

Anna Kulhavy
Senior Manager, Transmission Investment
SG&G - Transmission
9 Millbank
London
SW1P 3GE

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
email: malcolm.burns@sse.com

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Dear Anna,

Notice under section 11A(2) of the Electricity Act 1989 of proposed modification to special condition 3D: Stakeholder satisfaction output

Scottish Hydro Electric Transmission plc (SHE Transmission) welcomes the opportunity to respond to the 4 August statutory consultation on the above topic.

Whilst we welcome the change to Ofgem's April 2016 consultation, to continue the external assurance element of the Scottish Transmission Owners' output arrangements in years 1-3, overall we remain deeply disappointed with both the process and the final decision on this important RIIO-T1 incentive.

As noted in our response to the April consultation, this decision penalises companies who have, in good faith and based upon the agreed regulatory settlement, undertaken stakeholder activity based on the expectation of reward for good performance. By eliminating the incentive in the first three years of the price control Ofgem has created regulatory uncertainty, potentially increasing costs to consumers.

We are extremely concerned with the potential precedent this decision sets: in our view it introduces 'hindsight bias', a move to retrospective regulation and, effectively, a reopening of this element of an ex ante price control agreement. We would strongly urge Ofgem to reconsider its decision and work with the System Operator and Transmission Owners to identify a solution that maintains the principles of RIIO and better regulation.

Notwithstanding our concerns above, the proposed licence changes do reflect Ofgem's 4 August decision.

Yours sincerely,

Malcolm J. Burns

Senior Regulation Manager, Networks