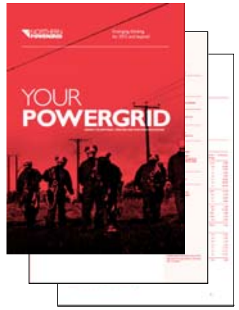
Our business plan 2015-23

23 April 2014

Our plan offers customers improved outputs with lower prices and lower like-for-like costs

- Real prices fall by *ca. 10%* and then stay flat
- Like-for-like costs reduce by 3.1%
- Financing package still recognises deal in the round
- Power cuts 20% shorter, in line with Ofgem targets
- Fewer long-duration faults with enhanced automatic payment if we fail – doubled for vulnerable customers
- 50% reduction in accident rates for staff and enhanced site security for the public
- Asset health maintained, flood resilience increased, environmental impact reduced including losses
- Routine connection times shortened by 30%
- Innovation in asset-light smartgrid solutions
- Base costs assume modest LCT take-up – we take the risk of more LCTs
- NPV-positive smartgrid investment ahead of ED2
- Major increase in innovative web-based information services and self-service transactions
- Innovation in services to vulnerable customers
- New social partnerships to tackle the affordability challenge
- No additional reopeners or uncertainty mechanisms



November 2012

June 2013

March 2014

www.yourpowergridplan.com

- First mover on reducing costs and improving outputs
- Much greater reach due to use of digital channels
- Externally facilitated, structured feedback
- One-to-one meetings for 'professional stakeholders'
- Focused groups for 'common interest' stakeholders
- Direct and extensive engagement with suppliers
- Detailed challenge and support from 3 expert panels
- 81% approval rating from stakeholders
- Explicit endorsement from largest energy supplier

We have made targeted adjustments to costs in a relatively small number of areas

CHANGES TO COSTS DIRECTLY WITHIN OUR CONTROL ARE DOWNWARDS…

- Moved to minimum repair approach on faults following Ofgem feedback: **£17m decrease**
- Synergies from smart meter roll-out reducing future 'standard' defect call outs: **£3m decrease**
- Real price effects aligned with NERA report: **£62m decrease**
- Battery replacement cost double count eliminated: **£1m decrease**
- Full use of allowance for undergrounding in areas of natural beauty: **£1m increase**

…ALTHOUGH SOME NEW OUTPUTS ARE REQUIRED…

- Two significant network reconfigurations due to loss of customer projects: **£29m increase***
- Rail electrification diversions: **£61m increase** (subject to Ofgem's uncertainty mechanism)

…AND THERE HAVE ALSO BEEN CHANGES IN OUR NON-CONTROLLABLE COSTS

- Contracts concluded with National Grid on key new grid exit point: **£9m decrease**
- Expert advice taken on likely business rate revaluations: **£45m increase** (subject to uncertainty mechanism)

WE DO NOT SEE SCOPE FOR A LOWER OVERALL COST OF CAPITAL

- The prices quoted in our base plan assume no change in Ofgem's March 2013 policy on financing
- A lower allowed cost of equity would mean we need our actual cost of our historically issued debt to be funded

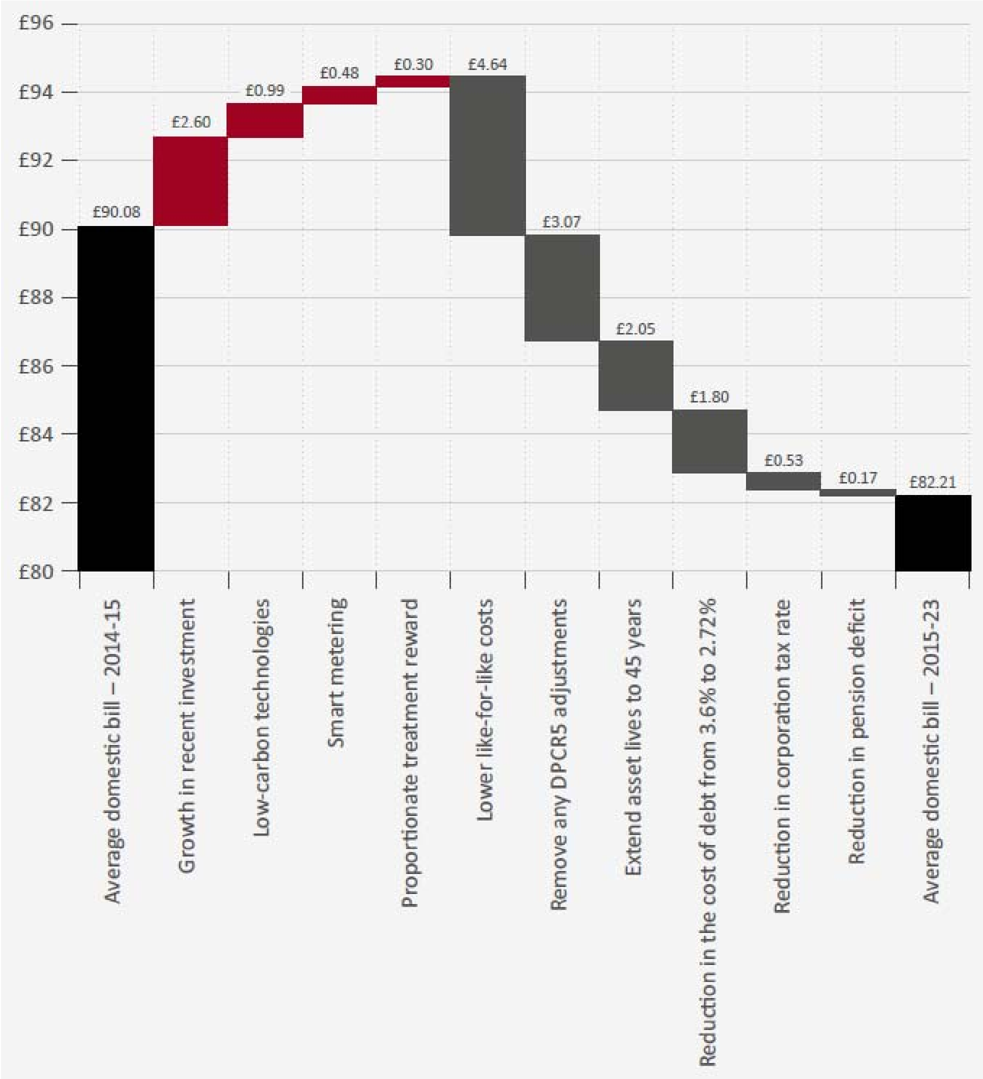
OVERALL OUR PLAN REFLECTS CONTINUED FOCUS ON REDUCING COSTS WHEREVER POSSIBLE

- Customers are protected by issue-specific uncertainty mechanisms covering £106m of the cost increase relative to our June plan…
- …while other costs have been reduced by £62m

** Cost estimates subject to revision as one cancellation was announced the week before we submitted our plan*

NORTHERN POWERGRID

Our expected price cut remains consistent with our view in June 2013



NORTHERN POWERGRID