cc: Robert Hull
Peter Bucks

Fidelity™ INTERNATIONAL

25 Cannon Street
London EC4M 5TA
Telephone: 020 7283 9911
Fax: 020 7248 0401

RECEIVED
26 SEP 2006
13588

22nd September 2006

Mr. David Gray
Managing Director, Networks, OFGEM
9 Millbank
London – SW1P 3GE

Dear Mr. Gray,

Fidelity Investments is a substantial investor in UK listed utilities and we wanted to share our views with you on the Transmission Price Control Review's initial proposals and to contribute towards the debate surrounding the allowed rate of return.

In the recent Transmission Price Control Review you have indicated that for modelling purposes you have used an after tax cost of capital of 4.2%. This allowed rate of return contrasts with the allowed rate of return on electricity distribution assets of 4.8% and the allowed rate of return on water assets of 5.1%. It is not clear to us why the allowed returns should be so markedly different given the similarity of the risk profile of these three activities. In our view, the similarity of the respective risk profiles means that the relative investment appeal of these sectors will be driven by the allowed rate of return in each case. Furthermore, the cost of equity you are using to determine the cost of capital for transmission assets is only 7.0% in contrast to the 7.5% used for electricity distribution assets. On this basis investing in electricity transmission assets will be less attractive than investing in electricity distribution assets.

We are also concerned that the 7.0% cost of equity attributed to transmission assets fails to take any account of the very substantial capital expenditure program required in electricity transmission. Over the coming decade there is an acute need to replace aging infrastructure in developed countries as well as forecast high growth in infrastructure spending in developing countries, and this could well give rise to a very tight demand/supply balance in essential equipment and skills which in turn would lead to higher cost pressures and lower investment returns.

It is in all of our interests for the electricity transmission sector to be well supported by the investment community and for it to have access to the necessary capital to fulfil all of its obligations. This will be particularly important in coming years because of the scale of the required investment programme. However, we will only risk our clients' money when we feel they are being appropriately rewarded for the level of risk which is being assumed in order to achieve a given return, and we therefore urge you to reconsider the allowed rate of return for investment in electricity transmission activities.

Yours sincerely

Trelawny Williams

Trelawny Williams
Director, Corporate Finance