

18 May 2006

Ms E Cochrane  
Head of Corporate Finance  
Office of Water Services  
Centre City Tower  
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Dear Ms Cochrane

**Financing Networks: A discussion paper**

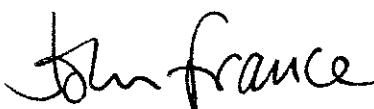
CE Electric UK Funding Company (CE) is the UK holding company of Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution plc (YEDL). The views set out in the attached note represent the response of CE, NEDL and YEDL to the joint Ofwat and Ofgem publication, *Financing Networks: A discussion paper* (February 2006) (the discussion paper).

We particularly welcome the publication of the discussion paper. The issues raised are central to the regulation of networks and we believe that significant benefits will come from clarifying these issues at this point in the regulatory cycle rather than allowing them to emerge from the price control review process. In this respect the seminar held under the auspices of Ofwat and Ofgem was also very welcome.

Our views on the specific questions raised in the discussion paper are set out in the attached note. In general we believe that a properly conducted price control review should not need to balance the outcome of its processes by the application of any significant financeability adjustments. If such adjustments are necessary to enable the hypothetical company (whose balance sheet corresponds to the regulator's requirements) to finance its activities then something has failed elsewhere in the modelling process. To the extent that financeability adjustments *are* essential to enable companies that meet all the desired regulatory criteria to finance their activities it follows that such adjustments must be NPV positive.

If there are any points in the attached paper that you would like to discuss with us or require clarification please let me know.

Yours sincerely



John France  
Director of Regulation

**CE ELECTRIC UK FUNDING COMPANY**