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Date: 2 June 2020

Dear Gary

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

**Diamond Transmission Partners Walney Extension 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<sub>t</sub>**) accounts for the change in:

- the market rates assumed in the tender revenue stream (**TRS<sub>t</sub>**) (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 interpolation spreadsheet illustrates the anticipated value of the MRA<sub>t</sub> for the RPI swap and LIBOR swap rates, arrived at in accordance with the procedures set out in this Financial Close (**FC**) Protocol which has been agreed by the Authority. The market rates assumed at varying stages of the process are set out below:

	LIBOR Rate Swap (3 month)	RPI Swap Rate
(a) Market rates assumed for the TRS <sub>t</sub>	1.483%	3.482%
(b) Market rates determined on the date of the MRA Direction	[To be provided at FC]	[To be provided at FC]

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 Walney Extension Limited (the **Licensee**) has engaged in a series of dry runs to refine the FC process. Before each dry run, the latest RPI swap rates and LIBOR swap rates, provided by Chatham Financial, are entered in to the MRA interpolation spreadsheet to calculate the estimated MRA.

The date of FC is the date of the MRA Direction. The below steps will be performed prior to FC and have been followed prior to each FC 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 FC date, prior to FC. Market rates are only to be fixed at FC following which the EY model audit of the FM will be completed.

- The Licensee will provide Ofgem and KPMG with the FM
- The Licensee will populate the MRA interpolation spreadsheet, utilising the FM provided to KPMG 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.
- KPMG will confirm the MRA interpolation spreadsheet is appropriate to proceed with the FC process based on the FM provided by the Licensee.

- The Licensee will circulate to the Authority, the Swap Co-ordinators and Global / Commercial Facility Agent, KPMG and Chatham Financial an updated FC Protocol, including an updated MRA interpolation spreadsheet and updated loan amortisation and RPI swap profiles.
- The Licensee will check (prior to FC) with KPMG, Chatham Financial, EY Model Audit, Swap Co-ordinators and Global / Commercial Facility Agent that the loan profiles are in accordance with the FC Protocol.
- The Licensee will host a conference call on the date of FC to fix the market rates with Chatham Financial undertaking the benchmarking and confirming rates and advising the Authority of its findings.
- On the date of FC, prior to fixing of the market rates, the Authority will agree the estimated  $MRA_t$  as agreed by KPMG and with reference to the MRA interpolation spreadsheet.
- The Licensee's Financial Adviser will optimise the FM in accordance with the FM optimisation protocol and the FC Protocol and propose the value of  $MRA_t$  and KPMG also will optimise the FM in accordance with the FM optimisation protocol and the FC Protocol. KPMG 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.