



Making a positive difference
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)

Humber Gateway 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
7 September 2016**

**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 EIB fixed rates, LIBOR swap rates and RPI swap rates, 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:

	EIB Fixed Rate (including EIB internal funding cost)	LIBOR Swap Rate	RPI Swap Rate
(a) Market rates assumed for the TRS _t	2.099% p.a.	2.089% p.a.	3.260% p.a.
(b) Market rates determined on the date of the MRA Direction	[To be provided for FC]	[To be provided for FC]	[To be provided for FC]

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, Humber Gateway OFTO Limited (“**HGOFTO**”) 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 Operis audit of the financial model will have only been finished close to FC and market rates are only to be fixed at FC.

- HGOFTO will provide Ofgem and Deloitte a financial model (“**FM**”), audited by Operis, the auditor to HGOFTO and agreed by the lead arrangers and swap banks (together the “**Funders**”) and the European Investment Bank.
- HGOFTO will populate the MRA swing table, utilising the FM provided to Deloitte and audited by Operis, 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.
- Deloitte will confirm the MRA swing table is appropriate to proceed with the FC process based on the FM provided by HGOFTO and audited by Operis.
- HGOFTO will circulate to the Authority, the Funders, Deloitte and Rathbone an updated Protocol, including updated MRA swing table and updated loan amortisation and RPI swap profiles.
- HGOFTO will check (prior to FC) with Deloitte, Rathbone, Operis and the Funders that the loan profiles are in accordance with the Protocol.

- HGOFTO 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, HGOFTO will optimise the FM in accordance with the financial model optimisation protocol and the Protocol and propose the value of MRA_t and Deloitte also will optimise the FM in accordance with the financial model optimisation protocol and the Protocol. Deloitte 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.