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Dear Maxine

Additional information relating to regional costs

We are writing to you following your publication on Thursday 6 November of letters received by Ofgem from DNOs following the publication of the ED1 Draft Determination. We note that this is only a partial release of information and at the time of writing this letter we are yet to see any further information.

We have now carried out an initial review and we are particularly concerned about Northern Power Grid's proposed adjustment to the regional labour factor. We have had a very limited amount of time to review this information and have not been able to replicate their proposed revised adjustment which seems disproportionately high. This is in part due to their selective use of data with no assumptions or reasoning provided to justify the data they have excluded from their analysis. We also note several references in their letters to information which we have not yet received.

We would therefore be concerned if Ofgem were to make adjustments to the ED1 methodology for determining regional costs based on these new NPG arguments. The ED1 regional cost methodology used in the draft determination has been established through robust public consultation and was applied in the GD1 final determination. We are in the process of reappointing our advisor to further review NPG's information.

We note that the essence of NPG's argument is that the impact of the regional adjustment on LPN's totex is disproportionate. As part of our ongoing business review of our unit costs we make annual comparisons across our three DNOs using a common volume of work. For 2013/14 in this analysis of actual costs we note that LPN's totex is 21% higher than EPN and SPN's is 9% higher than EPN. Given that we use common systems and process across our three networks and that the relative inefficiency between LPN and EPN was only 6% Ofgem's adjustment of 10.1% for all regional factors in LPN as per the Draft Determination is therefore already at the low end of this actual cost evidence. We would be happy to share this analysis with Ofgem.

In conclusion we believe that the total adjustment proposed by Ofgem in the draft determination for regional cost uplift is at the low end of the historic evidence we have already provided to Ofgem in our ED1 business plan. We believe NPG's arguments are partial and are based on a selective use

of data. The release of letters comes at a very late stage and does not include all the information we need to analyse the proposals. Accordingly we believe that there is no basis for a change to the well justified Draft Determination allowances.

Yours sincerely

A handwritten signature in black ink that reads "Ben Wilson". The signature is written in a cursive, flowing style.

Ben Wilson
Director of Strategy & Regulation and Chief Financial Officer
UK Power Networks