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Dear John

Derogations in Respect of Standard Condition 5 of the Distribution Licences

Thank you for the open letter of 28 February and for agreeing at our recent meeting to a short overrun on your requested deadline for responses. I write here on behalf of CE Electric UK Funding Company Ltd (CE) and its two licensees Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

We welcome your proposals, and support them in their entirety. We agree that it is appropriate to issue a general derogation under the specified terms, which seem to us to provide a fair balance between efficiency and customer protection.

The use of this general derogation as currently drafted will be straightforward for the primary system, down to the HV busbar. We have processes in place to ensure timely identification of EHV/HV substations likely to exceed firm capacity, and to ensure that any such issues are assessed proactively, with remedial actions identified and implemented within a defined timescale.

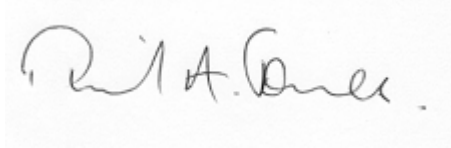
We do not consider such processes to be necessary or appropriate for the HV system, where much larger numbers of both individual circuit sections and contingency scenarios fall to be assessed. We therefore anticipate continuing with our more customer-driven approach to assessing HV network sufficiency, where we always plan in accordance with P2/5, but identify potential compliance issues primarily in response to identifiable new connections.

This approach relies almost entirely on our performing routine assessments of local network sufficiency each time an application is made for a new connection to the HV or LV network. This process is mandated by our internal policies and is consistent with the requirements of SDLC 5 and of ESQCR, and constitutes a reasonable method for ensuring absolute sufficiency of the system. Based on our recent discussion, I understand that this systematic process is also consistent with your expectations for the general derogation.

We therefore intend to apply the general derogation, should you proceed with it, where our current processes identify a time-limited non-compliance. We do not propose to amend our processes solely to meet the requirements of that general derogation.

I hope you find this helpful, and we look forward to continuing to develop this framework with you.

Yours sincerely

A handwritten signature in dark ink, reading "Phil A. Jones." The signature is written in a cursive style with a period at the end.

Phil Jones
Director, Strategy & Investment

PHIL JONES
Director, Strategy and Investment