

All Offshore Transmission Owners
and Interested Parties

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Dear Colleague

Discontinuation of LIBOR and transition to SONIA – guidance for Offshore Transmission Owners

The interest rate benchmark LIBOR being wound down and will be replaced by SONIA.¹

We have considered whether this change would be considered as a Qualifying Refinancing under amended standard condition E12-J3: (Formula for the Refinancing Gain Share) of the Offshore transmission licence (the **Condition**).

Ofgem considers that, as the Financial Conduct Authority's (**FCA's**) guidance states the transition from debt products benchmarked to LIBOR to those benchmarked to the SONIA rate should be on a no gain/detriment basis to either borrower or lender, this refinancing should not be considered a Qualifying Refinancing under the Condition.²

Notwithstanding this, we will require from each Licensee a letter signed by a director of the OFTO company confirming that there will be no further adjustments to the lending arrangements beyond those required to facilitate the LIBOR-SONIA transition which will give rise to a gain to the OFTO.

Please note that any additional adjustment that does give rise to such a gain may be construed as a Qualifying Refinancing under the Condition.

¹ [Link](#) to information on FCA website.

² [Conduct risk during LIBOR transition | FCA](#), section 'Replacing LIBOR with alternative rate in existing contracts / products', sub-section 'Given that the spread between LIBOR and SONIA will vary, how can firms address this fairly when actively transitioning existing customers from LIBOR to alternative rates? (November 2020)'.

Yours sincerely

Jourdan Edwards

Head of the OFTO Regime