



**SP ENERGY  
NETWORKS**

David Hunt  
Senior Manager  
Electricity Transmission Policy  
OFGEM  
9 Millbank  
London  
SW1P 3GE

Regulation

Your ref

Our Ref

Date

7 July 2010

Contact / Extension

Euan Norris /  
01698 413914

Dear David,

**TIRG Open Letter Consultation: Asset Value Adjusting Event for the Transmission Investment Project 'Beaully-Denny'**

In response to the above open letter consultation published on 6 July 2010, SP Transmission (SPT) agrees that an Asset Adjusting Event has occurred in respect of transmission investment project, Beaully-Denny.

Following the completion of the Beaully-Denny Public Inquiry and subsequent submission of the Reporter's final report in February 2009, Scottish Ministers granted consent for the proposed line in January 2010. It is widely known however, that consent was granted with various conditions imposed in relation to mitigation of the visual and environmental impact of both the consented line and additional electrical equipment currently in situ along the route.

In the period following consent, both Scottish transmission owners have been working with local authorities, community groups, Scottish Ministers and various other stakeholders in order to fulfill their obligations in respect of the conditions of consent which will thereafter require to be submitted again to Scottish Ministers to seek conformation that they are acceptable.

SPT therefore agree that the scope of works for the Beaully-Denny project from that agreed with Ofgem back in 2004 when the original funding allowance was set, has increased significantly as a consequence of planning conditions.

In addition, as stated within the consultation, the original cost estimate for the Beaully-Denny project was prepared back in 2004 and based upon a desktop assessment of the electrical reinforcement that had been identified by the system studies undertaken as part of the Renewable Energy Transmission Study (RETS) project and was based upon an unconstrained 'greenfield' development using cost information available at that time.

New Alderston House, Dove Wynd, Strathclyde Business Park, Bellshill ML4 3FF  
Telephone 01698 413000, Fax 01698 413053  
[www.scottishpower.com](http://www.scottishpower.com)

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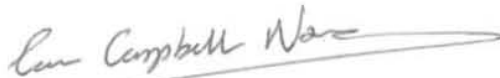
A further consequence of the delay in consent being granted for the Beaulay-Denny line is that in the period from 2004 – present, the industry has seen a significant upward trend in market costs for both raw materials and labour. Those increases will be reflected in the final cost to deliver the required Beaulay-Denny transmission upgrade.

We also agree that it is correct for SHETL to commence construction of the project ahead of final costs being known. Given the delays already experienced to date and the importance the upgrade has in releasing transmission capacity that will permit a significant number of generation projects to connect to the National Grid and support Government targets in respect of 2020 obligations, both Scottish transmission companies have a duty to ensure that the line is constructed in a timeframe that can reasonably be executed.

Therefore in conclusion, SPT supports SHETL's request to decrease the average asset value of transmission investment project Beaulay-Denny for FY 2010/11, in accordance with the conditions set out within its Electricity Transmission Licence and agree that SHETL will incur a material increase in the forecast construction costs in future years, which at this stage cannot be determined ahead of the final decisions to be made by Scottish Ministers in respect of the conditions of consent.

I do hope that you find this response useful in assisting you to come to a decision and should you wish further information or have any questions regarding any of the issues raised in this letter please do not hesitate to contact me.

Yours sincerely



**Euan Norris**  
**SP Transmission Ltd**