

**GREATER GABBARD
OFTO**

MRA Methodology Statement

26 November 2013



MRA Methodology Statement – Amended Standard Licence Condition E12-A2

The Market Rate Revenue Adjustment (MRAt) accounts for the change in:

The market rates assumed in the tender revenue stream (TRSt) (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 the Authority’s direction pursuant to paragraph 6 of amended standard condition E12-A2 (Market Rate Revenue Adjustment) (the MRA Direction).

The MRA swing table illustrates the anticipated value of the market rate revenue adjustment for a range of Gilt yields, RPI swap rates and bond spreads, arrived at in accordance with the procedures set out in the Greater Gabbard OFTO PLC (“GG OFTO”) financial close protocol which has been agreed by the Gas and Electricity Markets Authority (the Authority). The market rates assumed at the varying stages of the process are set out below:

	Interest swap rate	Gilt yield	RPI swap rate	Bond spread
(a) market rates provided in the Invitation to Tender Rebid process	3.49%	3.46%	3.44%	N/A
(b) market rates assumed for the TRSt	N/A	3.46%	3.44%	1.90%
(c) market rates assumed for the latest dry run on 25 November 2013 (excluding credit margins where applicable)	N/A	2.907%	3.335%	1.35%
(d) market rates determined on the date of the MRA Direction =	N/A	[]	[]	[]

The reference rates in (a) were provided for the purposes of the Greater Gabbard Invitation to Tender Rebid process. The RPI Swap rate shall be quoted excluding any credit spread and all rates shall be determined by the Authority on the date of the MRA Direction following benchmarking of the rates by JC Rathbone Associates Limited (Rathbone) acting as benchmarking agent on behalf of the Authority.

Leading up to the date of the MRA Direction, GG OFTO has engaged in a series of dry runs to refine the financial close process. After each dry run the MRA swing table has been populated to an appropriate degree of graduation.

The date of bond bookbuilding and pricing (financial close) is the date of the MRA Direction. The Bond spread will also be determined on this date following a bookbuilding process. The below steps will be performed on the day before and the day of financial close. The steps have also been followed prior to and during each financial close dry run.

The following parties will participate in the financial close and each dry run:

Organisation	Abbreviation	Role
Ofgem	Ofgem	MRA approval
EY/RBC	Ofgem FA	Financial advisor to Ofgem
JC Rathbone Associates	Benchmarker JCRA	Benchmarker to Ofgem
AMP Shareholder	AMP	Shareholder
Balfour Beatty Investments Shareholder	Balfour Beatty Investments	Shareholder
Equitix Shareholder	Equitix	Shareholder
Greater Gabbard OFTO plc: Balfour Beatty Investments AMP Capital Equitix	Issuer	Bond Issuer
Pricewaterhouse Coopers	Financial modeller or PwC	Financial modeller
HSBC Bank Plc	HSBC Bookrunner HSBC Syndicate	Sole Arranger and Joint Bookrunner

Organisation	Abbreviation	Role
Banco Santander, S.A	Santander Bookrunner Santander Syndicate	Joint Bookrunner
HSBC Bank Plc	HSBC hedging bank HSBC Hedging	Hedging bank
Abbey National Treasury Services	Abbey hedging bank Abbey	Hedging bank
Goldman Sachs International	Goldman Sachs hedging bank Goldman Sachs	Hedging bank
Operis	Model auditor	Model auditor to GG OFTO

- 1 GG OFTO will provide a financial model audited by Operis and agreed by the joint bookrunners on behalf of the investors to Ofgem’s FA.
- 2 GG OFTO will populate the swing tables, utilising the financial model provided to E&Y and audited by Operis after amending the market rates and, if necessary, the financial close date. The financial model will be re-optimised in accordance with the financial model optimisation protocol taking into account the relevant key constraints.
- 3 E&Y will confirm the swing tables are appropriate to proceed with the financial close process.
- 4 GG OFTO will circulate to the Authority, the bookrunners, the hedging bank swap desks, (HSBC, Santander and Goldman Sachs), E&Y and Rathbone an updated financial close protocol, including updated MRA swing tables, bond amortisation and RPI swap profiles.

- 5 On the day of financial close GG OFTO will host four conference calls which would have been practiced through the financial close dry run process:
 - 7:45am:** Go/No Go call with bond Bookrunners, Hedge counterparties, the Benchmark, Ofgem, GG OFTO, financial modeller and financial adviser to establish that the market conditions are favourable for bond pricing and RPI swap execution
 - 12:00pm:** Rates check call with bond Bookrunners, the Benchmark, Ofgem, GG OFTO, financial modeller and financial adviser to obtain bond spread achieved and establish most up-to date Gilt and RPI swap rates. Following the call, the financial model will be reoptimised with the revised spread and market rates according to the model optimisation protocol.
 - [14:00]:** Pricing confirmation call with all parties to confirm the rates used for swing tables and confirm that all parties are referencing correct Gilt and RPI swap rates
 - [14:00]:** Live bond and RPI swap pricing call with all parties. During the call the following confirmations will be received:
 - Bond amortisation and RPI swap profiles to be confirmed with all parties
 - The bond being issued at par and the final bond coupon
 - RPI swap execution and the all in rate
 - The anticipated maximum MRA, which will be confirmed by E&Y and Ofgem with the help of swing tables.
- 6 Following the [14:00] conference call, PwC will optimise the financial model in accordance with the financial model optimisation protocol and the financial close protocol and will calculate the actual final value of MRAt.
- 7 E&Y (shadowing the process set out in 6) will optimise the financial model with the financial model optimisation protocol and the financial close protocol.
- 8 GG OFTO will notify E&Y of the final value of MRAt achieved and E&Y will validate the value based on the results of its own optimisation.
- 9 GG OFTO will send the final Bond amortisation and RPI swap profile to the Bookrunners and hedging bank swap desks.
- 10 The Authority will determine the MRA_t and issue the MRA Direction, having considered all of the information available to it.