



Making a positive difference
for energy consumers

Mr Gary Thornton
Diamond Transmission Partners Hornsea Two Limited
Mid City Place
71 High Holborn
London
WC1V 6BA

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Direct Dial: 0207 901 7234

Email: offshorelicensing@ofgem.gov.uk

Dear Gary

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

Diamond Transmission Partners Hornsea Two 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

Sean Payne
Head of OFTO Tender Management

**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 the CPI swap rate, index-linked RPI Gilt Yield and SONIA swap rate, arrived in accordance with the procedures set out in the Diamond Transmission Partners (DTP) 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 Yield	IR Swap (3m)	CPI Swap
(a) market rates assumed for the TRS_t =	-2.379%	1.410% ¹	3.592% ²
(b) market rates determined at Financial Close =	[w]% ³	[x]% ⁴	[y]% ⁵

The reference rates in (a) were provided for the purposes of the Invitation to Tender (ITT) process. The rates [w], [x], and [y] shall exclude credit margin and execution spread 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, Diamond Transmission Partners Hornsea Two Limited (the Licensee) has engaged in a series of dry runs to refine the FC process. Before each dry run, the latest CPI swap rate, real rate index-linked RPI Gilt Yield and SONIA swap rates, provided by Swap Adviser Chatham, are entered in to the MRA interpolation spreadsheet to calculate the estimated MRA.

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

DTP will provide to the financial advisor of the Authority (Centrus) a Financial Model audited by the auditor to DTP (E&Y) after amending market rates to reflect the prevailing market rates. DTP will populate the MRA estimator utilising the Financial Model 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.

Centrus will confirm that the MRA interpolation spreadsheet inputs are consistent with the Financial Model provided by the Licensee, and together with the Authority, acknowledge the quantum of the MRA indicated.

¹ SONIA interest rate swap

² CPI swap mid-rate

³ Real rate index-linked RPI Gilt Yield

⁴ SONIA interest rate swap

⁵ CPI swap rate

Prior to Financial Close, DTP will check with the CPI Swap Co-ordinator, the Interest Rate Swap Co-ordinator, the Global Agent and the Senior Facility A funder that they agree with the profiles circulated in the FC Protocol.

DTP will host a conference call on the date of Financial Close to fix the market rates with Swap Adviser Chatham. Chatham will be undertaking benchmarking of rates and advising the Authority.

DTP will notify Centrus the anticipated value of the market rate revenue adjustment (MRA_t). Centrus will review the optimised Financial Model and advise the Authority of its findings.

Centrus will replicate the keystrokes on the date of Financial Close in accordance with the Financial Model Optimisation Protocol. Centrus 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.