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*Promoting choice and
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Date: 31 July 2008

Dear Rob,

NOTIFICATION PURSUANT TO SPECIAL CONDITION J3 – RESTRICTION OF TRANSMISSION CHARGES: TRANSMISSION INVESTMENT FOR RENEWABLE GENERATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SCOTTISH HYDRO ELECTRIC TRANSMISSION LIMITED (SHETL)

On 30 January 2007, SHETL gave notice to the Authority that it considers that an income adjusting event has occurred in relation to the Beaulay-Denny public inquiry. On 14 May 2007, SHETL wrote to the Authority again setting out updated information on the costs associated with the public inquiry. SHETL considers that additional pre-construction costs of £2.102 million have already been incurred in 2006/07 and forecast costs of £4.888 million are expected to be incurred in 2007/08, on the assumption the public inquiry concludes in early 2008. SHETL therefore considers that the licence should be changed to reflect these values. Specifically, at the time SHETL provided its notice to the Authority, it was requesting that the TIRGIncAd_t term provided for in Special Condition J3 (Restriction on transmission charges: Transmission Investment for Renewable Generation) should take the values for the years $t=p+1$ and $t=p+2$ (2006/07 and 2007/08) of £2.102 million and £4.888 million respectively. The actual costs equate to £1.973 million and £4.452 million respectively in 2004/05 prices.

Ofgem consulted on this issue in June 2007, setting out preliminary information on SHETL's income adjusting event submission. Following publication of this consultation document, Ofgem indicated that it would prefer to treat 2006/07 and 2007/08 costs separately. Our rationale for this was that we would prefer to make any financial allowances based on as accurate information as possible, and that actual information for 2007/08 costs from the public inquiry would be preferable to forecasts costs for 2007/08. Following publication of our second consultation document on this issue on 28 May 2008 we reiterated this was our preferred position, and indicated that at this point in time we would only be considering the actual 2006/07 costs, and intended to allow SHETL to recover these costs. However, we made clear that we expected a formal notice from SHETL under special condition J3 of the transmission licence setting out in detail the actual costs incurred in 2007/08.

Following further conversations with SHETL, we have discussed the benefits of the 2007/08 costs being audited. We understand from SHETL that it is in the process of having the costs audited. Prior to this audit being completed, final tenders and other financial information need to be supplied and evaluated. It is our understanding that this process can take several months beyond the relevant financial year. On 7 March 2008, SHETL requested that the Authority provides a notification in accordance with paragraph 4(b) of special condition J3 to extend the deadline for submission of a revised notice with

supporting evidence, as it believes the requisite information will not be available within the three month period following the end of the relevant year (2007/08).

In accordance with paragraph 4(b) of special condition J3, by way of this notification, the Authority agrees that the notice in relation to costs incurred in the Beaulieu-Denny Public Inquiry Income Adjusting Event can be submitted to the Authority by 30 September 2008.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stuart Cook', with a long horizontal line extending from the end of the signature.

Stuart Cook
Director - Transmission

Authorised on behalf of the Authority