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Dear David,

Extending NGC's Transmission Asset Price Control for 2006/07

I am writing in response to Ofgem's consultation on the above topic. We agree that it would not be appropriate to carry out a full review of NGC's price control for a one year extension. Instead, we firmly believe that the same approach should be adopted as for the Scottish companies roll forward control. This involves a high level review of the current price control levels of operating and capital expenditure, together with adjustments required due to the implementation of BETTA, particularly the socialisation of the interconnector, and the investment required to accommodate new renewable generation.

The cost of capital should be the same as for the Scottish companies, since NGC as a TO will have exactly the same risks as the Scottish TOs. We have previously indicated that the appropriate cost of capital should be that settled for the distribution companies.

NGC's excluded service and price control revenues have recently been adjusted as a result of revisions to the connection/infrastructure boundary following a review of the England and Wales charging methodology. The calculation of the revised price control will need to reflect this adjustment. The basis for the adjustment was outlined in Ofgem's 19 November 2003 consultation as follows:

"In addition, Ofgem has decided it would be appropriate to treat legacy payments by NGC to refund capital contributions and termination payments as capital expenditure in the normal way, with NGC receiving depreciation

and financing costs through an adjustment to its price control revenue over the remaining life of the asset.”

The arrangements were then detailed in subsequent licence modifications for NGC.

It is particularly important that the assets remunerated through price controlled revenues are aligned across all three transmission licensees. In implementing BETTA, the current England and Wales charging methodology will be extended to Scotland. Clearly, the Scottish licensees will therefore need a similar capital expenditure allowance to repay customers who have fully paid for assets which would be treated as infrastructure under this charging methodology.

Also, any future changes to the connection/infrastructure boundary would require revisions to all three transmission licensees' price controls.

Please give me a call if you need any further information.

Yours sincerely,

Rob McDonald
Director of Regulation