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Dear Karron,

Re: Recovering the costs of compensation for temporary physical disconnection (CAP048) – Open letter consultation and minded to statement.

Thank you for the opportunity to respond to this consultation document.

National Grid has been exposed to the costs of compensation for temporary physical disconnections since the introduction of CAP048 on 1st April 2004.

National Grid agrees with Ofgem's proposed approach which would allow the pass-through of an efficiently incurred level of compensation costs for the first 2 years of this price control period i.e. up to March 2009, as would allow more time for an historical baseline of costs to be established before considering incentivisation. In addition to forward looking arrangements for the funding, any mechanism that is introduced following this consultation should be backdated to the introduction of CAP048, in line with Ofgem's intentions in the April 2005 consultation. This approach is consistent with Ofgem's original intentions and its duty to fund our activities.

We also agree with Ofgem and the majority of the industry, that these costs should be funded via TNUoS charges as these costs are driven mainly by network investment.

In line with the above we also agree that it may be appropriate to revisit this issue in the future in conjunction with all transmission licencees to consider the development of an appropriate incentive for Interruption Payments.

However, we disagree with Ofgem's comments in the consultation that suggests our April 2005 cost forecast was inaccurate. This forecast was based on the best available information at the time and the subsequent change in forecast reflects the final outcome of the arrangements for BETTA and the actions taken by National Grid to reduce the potential cost exposure.

We note that CAP144, Emergency Instruction to Emergency Deenergise may add to the current level of CAP048 costs. However, the development of this proposal is ongoing and we consider that it would be appropriate for Ofgem to consider the recovery of these costs with National Grid as part of Ofgem's assessment of any modification proposal. Finally we would welcome the opportunity to work with you further on these proposals and if you have any questions or queries please do not hesitate to contact me or alternatively Emma Carr on 10926 655843 or Emma.j.carr@uk.ngrid.com.

Yours sincerely

Hedd Roberts