

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Duncan Innes
Head of Regulatory Reporting, Transmission
The Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Tel: 01738 456400
Fax: 01738 456415

22 August 2008

Dear Duncan

**National Grid Electricity Transmission (NGET) and National Grid Gas (NGG)
Licence amendment to include an Income Adjustment Term**

Scottish and Southern Energy supports Ofgem's proposal to amend the transmission licences of NGET and NGG to include a term to adjust revenue in respect of an Income Adjusting Event (IAT_t). This, in our view, is an appropriate mechanism to address any funding issues that may arise as a result of expenditure to improve the security of critical national infrastructure. The form of IAT_t should, as far as possible, match that of IAT_t for the Scottish licensees, including provision for financing costs at the weighted average cost of capital determined at Transmission Price Control Review 4.

Our response to the specific questions in the consultation is attached.

Please do not hesitate to get in touch if you wish to discuss this response further.

Yours sincerely,

Rob McDonald
Director of Regulation

SSE response to consultation questions

Do you consider the request by National Grid for an equivalent licence term to the two Scottish transmission licence holders to be reasonable?

Yes.

Do you consider that licensees should have to wait for up to five years before receiving recompense on expenditure incurred at the behest of government?

The purpose of the IAT_t term is to allow a revenue adjustment during a price control period in respect of expenditure that was unforeseen at the time of the price control and is sufficiently material to affect the licensee's finances. Determination of an Income Adjusting Event is at the discretion of the Authority. If expenditure to improve the security of critical national infrastructure is such that it meets the criteria for an Income Adjusting Event, then licensees should have the ability to recover those costs during the price control period.

Which of the "alternative treatments" do you consider the most appropriate?

SSE supports the "Income Adjustment" approach, implemented through the introduction of a term to adjust revenue in respect of an Income Adjusting Event.

Which of the "alternative rates of return" do you consider the most appropriate?

SSE supports the use of the weighted average cost capital determined at Transmission Price Control Review 4.