

The Company Secretary
Blue Transmission Sheringham Shoal Limited
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Date: 27 June 2013

Dear Company Secretary

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

Blue Transmission Sheringham Shoal 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 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.

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,

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Stephen Beel
Associate Director, Offshore Transmission

Duly authorised on behalf of the
Gas and Electricity Markets Authority

Date: 27 June 2013

APPENDIX: THE MRA STATEMENT

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 market rate revenue adjustment for a range of interest and RPI swap rates, arrived at in accordance with the procedures set out in the Blue Transmission Sheringham Shoal Limited (**BTSS**) financial close 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:

	IRS Swap	EIB Interest Rate Swap	RPI Swap Rate
(a) market rates assumed for the TRS _t	4.08%	4.08%	3.67%
(b) market rates assumed for the latest dry run on 20 June 2013 (excluding credit margins)	2.61%	3.07%	3.34%
(c) market rates determined on the date of the MRA Direction	x3	y3	z3

The reference rates in (a) were provided for the purposes of the Invitation to Tender process. The rates x3, y3 and z3 shall exclude credit spread and shall be determined by the Authority on the date of the MRA direction following benchmarking of the rates x3 and z3 by JC Rathbone Associates Limited (**Rathbone**) acting as benchmarking agent on behalf of the Authority. Leading up to the date of the MRA Direction BTSS 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 again to an appropriate degree of graduation.

The date of financial close is the date of the MRA Direction. The below steps will be performed prior to financial close. The steps have been followed prior to each financial close dry run.

2.1 BTSS will provide to Ernst & Young (E&Y), the financial advisor to the Authority, a financial model audited by, BDO UK LLP (BDO), the auditor to BTSS and agreed by the lenders to BTSS (the European Investment Bank, BTMU, Mizuho and SMBC).

2.2 BTSS will populate the swing table, utilising the financial model provided to E&Y and audited by BDO, after amending x3, y3 and z3 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 key relevant constraints.

2.3 E&Y will confirm the swing table is appropriate to proceed with the financial close process.

2.4 BTSS will circulate to the Authority, the lenders to BTSS, swap desks, E&Y and Rathbone an updated financial close protocol, including updated MRA swing table and updated swaps profile.

2.5 BTSS will check (prior to financial close) with E&Y, Rathbone, BDO and the lenders to BTSS and swap desks that the swap profiles are in accordance with the financial close protocol.

2.6 BTSS will host a conference call on the date of financial close to fix the market rates, with Rathbone quoting / undertaking the benchmarking of rates (excluding rates provided by EIB) and advising the Authority of its findings.

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The Office of Gas and Electricity Markets

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2.7 BTSS will notify E&Y of the anticipated value of the MRA_t and E&Y validate the anticipated value.

2.8 On the date of financial close E&Y will optimise the financial model with the financial model optimisation protocol and the financial close protocol. E&Y 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.