

29<sup>th</sup> June 2006

Mr. Lewis Hodgart  
Office of Gas and Electricity Markets (Ofgem)  
9 Millbank  
London  
SW1P 3GE

Dear Mr. Hodgart,

**Re: Changes to Reasonable Profits Test as applied under SLCs 4 and 4A of the GT Licence**

On behalf of the **ESP Gas Group Ltd** ("ESP"), which includes E S Pipelines Ltd, ESP Networks Ltd, ESP Pipelines Ltd and ESP Connections Ltd, I am writing in response to your letter dated 18/5/06 regarding the above consultation. I can confirm that ESP is supportive of the proposed changes for the following reasons:

- The NPV test will be brought in-line with the generally accepted method of assessing the type of capital investment made by GTs.
- It will ensure the capital investment made by the GT is always taken in to account within the test and does not disappear after 4 years, a fundamental flaw that ESP could never understand how came about.
- The removal of the ROCE test that was even more flawed than the NPV test, and in addition was not really appropriate anyway.
- That only one form of test is required and the NPV test is the more appropriate of the two to choose from.
- It will form a much clearer and more efficient system for both iGTs and Ofgem for the submission of information each year.

The only modification I would ask Ofgem to consider to their proposals is the time period used as for iGTs who invested in the earlier years there will still be a loss of some of the capital investment. As an alternative it may be more appropriate to keep the 23 year period but allow iGTs to choose the start point on the proviso that it corresponds to the start of significant investment and the end year is not before their migration date to RPC (for example use 1998 to 2021 if investment started in 1998).

If you have any queries regarding this matter please do not hesitate to contact me (01372 227561).

Yours sincerely,

Robert Wallace  
General Manager