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Our Reference NG/LAD
Your Reference 81/10

Dear David

Proposed Asset Value Adjusting Event for Beaully-Denny Project

Further to Hannah Nixon's letter dated 6 July 2010, our views on SHETL's proposals for the asset value adjusting event for the Beaully-Denny project are summarised below.

We note that SHETL's two-fold approach offers the opportunity to minimise delays to the delivery of the Beaully-Denny project but leaves some uncertainty concerning eventual total scheme cost.

However, unless the total cost of meeting the finalised planning conditions exceeds the total benefits of the project (a circumstance that would be inconsistent with the conditional approval given for the project by the Scottish Government) then the potential disbenefits to consumers from a delay in the project are very likely to significantly exceed any benefits that might arise from finalising the design of measures needed to meet planning conditions. This is because:

1. An approach which delays access to new renewable generation projects in the north of Scotland risks the need for more expensive generation elsewhere in GB if renewable energy targets are to be met. For example, if the onshore wind in north Scotland is replaced by offshore wind further south then consumers would pay 2 ROCS rather than 1 ROC per MWh of the produced renewable energy – a significant increase.
2. There is little scope for reducing the cost of meeting planning conditions by delaying work elsewhere on the project. Whatever decisions are made concerning the most appropriate way of meeting planning conditions, the Authority retains the ability to ensure that no more than the required costs are passed on to consumers.

On this basis, there is merit in avoiding delays to projects which have established financial and policy benefits by permitting some regulatory flexibility to progress works while planning issues (that do not affect the overall cost-benefit) are finalised.

Yours sincerely

[By e-mail]

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cc: Paul Whittaker, UK Director of Regulation