

Mr Gary Thornton
Diamond Transmission Partners Hornsea One
Limited,
Mid City Place,
71 High Holborn,
London,
WC1V 6BA

Direct Dial: 0207 901 7243
Email: sean.payne@ofgem.gov.uk

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Dear Gary

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

Diamond Transmission Partners Hornsea One 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

Jourdan Edwards
Head of the OFTO Regime
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 Licensee provided MRA interpolation spreadsheet illustrates the anticipated value of the **MRA_t** for the RPI swap rate, real rate index-linked Gilt yield (interpolated based on the weighted average life of the relevant facility and real rate yield for the agreed reference index-linked Treasury Gilts) and LIBOR interest rate swap rates, arrived at in accordance with the procedures set out in the Swap Execution (**SE**) Protocol which has been agreed by the Authority. The market rates assumed at varying stages of the process are set out below:

| | LIBOR Interest Rate Swap (3 month) | Real Rate Indexed-linked Gilt Yield | RPI Swap Rate |
|--|------------------------------------|-------------------------------------|-------------------------------------|
| (a) Market rates assumed for the TRS _t | 0.558% | -2.888% | 3.570% ¹ |
| (b) Market rates determined on the date of the MRA Direction | [To be provided at SE] | [To be provided at SE] | [To be provided at SE] ² |

The market 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 Chatham Financial acting as benchmarking agent on behalf of the Authority. Leading up to the date of the MRA Direction, Diamond Transmission Partners Hornsea One Limited (the **Licensee**) has engaged in a series of dry runs to refine the SE process. Before each dry run, the latest RPI swap rates, real rate index-linked Gilt Yield and LIBOR interest rate swap rates, provided by Chatham Financial, are entered in to the MRA interpolation spreadsheet to calculate the estimated MRA.

The date of SE is the date of the MRA Direction. The below steps will be performed prior to SE and have been followed prior to each SE dry run. The EY model audit of the Financial Model (**FM**), performed on behalf of the Licensee, will have been finished, with the exception of required changes for movements in market rates, and if necessary, the SE date, prior to SE. Market rates are only to be fixed at SE following which the EY model audit of the FM will be finalised.

- The Licensee will provide Ofgem and PwC with the FM, after amending the market rates to reflect the then prevailing market rates provided by Chatham Financial and if necessary, the SE date. The FM will have been re-optimised in accordance with the financial model optimisation protocol taking into account any key relevant constraints.
- The Licensee will populate the MRA interpolation spreadsheet, so it is consistent with the FM provided to PwC

¹ Cleared

² Bilateral

- PwC will confirm the MRA interpolation spreadsheet inputs are consistent with the FM provided by the Licensee and, together with the Authority, acknowledge the quantum of the MRA indicated.
- The Licensee will circulate to the Authority, the interest rate and RPI Swap Co-ordinators and Global Agent / JBIC Agent, PwC and Chatham Financial an updated SE Protocol, including an updated MRA interpolation spreadsheet and updated loan amortisation and interest rate and RPI swaps profiles.
- The Licensee will check (prior to SE) with the RPI Swap Co-ordinator, the Interest Rate Swap Co-ordinator, the Global Agent and JBIC Agent and the Senior Facility A funder that they are in agreement with the profiles circulated by the Licensee in the SE Protocol.
- The Licensee will host a conference call on the date of SE to fix the market rates with Chatham Financial undertaking the benchmarking and confirming rates and advising the Authority of its findings.
- The Licensee's Financial Adviser will optimise the FM in accordance with the FM optimisation protocol and the SE Protocol and propose the value of MRA_t . PwC will also optimise the FM in accordance with the FM optimisation protocol and the SE Protocol. PwC will advise the Authority of its findings.

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