

Our ref: CG/FD/ajt

25 October 2005

Mr Colin Green
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Office of Gas & Electricity Markets
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Dear Sir

Initial Proposals on Extending National Grid Electricity Transmission Ltd's Transmission Owner Price Control 2006/07

Ofgem Initial Proposals document 206/05 published 27 September 2005 invites views from respondents on any aspect of the issues set out in the document.

The document summarises Ofgem's view of NGET proposed expenditure for 2006/07.

As a major supplier to NGC for transmission infrastructure works, the outcome of this price control extension will have significant implications for Balfour Beatty's future business. We would, therefore, like to comment in particular about the level of Capex allowance proposed by Ofgem.

NLRE Capital Expenditure 06/07

Ofgem states that uncertainty about the level of non-load related expenditure leads it to the view that PB Power low case figures should be used. Having asked PB Power to carry out a technical assessment, it would be more consistent for Ofgem to adopt PB Power's view which largely accepts that NGET's projections are appropriate.

PB Power's proposals for overhead line capex seem to be unduly low and may reflect the fact that they appear to have omitted fittings-only schemes.

Balfour Beatty has carried out a number of overhead line surveys to provide detailed condition assessments for NGET, and we believe that their approach of identifying schemes on the basis of these assessments is far more robust than relying on pure modelling.

Recent increasing trends in EHV cable fault and repair work also lead us to conclude that there is a genuine case for increasing expenditure on the refurbishment or, where necessary, the replacement of these assets .

NGET have consulted widely with their supplier base to ensure that there is capacity in the market to deliver their projected volumes and so it is unrealistic to use availability of resources as a basis for the low scenario.

Clearly it is prudent to have an option to make adjustments to the level of allowed NLRE at the next full price review. In the interim, however, accepting NGET current projections would seem to be a safer option than to insist on significantly lower expenditure, with the obvious increased risk to the network.

Yours sincerely
For and on behalf of
Balfour Beatty Power Networks Limited

Frank Duffy
Director of Network Strategy