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28th June 2006

Dear Lewis,

Changes to reasonable profit tests applied under SLCs 4 & 4A of the GT Licence

SSE notes the proposal to discontinue the RoCE test and change the NPV test calculation period under the methodology for calculating the reasonable profit for legacy sites.

Whilst we appreciate that there will be an increased propensity for an IGT's portfolio of legacy sites to fail the current reasonable profit tests, we do not believe that this is due solely to the fact that after 2004 new capital expenditure on such sites will tend towards zero. Our understanding is that the problem is exacerbated because the volume of legacy sites is not reducing. We are therefore not convinced that removing the RoCE test and modifying the NPV test is the most appropriate way to resolve the issue.

In our view the current charging methodology for legacy sites is overly complex and the need to modify the reasonable profit tests post 2004 only serves to reinforce the fact that such sites should be transferred across to a relative price control as soon as practicable. Our preference, therefore, would be to see a phased transfer of legacy sites on to a relative price control in such a manner as to ensure that, each year, the existing RoCE and NPV tests can be passed for the remaining sites in the portfolio.

If you have any queries on any of the information provided in the completed tables, please do not hesitate to contact me.

Yours sincerely,

Rhona McLaren
Regulation Manager