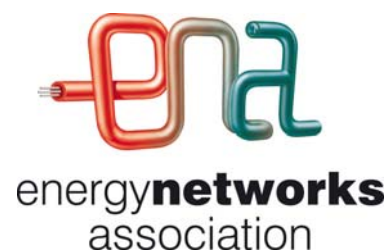


Date: 25 October 2006



David Gray  
Managing Director, Networks  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear David

Transmission Price Control Review: Updated Proposals – Cost of Capital

We are pleased to see in the latest consultation on the Transmission Price Control Review (TPCR) that Ofgem has recognised that its decision on the cost of capital needs to take account of a range of factors including, the investment focus of the review, financeability, risk, its consultant's work, and consistency with past regulatory decisions. We agree that these are all important factors to take into account.

Ofgem's choice of 4.2% real post tax as its modelling assumption for the TPCR is of considerable concern to our members since it represents such a large and rapid underlying movement compared with the 4.8% used for in DPCR4 just two years ago. Such movement would be highly damaging to a sector where investors are being asked to fund the extension and replacement of ageing infrastructures over many price control periods, and to support the long-term delivery of the government's energy policy objectives. We are therefore encouraged by Ofgem's explicit reference to the importance of consistency in its latest consultation paper.

Ofgem also make reference to the linked areas of investment focus and financeability. If regulatory policy in respect of financeability is now to assume new injections of equity then the returns available to such investors must be attractive, having of course made allowance for issuance costs and announcement effects.

We are reassured that Ofgem will now be taking a wider and longer term view to determine the cost of capital for the regulated energy network companies and we look forward to discussing this approach with you during both the conclusion to the current transmission and gas distribution reviews and the forthcoming DPCR5.

Yours sincerely

A handwritten signature in black ink that reads 'Andy' with a long horizontal stroke underneath.

Andy Phelps  
Head of Regulation  
Energy Networks Association