline for permanent storage under the southern North Sea.

The OPP is a new ultra-supercritical power plant with oxyfuel technology of up to 448 MWe gross output that will capture around 90% of carbon dioxide emissions and also have the option to co-fire biomass.

One of the first large scale demonstration plants of its type in the world, White Rose aims to prove CCS technology at commercial scale as a competitive form of low-carbon power generation and as an important technology in tackling climate change. The OPP will generate enough low carbon electricity to supply the equivalent needs of over 630,000 homes.

White Rose is being developed by Capture Power Limited, a consortium of GE, BOC and Drax. The project will also establish a CO₂ transportation and storage network in the region through the Yorkshire and Humber CCS pipeline being developed by National Grid Carbon Ltd.

As the financing of White Rose, as one of the first large scale oxyfuel power plant, is first of a kind, the successful strategy, structuring, planning and execution of the financing of such a complex project becomes a very key critical success factor for reaching financial close. This report summarises the major elements of the successful planning of the financing.

1.2 Scope

This report consists of three parts:

- 1) Summary of financing strategy of White Rose;
- 2) Details of the financing plan (uses and sources of funds); and
- 3) General financing timetable.

2 General Update

Following a capex optimisation initiative led by CPL's Commercial team, a further revised CAPEX estimate was received from the supply chain in October 2015, and CPL expected to receive an updated sourcing matrix and OPEX figures for the OPP from General Electric (GE) which would enable CPL and Société Générale (SG), CPL's financial adviser, to update and to optimise the funding plan and financial model for the submission of an Invitation to Submit a Bid Update (ISBU) to the DECC (also referred to as the Authority). It is worth emphasising that CPL's expectation was that CAPEX optimisation would be an ongoing theme in the run up to financial close rather than a single point exercise. The financing approach and principles outlined in this section had been consistent in both their design and application since the initial establishment of the financial plan by virtue of the fact that CPL and SG had already identified the primary sources of liquidity from the outset and embedded flexibility in the capital formation work to ensure efficiency in our fund raising to financial close.

The Financial Plan set out below was largely based on the plan submitted to the Authority as part of the Bid Improvement Phase (BIP) submission in January 2013. CPL believed that the sources of funding identified at the time remain relevant given the First of a Kind (FOAK) nature of the project but maintained an interest in additional and alternative sources of funding given the strength of liquidity in the marketplace; for example, CPL added UK pension funds to its funder group within both the debt (a UK pension fund) and third party equity (a greenfield development fund) streams given their collective interest in the project.

The CPL funding strategy, as outlined in the BIP, was aimed at raising debt from commercial funding and multi-lateral sources together with a discrete process to raise third party equity and was based on a combination of:

- (i) the level of interest received at the point of the cancellation of the competition process by HMG and indicative amounts expressed from the original market sounding exercise;
- (ii) ongoing discussion and engagement with various funding providers including positive feedback post the joint funder engagement (a conference co-hosted by representatives of CPL and DECC) with the Authority in January 2015, and the pathfinder bank consultation process to August 2015, and, more recently, the verbal affirmations from CPL's commercial banks during the bi-lateral sessions spanning 23 – 25 November 2015; and
- (iii) current market liquidity.

Concurrently with the development/evolution of the funding strategy, CPL and SG had been consistently monitoring capital market options so as to ensure the most efficient capital formation possible. This included exploring capital markets optionality with certain institutions within the Developer's 21 strong funder group taking into account:

- (i) the nascent interest from the UK pension fund community in the Project; and
- (ii) market precedent from the UK infrastructure and energy sectors up to the date on which the cancellation of the competition process by HMG occurred.

Such an approach required a view to be formed by CPL and SG of an appropriate methodology on the implicit credit rating of the Project. Given the contemplated risk allocation, and mindful of the input of the pathfinder banks, it was clear that a capital markets solution would require some form of credit enhancement either by Infrastructure UK (HMG backed) and/or potentially the European Investment Bank (the European Union's non-profit, long term lending institution) and/or potentially HMG itself via a regulatory and/or economic underpin on the T&S element.

As the Project is a FOAK transaction, with no direct financing precedent, the debt raising exercise required specific Lender due diligence to be undertaken across the full-chain and education of the commercial debt market in parallel. In addition, the hybrid nature of the Project, drawing on cross-sector knowledge in power, oil & gas and PFI/PPP in its structuring, meant that CPL had to be selective in its funder identification process with a focus on more sophisticated Lenders with cross-sector expertise. The FOAK and hybrid elements of the full-chain Project presented a challenge to both CPL and the Authority given the need to give the commercial funding community comfort in relation to bankability in order to develop positive market consensus to reach financial close.

The initial feedback from the Lenders' advisors, specifically Lenders' Legal Advisor (LLA) and Lenders' Technical Advisor (LTA) indicated that the drafts (as presented on December 2014) of the Project Contract (PC) and Contract for Difference (CfD) were not bankable in their current form. CPL therefore undertook a market testing exercise and prepared an Interim Briefing Document (IBD) to validate the same on an 'arm's length' basis via SG. The process was designed to seek the views from a sub-set of CPL's potential funders (the pathfinder banks) based on the current contractual structure, and specifically any aspects which could have an impact on bankability of the oxy-power plant and viability of the Project as a whole. The IBD was sent to the pathfinder banks on the 25 June, 2015. In order to inform their responses, they were provided with access to the LLA and LTA. This initiative had a dual purpose in not only acting as a market sounding process but to assist in familiarising the funders with the commercial structure of the project so that CPL was able to approach the market as soon as the Project Contract and CfD negotiations matured sufficiently. The banks provided their constructive responses with continued interest evident in the project in early August. CPL shared the responses to DECC for evidence and audit trail purposes.

Due to the lack of progress in moving forward the commercial negotiations and mindful of the input of the pathfinder Banks on the unbankable nature of the PC and CfD, CPL and SG were keen to progress the general financing timetable and were on target to secure enhanced letters of support (LoS) from the pathfinder Banks and LoS from the balance of CPL's funder group ahead of CPL's ISBU submission, as described in the ITPD. From the strong verbal support received from CPL funders during the most recent bi-lateral meetings which took place between 23 and 25 November prior to the Risk Reduction Phase (RRP) submission, as described in the ITPD, it was clear that CPL would have received a full suite of strong LoS from its funding group to append to the RRP.

The withdrawal of the £1 Billion ring-fenced capital budget for the CCS completion coincided with the last day of CPL and SG's 3 day bi-lateral sessions with CPL's commercial banks. Feedback from CPL's funders post HMG's decision confirmed that the decision was not foreseen and has been interpreted by many as the UK Government reaching the conclusion that CCS is no longer considered as core to the UK's decarbonisation policy. It is clear that HMG's decision has been negatively

perceived by the financing community and is expected to have a damaging impact on the financing prospects for the White Rose project and CCS more generally going forward unless an alternative narrative can be developed.

3 Financing Plan (Use of Funds)

3.1 Capex

Following the revised CAPEX plan provided by CPL's key contractors, CPL expected to receive an updated sourcing matrix and OPEX figures for the OPP, which would enable CPL and SG to update and to optimise the funding plan. It is worth noting for the record that the revised sourcing matrix would likely have been in line with what had been developed previously.

3.2 Contingency

As previously highlighted, for a FOAK project such as this, one aspect of Lenders' due diligence would have been focused on the level of contingency including spent contingency and unspent contingency. The amounts assumed, and their robustness, will need to be reviewed by the LTA and assessed via appropriate scenario analysis. In this specific case, where funders of the OPP would be looking down the full-chain for similar comfort, Lenders would also expect an appropriate level of contingency (spent, unspent) in respect of the T&S assets to be established by both CPL and NGCL. Again, the LTA would also review the adequacy of the contingency provisions on behalf of the Lenders via appropriate scenario analysis.

In the on-going financial modelling for the Project, the spent contingency to be included in the CAPEX is equivalent to less than 5% of the EPC price. In terms of unspent contingency, CPL will commit a substantial amount of Contingent Equity to cover any delays and/or cost overruns triggered by CCS and business-as-usual (BaU) related events. Until the levels of contingency were agreed through the due diligence process, the Financing Plan assumed that half of the committed Contingent Equity would be carried for BaU risks, with the remaining balance set aside for CCS events. The assumed amount of unspent contingency for BaU risks would need to be tested with the Lenders during the due diligence process. In the event that Lenders require contingency in respect of BaU risks to be supplemented, this may take the form of additional standby funding, including standby debt. It is noted that standby debt may require a lower gearing than that set out in the current base case.

4 Financing Plan (Sources of Funds)

4.1 Sources of Funding

The proposed capital formation for the Project remained broadly the same as the BIP submission and incorporates the following principal elements:

- Equity (Base and Contingent) provided by CPL existing and potential Sponsors;
- Grant from the Authority; and
- Long and medium term debt.

The Project cost was assumed to be met by a combination of debt and equity, albeit in differing proportions to the original pre-FEED Bid. As a result, gearing increased to 65:35 from approximately 50:50 as stated in the BIP. Following related discussions with SG, the Developer believed that this level of gearing was bankable given:

- (i) the comfort that prospective funders would take from the construction cost certainty, which should result in a narrower range of related sensitivities,
- (ii) the strong interest received from the financial institutions to date, and
- (iii) an assumed satisfactory risk allocation in the Project Contract.

The IBD process was the major market sounding CPL and SG carried out to-date. Taking the feedback received from the pathfinder banks and the Lender's Advisors into account, together with the structural mitigations under discussion between CPL and the Authority, CPL believed that it was important to develop an appropriate and bankable commercial structure and risk allocation with the Authority and Lender's Advisors, prior to carrying out further market sounding.

4.2 Equity

In the CPL Financial Model under development as of 25 November 2015 and the capital formation presented to the funding group on 23-25 November, a committed equity amount was assumed at a gearing of 35% equity, which was supplemented by Contingent Equity equally split for BaU purposes and for CCS events, to the extent the latter materialised. The quantum of monies directed towards BaU events and the mechanics of the same would need to be agreed with the Lenders. The Contingent Equity set aside for BaU risks would remain in place during construction and into the commissioning and operational phases as required to satisfy the Lenders and would be available for draw down in events such as construction cost overrun and construction schedule delay.

During the BIP phase, CPL Sponsors committed funding in Base Equity to the Project in proportion to their respective shareholdings. As such, each member of the White Rose Consortium, namely Alstom, BOC and Drax, each contributed a third of the required Base Equity commitment. On 2 November, 2015, GE took over Alstom Power business and took over the shareholder position of Alstom in CPL.

4.3 Additional Base Equity

As FEED evolved and CAPEX was further defined, gearing as advised by the FA to increase to 65:35 from approximately 50:50 as planned in the Bid Improvement Phase, it became evident that additional Base Equity would be required. Whilst the required amount of additional Base Equity needed to be assessed on the basis of the revised funding requirement, CPL took steps to identify potential investors and mandated another financial advisory firm to approach third party equity in a disciplined and efficient manner. This advisor tested the market with a pre-marketing exercise via sending a teaser to 10 short-listed companies for initial feedback. The objective was to obtain tangible interest from the market by the year end for RRP submission purposes.

Two companies expressed positive feedback upon receiving the teaser: a green-field development fund owned by a well-respected, UK financial services group and a major commodity player. Upon further discussion, the pension fund expressed interest in understanding the project further with a view to providing a LoS for the purpose of the RRP submission. The commodity company wanted to wait until the project was awarded a positive decision by DECC given its reservations about HMG's support for CCS.

Also following the visit of the Chinese President, Xi Jinping, to the UK as part of a HM Treasury led inward investment initiative focussing on key UK infrastructure (for example, Hinkley Point), CPL decided to re-engage with certain Chinese investors. At the end of October, CPL met with a major Chinese power-generation company and upon hearing of the project, the utility company expressed interest in participating in the project development through an investment of over £100M in a minority equity position in the project. Following a more detailed project briefing, the utility was willing to sign a Letter of Intent (LOI) to confirm its strong, serious interest at a signing ceremony planned for 30 November, 2015 in Beijing. The Chinese utility also expressed a willingness to help bring in additional Chinese investment into the project, and based on precedent, their involvement would have also opened up the potential of Chinese debt funding and potentially export credit agency (ECA) support. Unfortunately, the signing ceremony did not happen due to the announcement of the cancellation of the £1bn CCS Commercialisation Programme on 25 November 2015 by HMG.

In summary, the combination of a Chinese premier utility company, the world's largest power generation technology/equipment supplier, and a pension fund formed a stronger shareholder base for the project. If the project were awarded a positive decision by DECC, it would have no doubt attracted more funds from market sources before financial close.

4.4 Grant

Under the draft Project Contract, CPL would be entitled to receive a grant from the Authority against certain Allowable Costs incurred during the construction and development of the Project. In line with the previous Financing Plans, the Developer kept the grant amount at £450 million for the purposes of capital formation. Whilst it is understood that the total amount of grant funding available to the Project from the Authority was fixed at £450 million, any flexibility around this amount could provide additional support to the Developer in the overall capital formation of the Project.

With respect to drawdown mechanisms, the CPL OPP financing strategy was based on the Authority's grant having characteristics equivalent to those of equity. In this respect, Lenders would expect that

drawdown of funding should be pro-rata across all sources of funding (equity, grant and debt). It would be necessary that the same independent certification of Project milestones achievement would apply for drawdown of all debt tranches as well as all grant and equity amounts (to the extent required) in order to avoid a situation where there was disagreement on whether the drawdown requirements were met or where there were delays in funding.

Similarly, from a senior Lenders' perspective tested by the IBD, any grant retention, which could potentially lead to a funding shortfall, would significantly impact bankability. In a similar way, it would not be possible for the Project to refund any grant amounts if another source of public funding would become available if the payment option would impact the cash flows of the Project or created a mismatch on funding availability.

4.5 Debt

Since the last CPL/DECC joint update meeting with the funding group in January, 2015, CPL and SG continued to maintain an ongoing and active dialogue with potential funders, including commercial banks, multilaterals and ECAs. Under CPL's consistent Financing Plan, senior debt was expected to include, inter alia, commercial debt, ECA covered debt (or direct lending), bilateral and multi-lateral funding. It was assumed that commercial debt, ECA covered debt, multilateral loans contributed approximately one third of the senior debt each. It should be noted that the proportions under each category were the subject of ongoing discussions with the institutions involved, and were therefore likely to change as CPL's funding plans matured. For the purpose of the RRP submission, CPL held project update meetings during 23-25 November, 2015 to update most of the existing lenders' group and request updated LoS as an appendix to the RRP. 14 institutions, including commercial banks, multi-laterals and UK pension fund were provided the updates. All banks were impressed at the progress to date and expressed the willingness to provide updated LoS to CPL.

(i) ECA financing

CPL, SG and the ECA teams of the key sub-contractors engaged in discussions with 4 major ECAs. The number and identity of ECAs would be finalised once the key sub-contractors optimised their sourcing.

Following receipt of the most up to date CAPEX plan in October, 2015, CPL was expected to receive a new sourcing matrix from GE. This would've enabled CPL and SG to revisit the Project's approach to ECA financing.

(ii) Bilateral & Multilateral debt

Two potential UK bilateral and one European multilateral agencies were identified for this Project as institutions that could play important roles in capital formation and as such ongoing dialogues had been established. CPL was prequalified with one of them in February, 2015, and it reconfirmed its support for the Project in writing in a letter dated 9 February, 2015.

The European multilateral bank, being a strong advocate of CCS, was engaged in the IBD process and raised a comprehensive list of technical and contractual related questions, which CPL sought to address via access to a dedicated due diligence portal. Given the front ended nature of its process, CPL was

hoping that addressing such due diligence (DD) requests (to the greatest extent possible) in combination with supplying further DD from NGC on the T&S would allow the bank to share its thoughts on potential post Junker Plan product suite and notional appetite.

(iii) Commercial bank debt

The funder engagement process had been encouraging to date, with institutions dedicating specialised, multi-sector resource to evaluating the Project as details were revealed to them. As mentioned previously, CPL and SG had also established a pathfinder group of banks and mandated lender's legal, insurance and technical advisors to ensure that CPL had a clear view on bankability from the market. During the IBD process, which was aimed at providing DECC with the views from potential lenders, the pathfinder banks provided their comments in relation to the current structure of the PC and CfD.

(iv) Sponsor debt

There had been no commitment to provide or explore sponsor debt from any of the CPL Sponsors. However, given the risk of marginal debt (see above) impacting on the overall terms of any fund raising, CPL intended to initiate discussions with its Sponsors and the Authority at an appropriate juncture regarding the potential inclusion of a sponsor debt tranches which would rank pari-passu with the commercial bank debt albeit with likely more restrictive voting rights etc. given related market precedent. If taken forward, this debt would be moderated to maximise the value of the commercial funding market but its inclusion may be beneficial in making more efficient the overall cost of funding and may enhance the 'crowding in' of other funding sources. There may also be merit in introducing a Sponsor standby debt tranche to

(a) attract standby debt from some of the commercial funders, particularly if the same was to benefit from repayment via cash sweep mechanics, and

(b) provide a layer or tranche of funding that may have a risk appetite distinct from that of the commercial banks in certain key areas.

4.6 Debt Capital Markets / I-UK

Whilst not in the base Funding Plan at this stage, given CPL's primary strategy of raising debt from commercial funding sources, CPL was continuing a dialogue with Infrastructure UK (I-UK) around the potential for their involvement in the Project to facilitate a debt capital markets financing to the extent that liquidity able to be drawn from the commercial funding market is narrower than expected. Whilst this type of funding would typically be more usual in a refinancing following completion of construction, I-UK did have the ability to bring their guarantee during construction and thus facilitate the capital markets taking construction risk.

4.7 Additional Funding Sources

Given the CAPEX amount currently contemplated, and bankability requirements in terms of debt to equity ratio, CPL intended to raise additional equity from the market as described previously.

(i) European multilateral funding

As mentioned above, CPL successfully completed the prequalification process with a European multilateral bank in February 2015. In addition to its loan (by way of direct lending to the Project), CPL intended to investigate the current range of products that the bank had available, including the ability of the bank to provide a first-loss product such as the Project Bonds Credit Enhancement, or any other instrument contemplated by the European Fund for Strategic Investment (EFSI or Juncker plan). Acknowledging the importance of the project for the CCS industry, this bank already decided to warehouse it in the perspective of the deployment of Juncker plan. SG, CPL's financial advisor, met with a senior officer of the European Commission with responsibility for deployment of the EFSI on 12 November 2015 to discuss the potential applicability of the plan to CCS and White Rose specifically and confirmed that:

- The plan is specifically targeted at supporting commercial debt in the infrastructure sector by enhancing risk and/or providing liquidity – the target (obligation) is to commit EUR60bn in the next three years
- The guidelines for funding allow for a range of products, including senior debt, mezzanine, loan guarantees, first loss facilities and equity, among other things.
- In general, CCS is seen by the Commission as a good target for support as it is perceived as key infrastructure for carbon reduction, replicable across Europe and involving FOAK risks that EFSI funding could help to address.

(ii) GE Capital

CPL carried out discussion with GE Capital, which not only would act as the replacement shareholder of Alstom in CPL before the transaction was closed on 2 November, 2015, but also presented potential interest in providing senior debt and ECA covered financing to CPL.

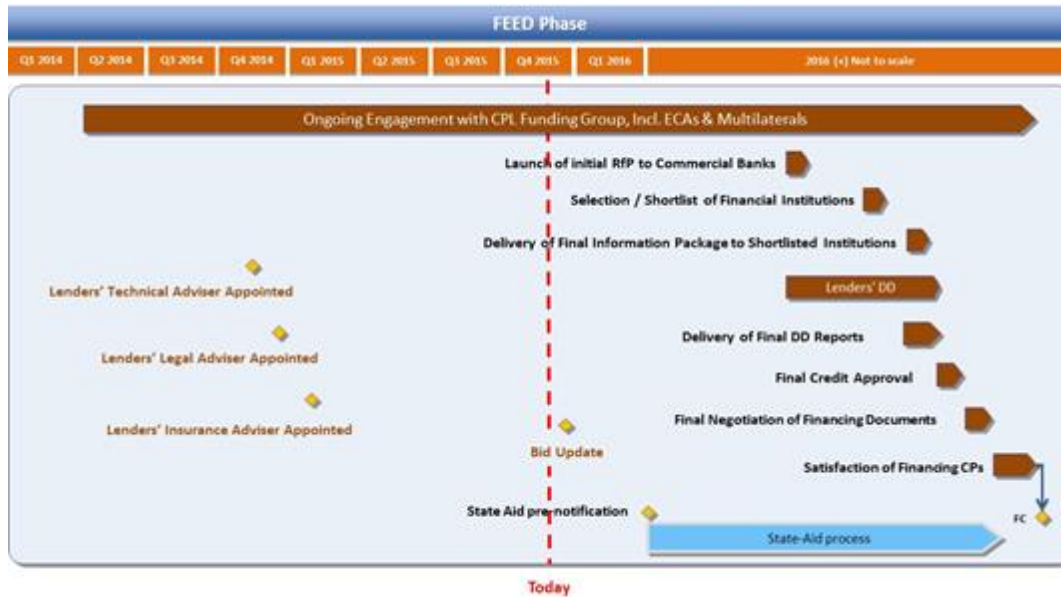
(iii) Alternative Sources

CPL and SG were also in the early stages of exploring a CPI linked tranche given reverse enquiry from UK pension funds, and certain UK commercial banks with hedging capability in this area.

5 Financing Timetable

During the lenders' project update meetings on 23-25 November, 2015, a simple timetable was provided to the funding group assuming the project would be awarded positive decision in Q1-Q2 2016.

Figure 5.1: Financing Timetable



Source: CPL

Assuming that Financial Close was to occur at about the time the Project Contracts and CfD were signed, per the agreed programme between CPL and the Authority, the financing time table would follow the typical project finance process and time required for financial close as indicated above.

6 Glossary

Abbreviation	Meaning or Explanation
BAU	Business as usual
BIP	Bid Improvement Phase
CCS	Carbon Capture and Storage
CfD	Contract for Difference
CPI	Consumer Price Index
CPL	Capture Power Limited
DD	Due diligence
DECC	the Department of Energy and Climate Change
ECA	Export credit agencies
EFSI	the European Fund for Strategic Investment
FEED	the Front End Engineering Design
FOAK	First of a kind
GE	General Electric
IBD	Interim Briefing Document
ISBU	Invitation to Submit a Bid Update
I-UK	Infrastructure UK
KKD	Key Knowledge Deliverables
LLA	Lenders' legal advisor
LOI	Letter of intent
LoS	Letters of Support
LTA	Lenders' technical advisor
NGCL	National Grid Carbon Limited
OPP	Oxy Power Plant
PC	Project Contract
PFI	Private finance initiative
PPP	Public-private partnership
RRP	Risk Reduction Phase
SG	Société Générale
TPE	Third party equity