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*Promoting choice and
value for all customers*

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4 June 2007

To the Company Secretary,

Approval of statement pursuant to special condition J2 (Basis of Transmission Owner Charges) of Scottish Hydro-Electric Transmission Ltd's (SHETL's) transmission licence.

This letter sets out the Authority's decision to approve the statement at Annex 1 of this letter pursuant to special condition J2 (Basis of transmission owner charges) of SHETL's transmission licence.

Background

Under its Electricity Transmission Licence, SHETL is required to have a statement, approved by the Authority, setting out the basis upon which they will charge National Grid Electricity Transmission (NGET) for the services provided. The services comprise:

- Transmission owner services
- Connections to the licensee's transmission system
- Outage charges

Pursuant to Special Condition J2 (5) of SHETL's Electricity Transmission Licence, SHETL shall, at least once in every year, make necessary revisions to these statements in order that the information set out in the statements shall continue to be accurate in all material respects.

SHETL submitted its modified Statement of the Basis for Transmission Owner (TO) Charges for approval from the Authority. Following established precedent, we published this Statement and invited wider views on these modifications.

The modifications were generally of a housekeeping nature and reflected changes in dates and increased typographical consistency throughout the statement.

Respondents' Views

We received two responses to our consultation, neither of which was marked as confidential. The points raised by respondents are discussed below.

Clarification

One stated that it would welcome further clarification within SHETL's statement regarding the basis upon which indicative and fixed price offers are made.

In relation to general system and site-specific charges, the respondent went on to state that there appears to be inconsistent treatment of general and site-specific charges between SHETL's and Scottish Power's charging statements, which may result in ambiguity when resolving any potential mismatch between NGET and TO revenues.

Mismatches in NGET and Scottish TO incomes

The respondent also raised concerns regarding potential mismatches between NGET's and the Scottish TOs' incomes. These concerns arise as a result of the potentially different treatment of items such as rates of return, post-vesting connection assets, site-specific maintenance, transmission running costs and application fees.

Besides noting some minor typographical errors, the other respondent had no comment and agreed that the statements appeared fit for purpose.

Ofgem response to views

Clarification

We sought clarification from SHETL on the point raised with regard to contestability in connections. It was confirmed that the term "self build option" was the same concept as that termed "contestability in construction" by NGET in its Statement of the Connection Charging Methodology.

Mismatches between NGET and Scottish TO incomes

Ofgem is aware of the concerns over possible mismatches between NGET's recoverable revenue and that of the Scottish TOs. Areas which contain scope for possible mismatches were addressed through the recent Transmission Price Control Review (TPCR). However we noted this concern and have worked with the TOs at the Charging Users' Group to understand more fully the concerns and where possible improve consistency and clarity both between the TO statements and with the GB charging methodology.

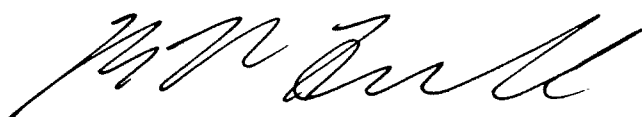
Should further concern arise regarding possible areas for mismatch between NGET and Scottish TO incomes we would expect these to be raised and addressed as part of the ongoing licence obligation for the charging methodologies to be kept under review and for them to reflect developments in the transmission licensees' businesses.

Authority's decision

We have considered whether the draft statement submitted by SHETL is consistent with the requirements of special condition J2 and SHETL's wider licence and statutory obligations. On balance, the Authority has concluded that, following some minor amendments and clarifications, the draft statement is consistent with these obligations. Similarly, the Authority has had regard to its principal objective and general duties in considering the draft statement and concluded that approval of the statement is consistent with such objective and duties.

Pursuant to paragraph 1 of special condition J2 of SHETL's transmission licence, the Authority hereby approves the draft Statement of the Basis of Transmission Owner Charges at annex 1 of this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull
Director, Transmission
Duly authorised on behalf of the Authority

cc. Mo Sukumaran