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for energy consumers

The Company Secretary
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Dear Company Secretary

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

WoDS Transmission 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 the 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

Stephen Beel
Associate Partner, Electricity Transmission

Duly authorised on behalf of the
Gas and Electricity Markets Authority
20 August 2015

**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 **MRA_t** for a range of RPI swap rates and bond coupons, arrived at in accordance with the procedures set out in this Financial Close Protocol (“**Protocol**”) which has been agreed by the Gas and Electricity Markets Authority (the “**Authority**”). The market rates assumed at varying stages of the process are set out below:

	Reference Gilt	Bond Spread	RPI Swap Rate
(a) Market rates assumed for the TRS _t	2.964%	1.200%	3.699%
(b) Market rates determined on the date of the MRA Direction			

The reference rates in (a) were provided for the purposes of the Invitation to Tender process. The rates in (b) shall exclude credit margin and execution spread and shall be determined 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, WoDS Transmission plc (“**WoDSOFTO**”) 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 to an appropriate degree of graduation.

The date of Financial Close (“**FC**”) is the date of the MRA Direction. The below steps will be performed prior to FC. The steps have been followed prior to each FC dry run.

- WoDSOFTO will provide Grant Thornton (“**GT**”) a financial model (“**FM**”), audited by BDO UK LLP (“**BDO**”), the auditor to WoDSOFTO and agreed by the bond arrangers and swap banks (together the “**Funders**”) and the European Investment Bank.
- WoDSOFTO will populate the MRA swing table, utilising the FM provided to GT and audited by BDO, after amending the rates in (b) and if necessary, the FC date. The FM will be re-optimised in accordance with the financial model optimisation protocol taking into account any key relevant constraints.
- GT will confirm the MRA swing table is appropriate to proceed with the FC process.
- WoDSOFTO will circulate to the Authority, the Funders, GT and Rathbone an updated Protocol, including updated MRA swing table and updated bond amortisation and RPI swap profiles.
- WoDSOFTO will check (prior to FC) with GT, Rathbone, BDO and the Funders that the profiles are in accordance with the Protocol.
- WoDSOFTO will host a conference call on the date of FC to fix the bond coupon and the RPI swap rate, with Rathbone quoting / undertaking the benchmarking of rates (excluding the bond spread, which will be indicated by the bond arrangers) and advising the Authority of its findings.
- WoDSOFTO will notify GT of the anticipated value of the **MRA_t**, and GT to validate the anticipated value.

- On the date of FC, GT will optimise the FM with the financial model optimisation protocol and the Protocol. GT will advise the Authority of its findings.

The Authority will determine the MRAt and issue the MRA Direction, having considered all of the information available to it.