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*Promoting choice and value for
all gas and electricity customers*

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Date: 27 September 2011

Dear Colleague

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

TC Barrow OFTO Limited ("the Licensee") holds an offshore 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 2 of amended standard condition E12-A2 ("E12-A2") requires the Licensee to use reasonable endeavours to have in place an Authority approved market rate adjustment methodology statement ("Statement") on and from the date that E12-A2 comes into force.

Authority's approval

Pursuant to paragraph 2 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,

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Stephanie McGregor
Director, Offshore Transmission

Duly authorised on behalf of the
Gas and Electricity Markets Authority

Date: 27 September 2011

APPENDIX 1: THE MRA STATEMENT

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 asset transfer.

The MRA swing table 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 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:

| | IRS Swap | RPI Swap |
|---|----------|----------|
| (a) market rates assumed for the $TRS_t =$ | 4.08% | 3.67% |
| (b) market rates assumed on [latest dry run 20/09/11] = | 3.05% | 2.924% |
| (c) market rates determined on the date of transfer = | [x] | [y]% |

The reference rates in (a) were excluding credit spread and provided for the purposes of the Invitation to Tender (ITT) process. The rates x and y shall exclude credit spread and be determined by the Gas and Electricity Markets Authority on the date of asset transfer following benchmarking by JC Rathbone Associates Limited (Rathbone) acting as Benchmarking Agent on behalf of the Authority. Leading up to the date of transfer TCP have engaged in a series of dry runs to refine the financial close process. After each dry run the MRA swing table has been populated again to an appropriate degree of graduation.

The below steps will be performed prior to financial close. The steps have been followed prior to each dry run.

TCP will provide to the financial advisor Ernst & Young (EY) of the Authority, a Financial Model audited by the auditor, to TCP, PKF UK LLP (PKF) and agreed by the lenders (Barclays Bank plc, BNP Paribas, & Lloyds Bank plc).

TCP will populate the swing table utilising the Financial Model provided to E&Y and audited by PKF, by amending the swap rates and if necessary the financial close date. The Financial Model will be optimised in accordance with the financial model optimisation protocol, taking into account relevant key financial constraints.

E&Y will replicate the swing table and confirm it is appropriate to proceed to financial close process

TCP will circulate to the Authority, the lenders to TCP, Swap Desks, EY and Rathbone an updated financial close protocol and updated swaps profile.

TCP will check (prior to financial close) with EY, Rathbone, PKF and the lenders to TCP and swap desks that the swap profiles are in accordance with the financial close protocol.

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

TCP will notify EY of the anticipated value of the market rate revenue adjustment and EY validate the anticipated value.

E&Y will replicate the key strokes on the date of the financial close in accordance with the financial model optimisation protocol. EY will advise the Authority of its findings.

The Authority will determine the MRA_t and shall issue a direction, having considered all the information available to it.