

Hannah Nixon
Acting Senior Partner, Smarter Grids and Governance
Ofgem
9 Millbank
London
SW1P 3GE

21 November 2011

Dear Hannah,

Re: Initial assessment of RIIO-T1 business plans and proportionate treatment

I am writing to you on behalf of Northern Powergrid Holdings Company and its wholly owned electricity distribution licensees Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc. This letter provides our response to Ofgem's recent consultation on its initial assessment of RIIO-T1 business plans and proportionate treatment.

Thank you for the opportunity to comment. We do not propose to discuss the detail of the plans, or Ofgem's initial assessment of them, as we do not have visibility over much of the underlying data. This lack of visibility on certain areas is important given the context. During the course of the price control review, Ofgem will come to decisions on issues of profound importance, such as the role of scenarios regarding the speed of transition to renewable energy sources in setting investment baselines. Given the matters at stake, a fully rounded view which takes into account all of the information currently available is required. However, we did want to provide some thoughts on the overall approach being adopted in the fast tracking process.

Firstly, we are fully supportive of Ofgem's decision to provide iterative feedback to transmission companies during the process of assessing whether any can be fast tracked. This is a new and unfamiliar process, and the transmission companies are the first to go through it, so it seems appropriate that some allowance should be made. Not only this, but the iterative process should allow Ofgem to learn more from the process which could be of benefit at future reviews, particularly if the lessons are shared effectively with the companies in question.

This leads us to our next point. The new suite of incentives being introduced at RIIO-ED1 are necessary if the electricity distribution companies as a group are to meet the challenges associated with a move to a low carbon economy. RIIO-ED1 will cover a critical period for this transition, and it is extremely important that the new suite of incentives is implemented to its maximum effect. The ability to learn lessons from RIIO-T1 undoubtedly helps with this. But we are also supportive of Ofgem's statement that there will be no opportunity for revisions to business plans based on Ofgem's initial assessment at RIIO-ED1.

By the time of the RIIO-ED1 price control review, all the companies must be fully aware that their first business plan submission is the one on which they will be judged. This is necessary to avoid diluting the incentive that fast tracking is intended to provide, for companies to submit a well justified business plan at the first attempt. We would, however, also caution against a wholly inflexible approach. A situation could arise in which some fairly straightforward adjustments to a plan may be warranted in reaching a mutually acceptable decision to fast track a company. Should

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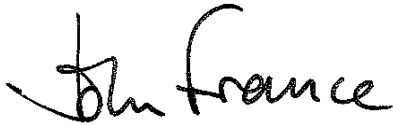
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such a situation arise, we believe that that there should be clear justifications for any revision, and that these should be set out transparently for all stakeholders, in order to maintain the incentive that fast tracking provides for developing well justified plans. Provided this condition can be achieved, the benefits of allowing companies to move to business plan implementation mode sooner can be realised.

I would be happy to discuss these comments further if it would be helpful.

Yours sincerely

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

John France
Regulation Director

cc Rachel Fletcher