Scottish and Southern Energy

Transmission Price Control Review
"Adapted Rollover"
- Initial Thoughts, April 2010

We understand the rationale for the “adapted rollover”

Our objectives for the rollover:

- Delivering TPCR4 Final Proposals
- A clear, achievable and integrated timetable
- Proportionality in scope
- Maintain stability, particularly for investment

No shocks; change should be deferred until TPCR5

Delivering TPCR4 Final Proposals

- True-up of logged-up and CNI costs
- Capex incentive revenue adjustment in 2012
- 2012 opening RAV incorporate investment made under the local revenue driver

Acknowledge “efficiency” of deferring assessment of historic capex, but business should be kept ‘whole’

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A clear, achievable and integrated timetable

This work is not in isolation:

- "Adapted rollover" *plus...*
- Enhanced TO incentives in 2010 and 2011
- Conclusions of RPI-X@20
- TPCR5 starts late 2010
- GDPCR2 starts late 2010

plus... wider policy developments, e.g. access reform

Proportionality in scope

We broadly support Ofgem's "minded to" position on:

- Opex – growing

  "reflect an expectation of how opex might change"

- Capex – key area is connection infrastructure

  "focus on forecast capex"

  "Enhanced TO incentives … manage separately"

- Incentives – no change

  "existing targets should be simply rolled-forward"

- Pensions / Tax – as DPCR5
- Depreciation / Capitalisation – no change

But, on financeability

As ever, this is the key issue of the price control

Ofgem thinking:

“update the cost of capital for changes in market assumptions”

A partial review is the ‘wrong answer’

The proportionate approach is to roll-forward the WACC

Maintain stability

Our business is focused on capex delivery:

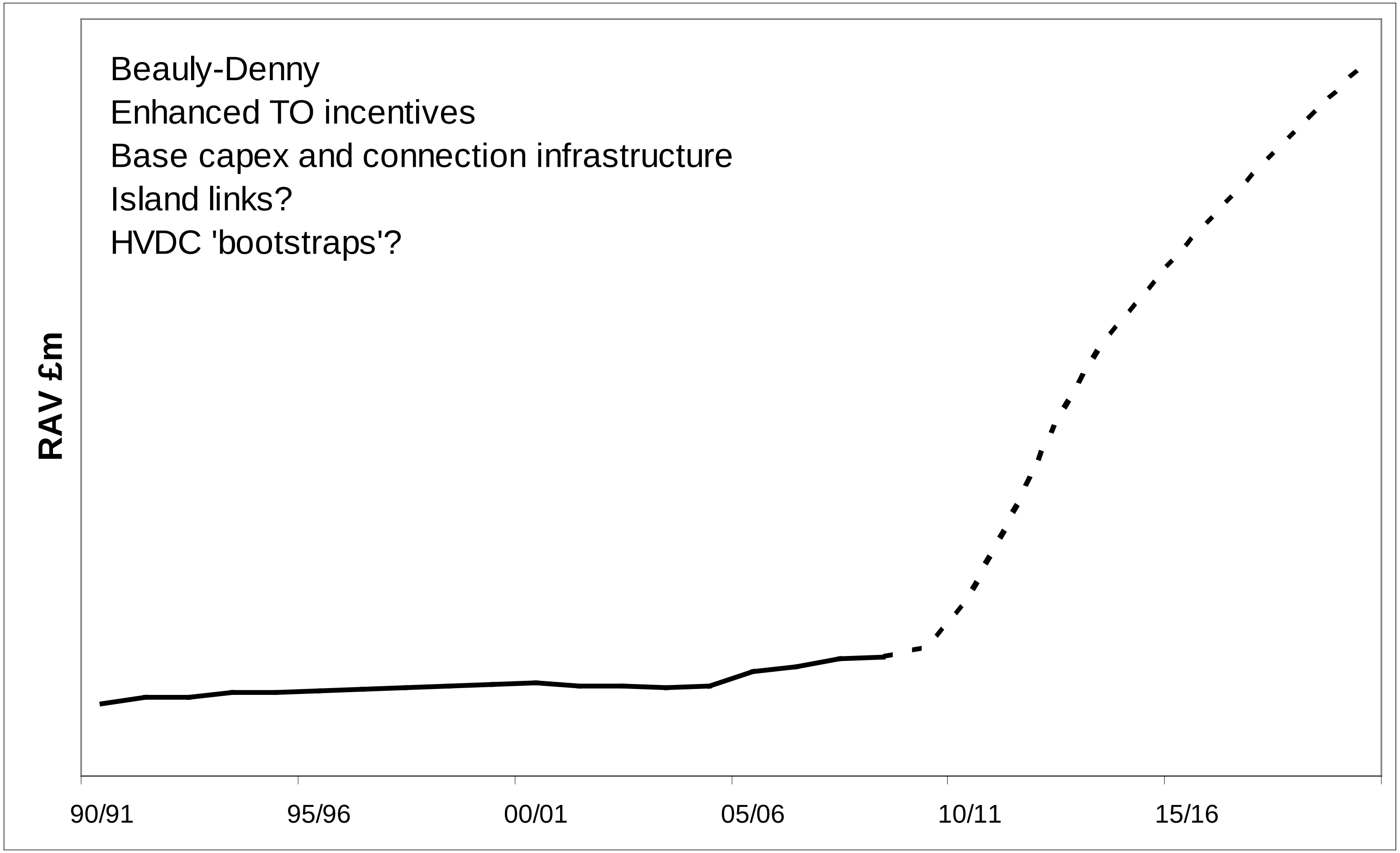
- Beauly-Denny consented
- Enhanced TO incentives projects commenced
- Developing island links and HVDC ‘bootstraps’

Any changes from RPI-X@20 implemented at TPCR5

- The rollover is not a time for other changes

Must be seen in the wider context…

SHETL is a growing business...



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