

The Company Secretary  
Blue Transmission London Array Limited  
The American Barns  
Banbury Road  
Lighthorne  
Warwick  
Warwickshire  
CV35 0AE

Direct Dial: 0207 901 1812  
Email: aly.flowers@ofgem.gov.uk

Date: 10 September 2013

Dear Company Secretary

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

Blue Transmission London Array 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

.....  
**Stephen Beel**  
**Associate Director, Offshore Transmission**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**Date: 10 September 2013**

## 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 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 London Array Limited (**BTLA**) 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 $TRS_t$	2.925%	3.625%	3.393%
(b) market rates assumed for the latest dry run on 3/9/2013 (excluding credit margins)	2.893%	3.368%	3.346%
(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 BTLA 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 BTLA will provide to Grant Thornton, the financial advisor to the Authority, a financial model audited by, BDO UK LLP (BDO), the auditor to BTLA and agreed by the lenders to BTLA (the European Investment Bank, BTMU, Shinsei Bank, SMTB, MUFG, DBJ Europe, Mizuho and SMBC).

2.2 BTLA will populate the swing table, utilising the financial model provided to Grant Thornton 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 Grant Thornton will confirm the swing table is appropriate to proceed with the financial close process.

2.4 BTLA will circulate to the Authority, the lenders to BTLA, swap desks, Grant Thornton and Rathbone an updated financial close protocol, including updated MRA swing table and updated swaps profile.

2.5 BTLA will check (prior to financial close) with Grant Thornton, Rathbone, BDO and the lenders to BTLA and swap desks that the swap profiles are in accordance with the financial close protocol.

2.6 BTLA 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.

2 of 3

### The Office of Gas and Electricity Markets

9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 [www.ofgem.gov.uk](http://www.ofgem.gov.uk) The Office of Gas and Electricity Markets

Cornerstone, 107 West Regent Street, Glasgow, G2 2BA Tel 0141 331 2678 [www.ofgem.gov.uk](http://www.ofgem.gov.uk) The Office of Gas and Electricity Markets

1 Caspian Point, Caspian Way, Cardiff Bay CF10 4DQ/ 1 Pentir Caspian, Ffordd Caspian, Bae Caerdydd CF10 4DQ Tel 029 2044 4042 [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

2.7 BTLA will notify Grant Thornton of the anticipated value of the MRA<sub>t</sub> and Grant Thornton validate the anticipated value.

2.8 On the date of financial close Grant Thornton will optimise the financial model with the financial model optimisation protocol and the financial close protocol. Grant Thornton will advise the Authority of its findings.

The Authority will determine the MRA<sub>t</sub> and issue the MRA Direction, having considered all of the information available to it.