



Making a positive difference
for energy consumers

Company Secretary
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Date: 26 April 2018

Dear Company Secretary

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

Diamond Transmission Partners BBE 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 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

Akshay Kaul
Director, Systems and Networks

Duly authorised on behalf of the
Gas and Electricity Markets Authority
26 April 2018

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_t accounts for the transition from the 12 year LIBOR rate swap settled on a six monthly basis ("Six Month Rate") to a 12 year LIBOR swap rate settled on a three monthly basis ("Three Month Rate").

Historically, a Three Month Rate, has been circa 8 to 9 bps lower than the Six Month Rate. Therefore, in order to provide best value to the consumer, the Authority agreed that DTP transition to the 3 month rate and the consumer take the benefit of a fixed 2 bps reduction and that the Three Month Rate would be used at FC with any additional benefit above 2bps accruing to the OFTO. This has the result that the MRA_t is less than it otherwise would be.

The MRA swing table illustrates the anticipated value of the MRA_t for a range of LIBOR swap rates and RPI swap rates, arrived at in accordance with the procedures set out in the Protocol which has been agreed by the **Authority**. The market rates assumed at varying stages of the process are set out below:

	LIBOR Swap Rate	RPI Swap Rate
(a) Market rates assumed for the TRS _t	1.493% pa*	3.705% pa
(b) Market rates determined on the date of the MRA Direction	[To be provided for FC]**	[To be provided for FC]

Note: * A Six Month Rate

** A Three Month Rate

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, Diamond Transmission Partners BBE Limited ("DTP BBE") 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, although the EY model audit of the financial model will have only been finished close to FC and market rates are only to be fixed at FC.

- The Licensee will provide Ofgem and PWC a financial model ("**FM**"), audited by EY Model Audit, the auditor to DTC BBE and agreed by the lead arrangers and swap banks (together the "**Funders**").
- DTC BBE will populate the MRA swing table, utilising the FM provided to PWC and audited by EY Model Audit, 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.
- PWC will confirm the MRA swing table is appropriate to proceed with the FC process based on the FM provided by DTC BBE and audited by EY Model Audit.

- DTC BBE will circulate to the Authority, the Funders, PWC and Rathbone an updated Protocol, including updated MRA swing table and updated loan amortisation and RPI swap profiles.
- DTC BBE will check (prior to FC) with PWC, Rathbone, EY Model Audit and the Funders that the loan profiles are in accordance with the Protocol.
- DTC BBE will host a conference call on the date of FC to fix the market rates with Rathbone quoting / undertaking the benchmarking of rates and advising the Authority of its findings.
- On the date of FC, DTC BBE will optimise the FM in accordance with the financial model optimisation protocol and the Protocol and propose the value of MRA_t and PWC also will optimise the FM in accordance with the financial model optimisation protocol and the Protocol. PWC will advise the Authority of its findings.

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