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**Date** 19 August 2005

Dear Colin

**OPEN LETTER ON EXTENDING NATIONAL GRID COMPANY'S  
TRANSMISSION OWNER PRICE CONTROL FOR 2006/07**

EDF Energy is pleased to have the opportunity to comment on Ofgem's proposed approach to the extension of NGC's transmission owner price control for 2006/07.

Regarding capital expenditure for 2003/04 and 2004/05, we agree with Ofgem's view that these expenditures should be fully assessed as part of the forthcoming price control review, but that for the purposes of the one year extension a simplified assessment is appropriate. Any inaccuracy resulting from this approach can be addressed by an adjustment to the next price control.

Regarding capital expenditure for 2006/07, as Ofgem is already aware, EDF Energy and NGC have agreed a programme of significant Super-Grid reinforcement schemes necessary to maintain security of supply in London and South East England. We would therefore be most concerned should NGC's proposed capital programme be constrained inappropriately. In particular, a constraint in 2006/07 would affect not only that year, since the resultant backlog of schemes would take time to clear. We cannot, of course, directly comment on the work that PB Power has done in assessing NGC's capital expenditure forecast. However, if it is to the same restricted scope and depth as was observed during the recent distribution price control review, we would doubt that Ofgem has a robust basis for departing from NGC's view.

On the basis that NGC's RAV will be adjusted on an NPV neutral basis as part of the next "full" transmission price control review, we believe that option 4 for

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setting the interim RAV offers a pragmatic approach, taking into account the uncertainty around the levels of non-load related expenditure.

We support Ofgem's proposed approach of deriving a cost of capital based on the common components of the DPCR conclusion but taking account of NGC's own risk and tax circumstances.

Given that NGC's operating expenditure has been broadly in line with assumptions made in setting the price control we support Ofgem's proposal to carry forward the 2005/06 allowance with an adjustment for inflation.

We hope that you will find these comments helpful. If you have any queries please do not hesitate to contact me.

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**