



Making a positive difference
for energy consumers

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Date: 12 February 2015

Dear Company Secretary

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

Gwynt y Môr OFTO plc (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.

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,

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Stephen Beel
Associate Director, Offshore Transmission

Duly authorised on behalf of the
Gas and Electricity Markets Authority

Appendix: MARKET RATE REVENUE ADJUSTMENT METHODOLOGY STATEMENT (Licence condition E12-A2)

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

- The 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 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 Gwynt y Môr OFTO plc (**GyM 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:

	Gilt yield	RPI swap rate	Bond spread
(a) market rates provided in the Invitation to Tender process	2.024%	3.065%	1.65%
(b) market rates assumed for the TRS_t	2.180%	3.181%	1.300%
(d) market rates determined on the date of the MRA Direction	[]	[]	[]

The reference rates in (a) were provided for the purposes of the Gwynt y Môr Invitation to Tender process. The RPI Swap rate shall be quoted excluding any credit and execution 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 (**JCRA**) acting as benchmarking agent on behalf of the Authority.

Leading up to the date of the MRA Direction, GyM 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 rates in (d) shall exclude credit and execution spread and shall be determined by the Authority on the date of the MRA direction following benchmarking of the rates by JCRA acting as benchmarking agent on behalf of the Authority.

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.

- 1 GyM OFTO will provide a financial model audited by Operis and agreed by the joint bookrunners on behalf of the investors to GT.

- 2 GyM OFTO will populate the swing tables, utilising the financial model provided to GT 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 GT will confirm the swing tables are appropriate to proceed with the financial close process.
- 4 GyM OFTO will circulate to the Authority, the bookrunners, the hedging bank swap desks (HSBC, MUFG and SMBC), GT and JCRA an updated financial close protocol, including updated MRA swing tables, bond amortisation and RPI swap profiles.
- 5 On the day of financial close GyM 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, GyM OFTO, PwC and GT 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, GyM OFTO, PwC and GT 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 GT 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 MRA_t .
- 7 GT (shadowing the process set out in 6) will optimise the financial model with the financial model optimisation protocol and the financial close protocol.
- 8 GyM OFTO will notify GT of the final value of MRA_t achieved and GT will validate the value based on the results of its own optimisation.
- 9 GyM 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.

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