
Transmission & Distribution

19 August 2005

Colin Green
Senior Manager – NGC price control extension project
Office of Gas & Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Colin,

VATECH RESPONSE TO OFGEM'S OPEN LETTER DATED 22 JULY 2005

You will be aware that VATECH including its UK subsidiary VATECH T&D Ltd has recently been acquired by Siemens. Whilst we continue to operate as an independent legal entity we have had sight of and fully concur with the comments made by Siemens plc in its response to Ofgem's open letter.

However, as a supplier to the UK ESI for over 100 years under different ownerships and therefore with long experience of many cycles of capital expenditure we wish to particularly stress the following points.

1. It is absolutely clear that many of the UK's transmission assets are near to the end of their life and in need of replacement over the next 5 years. Coupling this with the need for load-related and new generation connection expenditure it is obvious that capital expenditure-related activity required from the transmission operators, especially NGC, and its suppliers will substantially increase.
2. It is a fact, well known to Ofgem, that there is an acute shortage of expertise in the ESI arising from a relatively low level of expenditure over many years and substantial restructuring of the industry. There is as a consequence an urgent need to recruit and train new talent to carry out this increased level of activity.
3. Suppliers to the ESI are ready and willing to invest in additional recruitments and training but above all they require certainty of future workload and a sensible ramp-up of activity from now onwards. It would be extremely counter-productive over the medium term for short-term expenditure saving decisions to be taken by Ofgem, based on questionable analysis or an inclination to err towards the low side, which would result in the need for a very steep ramp-up of activity over a small number of years in the future. In other words, please avoid a boom and bust solution!

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4. If this does occur, it is our view that the ESI may not be able to cope - either from the operator or supplier side.

In summary, we urge Ofgem, even considering that this Review is only for one year, to take into account the longer term requirements for capital expenditure and the risks to the safe delivery of this in the future if a smoothed approach is not followed. We are well aware from our history that these risks, if not mitigated, could lead to the very opposite of what Ofgem is seeking - a safe and efficiently delivered capital programme for the benefit of the consumer.

We hope you will take into account these views when considering your final decision on the 2006-07 Review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C A Overstall', written in a cursive style.

C A Overstall
Managing Director