



SP Transmission & Distribution

Mr D Hunt
Senior Manager – Electricity Transmission Policy
Ofgem
9 Millbank
London SW1P 3GE

Your ref

Our ref

Date

20 July 2007

Contact/Extension

Colin Taylor
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Dear David

INCOME ADJUSTING EVENT FOR THE BEAULY-DENNY PUBLIC INQUIRY

I am writing on behalf of SP Transmission in response to the open letter issued on 25 June 2007. I welcome this opportunity to comment on the points raised.

As the open letter points out, special condition J3 of SHETL's transmission licence provides for the licensee to make a claim for an income adjusting event occurring in the preconstruction period and sets out the criteria that such a claim must meet. In essence, the licence requires costs to be material, efficiently incurred and not otherwise recoverable.

The cost figures quoted in the letter are clearly material as they are in excess of 2% of the assumed construction costs set out in SHETL's licence, and more than 100% of the existing preconstruction cost allowance. The costs associated with a public inquiry were not included in the allowances set out in the 2004 TIRG Final Proposals and subsequently incorporated into SHETL's licence. There is no alternative means by which SHETL can recover these costs.

We are therefore of the view that the submission made by SHETL is entirely consistent with the relevant licence provisions and, subject to an assessment of efficiency, the costs incurred in relation to the public inquiry should be allowed.

Yours sincerely

PP

Scott Mathieson
Regulation Director

Members of the ScottishPower group

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