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Date 9 July 2004

Dear David

**Extending the National Grid Company's Transmission
Asset Price Control for 2006/07**

We are pleased to have the opportunity to respond to this consultation on the proposed extension of NGC's transmission price control.

We agree with Ofgem that a reasonable approach to the price control for 2006/07 would be to undertake a high level review of the current price control assumptions, carrying these forward or considering alternative approaches where appropriate.

On the basis that NGC's performance in managing operating expenditure in the current price control period is broadly consistent with the assumptions made in setting the price control, we agree that it seems appropriate to carry forward these operating expenditure assumptions, provided that this maintains an appropriate level of efficiency incentives on NGC.

Similarly, as NGC's capital expenditure in the first two years of the present control period has exceeded that allowed for in the price control and is also forecast to exceed that allowed for in the remaining years of the price control, we agree that it would be appropriate for Ofgem to carry out a limited review of capital expenditure. In reviewing capital expenditure allowances, it will be important to ensure that a reasonable balance is achieved between the costs to transmission users and the long-term security of the transmission system and that there continue to be incentives towards efficiency.

It will be important to ensure that the assumed cost of capital remains appropriate, particularly when capital expenditure is rising and new funds may be required. In general, we recognise the need for consistency between the cost of capital used for transmission and distribution price controls, though they need not be the same where risk levels are different.

We agree that it may be appropriate to extend NGC's System Operator internal costs to cover 2006/07 as part of the proposals to extend the Transmission Owner price

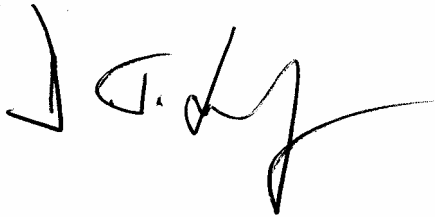
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control, particularly as this would allow the assessment of shared costs between NGC's different activities.

We hope that you will find these comments helpful. If you have any queries, please do not hesitate to contact Rupert Judson on 0207 752 2526 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

Denis Linford
Director of Regulation