



taking care of the essentials

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Our Ref.
Your Ref.
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Dear Colin,

Open Letter on Extending National Grid Company's Transmission Owner Price Control for 2006/07

Centrica welcomes the opportunity to provide comments to Ofgem following the publication of the above open letter.

We concur with Ofgem that due to the limited extent of the capital expenditure assessment, a judgement on total costs incurred should not be made at this time and should be delayed until further detailed work is completed.

Additionally, we agree that options 2 and 4 for setting an interim RAV should be investigated further. It is only equitable that where, as a result of a full review of past expenditure, it is demonstrated that expenditure has been efficiently incurred, additional funding for depreciation and return should be included as part of the revenue allowance for 2007/08, should it not be possible to include it in the allowance for 2006/07.

We suggest that any submission by National Grid to Ofgem for capital expenditure allowance should include detailed and adequate justification. If this justification is not included then the allowance should not include these amounts. This, we suggest, directs the emphasis correctly on National Grid to justify their forecast expenditure levels at the time of submission.

Notwithstanding, we agree that options 3 and 4 in this regard should be explored in greater detail.

We support Ofgem's view that work specifically in relation to NGC's risk profile and gearing is needed in order to calculate an appropriate and fair cost of capital (option 2).

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We hope these comments have been useful, please do not hesitate to contact me if you have any questions.

Yours sincerely,

Sarah Owen
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