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#### DPCR5 FINAL PROPOSALS

We have completed our evaluation of the proposals of the Gas and Electricity Markets Authority as set out in its 7 December 2009 publication *Electricity Distribution Price Control Review, Final Proposals* (document references 144/09, 144a/09, 145/09, 146/09, 146a/09 147/09 and 148/09) (the *Final proposals*). You will not be surprised to learn that the weighted average cost of capital (WACC) number that you settled on is significantly below our view of what is reasonable, although we note the important policy shift away from concentrating on a base WACC and in favour of a combination of base WACC and calibrated incentives. Our analysis confirms your view that, in the case of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL), the package that you have presented offers opportunities for us to respond to the incentive challenge and to deliver a reasonable shareholder return during the DPCR5 period. On that basis I can confirm that NEDL and YEDL both intend to accept the *Final proposals*. We hope that the shift in emphasis to which I referred above proves to be sustainable and works out well for customers and for the sector as a whole.

Our acceptance of the licence modifications necessary to give effect to the *Final proposals* will be conditional upon the following provisos:

1. that, subject to 2 and 3 below, the licence modifications give full and proper effect to the *Final proposals*;
2. that the licence modifications reflect the correction of any manifest errors that are discovered and confirmed as such by Ofgem;

#### CE ELECTRIC UK FUNDING COMPANY

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3. that the Authority continues to honour its clear commitment (set out in its decision of 31 October 2008) to spread the recovery of NEDL's and YEDL's DPCR4 vegetation management reopener revenues over the three years 2009/10-2011/12; and
4. that no other company secures any other improvement in its position as set out in the *Final proposals* (other than with respect to the matters referred to in 2 above), unless that improvement is also applied in respect of NEDL and YEDL.

Our decision to accept the *Final proposals* has taken into account, and has relied upon, all the statements made by the Authority, and set out in the *Final proposals*, about its future intentions.

Sincerely  


**Phil Jones**  
President & Chief Operating Officer