

Hannah Nixon
Senior Partner, Distribution
Ofgem
9 Millbank
London
SW1P 3GE

23 November 2012

Dear Hannah

CONSULTATION ON THE STRATEGY FOR RIIO-ED1

I attach a copy of the Northern Powergrid response to your consultation on the strategy for RIIO-ED1.

Our complete response comprises three documents. The first is a standalone document in which we set out our views on the range of issues raised in the Ofgem consultation; the second is a supplement in which we respond to each of the questions set out by Ofgem in the consultation. This supplement includes much of the same content as the first document, but it goes into more detail. The third document is a paper that we originally prepared for an Ofgem working group in which we set out our suggestions for a low-carbon uncertainty mechanism. Although the sum of these three documents makes for a very weighty set of papers, we hope that we have structured our response in a way that enables you and your team to use it most effectively.

I am sure you will not yourself have time to read all the responses from all the consultees. Accordingly, I would draw your attention to the four page Executive Summary in the first of the attached documents. Reducing things still further, the essential points are those that Phil Jones made to the Committee of the Authority on 8 November, namely that Ofgem should:

- carry into effect its intentions with respect to total cost benchmarking;
- confirm the step-up to a 70% totex incentive rate;
- increase the rewards for fast-tracked companies;
- confirm the range for the cost of equity;
- add a year each year to the proposed debt index until the trailing average reaches an appropriate time horizon for long-lived assets. In the meantime make an adjustment to cover the years that precede the index;
- adopt the £/MW of connected low-carbon technologies revenue driver for the low-carbon uncertainty mechanism; and

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- resolve the issue of the established pension deficit (as at 31 March 2010) outside the RIIO-ED1 process.

If anything is unclear, or you or your staff would like to discuss anything that we have said in our response, please let me know.

Finally, I confirm that all three of the documents that comprise our complete response to the consultation may be placed on the Ofgem website.

Yours sincerely

A handwritten signature in blue ink that reads "John France". The signature is written in a cursive, flowing style.

John France
Regulation Director