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4 February 2011

Dear Rachel and Hannah

RIIO-GD1 and RIIO-T1 - CONSULTATION DOCUMENTS

Please find attached the response from CE Electric UK Funding Company (CE), Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL) to the RIIO-GD1 and RIIO-T1 consultations issued on 17 December 2010 (the *Consultations*).

We have confined our comments to those aspects of the *Consultations* that affect us, or are likely to affect us, as the holders of electricity distribution licences. Even so this has led us to compile a fairly lengthy response to the *Consultations*.

Although we support much of the direction of travel that is signalled in the *Consultations*, we have a number of concerns about the proposed approach that Ofgem has set out. These are set out briefly in the summary that appears on pages 2 to 6 of the attached response. However, I would like to draw your attention particularly to the serious doubts that we continue to express about Ofgem's approach to financial issues. We make a number of serious points about Ofgem's proposals in this regard and since it is clear that decisions will be made in these reviews that have consequences for our own business we now request that, as an interested party, we should have the opportunity to address the Gas and Electricity Markets Authority (the Authority) in the same way as Centrica did at our recent price control review. In many respects our presentation to the Authority would be supportive of the broad thrust of the proposals that you are making; in other respects we would expect to set out our concerns fully and properly. If you agree to this, I would be grateful if you let me know the timetable that you envisage for interactions of this kind.

At such a meeting with the Authority we would certainly explain why we believe that Ofgem should reconsider its financeability proposals having more regard to the expressed views of providers of equity finance. Our shareholder approaches investment in this sector in the same way it approaches competing investments elsewhere. If the earnings are compromised, the result will be a flight from equity or, at best, reluctant equity investors. Neither of these would be good for customers or for meeting the UK's environmental commitments.

CE ELECTRIC UK FUNDING COMPANY

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Moreover, we are especially concerned about the damage to regulatory credibility of the proposals if they are enacted with respect to existing assets. These investments were made on the basis of the prevailing regulatory assumptions and whilst investors are aware of the possibility of regulatory change, they did not contemplate – and nor could they reasonably have done so – changes of the kind that you are now signalling.

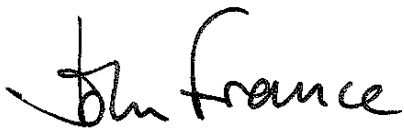
Even if the proposals are applied only to new assets the consequences are still significant and would require additional, and probably lengthy, transitional arrangements.

The immediate and the medium term future is one concern. The longer term future is also problematic for a different reason. Where analysis of plausible scenarios indicates that recovery of sunk costs will only be achieved decades into the future, at which time companies must be expected to be highly cash-positive, the Authority should think again about the credibility of its position.

I hope that you will reflect seriously on these matters and that you will grant our request to address the Authority on these matters.

In the meantime if you have any questions about any aspect of our response please let me know.

Yours sincerely

A handwritten signature in black ink that reads "John France". The signature is written in a cursive style with a large, stylized initial 'J'.

John France
Regulation Director