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Cheryl Mundie
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20th June 2012

Dear Cheryl,

National Grid Electricity Transmission plc (NGET) and Scottish Power Transmission (SPT) thank Ofgem for the opportunity to comment on the consultation document *Consultation on proposed funding arrangements for the Western High Voltage Direct Current (HVDC) link ("Western Bootstrap")*. This response is on behalf of NGET and SPT and is not confidential.

We find the conclusions and proposals in the document to be, on the whole, very positive and balanced and feel that they reflect the positive interaction between all parties over the course of this complex and challenging project.

We take the opportunity to respond on the following key areas:

Proposed Allowance and Allocation of Costs

Whilst we note that that allowance proposed in the consultation document reflects the latest view of cost information submitted by NGET and SPT to Ofgem on 13/03/2012 (*120313 OFGEM Information – Rev N.xls*), we would request Ofgem to review its decision to apply Poyry's recommendation to use a fixed **70/30** (NGET/SPT) allocation for all cost items, both ex ante and ex post. We do not support this decision and maintain that Ofgem should apply the more accurate TO cost allocation as proposed in the document *TO_Annual_Split_Final_Rev A.doc* that was submitted to Ofgem on 16/02/2012. We believe that an overall TO cost allocation of **68.5/31.5** (NGET/SPT) ensures that the costs and risks carried by each TO are more accurately represented.

As such we believe that annual ex ante TO allowances (at P50 risk) should be as shown in table 1.

Ex ante allowance (£m)	TII		RIIO-T1				Total
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
NGET (68.5%)	15.6	83.0	161.7	230.5	208.9	20.2	719.7
SPTL (31.5%)	7.1	38.2	74.3	105.9	96.1	9.2	331.0
TOTAL	22.7	121.2	236.0	336.4	305.0	29.4	1050.7

Table 1 – ex ante allowance using 68.5/31.5 split, risk @ P50

We agree with the proposal that the TO cost allocation should be fixed for all years of the project.

Risk

We note that Ofgem have, in line with Poyry's conclusions, proposed that a P50 level risk allowance plus re-openers is applied. We maintain our position that a P80 risk allowance is more appropriate due to the scale and complexity of this single project and the fact that we are unable to balance risk across multiple projects. Therefore we believe that the annual ex ante TO allowances (at P80 level) should be as shown in the following table.

Ex ante allowance (£m)	TII		RIIO-T1				Total
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	
NGET (68.5%)	16.2	84.4	162.5	234.7	217.7	25.2	740.6
SPTL (31.5%)	7.4	38.8	74.7	107.9	100.1	11.6	340.6
TOTAL	23.6	123.2	237.3	342.6	317.9	36.7	1081.2

Table 2 – ex ante allowance using 68.5/31.5 split, risk @ P80

Efficiency Incentive Mechanism

We note the proposal that the RIIO incentive rate will be applied retrospectively to all relevant years prior to the RIIO-T1 period (i.e. 2011/12 and 2012/13) and will supersede the TII arrangements previously applied to the project. This higher sharing factor increases the risk for the rollover period, and therefore a higher rate of return should be provided. Whilst this may represent a pragmatic solution in these circumstances, this cannot be judged until we understand how Ofgem propose to adjust the TPCR4 capex incentive mechanism to remove the current 25% sharing factor and apply a higher (circa 50%) sharing factor to this project.

We also note Poyry's view that the application of different efficiency factors between TOs could materially influence and complicate key project decisions and that the use of a single common factor would remove this risk.

Milestones and Reporting

We note Ofgem's intention to define appropriate milestones and output measures for this project. We support this proposal but request further clarification on where these will be defined and what

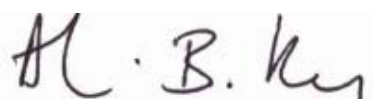
reporting requirements, over and above the quarterly reporting currently underway, will be required. We also believe it is appropriate that NGET and SPT work closely with Ofgem to ensure that appropriate milestones and reporting requirements are agreed.

Other Points

On a minor point of clarification it is more accurate to refer to an 'undersea cable route' rather than an 'undersea corridor' as stated in P5 para 3.

We look forward to working with Ofgem to resolve these remaining outstanding issues.

Yours sincerely



Alison Kay



Scott Mathieson