

Jemma Sherman
ETEPCO
3rd Floor (South)
200 Aldergate Street
London
EC1A 4HD

28 November 2023

Direct Dial: 0207 901 7234

Email: offshorelicensing@ofgem.gov.uk

Dear Jemma,

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

Triton Knoll 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

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 swing tables (as described in the Financial Close Protocol which has been prepared by the Licensee and agreed by the Authority) illustrate the anticipated value of the market rate revenue adjustment for a range of reference rates. The market rates assumed at varying stages of the process are set out below:

	Index Linked Gilt Yield	IR Swap (SONIA)	RPI Swap
(a) market rates assumed for the TRS_t =	-2.525%	0.811% ¹	3.541% 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 agreed between the Authority and Licensee at the financial close, following execution of the hedging and rate setting process described in the Financial Close Protocol. Leading up to the date of financial close, the Licensee will engage in a series of dry runs to refine the closing process. The MRA swing tables will be circulated in advance of the financial close dry runs and pricing call.

The steps below will be performed prior to Financial Close. Steps 2-5 inclusive will also be undertaken prior to each dry run.

1. The Licensee will provide to the Authority, its financial advisor and Benchmarker, a financial model audited by the model auditor (BDO) and agreed by the lenders.
2. The Licensee will provide repayment and hedging profiles from the financial model to lenders, with copies to the Authority, its financial advisor and Benchmarker.
3. The Benchmarker will confirm the updated reference rates which the Licensee will use to update the financial model prior to optimisation, in line with the Financial Close Protocol model optimisation procedure.

¹ SONIA interest rate swap

² RPI swap mid-rate

³ Real rate index-linked RPI Gilt Yield

⁴ SONIA interest rate swap

⁵ RPI swap rate

4. The Licensee will provide the resulting MRA swing tables to the Authority, the Authority's financial advisor, benchmarker, and BDO, who will confirm the acceptability of the swing tables, and that the financial model is optimised to an acceptable level of tolerance.
5. The pricing call will commence and market rates will be fixed providing that they fall within the bounds of the MRA swing tables.
6. The Licensee will update the financial model with the executed reference rates and send the final financial model to the Authority, the Authority's financial advisor, benchmarker and the Model Auditor for confirmation.
7. The Authority will determine the final MRA_t and shall issue a direction.