

17th December 2004

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Dear David

RECOVERY OF COSTS INCURRED AS A RESULT OF THE RUN-OFF OF THE SETTLEMENT AGREEMENT FOR SCOTLAND

Thank you for the opportunity to comment on the issues raised by the above consultation as published in November 2004.

Principally, we consider the proposals set out in the paper in respect of the recovery of SAS run-off costs to be appropriate. However, we would like to offer the following comments on the areas where specific views were invited.

Scottish Operational Run-off Costs:

Given the likely sums of money involved and the uncertainty over the magnitude of the equivalent costs in England & Wales, it would appear that the most pragmatic, equitable and simplest solution for the recovery of these costs would be to recover them in the same manner as the England & Wales costs i.e. on a GB basis.

Scottish Distribution Charges:

We fully support the proposal to recover the residual 1998 costs and the Staff run-down costs from Scottish consumers. We agree with Ofgem in that to provide for a mechanism to allocate the SAS run-off costs in a way that attempts to replicate the existing recovery method would be complex and in-efficient. Consequently, the proposal to adjust the price controls of the two Scottish distribution licensees to allow for such a recovery appears appropriate.

GB Recovery:

In the event that Ofgem/DTI's final proposal is for the Scottish operational run-off costs to be recovered on a GB basis we consider the mechanism to achieve this, as set out in the paper, is appropriate.



Recovery time period:

We have no strong views on this issue. In particular, we do not foresee any problems, given the likely sums of money involved, with having a relatively short recovery period e.g. one year.

If you would like to discuss any of the points raised, please do not hesitate to contact me.

Your sincerely

A handwritten signature in black ink, appearing to read 'DL', with a long horizontal flourish extending to the right.

David Love
Head of Regulation

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