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Making a positive difference
for energy consumers

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Dear Chris

Approval of market rate revenue adjustment methodology statement – amended standard condition E12–A2 (Market Rate Revenue Adjustment)

TC Beatrice OFTO Limited (the **Licensee**) holds a transmission licence (the **Licence**) granted by the Gas and Electricity Markets Authority (the **Authority**) under section 6(1)(b) of the Electricity Act 1989. Paragraph 3 of amended standard condition E12–A2 (**E12–A2**) requires the Licensee to use reasonable endeavours to have in place an Authority approved market rate revenue adjustment methodology statement (the **Statement**) on and from the date that E12–A2 comes into force.

The Authority's approval

Pursuant to paragraph 3 of E12–A2 of the Licence, the Authority hereby approves the Statement submitted to it by the Licensee and which is set out in the appendix.

Yours sincerely

Jourdan Edwards
Head of the OFTO Regime
Duly authorised on behalf of the
Gas and Electricity Markets Authority

APPENDIX A: MARKET RATE REVENUE ADJUSTMENT METHODOLOGY STATEMENT

The Market Rate Revenue Adjustment (MRA_t) accounts for the change in market rates assumed in the tender revenue stream (TRS_t) (as defined in amended standard condition E12-J2 (Restriction of Transmission Revenue: revenue from transmission owner services)) and the market rates determined on the date of Financial Close.

The MRA estimator illustrates the anticipated value of the market rate revenue adjustment for a range of interest and RPI swap rates, arrived at in accordance with the procedures set out in the Transmission Capital Partners (TCP) Financial Close Protocol which has been agreed by the Authority. The market rates assumed at varying stages of the process are set out below:

	Index Linked Gilt	IR Swap	14Y RPI Swap	22Y RPI Swap
(a) market rates assumed for the $TRS_t =$	-2.580%	0.507% ¹	3.540% ²	3.540% ³
(b) market rates determined at Financial Close =	[w]% ⁴	[x]% ⁵	[y]% ⁶	[z]% ⁷

The reference rates in (a) were excluding credit spreads and provided for the purposes of the Invitation to Tender (ITT) process. The rates [w], [x], [y] and [z] shall exclude credit spreads (including the Credit Adjustment Spread for the SONIA interest rate swap) and will be determined by the Authority on the date of Financial Close following benchmarking by Chatham Financial (Chatham) acting as Benchmarking Agent on behalf of the Authority. Leading up to the date of Financial Close, TCP have engaged in a series of dry runs to refine the closing process. After each dry run the MRA estimator has been updated again to an appropriate degree of calibration.

The steps below will be performed prior to Financial Close. The steps have been followed prior to each dry run.

TCP will provide to the financial advisor of the Authority (PwC) a Financial Model audited by the auditor to TCP (BDO) and agreed by the lenders (Lloyds, Bank of China, DZ Bank, Norinchukin, SMBC, SMTB, Santander, LGIM).

TCP will populate the MRA estimator utilising the Financial Model provided to PwC and audited by BDO, by amending the swap rates and if necessary, the asset transfer date. The Financial Model will be optimised in accordance with the Financial Model Optimisation Protocol, taking into account relevant key financial constraints.

¹ LIBOR interest rate swap

² RPI swap mid-rate (excluding LCH bilateral adjustment)

³ RPI swap mid-rate (excluding LCH bilateral adjustment)

⁴ Interpolated rate based on Mar 2040 UKTI 0 5/8% & Aug 2041 UKTI 0 1/8%

⁵ SONIA interest rate swap before adding the 0.1193% (3-month) Credit Adjustment Spread

⁶ RPI swap bilateral mid-rate (including LCH bilateral adjustment)

⁷ RPI swap bilateral mid-rate (including LCH bilateral adjustment)

PwC will replicate the MRA estimator inputs and confirm it is appropriate to proceed to the execution phase of the Financial Close process.

TCP will circulate to the Authority, the hedge coordinator (Lloyds), the lenders' swap desks, PwC, Chatham and BDO an updated Financial Close Protocol and updated swap profiles.

TCP will confirm (prior to Financial Close) with PwC, Chatham, Lloyds, the lenders' swap desks and BDO that the swap profiles are in agreement.

TCP will host a conference call on the date of Financial Close to fix the market rates, with Chatham undertaking the benchmarking of rates and advising the Authority of its findings.

TCP will notify PwC of the anticipated value of the market rate revenue adjustment (MRA_t) and PwC will validate the anticipated value.

PwC will replicate the key strokes on the date of Financial Close in accordance with the Financial Model Optimisation Protocol. PwC will advise the Authority of its findings.

Having considered the information provided by its advisors, the Authority will determine the MRA_t and shall issue a direction.