



Making a positive difference
for energy consumers

The Company Secretary
TC Westernmost Rough OFTO
Limited
Two London Bridge
London
SE1 9RA

Direct Dial: 020 3263 9956
Email: offshoretransactions@ofgem.gov.uk

Date: 4 February 2016

Dear Company Secretary

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

TC Westernmost Rough OFTO 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

Stephen Beel
Partner, Competitive Networks

Duly authorised on behalf of the
Gas and Electricity Markets Authority
4 February 2016

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

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

- (i) 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
- (ii) the market rates determined on the date of the Authority’s direction pursuant to paragraph 6 of amended standard condition E12-A2 (MRAt) (the “MRA Direction”).

The MRAt swing table contained in the Licensee’s financial close protocol (the “FC Protocol”) illustrates the anticipated value of the MRAt for a range of European Investment Bank (“EIB”) Interest Rates and Index-linked Gilts (“ILGILT”) movements, arrived at in accordance with the procedures set out in the FC Protocol which has been agreed by the Authority.

The market rates adopted during the course of the competitive procurement process are set out in the table below.

	EIB Reference Rate (excluding Credit Margin)	ILGILT
(a) Market rates assumed to calculate a real TRSt	-0.29%	-0.647%
b) Market rates assumed for Section 8A	-0.29%	-0.647%
(c) Market rates determined on the date of the MRA Direction	X3	Y3

Rates X3 and Y3 shall be determined in accordance with the procedures agreed with the EIB and Aviva on the date of the MRA Direction and will be benchmarked by J.C Rathbone Associates Limited (“Rathbone”) acting as on behalf of the Authority. Leading up to the date of the MRA Direction, the Licensee will undertake a series of dry runs to refine the Financial Close process. Following each dry run, the MRAt swing table may be updated to reflect the change in market conditions to facilitate a smooth financial close process.

The following steps will be performed prior to Financial Close:

- (i) The Licensee will provide to Deloitte LLP (“Deloitte”) the financial model audited by BDO LLP (“BDO”) and agreed by the EIB and Aviva (the “Financial Model”);
- (ii) The Licensee will update the MRAt swing tables, utilising the Financial Model provided to Deloitte and audited by BDO, after amending X3 and Y3 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 any relevant key financial constraints;
- (iii) Deloitte and the Authority will confirm the MRAt swing table is appropriate to proceed with the financial close process;
- (iv) The Licensee will circulate to Ofgem, EIB London, EIB Luxembourg, Deloitte, Aviva and Rathbone an updated FC Protocol which shall include the updated MRAt swing table and updated loan amortisation profiles;

- (v) The Licensee will check (prior to Financial Close) with Deloitte, Rathbone, BDO, Aviva, EIB London and EIB Luxembourg that the loan amortisation profiles are in accordance with the FC Protocol; and

The Licensee will host a conference call on the date of Financial Close to fix the MRAt, with EIB and Aviva quoting / Rathbone undertaking the benchmarking of rates and advising Ofgem of its findings.

On the date of Financial Close, Deloitte will optimise the Financial Model in accordance with the Financial Model optimisation protocol detailed in Appendix B of the FC Protocol. Deloitte will advise the Authority of its findings and the Authority shall determine whether the MRAt is acceptable.

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