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Dear Martin,

**Consultation on United Utilities Modification Proposal UU / 2008 / 002.1: Proposal to introduce payments for the adoption of connection assets.**

SSE own and operate two licensed distribution networks as well as 27 'out of area' networks across Great Britain. We therefore welcome the opportunity to comment on the asset adoption payment proposals set out by United Utilities in their document dated 14<sup>th</sup> August 2007.

We believe that the proposals raise a number of wider issues in relation to the role of asset adoption payments in facilitating competition in connections and the emerging competitive market in new networks which require detailed consideration as part of a wider consultation process. For that reason we do not support United Utilities' proposals at this stage.

We have studied the proposals carefully and are of the opinion that it is inappropriate to remedy the apparent double counting issue which is inherent within United Utilities' charging methodology through the introduction of asset adoption payments which will have an industry-wide impact. In our view, the issue should be addressed through changes to United Utilities' charging methodology which solve the problem in isolation.

Our approved charging methodologies do not double count income from new connections. We would not therefore expect to apply asset adoption payments to correct for this type of anomaly. Whilst we are not in a position to comment on the situation for other DNO's, it is clear that the implementation of such a policy by a single DNO will have wide ranging implications for network operators as a whole.

As stated at the outset and as Ofgem rightly highlights, the proposals do raise interesting wider issues in relation to asset adoption payments and their role in facilitating effective competition both in the provision of new connections and new networks. For example, to allow one DNO to make asset adoption payments in isolation could, in our view, distort competition in the emerging competitive market of new networks.

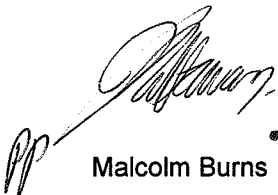
Ofgem's removal of the tariff support mechanism in April 2005 and its replacement with a new shallow connection boundary which enabled DNO's to recover connections and new network costs in their totality from the connecting customer was designed to 'level the playing field' between DNO's and ICP's and help to facilitate the development of competition in connections. In our view, the current framework has worked well in delivering effective competition in connections.

However we believe that a wider debate as to the most appropriate framework for asset adoption payments in the emerging new networks market is required as part of the DPCR5 consultation process. We would welcome the opportunity to input to a wider debate on this issue.

In summary, we believe that United Utilities' proposals raise some interesting wider industry issues in relation to asset adoption payments. However any issue with United Utilities' charging methodology should be dealt with in isolation and not by means of introduction of asset adoption payments. For these reasons we do not support the proposals as they stand.

If you require any further information or would like to discuss any of the issues raised here, please feel free to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Malcolm Burns', with a small circular mark to its right.

Malcolm Burns

Regulation Manager