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Dear Tracey,

Transmission Investment and Renewable Generation

I am writing in response to Ofgem's consultation on the above.

SSE agree with Ofgem's initial view that it would be inappropriate either to reopen the current price controls or to do nothing. We agree that it will be necessary to add an additional mechanism to the existing controls to deal with the renewable expenditure.

As Ofgem note, "without funding, the TOs may not invest as quickly as they otherwise might". Provided that there is certainty of funding for particular major infrastructure projects, the TOs can invest and, perhaps more importantly, renewable generators can invest with the knowledge that the network upgrades are progressing in parallel.

It is therefore particularly important that certainty is provided for the cost recovery over at least one price control period, rather than attempting to address the problem through regularly revisiting the allowances as seems to be implied by Ofgem's consultation.

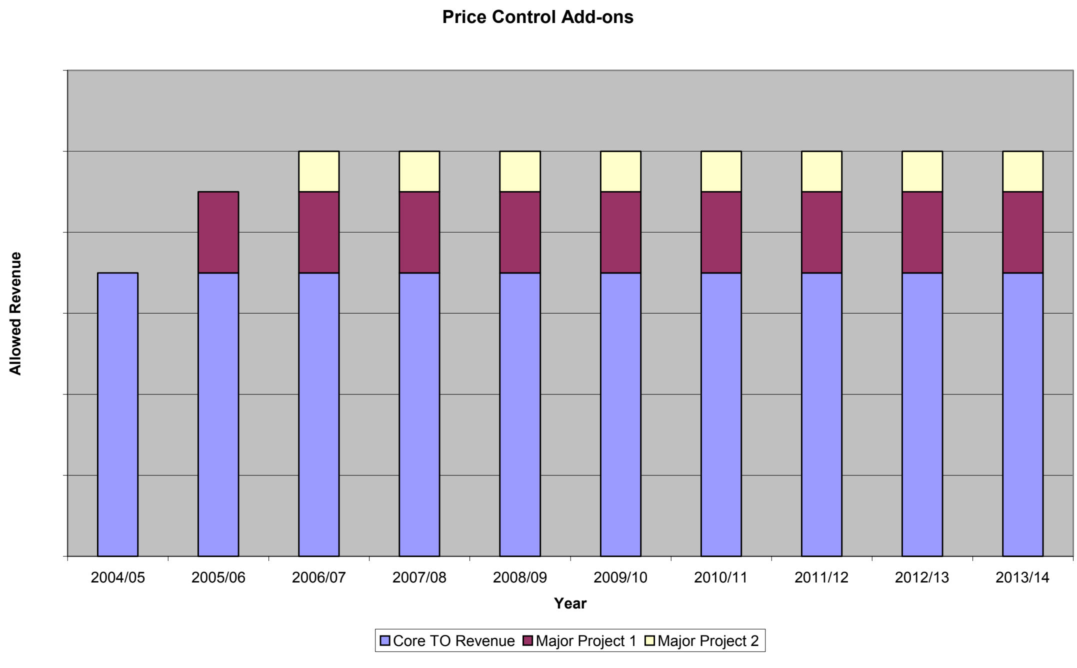
As a consequence, we do not believe that a "quick fix" mechanism to allow an adjustment to the allowed revenues for the next couple of years would provide adequate certainty going forward. Instead we would propose that specified major projects are identified and analysed. An annual allowance in respect of these projects would then be calculated, which would be added to the TO allowed revenue. Clearly, given the time scales involved in such major projects and the price uncertainty, there would need to be a post investment appraisal and possible an adjustment to allowed revenues. This might take the form of a sharing arrangement where if the expenditure outturns higher than expected, the TO carries some of the cost but if the outturn is lower than budget, the TO retains a share of the benefit.

We would see such an allowance as an add-on to the price control for specified major projects. The core price control would be set on a "business as usual basis" covering routine infrastructure renewal and maintenance with all the associated operating and capital expenditure costs. The current price control is a good example of this, since it was set in a fairly static scenario of low demand growth and no major infrastructure investment.

As regards the requirement for investment, we are already clear that the first stage of the RETS projects is an essential requirement to connect the generators identified in Figure 3.1 of the consultation who have already accepted connection offers. Indeed, we have carried out extensive work on route finding for the project, and expect shortly to be in a position to tender for the design and build of the proposed upgrade from Beauly to Denny. When it comes to calculating an amount to be allowed for this particular project, we should therefore be in a position to provide a more accurate assessment of the project cost than the figures provided for the purpose of this consultation. Indeed, we would see this as an essential part of the process for "approval" of major infrastructure projects.

SSE's proposals are set out schematically below.

In essence the diagram shows that the core TO revenues can be set independently. This would allow, for example, the existing Scottish transmission price control reviews to be delayed for a year to coincide with NGC's review. The allowance for specific major projects would come into effect in April 2005, irrespective of whether there is a one or two year delay to the Scottish transmission price controls. Also the amount to be allowed should be set with a long term view of the investment, with a post investment appraisal as discussed above. This would give the TOs the required level of certainty on their investment plans and ensure that investment would progress



in a timely manner.

We would be happy to discuss with Ofgem appropriate mechanism calculating the adjustment to allowed revenue that would be required.

Yours sincerely,

Rob McDonald
Director of Regulation