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24 October 2006

Dear Robert,

Transmission Price Control

I have attached our response to the September 2006 consultation on the transmission price control. Our key concerns about the current proposals were discussed in our meeting with the Authority on 18<sup>th</sup> October, and we have expanded on those in the response. In summary they are:

- **Cost of Capital:** We regard the modelling assumption of 4.2% post tax real as wholly inadequate to finance the transmission business. Not only would it be inconsistent with previous regulatory decisions, it would be inappropriate in the context of the investment focus of this review and the financeability issues raised.
- **Revenue Drivers:** While significant progress has been made since the June proposals, there is much detailed work required to agree the sums involved in the revenue drivers; the licence drafting to implement the proposals; the caps and collars, and; the variations and exclusions.
- **Baseline costs:** Some progress has been made on defining acceptable baseline costs but there remains some work to do on agreeing the baseline level of opex and capex. In particular some of the cost increases have not been fully recognised in the proposals.

I hope our comments are helpful in framing your final proposals and if you need any more information or clarification, please give me a call.

Yours sincerely,

Rob McDonald  
Director of Regulation