



Central
Networks

Mr Alistair Buchanan CBE
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5th January 2010

Dear Alistair,

Electricity Distribution Price Control Review - Final Proposals

Since you published the Final Proposals on 7 December I have been considering what they mean for Central Networks, and whether they enable us to deliver the reliable and sustainable, low-carbon network we intend to achieve for our customers.

I am pleased you recognise that we need to continue to replace our ageing asset base through a 24% increase in investment, and by allowing a potential £500m across the industry for low-carbon projects. Equally, having set ourselves challenging levels of operating cost and overheads to keep prices low for our customers, I welcome the fact that these essential costs have been allowed in full. However, while meeting already stretching targets, we will be expected effectively to contain overall costs within inflation, while delivering a newly-specified and very detailed range of 'outputs'.

My real concern is the depressed level of the cost of capital - compounded by a complete lack of transparency on it throughout the process and its last-minute revelation. I do not consider 4.0% to be sufficient either to attract sustainable funding to maintain the network or to take us towards a low-carbon future. The signal that this sends to investors and the uncertainty created by the process are unhelpful and will deter investment in the longer term. I am particularly concerned about this, given the even higher levels of investment likely to be required in DR6. Your thinking here is too short-term.



Corporate Member
Institute of
Customer Service

Central Networks East plc
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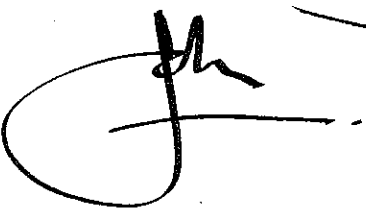
Central Networks West plc
3600574

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Taking the package as a whole however, I believe that we can earn an acceptable return while improving service to customers and reducing the overall carbon footprint – but only if we outperform the various incentives. Accordingly, I am minded to accept in principle the Final Proposals for both Central Networks East plc and Central Networks West plc, subject to appropriate drafting of the associated licence conditions.

Yours sincerely
A handwritten signature in black ink, appearing to be 'J. Smith', written below the closing 'Yours sincerely'.

Cc: Steve Smith