

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**  
**REGULATORY ACCOUNTS**  
**FOR THE YEAR ENDED**  
**31 MARCH 2010**

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**REGULATORY ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010**

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# NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

## DIRECTORS' REPORT

### **Cautionary statement regarding forward-looking statements**

The Regulatory Accounts have been prepared in accordance with standard condition 44(5) (Regulatory Accounts) of the electricity distribution licence granted to the Company by the Secretary of State (the "Licence"). The Company, its directors, employees or agents do not accept or assume responsibility to any person in connection with this document, other than in respect of the obligations imposed on the Company under standard condition 44(5) of the Licence, and any such responsibility or liability is expressly disclaimed. The Regulatory Accounts contain certain forward-looking statements, which can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, business prospects, the availability of financing to the Company and anticipated cost savings are forward-looking statements.

By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of the Regulatory Accounts, and will not be updated during the year. Nothing in the Regulatory Accounts should be construed as a profit forecast.

The directors present the the Regulatory Accounts for the year ended 31 March 2010 (the "Regulatory Year") for Northern Electric Distribution Limited (the "Company"), which include the directors' report, business review, corporate governance statement and audited financial statements for that year. The businesses of the affiliates of the Company that have carried out activities forming part of, or ancillary to, the distribution business of the Company have not been consolidated with the activities of the Company in the preparation of these accounts. The Regulatory Accounts are separate from the statutory financial statements of the Company, drawn up and presented in accordance with the Companies Act 2006.

### **PRINCIPAL ACTIVITIES**

The Company is part of the CE Electric UK Funding Company group of companies (the "CE Group") and its principal activity during the Regulatory Year was to distribute electricity to customers connected to its electricity distribution network.

The Company serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, receives electricity from the National Grid's transmission system and distributes it to the 1.6 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. The Company is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State.

In common with the CE Group, the Company operates a business model and strategy based on its six core principles (the "Core Principles"), which are:

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	Profitability. Cash flow. Maintenance of investment grade credit ratings.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

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### DIRECTORS' REPORT (CONTINUED)

#### PRINCIPAL ACTIVITIES (CONTINUED)

<u>Principle</u>	<u>Strategy</u>	<u>Indicator</u>
Customer service	Delivering reliability, fair prices and exceptional service.	Improving network resilience and performance, measured by: Customer minutes lost; Customer interruptions; and Customer satisfaction.
Operational excellence	Setting high standards for the Company's operations and system investment, operation and maintenance.	Effective asset management. Managing commercial risk. Improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performer. Engaging employees. Effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations.	Reducing environmental impact. Promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls. Regulatory engagement. Industry influence.

The Company continues to put plans in place to deliver its objectives against the strategy based on the Core Principles, executes on those plans across a range of activities, measures its progress and introduces corrective action wherever required. Adherence to its strategy and the Core Principles enabled the Company to deliver a satisfactory financial performance against the challenging economic environment, which persisted throughout the Regulatory Year and included the greatest reduction in the number of units distributed across the Company's electricity distribution network for a number of years.

### BUSINESS REVIEW

#### Review of the Regulatory Year

The Company's performance was considered to be solid in meeting the challenges of the Regulatory Year and was assisted by a strong cost control exercise. Customer service performance improved in the call centre with the introduction of a new inter-active voice recognition system and a significant reduction was achieved in the relation to the amount of outstanding work in progress to repair faults on the distribution network.

Disappointingly, although those incidents classified as preventable vehicle accidents reduced during the year to 31 December 2009 (the period in respect of which the Company measures its health and safety performance), the Company failed to meet its internal targets in respect of lost time accidents, preventable vehicle accidents and operational incidents.

For most of the Regulatory Year, the Company was fully engaged with Ofgem in the Distribution Price Control Review 5 ("DPCR5") process, which culminated on 7 December 2009 with Ofgem publishing its final proposals in respect of the price control formula that took effect for the five-year period commencing 1 April 2010. That process involved submission of detailed business plans in February 2009, the publication by Ofgem of an initial set of proposals on 3 August 2009 and continuing subsequent dialogue with Ofgem throughout the remainder of 2009. Following detailed analysis, the Company advised Ofgem, on 23 December 2009, that it accepted Ofgem's final proposals.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **BUSINESS REVIEW (CONTINUED)**

##### **Review of the regulatory year (continued)**

Under its final proposals for DPCR5, Ofgem set a 4.7 per cent 'vanilla' weighted average cost of capital ("WACC"), which equates to a 5.6 per cent pre-tax WACC, in order to allow the Company to fund its cost of debt and equity. The Company was disappointed at the low level of the return on capital allowed but noted that Ofgem recognised it as being among the more efficient distribution network operators ("DNOs").

The Company also noted the focus in DPCR5 on rewarding DNOs for delivering high standards of customer service and providing the opportunity for outperforming Ofgem's baseline expenditure and performance targets. In addition, Ofgem has set out the "outputs" it expects the Company to achieve and, as an incentive to provide better customer service, will introduce new statutory guaranteed standards of performance in respect of connections to the distribution networks, more challenging targets for network reliability and a new measure of customer satisfaction with the service provided.

Based on the DPCR5 final proposals, together with a rebalancing of distribution charges between customer groups, the Company's charges made in relation to the distribution of electricity to domestic customers increased by 2.8% on 1 April 2010, which was equivalent to about 0.4% on their electricity bills.

Changes to the Company's charges made in relation to non-domestic customers varied more widely between the different types of non-domestic customers.

##### **Strategic objectives**

The Company's strategic objectives remain based on the Core Principles and are to build a business, which:

- continues to generate value over the long-term;
- invests in and manages its electricity distribution network in an efficient and effective manner;
- provides its customers with an excellent standard of service;
- engages with its employees so that they feel rewarded and recognised as part of a team that sets and achieves increasingly high standards of performance; and
- is viewed as being a leader in terms of shaping the future direction of the electricity distribution network sector in the United Kingdom.

As part of its strategy, the Company continues to be committed to putting safety first, respecting its customers, their time and property, doing a quality job, responding effectively in times of severe weather (when it is needed most) and caring for its local environment.

##### **Principal risks and uncertainties**

There are a number of potential risks and uncertainties, which could have an impact on the Company, its financial position and its operations and may cause actual results to vary materially from those expected or historically experienced. The principal risks are outlined as follows:

##### **Financial strength**

As a holder of an electricity distribution licence, the Company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"), which acts through Ofgem.

Most of the revenue of the electricity distribution licence holders is controlled by a distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year but is a control on revenue that operates independently of most of the electricity distribution licence holder's costs.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

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### DIRECTORS' REPORT (CONTINUED)

#### BUSINESS REVIEW (CONTINUED)

##### Principal risks and uncertainties (continued)

##### **Financial strength (continued)**

It has been the practice of Ofgem to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The current five-year price control period became effective on 1 April 2010 and has set the Company's revenues through to 31 March 2015. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the Company's financial results.

The other financial strength risks facing the Company are outlined in the Treasury section on page 9 below.

##### **Operational risk**

The principal risks in respect of the other Core Principles include:

<u>Risk</u>	<u>Issue</u>	<u>Mitigation</u>
Counter-party security (Financial Strength)	A counter-party with which the Company trades may go bankrupt causing loss of invested funds or amounts owing.	The treasury function has strict controls in respect of the counter-parties with which it deals, including the use of credit ratings and appropriate limits. Credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, if good debt control practices continue to be followed.
Potential flooding and other weather related events. (Operational Excellence and Customer Service)	Recent weather patterns suggest a heightened risk of flooding of 'at risk areas' and the potential for increased occurrence of damage to the overhead network.	A robust major incident management plan is in place. The Company's critical property unit plan assesses those properties most at risk and a flood mitigation plan is in place, including the erection of permanent and temporary defences.
Network risk posed by cables through the Tyne Tunnel (Operational Excellence and Environmental Respect)	The 66kV fluid-filled cables in the tunnel are aging with increased risk of failure, leading to a requirement for the substantial use of generating units and potential guaranteed standards failures and incentive penalties.	The Company's Primary Engineering Projects team has identified a solution and arrangements to commission the new configuration are due to commence in 2010.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

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### DIRECTORS' REPORT (CONTINUED)

#### Principal risks and uncertainties (continued)

##### **Operational risk (continued)**

Motor accident management (Employee Commitment and Regulatory Integrity)	Any significant road traffic accident involving a Company vehicle may create a liability, which the Company has to meet, and involve injury to employees and/or third parties.	The inclusion of road risk related issues in the Company's Safety Improvement Plan and the appointment of a dedicated road risk manager, together with improved reporting routines, has increased the focus on road safety.
Electricity Safety Quality and Continuity Regulations 2002 (Employee Commitment and Regulatory Integrity)	The regulations impose various statutory obligations, non-compliance with which could lead to incidents, prosecution and claims.	A full site inspection and risk assessment regime is in place designed to ensure compliance.
Shortage of supply and increased demand for copper (Operational Excellence)	The global demand for copper has impacted the availability and cost of a number of core products and increased the risk of theft.	Improved and more efficient procurement processes have been introduced and security at all sites where copper products are stored has been reviewed and enhanced where required.
Influenza pandemic (Employee Commitment and Operational Excellence)	A pandemic may occur, substantially impacting on normal business operations.	Risk management and mitigation was tested during the 2009 swine flu pandemic. The Company put crisis management measures in place and appropriate provision was made to secure network operation, which showed that this risk was manageable.

##### **Risk management**

A Compliance Assurance Programme Steering Group ("CAPSG") was in place throughout the Regulatory Year, consisting of certain directors and senior managers of the CE Group, in order to provide oversight at a strategic level and steering of the CE Group's performance in respect of governance and its key facets of compliance and risk management.

The CE Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach. Those risks assessed to be significantly high are logged within a risk register that the CAPSG reviewed regularly and key indicators track the number of significant risks, which were actively monitored by the CAPSG at any one time.

In April 2010, an exercise was completed, in which the terms of reference for the CAPSG and the future approach to risk management were reviewed. As a result, the terms of reference were simplified and consolidated with the emphasis placed upon oversight, testing and improvement. In recognition of the continued risk management focus, the name of the CAPSG was changed to the Governance and Risk Management Group ("GRMG") and the GRMG is required to report annually on its activities to the CE Group's Audit Committee.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Principal risks and uncertainties (continued)**

##### **Risk management (continued)**

Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Risk mitigation and loss control plans are prepared in response to strategic risks in order that the directors can be assured that appropriate mitigating actions are in place and being implemented. These plans are monitored through to implementation and reviewed to determine whether the level of residual, mitigated risk is within an acceptable level of tolerance.

The CE Group's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of business objectives. The CE Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A regular review of the key risks, controls and action plans is undertaken. The Governance and Risk Section co-ordinates the risk and compliance activity, emphasising the CE Group's commitment to maintaining an appropriate risk and governance framework across the business.

The use of a well-defined risk management methodology allows a consistent and co-ordinated approach to risk reporting and mitigation.

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Operating Officer of the CE Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

##### **Internal control**

A rigorous internal control environment exists within the CE Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican Energy Holdings Company ("MidAmerican"), a parent company of the Company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the Regulatory Year, the annual, extensive programme to review the company-wide controls was completed and opportunities to enhance control arrangements, identified by that review, have been implemented.

The CE Group is committed to proper business conduct and, in common with the other affiliates of MidAmerican, has adopted a code of business ethics that emphasises the requirement for all staff to manage their activities to achieve the highest level of ethical conduct.

The CE Group has a "speaking up" policy in place for staff to raise any instances of unethical acts, malpractice or impropriety. An additional process is also available to all staff via an international, anonymous help line operated by an independent company.

Human resource policies focus on skills, motivation and excellence and the promotion of high standards of probity among staff. In addition, the appropriate organisational structure has been developed to control business units and to delegate authority and accountability, having regard to acceptable levels of risk.

The Company has appropriate controls in place directed at ensuring compliance with the conditions in its licence requiring any payments made to, or received from, affiliates or related undertakings in respect of goods and services provided or supplied to be on an arm's length basis and on normal commercial terms.



## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Principal risks and uncertainties (continued)**

#### **Internal control (continued)**

Other key features of the internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures, including the standards required by the Sarbanes-Oxley Act;
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the regime of routine health and safety risk assessment and management processes carried out within each of the operating units;
- Processes and procedures to operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations programme, which provides a robust approach to, and compliance with, financial, legal and regulatory obligations;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

#### **Financial strength**

During the Regulatory Year, the Company continued to improve its management of routine financial performance, implemented tighter expenditure controls through a wide-ranging cost mitigation exercise, enhanced the reporting of management information and embedded the culture of continuous financial improvement in all areas of its operations.

In addition, representations were made to Ofgem, in accordance with the provisions set out in the electricity distribution licence, regarding certain categories of cost not fully taken into account when the fourth distribution price control was set, effective from 1 April 2005, due to uncertainties at that time regarding the amount and materiality of those costs. After a due process of review, Ofgem generally accepted those representations and agreed that the Company was able to recover approximately £18m, in addition to the otherwise agreed principles for calculating its allowed revenues, over the three regulatory years starting on 1 April 2009 and ending on 31 March 2012. The price control was adjusted accordingly to enable recovery of the £18m.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Financial strength (continued)**

The Company operates under a price control that determines the maximum permitted revenue for each regulatory year. Where the Company recovers more, or less, than this maximum the difference is carried forward, with interest, into the entitlement for the following year. In respect of the Regulatory Year, the Company is forecast to exceed the maximum permitted under the price control by a total of approximately £11.9m. This level of over-recovery results mainly from late changes in the volumes of sales reported by the electricity suppliers that have had an impact on the Company's entitlement under the electrical losses incentive of its price control formula.

The Company remains very aware of the impact that the general economic climate has had and may continue to have for the foreseeable future on it and its customers. In that respect, procedures are in place to more closely monitor and manage the issues that may impact on the Company's business more significantly than others, including a reduction in overall demand for electricity leading to less units being distributed through the distribution network, lower activity in terms of new connections required to the network and the potential for higher debt write-off as the economic downturn further affects the Company's customers.

Key aspects of financial performance for the Regulatory Year were as follows:

#### **Revenue**

The Company's revenue at £231.0m was £19.2m higher than the prior year representing an increase in income from the electricity distribution network as a result of tariff increases partly offset by lower units distributed.

#### **Operating profit**

The Company's operating profit at £94.8m was £13.9m higher than the previous year as a result of increased revenue partly offset by an increase in depreciation costs.

#### **Finance costs and investment income**

Finance costs net of investment income at £23.2m were broadly in line with the previous year, reflecting the fact that the majority of the Company's debt is at fixed rates of interest.

#### **Taxation**

The effective tax rate in the current year is 27.8%. Details are provided in Note 9 to the accounts.

#### **Results and dividends**

The Company made a profit after tax for the Regulatory Year of £51.8m. The directors recommended that no final dividend be paid in respect of the statutory accounting year ended 31 December 2009. An interim dividend of £20m was paid during the statutory accounting year ended 31 December 2009.

No interim dividend was paid during the period 1 January 2010 to 31 March 2010.

#### **Share capital and debt structures**

There were no changes to the Company's share capital or debt structures during the Regulatory Year.

#### **Dividend policy**

The Company's dividend policy is that dividends will be paid only after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Financial strength (continued)**

##### **Cash flow**

The Company aims to collect from customers and pay suppliers within contracted terms. Any surplus cash held is remitted to Yorkshire Electricity Group plc ("YEG"), a company in the CE Group, and invested accordingly, generating a market rate of return for the Company.

Movements in cash flows were as follows:

- *Operating activities:* Cash flow from operating activities at £91.6m was £18.8m higher than the regulatory year to 31 March 2009 due to higher cash profits (£16.2m), a favourable working capital variance (£1.7m), a reduction in tax paid (£0.7m) and a reduction in net interest paid (£0.2m).
- *Investing activities:* Net cash used in investing activities at £91.3m was £8.7m lower than the regulatory year to 31 March 2009, mainly due to a reduction in the net purchase of property, plant and equipment compared to the prior year.
- *Financing activities:* The net cash used in financing activities at £0.3m represents a £27.5m adverse variance compared to the regulatory year to 31 March 2009, mainly due to the movement in borrowings in the year.

##### **Treasury**

The Company's short-term financial objective is to ensure that it has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. The long-term objective is to provide a stable and low cost of financing over time whilst observing approved risk parameters.

The main risks are liquidity and interest rate risk.

##### **Liquidity risk**

The Company has access to short-term borrowing facilities provided by YEG. During the Regulatory Year, the Company had access to £100m in committed revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc and had additional overdraft facilities of £2m provided by Lloyds TSB Bank plc, which are renewed on an annual basis.

The revolving credit facilities provided by Lloyds TSB Bank plc and Royal Bank of Scotland plc expired on 31 March 2010 and were replaced with a new three year £150m revolving credit facility provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

On 2 July 2010 the Company entered into an agreement with the European Investment Bank ("EIB"), under which the EIB will provide the Company with a £119m loan facility. As at the date of these accounts no drawings had been made under that facility.

The directors do not consider there to be any significant doubt over the Company's ability to raise appropriate levels of finance in the future, given the investment grade issuer credit rating held by the Company and the fundamental financial strength and nature of its business.

##### **Interest rate risk**

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 March 2010, 77% of the Company's borrowings were at fixed rates and the average maturity for those borrowings was 21 years.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Financial strength (continued)**

##### Currency risk

No material currency risks are faced by the Company.

##### Trading risk

Throughout the Regulatory Year, the Company's policy was that no trading in financial instruments should be undertaken.

#### **Pensions**

The Company is a participating employer in the Northern Electric Group of the Electricity Supply Pension Scheme (the "Scheme"), a defined benefit scheme. Full details of the Company's commitments to the Scheme and the associated deficit repair payments are provided in Note 23 to the accounts.

During 2010, Northern Electric plc, the Company's immediate parent company and the Principal Employer of the Scheme, will be engaged with the Group Trustees in the triennial actuarial valuation process, as at 31 March 2010, in order to determine the funding position of the Scheme and the associated deficit repair arrangements.

Ofgem recognises that pensions, particularly with respect to the current deficit positions of various schemes, represent a significant cost to the DNOs and, as part of the DPCR5 process, undertook a review of the pension principles it established in 2003. That review included the issue of three consultation documents and the holding of three seminars for interested parties and, as a result, Ofgem confirmed that the DNOs would be allowed to recover the full value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010), via its regulated revenues.

However, given the regulated nature of the DNOs' businesses, Ofgem took the view that there is not the same risk or urgency as in other sectors of the economy to ensure that those deficits are repaired as soon as possible and, therefore, set a notional repair period of 15 years for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

As the actual repair period for each scheme is a matter for the trustees of that scheme to agree with its sponsoring employer, which, in the Company's case, is Northern Electric plc, Ofgem recognised that there is the potential for there to be a difference between the repair period so agreed and the 15 year notional repair period used in DPCR5. Noting this position, Ofgem commented in the DPCR5 final proposals that, should shorter deficit repair periods be agreed between trustees and sponsoring employers, the DNOs' allowed revenues over the remaining portion of the 15 years will be adjusted so that the DNOs suffer no detriment on a net present value basis.

The Company also participates in the Northern Electric Money Purchase Scheme, which is a defined contribution scheme.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Financial strength (continued)**

##### **Insurance**

As part of its insurance and risk strategy, the CE Group has put in place a range of insurance policies, including policies which cover risks associated with damage to property, employer's and third party motor liability and public liability. The CE Group carries appropriate excesses on those policies and is effectively self-insured up to the level of those excesses. Consequently, the risk management and health and safety programmes in place are viewed as extremely important elements of the business, given the contribution they make to the elimination or reduction of exposure to such risks.

##### **Customer service**

During the Regulatory Year, the Company distributed electricity to customers in its distribution services area and continued to improve the overall performance of the distribution network through an investment strategy targeted at delivering improvements in an efficient and cost-effective manner. The Company is focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers and, during the Regulatory Year, a significant number of tangible improvements were identified and delivered as part of the overall goal to improve customer satisfaction with the service provided, including:

- implementing a new interactive voice response system into the call centre, which takes advantage of the latest developments in automatic messaging, in order to assist in the handling of customer loss of supply calls;
- improving the accuracy of network fault estimated restoration times inputted to the trouble management system and, consequently, communicated to customers;
- implementing a new complaint handling process to ensure robust compliance with the Gas and Electricity (Consumer Complaints Handling Standards) Regulations 2008 so that in excess of 90% of complaints are resolved at the initial point of contact;
- continuing to improve under-performing parts of the distribution network by identifying "hot spots" and taking specific action to address the issues in those areas;
- extending the priority services register so that the Company is aware of people with disabilities or special needs, who may be affected by interruptions to the electricity supply, and can take appropriate action to assist those people in such circumstances; and
- undertaking a programme to reduce the number of instances in which the Company fails to meet an electricity guaranteed standard of performance.

For the Regulatory Year, the Company achieved the significant milestone of a customer satisfaction score of 91.2%. The implementation of the new telephony system for other customer facing processes formed a significant part of the Company's customer service improvement plan and there will be continued focus on excellence in customer service in order to maintain a customer satisfaction score of greater than 90%.

Ofgem has established an incentive scheme for quality of service, by which the DNOs are provided with financial incentives based upon targets set by Ofgem with regard to their performance in the following areas:

- The number of interruptions to supply;
- The duration of interruptions to supply; and
- Customer satisfaction.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

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### DIRECTORS' REPORT (CONTINUED)

#### Customer service (continued)

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by the Company to measure the quality of supply and system performance. CML measure the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages that last for three minutes or longer. DNOs' performance against guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, provides a measure of the level of customer service. Performance against these measures forms part of the Company's regular reporting to Ofgem.

In respect of the key customer service performance indicators, the Company's reported performance for the Regulatory Year, against the targets determined by Ofgem, was as follows:

	Actual	Target
<b>CML:</b>	68.7 (2009: 76.3)	67.4 (2009: 68.4)
<b>CI:</b>	62.3 (2009: 64.2)	74.5 (2009: 74.5)
<b>Customer satisfaction:</b>	91.2% (2009: 89.2%)	90% (2009: 90%)

Performance in the Regulatory Year showed a pleasing improvement in each category and was better than Ofgem's target for both customer satisfaction and CI, although CML fell slightly short of target. It is anticipated that the customer service improvement actions mentioned above and the network service improvement actions set out below will continue to support such improvements in performance.

At the time the above targets were set, no account was taken of the customer service impact arising from additional vegetation management obligations, which were not allowed for in the distribution price control 4 settlement. The customer service targets were not adjusted to take account of the effects of the representations made by the Company and accepted by Ofgem, which are noted on page 9. Instead, the benefits arising from that decision were reflected in a favourable adjustment to the Company's base allowed revenues. That position continued until 31 March 2010, when the DPCR5 arrangements became effective.

#### Operational excellence

The Company's core service continues to be providing and maintaining an efficient distribution network that delivers electricity effectively. During the Regulatory Year, £117.7m was invested in the improvement of the distribution network, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to customers.

#### **Operational activity**

The Company's investment strategy is designed to deliver improvements in an efficient and cost-effective manner by minimising the number of faults that occur, reducing the average number of customers affected by a fault and providing a quicker restoration service in the event of a fault. Such actions are expected to have a positive impact on future CI and CML performance. The focus in the Regulatory Year was on delivering the core operational programmes, in particular the installation of remote control units and improving the lead times for fault repair work-in-progress.

That focus was designed to support the Company's goals in the area of operational excellence and to ensure that the distribution network was operated as well as possible. To that end, the Company's priorities are to deliver an underlying improvement in the network's resilience, deal appropriately with any risks as and when they arise, plan its operational activity so as to operate within the planning assumptions for pre-arranged system unavailability and, while doing so, to pay close attention to the underlying cost. Consequently, the Company has established five targets to enhance its performance in terms of operational excellence:

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Operational excellence (continued)**

##### **Operational activity (continued)**

- Deliver enhancements to the network by adding intelligent reconfiguration capability, which includes the commissioning of additional rural and urban remote control units on the high voltage system and auto-sectionalisers in rural areas;
- Minimise abnormal running arrangements by maintaining a routine service level for fault repair work-in-progress on the high voltage network, building on the success in that respect during the Regulatory Year;
- Minimise the impact on costs and customer service;
- Enhance the operational availability of the installed remote control units; and
- Complete the capital and maintenance work programmes, along with repair, connection and diversion work, within the pre-arranged interruption target.

The major projects undertaken in support of those targets and as part of the investment strategy included:

- Continuation of the 132kV switchgear replacement project at Tynemouth in North Tyneside, initiation of a new 33/11kV substation to provide improved voltage regulation in the Wensleydale area of North Yorkshire and commencement of a new 20kV capacitor switch station in the North Northumberland area;
- Replacement of 38 units of high voltage outdoor switchgear;
- Replacement of 39 high voltage distribution substations;
- Replacement of 80 units of high voltage indoor switchgear;
- Refurbishment or rebuilding of 61km of high voltage overhead line;
- Refurbishment or rebuilding of 38km of low voltage overhead line;
- The upgrade and reinforcement of 16.4km of overhead line to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 325 new remote control sites.

In order to deliver its investment strategy the Company used a mix of its own staff and contractors, including Integrated Utility Services Limited, an affiliated company registered in the Republic of Ireland, to undertake its activities.

#### **Enduring Operating Model**

During the Regulatory Year, a significant project was undertaken by the senior Field Operations team to reorganise the Company's operating structure within that area of its business in order to provide the best possible foundation for optimum operational performance into the future. The management structure within Field Operations is based on seven individual business units, as follows:

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Operational excellence (continued)**

##### **Enduring Operating Model (continued)**

- Network Operations provides the day-to-day and reactive management of the distribution network at all voltages and includes activities such as network performance, emergency planning and restoration activities associated with network faults;
- Service Delivery has responsibility for the control and management of the craft-based staff, direct labour and the provision of this resource to the other business units and is structured across two geographic zones;
- Network Repairs focuses on core repair activities and significant cost control initiatives in respect of expenditure on the repair of faulted assets;
- Connections Delivery undertakes non-discretionary, customer-driven work and is structured across two geographic zones;
- Programme Delivery has a functional bias to its activities and includes primary engineering projects, overhead programme delivery, asset programme delivery and protection and technical services;
- Operational Services includes contract management, business controls and administration and supply chain management; and
- Field Standards provides training, quality assurance, services standards and health and safety services across Field Operations.

##### **Commercial risk**

Managing commercial risk in the context of the difficult economic and financial trading conditions, which continued throughout the Regulatory Year, was, and will continue to be, of key importance to the Company's operations. In that respect, the Company has, throughout the Regulatory Year, focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

During the Regulatory Year, the Company completed the process of putting in place contracts in the commercially significant areas of IT facilities management and cable engineering services. A number of major IT suppliers responded to the tender for IT facilities management services and, following an extensive evaluation process the new contract was awarded, effective from 1 April 2010 until 31 March 2015. Following a similar tender exercise, contracts for the provision of cable engineering services were awarded and are effective for the five year period to June 2014. However, in order to manage the commercial risk associated with such contracts, the Company continues to keep all of its contractual relationships under ongoing review.

The Company's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is place with each of those customers. Those customers are the electricity suppliers who, under the terms of the DCUSA, pay charges for the use of the distribution network, in respect of which it is necessary to ensure that the credit cover arrangements in line with Ofgem's guidance remain in place. The principal electricity suppliers that use the distribution networks are RWE Npower, British Gas, EDF Energy, E.ON, Scottish and Southern Energy and Scottish Power.



## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Employee commitment**

##### **Health and safety**

During the Regulatory Year, the focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. Providing and maintaining a safe working environment is the first objective of the CE Group. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a programme of on-site safety audits, which reflect the CE Group's fundamental objectives that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The CE Group makes no compromise in respect of its health and safety obligations and centres its safety plans and systems on the principles found in companies with world class safety performance.

The Company received its fifth successive Gold Medal from the Royal Society for the Prevention of Accidents for occupational health and safety performance and provision to recognise the achievement of continued or improving standards of health and safety over a sustained period. The Gold Award is the highest achievement award and the Gold Medal is presented for receiving five or more successive Gold Awards. The Company continued to maintain its OHSAS 18001 certification.

The main key performance indicators used by the Company to monitor safety performance are as follows:

	Year to 31 December 2009		Year to 31 December 2008	
	Target	Actual	Target	Actual
Lost time accidents	0	1	0	2
Medical treatment accidents	3	2	3	1
Operational incidents	3	4	3	8
Preventable vehicle accidents	10	13	10	18

As safety performance against target during 2009 was disappointing in the areas noted in the table above, the Company continues to rigorously implement, review and adjust the safety improvement plan accordingly in its efforts to deliver continuous improvement. In terms of preventable vehicle accidents the performance has been unacceptable and focus continues heavily on this area with implementation of a robust assessment and training plan aimed at changing behaviour and improving concentration skills. It is expected that this, together with adoption of a zero tolerance approach, should deliver improvements in the Company's safety performance.

##### **Management structure**

The Company has a clearly defined leadership team, in which specific roles are identified, so allowing more effective management of the Company's business and response to any control weaknesses that may become apparent, with single units being in place for field operations, customer operations, asset management, and health, safety and environment. The business systems, human resources, procurement and finance functions are centralised in order to provide those services across the CE Group.

##### **Employees**

The Regulatory Year was particularly challenging, given the external economic environment. In response, the Company introduced a programme of cost mitigation which was extended to the control of headcount and salary cost allocation.

The Company has placed, and will continue to place, significant emphasis on the importance and application of high standards of management and performance in pursuit of the Core Principles and ensures that a level of consistency is adopted in doing so. In respect of employee relations, the Company and the trades unions continue to build a constructive relationship.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Employee commitment (continued)**

##### **Employees (continued)**

Given the demographics of the Company's workforce, the increasing investment in the distribution network and in order to encourage investment in a sustainable workforce, Ofgem provided an allowance in its DPCR5 final proposals, in order to fund the plans for workforce renewal across the DPCR5 period. Ofgem has stated that the allowance is on a "use it or lose it" basis and the Company will need to demonstrate that it has used that allowance appropriately and efficiently to recruit and train new staff or for other means of renewing its workforce and report annually on its progress in that respect.

The Company employed 974 staff at the end of March 2010. (2009: 967).

##### **Disabled employees**

The CE Group is an equal opportunities employer and is committed to the criteria underpinning the Employment Service disability symbol. It is the CE Group's policy to provide disabled people with equal opportunities for employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, that member of staff would be retrained and redeployed, wherever possible.

##### **Employee consultation**

The CE Group has a constitutional framework in place and has agreed that framework with trade union representatives. In addition, the CE Group communicates directly, and through the management structure, with personal contract holders and keeps them informed of and involved as appropriate in any developments that may impact on them now or in the future.

The CE Group is committed to maintaining and improving effective communication with employees, principally through regular staff briefs on current issues, meetings with staff and their representatives and the issue of an employee publication. During the Regulatory Year, the CE Group introduced an additional means of communication in the form of regular broadcast briefings by the President and Chief Operating Officer using telephone conference call facilities. The broadcast briefings were used to provide employees with updates such as on the performance of the CE Group, progress in respect of DPCR5, organisational restructures and safety issues and performance.

#### **Environmental respect**

The CE Group's approach to environmental compliance is governed by its environmental policy and the MidAmerican policy of Environmental RESPECT (Responsibility, Efficiency, Stewardship, Performance, Evaluation, Communication and Training). These policies and their subordinate operational control procedures and systems address legal compliance, pollution prevention and continual improvement and also the promotion of environmental awareness and best practice amongst the Company's staff and contractors.

The Company has operated a United Kingdom Accreditation Service accredited scheme since the late 1990s, certified to the environmental management systems standard ISO 14001 and the scheme is subject to regular six-monthly assessments by an accredited external certification body in order to retain that status. The most recent assessments were carried out by Lloyd's Register Quality Assurance in September 2009 and April 2010. There were no major non-conformances raised and the assessments concluded that the main management system elements were seen to be effective and well maintained and continual improvement was demonstrated.

The Company delivered its targeted improvement in the key area of fluid-filled cable leakage, was compliant against the required streetworks performance standards under the Traffic Management Act and was fully compliant with all required Environmental Agency reporting obligations.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Environmental respect (continued)**

Improvements in support of the CE Group's environmental policy objectives during the Regulatory Year included:

- Replacement of oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage;
- Improved monitoring and response measures with regard to the management of fluid-filled underground cable networks and the reduction of leakages;
- Installation of additional engineering controls where required to improve pollution prevention at strategic sites;
- Installation of underground cables using trenchless technology as opposed to open-cut excavations; and
- Environmental awareness training for all new start personnel and contractors, complemented by periodic refresher training for all staff.

Environmental impact is at the forefront of planning considerations when making improvements to the Company's electricity distribution network. The Company is leading the industry in its projects to enhance the beauty of national parks and areas of outstanding natural beauty by removing sections of overhead power lines and installing underground cables in their place. It is also attentive to the needs of bird colonies by placing bird-diverters on power lines in reserves where rare species of bird are known to live or breed. In urban environments, the Company works with several local authorities to tackle graffiti and vandalism on its substations.

#### **Sustainability**

The Company takes its responsibilities towards reducing the impact of global warming seriously, both in its capacity as a major participant in the UK energy industry and in terms of its own carbon footprint. Through its involvement in industry groups and its interactions with government and regulators, it is contributing to the target of transforming the UK electricity industry into a low carbon emitter. The Company also works with customers to assist in solving issues raised by the introduction of low carbon generation and products and their implications for the planning and operation of the electricity network.

The Company plays a key role in reducing the UK's carbon footprint through system losses and is committed to trialling new technological innovations that help to reduce those losses and is involved in studies with Durham University to examine behavioural influences on energy demand patterns. As the advent of the electric vehicle has the potential to radically alter how and when electricity is used, the Company is working closely with key partners in the North East who are installing a significant number of electric vehicle charging points across the region and monitoring their impact on energy demand patterns. The findings will also influence the Company's future network investments.

The CE Group measures and publishes its own carbon footprint and has set a target of a reduction in its carbon footprint of 20 per cent by 2020. Actions taken during the course of the Regulatory Year to assist in meeting this target include fitting speed limiters to about a third of its vehicle fleet, the procurement and installation of building energy management systems at its major office sites and a successful pilot project to recycle office waste at one of its non-operational sites.

In addition, the Company has begun work to respond to Ofgem's requirements for it to contribute to the sustainability agenda through more detailed reporting on the carbon footprint of its business, considering the use of better demand side management techniques to address network constraints and by the provision of simpler information to those parties interested in connecting local, embedded generation to the network. The Company has developed a sustainability strategy, which it shares with staff through sustainability zone groups based at each of its major sites. Each group has a remit to measure and reduce its zone's carbon footprint through replicable carbon-reduction initiatives and to share best practice with colleagues.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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### **DIRECTORS' REPORT (CONTINUED)**

#### **Sustainability (continued)**

The Company is also enabling customers in fuel poverty to reduce their energy bills and carbon emissions by working with leading suppliers of renewable energy technologies to minimise these technologies' impact on the network, ultimately reducing the production cost for customers. The Company is also the first DNO in the UK to offer a customer friendly guide to sustainable energy production.

#### **Regulatory integrity**

The Company manages its business to the highest behavioural standards and adheres to a policy of strict compliance with all relevant standards, legislation and regulatory conditions. The CAPSG continued to monitor and manage performance in risk-related and compliance areas and met on two occasions during the Regulatory Year.

As has been the case for some years, breaches by a DNO of its licence conditions could lead to financial penalties, which Ofgem has stated "will have a proportionate impact on shareholder returns". In order to assure compliance with its licence and other regulatory obligations, the Company operates a regulatory compliance affirmation process, under which ownership of the approximately 1,170 regulatory obligations contained within the compliance database is currently assigned to 49 owners in the Company. Those owners are required, on a quarterly basis, to review compliance with their relevant obligations and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board of directors on the outcome of each quarter's exercise.

The regulatory framework across the energy industry in the UK is undergoing a wholesale review, which could result in fundamental changes to the way the industry is regulated in the future. A significant part of that process is Ofgem's "RPI-X@20" project, which is specifically considering the way in which energy networks are regulated.

The Company has taken, and will continue to take, an active part in the debate, which ranges from the potential for new technologies, such as "smart" metering, and the increased use of micro and distributed generation to the low carbon agenda insofar as it applies to electricity distribution networks.

#### **Corporate social responsibility**

The Company values its relationship with its customers and their communities, recognising the importance of a secure power supply to the local communities and the economy. The Company aims to enhance this relationship through wider involvement in the activities of, and dialogue with, the communities it serves.

The Company acknowledges the importance of its service for customers and the economy and is committed to forging strong links with partners to improve its emergency response. The Company has strengthened its relationship with the Environment Agency and local authorities so that it can respond quickly when river levels rise. Once the Environment Agency issues a flood warning, the Company's database now identifies substations that are at risk so that staff can be deployed immediately to erect perimeter flood defences at major substation sites and portable defence barriers at lower-risk sites. The Company now employs a full-time Civil Contingency Co-ordinator who liaises with the Resilience Forums of those local authorities in the Company's distribution services area to ensure that its emergency response continues to improve.

As part of its customer service strategy, the Company engages directly with the communities it serves to create a dialogue on quality-of-supply issues, the actions and investment planned to improve the quality of supply, the environmental and social implications of its operations and other opportunities to assist and engage in the life of the local communities. The Company seeks to engage disadvantaged groups in projects that bring about benefits for participants and communities by actively promoting participation and the development of transferable skills. This is underpinned by a small donation programme focused on the Company's key priorities for support for youth, education and the environment.

Safety is a theme that unites every aspect of the Company's operations and it participates alongside other key organisations in Crucial Crew, which is a schools-based safety initiative that teaches children to recognise and avoid situations that put them in danger, such as climbing electricity pylons and fishing near power lines. The campaign is supported through an interactive website and mobile phone game.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Other directors' report requirements**

##### **Charitable and political donations**

During the Regulatory Year, charitable donations of £29,313 were made (2009: £38,499), principally to local charities serving the communities in which the Company operates. No contributions were made to political organisations (2009: nil).

##### **Research and development**

The Company supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. The main areas of activity during the Regulatory Year, on which the Company invested £0.4m (Note 6 to the accounts), were:

- Active participation in programmes of national significance in collaboration with other DNOs and academic institutions to make significant technological progress for utilisation by the industry as a whole;
- Continuing to support collaboration with other DNOs, both through industry associations and on a multilateral basis, on a range of incremental improvements to tools and equipment that, if successful, will further add to overall efficiency improvements;
- Contributing to the ongoing development of eligibility for and governance of the new Low Carbon Networks Fund, initiated by Ofgem, as a part of DPCR5. The Low Carbon Networks Fund is intended to encourage innovation in terms of the technology used and the commercial and operational environments, in which the DNOs undertake their activities in order to contribute towards achieving a low or zero carbon position in the industry. The Company will, therefore, be looking to develop its programme of research and development in order to provide opportunities to access that fund;
- Initial field trials of newly developed superconducting fault limiters have been successfully undertaken;
- The network deployment of a fault passage indicator system, reducing reaction time to network faults and minimising customer impact;
- Further developing a suite of health indices, for improved asset management, completing EHV cables and commencing work on poles and substations; and
- Continuing to support a project at Durham University to assess electrical network risk with the objective of improving decision making on network reinforcement and operation. A follow up project, investigating demand side management impacts on network risk, has been developed.

##### **Supplier payment policy**

The Company complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Company policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Company's contractual and other legal obligations. The number of days purchases in trade creditors for the Company at 31 March 2010 was 32 (2009: 18).

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Other directors' report requirements (continued)**

##### **Future Developments**

The financial position of the Company, as at the Regulatory Year end, is shown in the balance sheet on page 31.

The directors intend to continue to develop the Company's business in a manner that concentrates on its core skills of electricity distribution by continuing to operate that business with the goal of out-performing the allowances in the distribution price control, while efficiently investing in the electricity distribution network with the aim of improving the quality of supply and service provided to its customers.

##### **Directors**

The directors who served during the Regulatory Year and since the Regulatory Year end were as follows:

G E Abel	resigned 16 October 2009
P E Connor	resigned 16 October 2009
R Dixon	Non-Executive Director
T E Fielden	Finance Director, CE Electric UK (appointed 16 October 2009)
J M France	Regulation Director, CE Electric UK
N M Gill	Field Operations Director, CE Electric UK
P A Jones	President and Chief Operating Officer, CE Electric UK
K Linge	resigned 16 October 2009

During and as at the end of the Regulatory Year, none of the directors was interested in any contract which was significant in relation to the business of the Company.

##### **Auditors**

An elective resolution is in place dispensing with the need to appoint auditors annually. Deloitte LLP has indicated its willingness to continue in office.

##### **Going Concern**

The Company's business activities, together with details regarding its future development, performance and position are set out in the Business Review. In addition, the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are included in the Directors' Report and the appropriate notes to the accounts.

When considering continuing to adopt the going concern basis in preparing the annual report and accounts, the directors have taken into account a number of factors, including the following:

- a) The Company is a stable electricity distribution business operating an essential public service and is regulated by GEMA. In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- b) The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- c) The Company is financed by long-term borrowings with an average maturity of 21 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. On 2 July 2010 the Company entered into an agreement with the EIB under which the EIB will provide the Company with a £119m loan facility. As at the date of these accounts no drawings had been made under that facility.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Going Concern (continued)**

Consequently, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### **Responsibility of the directors for the preparation of the Regulatory Accounts**

The directors are responsible for preparing the Regulatory Accounts, including the directors' report, in accordance with standard condition 44(5) of the Licence. Consequently, the directors are required to prepare the Regulatory Accounts in accordance with International Financial Reporting Standards ("IFRS").

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Audit of the accounts**

Each of the directors, who is a director of the Company as at the date of this report, confirms that:

- a) so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

#### **Corporate Governance Statement**

The Financial Reporting Council in the United Kingdom issued a revised version of the Combined Code on Corporate Governance (the "Combined Code") in June 2008. To the extent that it departs from the Combined Code, a company is required to explain from which parts of the Combined Code it departs and the reasons for doing so.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Corporate Governance Statement (continued)**

Although the Company does not have securities listed on the main market of the London Stock Exchange, this statement is provided pursuant to standard licence condition 44(5) of the Company's electricity distribution licence, which requires the Company's Regulatory Accounts to include a Corporate Governance Statement, which has the coverage and content of such a statement that a Quoted Company is required to prepare under the Combined Code.

The Company, therefore, provides the following statement by reference to the principles incorporated in the Combined Code.

#### **Compliance statement**

Set out below and in the review of the Regulatory Year in the directors' report are the areas in which the Company adopts and complies with the principles of the Combined Code. The Company has not complied with certain principles of the Combined Code, including the principles A2, A3, A4, A6, A7, B1, B2, C3, D1 and D2. The directors confirm that such non-compliance was of a continuing nature throughout the Regulatory Year but consider the governance framework in place to be appropriate to the circumstances of the Company, given that the framework is agreed with MidAmerican and includes regular reporting to and meetings with the President and senior management of MidAmerican, the presence of an independent non-executive director at board meetings of the Company and a strong internal control environment designed to meet the standards required by the Sarbanes-Oxley Act.

The intention of the Combined Code is that companies should be able to explain their governance policies in light of the principles contained in the Combined Code, including any special circumstances applying to them, which have led to a particular approach. The directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the Combined Code, this approach is justifiable, given that the Company is a wholly-owned subsidiary of MidAmerican and, as mentioned above, the governance framework in place throughout the CE Group is agreed with MidAmerican.

#### **Principle A1: The Board:**

The board of directors is responsible for the overall management of the Company and its system of internal controls. The directors have agreed a quarterly schedule of board meetings at which they review performance, strategy and operational and risk-related issues. Regular items on the agenda for consideration at board meetings are general business performance, internal control, key business activities and projects and the regulatory compliance process.

In addition, the President and Chief Operating Officer of the CE Group participates in weekly performance review meetings with the President of MidAmerican and other senior managers of the MidAmerican group, including the Senior Vice President and Chief Financial Officer. At those weekly meetings, the views of the President of MidAmerican and the senior management team regarding the key, current issues facing the Company are discussed.

The President of MidAmerican also receives weekly, monthly and quarterly reports on the Company's performance from the CE Group's President and Chief Operating Officer. MidAmerican's Senior Vice President and Chief Financial Officer and General Counsel also hold similar weekly review meetings in respect of MidAmerican's financial and legal functions, at which the Company's Finance Director and General Counsel present their respective weekly reports.



## NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

### DIRECTORS' REPORT (CONTINUED)

#### Corporate Governance Statement (continued)

#### **A Directors**

##### **Principle A1: The Board (continued):**

The board meets quarterly and as required to consider relevant issues and met on six occasions in total during the Regulatory Year, with the attendance of those directors, who were directors as at 31 March 2010, being as follows:

R Dixon	Non-Executive Director	6
T E Fielden	Finance Director	4 (of 4 held following appointment)
J M France	Regulation Director	3
N M Gill	Field Operations Director	6
P A Jones	President and Chief Operating Officer	6

Operational management of the Company's business (and that of its affiliate, Yorkshire Electricity Distribution plc) is delegated to a single senior management team, with specific functional responsibilities. That senior management team meets monthly with the senior management of the CE Group to monitor performance and address issues of policy across all areas of the business and holds weekly conference calls to report on and consider performance related issues for that week.

The directors have overall responsibility for the internal control environment, which, within the CE Group, is based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. In addition, MidAmerican requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act.

A review is undertaken of the company-wide controls in place on an annual basis and the review carried out in 2009, while not identifying any areas of significant weakness, resulted in the implementation of various recommended improvements. The key features of the CE Group's internal control system and the issues addressed by the Company and the CE Group during the Regulatory Year can be found in the review of the Regulatory Year in the directors' report.

Details of the management structure of the CE Group are provided in the directors' report. A schedule of key delegations of authority has been approved by the board, which delegates authority for decision-making to senior and other managers in respect of issues such as capital expenditure, procurement, contractual, human resource and payment matters and for the conduct of claims and litigation. That schedule reserves decision-making to the directors above certain financial limits. During the Regulatory Year, there were a number of committees in operation, acting under delegated terms of reference, which oversee CE Group and, therefore, Company policy. As part of the approved terms of reference, those committees report regularly to the board on their activities and were as follows:

#### Health and Safety Management Committee

The board of CE Electric UK Funding Company has established the CE Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the CE Group. Membership of the committee comprises:

T E Fielden	Finance Director;
J M France	Regulation Director;
N M Gill	Field Operations Director;
P A Jones	President and Chief Operating Officer;
A J MacLennan	Managing Director, Integrated Utility Services Limited; and
P McCormick	Director of Health, Safety and Environment.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

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### DIRECTORS' REPORT (CONTINUED)

#### Corporate Governance Statement (continued)

##### **A Directors (continued)**

##### **Principle A1: The Board (continued):**

The committee meets on a regular basis in order to oversee implementation of health and safety policy, review and agree strategy for the management of health and safety issues, monitor health and safety performance across the CE Group, establish goals and targets, review the effectiveness of the health and safety policies and the health and safety management system and consider recommendations for changes in CE Group policy due to changes in appropriate legislation, codes of practice or guidance or due to recommendations arising from significant incidents.

#### Treasury Committee

The Treasury Committee oversees and implements the treasury policies outlined in the directors' report and comprises:

G E Abel	President, MidAmerican;
P Ainsley	Financial Controller;
D Brady	Treasurer;
T E Fielden	Finance Director;
P J Goodman	Senior Vice President and Chief Financial Officer, MidAmerican;
P A Jones	President and Chief Operating Officer;
R D McHaddan	Assistant Treasurer; and
O Sutherland	Investor Reporting Manager.

#### Pensions Committee

The Pensions Committee oversees the CE Group's approach to the pension schemes to which it contributes and comprises:

P Ainsley	Financial Controller;
T E Fielden	Finance Director;
J M France	Regulation Director;
K Mawson	Head of Finance Development and Systems;
A Patterson	Director of Human Resources;
N Dawson	Pensions Manager;
L Taylor	Director of Business Systems; and
L Tweedie	Head of Service Delivery.

#### Compliance Assurance Programme Steering Group ("CAPSG")

As mentioned in the business review, during the Regulatory Year the CAPSG was the principal management forum in the CE Group with regard to corporate governance. Its purpose was to ensure that CE Group companies apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The CAPSG monitored and reviewed the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements. The CAPSG comprised:

J P Barnett	Director of Customer Operations;
R Dixon	Non-Executive Director;
M Drye	Director of Asset Management;
J Elliott	Company Secretary;
T E Fielden	Finance Director;
J M France	Regulation Director;
N M Gill	Field Operations Director; and
L Taylor	Director of Business Systems.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Corporate Governance Statement (continued)**

##### **A Directors (continued)**

##### **Principle A1: The Board (continued):**

The risk management framework was monitored regularly during the Regulatory Year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr Dixon attended meetings of the CAPSG to provide an independent view in respect of the matters discussed.

Asset risk continued to be a strong focus through the Asset Risk Management Executive Review Group and comprehensive plans continued to be in place to manage risks affecting all critical property assets and to strengthen the arrangements for crisis management and business continuity planning.

Further details of the CE Group's approach to corporate governance and the management of internal controls can be found in the directors' report.

As explained in Principles A4 and B1, the Company does not have a remuneration committee or a nomination committee.

##### **Principle A2: Chairman and Chief Executive**

The Company does not have a formally appointed Chairman or Chief Executive. However, in common with each of MidAmerican's business platforms, the President and Chief Operating Officer of the CE Group is responsible for the operation and management of the CE Group and reports directly to the President of MidAmerican.

##### **Principle A3: Board balance and independence**

The board comprises four executive directors and Mr Dixon, a non-executive director, who, collectively, bring a range of skills and experience to the board. Although Mr Dixon is the sole non-executive director, so that the board does not include a balanced number of executive and non-executive directors, the board believes that it possesses the skills and experience necessary to provide effective leadership, stewardship and control of the Company. During the Regulatory Year Mr Abel, Mr Connor and Mr Linge resigned as directors and Mr Fielden was appointed as a director of the Company.

The directors of the Company, as at the date of approval of the Regulatory Accounts, were as follows:

R Dixon	Non-Executive Director;
T E Fielden	Finance Director;
J M France	Regulation Director;
N M Gill	Field Operations Director; and
P A Jones	President and Chief Operating Officer.

##### **Principle A4: Appointments to the Board**

The Company does not have a nomination committee. Appointments to the board are made by MidAmerican, in conjunction with the President and Chief Operating Officer.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Corporate Governance Statement (continued)**

##### **A Directors (continued)**

###### **Principle A5: Information and professional development**

Directors receive monthly reports outlining progress against the Company's goals and targets, enabling financial performance against budget and operational performance against a number of indicators to be reviewed, and also participate in weekly meetings, which consider the key issues of that week in some detail. The directors are able to utilise the advice and services of the Company Secretary, in respect of their duties and responsibilities as directors and any new legislation that may affect those duties and responsibilities. A briefing programme continued to run throughout 2009 for the directors in respect of the changes introduced by the phased implementation of the Companies Act 2006, including the procedural requirements in respect of the authorisation of potential conflicts of interest. The directors also have access to external legal advice, should they feel it necessary. Interim briefings are provided to the non-executive director, as appropriate.

###### **Principle A6: Performance evaluation**

As part of their approved terms of reference, the committees report regularly on their activities, enabling the directors to evaluate the activities of those committees. However, the board does not have a process of evaluation of its own performance or of the performance of individual directors in their capacity as directors. MidAmerican has a performance appraisal and development scheme in place, under which each senior manager of the CE Group is subject to a formal annual appraisal of performance against his individual and MidAmerican's goals.

###### **Principle A7: Re-election**

The Company's articles of association do not require periodic retirement and re-election of directors.

##### **B Remuneration**

###### **Principle B1: The level and make-up of remuneration**

The Company does not have a remuneration committee. Annual remuneration awards for senior management of the CE Group are subject to the performance appraisal and development scheme process and consideration by the President of MidAmerican and the President and Chief Operating Officer. As the Company has no securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures and have auditor review thereof.

###### **Principle B2: Procedure**

As mentioned under Principle B1, the annual remuneration awards for senior management of the CE Group is subject to the performance appraisal and development scheme process and consideration by the President of MidAmerican and the President and Chief Operating Officer. Mr Fielden, Dr France, Mr Gill and Dr Jones are subject to the performance appraisal and development scheme process in their capacity as senior managers of the CE Group and not, specifically, in their capacity as board directors. No director is involved in deciding his own remuneration.

##### **C Accountability and Audit**

###### **Principle C1: Financial Reporting**

The board believes that the directors' report and review of the Regulatory Year provide a balanced and understandable assessment of the Company's position and prospects. The directors explain, at page 20, their responsibility for preparing the Regulatory Accounts, have reported, at page 20 in the directors' report, that the Company is a going concern and included the independent accountant's report to GEMA and to the Company at pages 28 and 29 of the Regulatory Accounts.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **DIRECTORS' REPORT (CONTINUED)**

#### **Corporate Governance Statement (continued)**

##### **Principle C2: Internal control**

The principal risks and uncertainties facing the Company and the key features of the internal control system, together with details of the issues addressed by the Company during the Regulatory Year, can be found at pages 3 to 7 of the directors' report.

##### **Principle C3: Audit committee and auditors**

The board of CE Electric UK Funding Company has established an audit committee for the CE Group, under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts, the independence of and the provision of additional services by the auditor and receiving an annual report from the CE Group's Head of Internal Audit on the work of the Internal Audit Section during the year and the audit plan for the following year. Combined Code provision C.3.1 states that the board should establish an audit committee of at least three independent non-executive directors and should satisfy itself that at least one member has recent and relevant financial experience. Given that Mr Dixon is the CE Group's sole independent non-executive director, the Audit Committee comprises:

R Dixon	Non-Executive Director; and
T E Fielden	Finance Director.

The CE Group also operates under the oversight of the MidAmerican Audit Committee, which is comprised of Mr. Marc D. Hamburg who, the MidAmerican board of directors has determined, qualifies as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission, based on his education, experience and background. The MidAmerican Audit Committee is attended, from time to time, by the Senior Vice President and Chief Financial Officer and the Vice President and Chief Accounting Officer of MidAmerican, the Director of Internal Auditing of Berkshire Hathaway, Inc. and the Heads of Internal Audit of the various MidAmerican business platforms.

The directors confirm that no fees were payable by the Company to Deloitte LLP in relation to non-audit services during the Regulatory Year.

The internal control section on page 6 of the directors' report contains details of the Company's "speaking up" policy.

## **D Relations with shareholders**

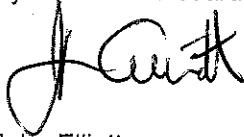
### **Principle D1: Dialogue with Institutional Shareholders**

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

### **Principle D2: Constructive use of the AGM**

This section of the Combined Code is not applicable to the Company, as it is a wholly-owned subsidiary of a privately held group of companies and, therefore, has no institutional shareholders.

By order of the board



John Elliott  
Company Secretary

16 July 2010

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN ELECTRIC DISTRIBUTION LIMITED ("THE COMPANY")**

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2010 on pages 30 to 56 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, the statement of accounting policies and the related notes numbered 1 to 26. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Electricity Distribution Licence, (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

#### **Basis of preparation**

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company ("Statutory Accounts") and have not necessarily been prepared under the basis of International Financial Reporting Standards as endorsed by the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

#### **Respective responsibilities of the Regulator, the Directors and auditors**

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition 44 of the Regulatory Licence are set out in the statement of directors' responsibilities on page 21.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 33 to 38, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the business review, the directors' report, the corporate governance statement, and the statement of directors' responsibilities on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN ELECTRIC DISTRIBUTION LIMITED ("THE COMPANY")**

#### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are consistently applied and adequately disclosed.

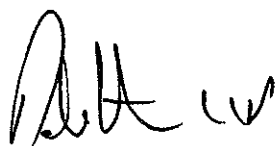
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts of the Company on which we reported on 23 March 2010, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that statutory audit.

#### **Audit opinion**

In our opinion:

- the Regulatory Accounts present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 33 to 39 the financial position of the Company as at 31 March 2010 and of its financial performance and cashflows for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 and the Company's accounting policies.



**Deloitte LLP**

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

16 July 2010

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2010**

	Notes	2010 £m	2009 £m
Revenue	3	231.0	211.8
Cost of sales		<u>(6.2)</u>	<u>(5.7)</u>
<b>Gross profit</b>		224.8	206.1
Distribution costs		(71.5)	(67.9)
Administrative expenses		<u>(58.5)</u>	<u>(57.3)</u>
<b>Operating profit</b>	6	94.8	80.9
Profit on disposal of property, plant and equipment		0.2	0.1
Investment income	4	-	0.3
Finance costs	5	<u>(23.2)</u>	<u>(24.5)</u>
<b>Profit before tax</b>		71.8	56.8
Income tax expense	9	<u>(20.0)</u>	<u>(22.2)</u>
<b>Profit for the financial year</b>		<u>51.8</u>	<u>34.6</u>

All activities relate to continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010**

There has been no other comprehensive income for the Company, other than the profits reported above, in the current or the prior year.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010**

	Share Capital £m	Retained Reserves £m	Total Equity £m
At 1 April 2008	200.0	140.6	340.6
Comprehensive income for the year	-	34.6	34.6
Dividends paid	-	<u>(20.0)</u>	<u>(20.0)</u>
At 1 April 2009	200.0	155.2	355.2
Comprehensive income for the year	-	51.8	51.8
Dividends paid	-	<u>(20.0)</u>	<u>(20.0)</u>
At 31 March 2010	<u>200.0</u>	<u>187.0</u>	<u>387.0</u>



**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**BALANCE SHEET AS AT 31 MARCH 2010**

	Notes	2010 £m	2009 £m
<b>Non-current assets</b>			
Property, plant and equipment	11	1,414.1	1,339.1
Intangibles	12	4.4	5.5
		<u>1,418.5</u>	<u>1,344.6</u>
<b>Current assets</b>			
Inventories	14	6.3	7.3
Trade and other receivables	15	38.2	36.5
		<u>44.5</u>	<u>43.8</u>
<b>Total assets</b>		<u>1,463.0</u>	<u>1,388.4</u>
<b>Current liabilities</b>			
Trade and other payables	16	(46.9)	(42.6)
Current income tax liabilities	16	(10.6)	(7.3)
Borrowings	17	(116.3)	(96.6)
Deferred revenue	19	(12.6)	(12.7)
Provisions	20	(1.1)	(1.3)
		<u>(187.5)</u>	<u>(160.5)</u>
<b>Net current liabilities</b>		<u>(143.0)</u>	<u>(116.7)</u>
<b>Non-current liabilities</b>			
Borrowings	17	(347.6)	(347.5)
Deferred income tax liabilities	18	(137.7)	(134.7)
Deferred revenue	19	(402.2)	(389.5)
Provisions	20	(1.0)	(1.0)
		<u>(888.5)</u>	<u>(872.7)</u>
<b>Total liabilities</b>		<u>(1,076.0)</u>	<u>(1,033.2)</u>
<b>Net assets</b>		<u>387.0</u>	<u>355.2</u>
<b>Equity</b>			
Share capital	21	200.0	200.0
Retained earnings		<u>187.0</u>	<u>155.2</u>
<b>Total equity</b>		<u>387.0</u>	<u>355.2</u>

The financial statements were approved by the board of directors and authorised for issue on 16 July 2010 and were signed on its behalf by:



P A Jones  
Director

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010**

	Notes	2010 £m	2009 £m
<b>Net cash from operating activities</b>	22	91.6	72.8
<b>Investing activities</b>			
Purchase of property, plant and equipment		(124.2)	(140.3)
Purchase of intangible assets		(0.4)	(0.8)
Proceeds from disposals of property, plant and equipment		0.2	0.2
Receipt of customer contributions		33.1	40.9
<b>Net cash used in investing activities</b>		(91.3)	(100.0)
<b>Financing activities</b>			
Equity dividends paid		(20.0)	(20.0)
New borrowings		-	38.0
Repayment of borrowings		(13.0)	-
Movement in loans from Group undertaking		32.7	9.2
<b>Net cash (used in)/generated from financing activities</b>		(0.3)	27.2
<b>Net movement in cash and cash equivalents</b>		-	-
<b>Cash and cash equivalents at beginning of year</b>		-	-
<b>Cash and cash equivalents at end of year</b>		-	-

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **NOTES TO THE ACCOUNTS - 31 MARCH 2010**

#### **1 GENERAL INFORMATION**

Northern Electric Distribution Limited is a company originally incorporated in England and Wales under the Companies Act 1985. The address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF.

The nature of the Company's operations and its principal activities are set out in the Business Review, in the Director's Report and in Note 3.

#### **2 ACCOUNTING POLICIES**

##### **Accounting convention and basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS.

The accounts have been prepared under the historical cost convention. The Company has relied upon Section 400 of the Act and has presented the accounts for the Company as an individual undertaking only and not as a Group undertaking.

##### **Going Concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained within the Directors Report on page 20.

##### **Judgments in applying accounting policies and key sources of estimation uncertainty**

Many of the amounts included in the financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. Information about such judgments and estimates is contained in the accounting policies and/or the notes to the financial statements and the key areas are summarised below.

Areas of judgment and estimation which have the most significant effect on the amounts recognised in the financial statements are:

- The estimation of useful economic lives for property, plant and equipment;
- The split of operating and capital expenditure and the allocation of overheads to capital projects; and
- Impairment reviews carried out to evaluate the carrying value of assets held at the balance sheet date.

##### **Critical accounting policies**

The critical accounting policies adopted by the directors relate to property, plant and equipment, taxation, pensions and revenue and are described below. The accounting policies have been applied consistently throughout the year and the preceding year.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

### NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

#### 2 ACCOUNTING POLICIES (CONTINUED)

##### **Adoption of new or revised standards**

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

##### Standards affecting presentation and disclosure

IAS 1	Presentation of Financial Statements – Amendments to IAS 1
IFRS 8	Operating Segments
IFRS 7	Financial Instrument Disclosure – Amendments to IFRS 7

IAS 1 has introduced a number of changes in the format of the financial statements. No third balance sheet has been presented in these financial statements as no changes in accounting policy have been adopted retrospectively.

IFRS 8 is a disclosure Standard that redefines the process for measuring segmental information in the notes to the accounts. In practice however, the adoption of this Standard has not led to any change in the disclosures contained within these financial statements. Further detail can be found in note 3 to the accounts.

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurement and liquidity risk. In practice these amendments have had no material impact on these financial statements.

##### Standards and Interpretations approved but not yet effective

At the date of authorisation of these financial statements the following Interpretation was in issue but not yet effective and has therefore not yet been applied. The directors consider that the adoption of this Interpretation may be relevant to the Company in future periods.

IFRIC 18	Transfer of Assets from Customers
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The directors anticipate that the Company will adopt this Interpretation on the date on which it is endorsed by the European Union and that there will be no impact upon the financial results of the Company in future years.

##### **Revenue**

Revenue is only recognised when the risks and rewards of ownership have been transferred to a third party. No revenue is recognised where there are significant uncertainties regarding the consideration to be received or the costs associated with the transaction.

Revenue represents charges for the use of the Company's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of related parties and the invoiced value of other goods sold and services provided, exclusive of value added tax.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

#### **2 ACCOUNTING POLICIES (CONTINUED)**

##### **Revenue (continued)**

Revenues from charges to end customers for the use of the Company's distribution network include estimates of the units distributed. The estimated usage is based on historic data, judgment and assumptions. Revenues are gradually adjusted to reflect actual usage in the period during which actual meter readings are obtained.

Any under or over-recovery of allowed distribution network revenues, as prescribed by Ofgem, is not provided for in the financial statements and will be recovered/repaid through future tariffs.

Customer contributions towards distribution system assets are included in deferred revenue. The Company's policy is to credit the customer contribution to revenue over 45 years on a straight-line basis, in line with the useful life of the distribution system assets.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

##### **Research costs**

Expenditure on research activities is written off to the income statement in the year in which it is incurred.

##### **Operating profit**

Operating profit is stated before investment income and finance costs.

##### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or asset realised, based on tax rates and tax legislation enacted or substantively enacted at the balance sheet date.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

### NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

#### 2 ACCOUNTING POLICIES (CONTINUED)

##### **Property, plant and equipment and depreciation**

Property, plant and equipment is stated at cost. Cost includes the purchase price of the asset and any costs, including internal employee and other costs, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The charge for depreciation is calculated to write off assets to their residual values over their estimated useful lives using the straight-line basis:

Distribution system assets.....	45 years
Metering equipment included in distribution system assets .....	up to 15 years
Information technology equipment included in distribution system assets.....	up to 10 years
Non-operational assets:	
Buildings – freehold.....	up to 60 years
Buildings – leasehold.....	lower of lease period or 60 years
Fixtures and equipment.....	up to 10 years
Software development costs .....	up to 10 years

Freehold land is not depreciated.

Assets in the course of construction are carried at cost. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned.

The estimated useful economic lives of property, plant and equipment are based on management's judgment and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of the Company's investment in property, plant and equipment, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

The Company is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. An impairment review requires management to make judgments concerning the cash flows, growth rates and discount rates for the cash-generating units under review.

##### **Software development costs**

Costs in respect of major developments are capitalised and amortised over the expected life of the software. Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 10 years.

##### **Investments**

Fixed asset investments are stated at cost less provision for impairment in value.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

Inventories are stated at the lower of cost and net realisable value as follows:

Raw materials and consumables are valued at purchase cost determined on an average price basis.

Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less progress payments.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

**Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute and prior experience.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value and arrived at by discounting the anticipated future costs, at the market rate at the balance sheet date.

**Leases**

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals are charged to the income statement in equal annual amounts over the lease term.

**Trade receivables**

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

**Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

**Borrowings**

Borrowings are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement for redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method. They are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

## **NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

### **NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

#### **2 ACCOUNTING POLICIES (CONTINUED)**

##### **Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions on the instrument.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

##### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

##### **Pensions**

The Company contributes to the Northern Electric Group of the Electricity Supply Pension Scheme (the "Northern Electric Group of the ESPS"). The Northern Electric Group of the ESPS is a defined benefit plan that shares risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the Northern Electric Group of the ESPS as if it were a defined contribution scheme. Contributions to the Northern Electric Group of the ESPS are charged to the income statement or capitalised as appropriate. The capital costs of ex-gratia and supplementary pensions are normally charged to the income statement in the period in which they are granted.

The Company also participates in a defined contribution scheme. Contributions payable to the defined contribution scheme are charged to the income statement in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **3 REVENUE**

The Company has voluntarily adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the President and Chief Operating Officer of the CE Electric UK Funding Company group of companies (the "CE Group") to allocate resources to these segments and to assess their performance.



# NORTHERN ELECTRIC DISTRIBUTION LIMITED

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## NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

### 3 REVENUE (CONTINUED)

In practice, the President and Chief Operating Officer allocates resources and assesses performance based upon the aggregate results of the Company and Yorkshire Electricity Distribution plc, another distribution network operator in the CE Group, suggesting that no segmental reporting is required. Therefore, the adoption of IFRS 8 does not impact these financial statements.

Revenue, profit before tax and net assets are attributable to electricity distribution. Revenue is all in respect of sales to United Kingdom customers.

Revenue represents charges made to customers for use of the distribution system, the recharge of costs incurred on behalf of related parties, amortisation of customer contributions and other services and is included net of value added tax.

### 4 INVESTMENT INCOME

	2010 £m	2009 £m
Dividends received	-	0.1
Interest receivable from Group undertakings	-	0.2
	<u>-</u>	<u>0.3</u>

### 5 FINANCE COSTS

	2010 £m	2009 £m
Interest payable on loans from Group undertakings	23.0	24.2
Interest payable on other loans	0.2	0.3
	<u>23.2</u>	<u>24.5</u>

### 6 OPERATING PROFIT

	2010 £m	2009 £m
This is stated after charging/(crediting):		
Staff costs (Note 7)	37.3	39.6
Research costs	0.4	0.5
Depreciation of property, plant and equipment	44.6	41.1
Amortisation of deferred revenue	(12.0)	(10.8)
Amortisation of intangibles	1.5	1.6
Impairment loss on trade and other receivables	0.1	0.3
	<u>0.1</u>	<u>0.3</u>
Analysis of auditors' remuneration is as follows:		
	2010 £m	2009 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	60	75
Other services supplied pursuant to legislation	45	36
	<u>45</u>	<u>36</u>

There were no fees payable in relation to non-audit services in 2010 or 2009. Other services supplied pursuant to legislation relate to regulatory reporting in line with Ofgem's requirements.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**7 STAFF COSTS**

	2010 £m	2009 £m
Salaries	36.6	35.2
Social security costs	3.2	3.0
Defined benefit pension costs	28.4	28.2
Defined contribution pension costs	0.1	0.1
	<u>68.3</u>	<u>66.5</u>
Less charged to property, plant and equipment	<u>(31.0)</u>	<u>(26.9)</u>
	<u>37.3</u>	<u>39.6</u>

The majority of the Company's employees are members of the Northern Electric Group of the ESPS, details of which are given in Note 23.

The average monthly number of employees during the year was:

	2010 No.	2009 No.
Technical	237	253
Industrial	467	448
Administration	197	201
Other	62	64
	<u>963</u>	<u>966</u>

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**8 DIRECTORS' & KEY PERSONNEL REMUNERATION**

DIRECTORS' REMUNERATION	2010 £	2009 £
<u>Highest Paid</u>		
Short-term employee benefits	132,325	114,219
Post employment benefits	9,409	10,016
Other long-term benefits	59,454	101,707
	<u>201,188</u>	<u>225,942</u>
<u>Total</u>		
Short-term employee benefits	386,121	416,732
Post employment benefits	95,939	107,076
Other long-term benefits	153,903	325,208
	<u>635,963</u>	<u>849,016</u>
Directors who are members of the defined benefit scheme	<u>3</u>	<u>6</u>
Accrued pension benefit relating to highest paid director	<u>-</u>	<u>-</u>
 OTHER KEY PERSONNEL REMUNERATION	 2010 £	 2009 £
<u>Total</u>		
Short-term employee benefits	277,420	287,577
Post employment benefits	74,318	71,431
Other long-term benefits	24,906	88,588
	<u>376,644</u>	<u>447,596</u>

Other key personnel includes a number of senior functional managers who, whilst not board directors, have authority and responsibility for planning, directing and controlling the activities of the Company.

The directors and key personnel are remunerated for their services to the CE Group, of which the Company is a subsidiary. The figures above represent the share of the costs borne by the Company.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**9 INCOME TAX EXPENSE**

	2010		2009	
	£m	£m	£m	£m
Tax expense comprises:				
Current tax expense:				
Corporation tax charge for the year	9.2		4.1	
Payments for use of group losses	8.8		9.4	
Under provision for prior years	(1.0)		(1.0)	
Total current tax charge		17.0		12.5
Deferred tax:				
Deferred tax expense relating to the origination and reversal of temporary differences	3.0		3.2	
Effect of changes in legislation	-		6.5	
Total deferred tax charge		3.0		9.7
Tax on profit before tax		20.0		22.2
The total charge can be reconciled to the accounting profit as follows:				
Profit before tax		71.8		56.8
Tax on profit before tax at standard rate of corporation tax in United Kingdom of 28%		20.1		15.9
Effect of changes in legislation		-		6.5
Over provision for prior years		(0.1)		(0.2)
Tax on profit before tax		20.0		22.2

There was an increase in the deferred tax liability in 2009 due to the cessation of capital allowances on qualifying industrial buildings from 2011, as a result of changes in legislation introduced by the Finance Act 2008. On 22 June 2010, the Chancellor of the Exchequer announced that the corporation tax rate in the UK would fall from 28% to 27%, with effect from 1 April 2011. Should the change be enacted, there will be a one off reduction in the deferred tax liability during 2010, resulting in a credit to the income statement in the region of £5m.

**10 DIVIDENDS**

	2010 Pence per share	2009 Pence per share	2010 £m	2009 £m
Dividend paid	10.0	10.0	20.0	20.0

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**11 PROPERTY, PLANT AND EQUIPMENT**

	Distribution system £m	Fixtures and Equipment £m	Total £m
<b>COST</b>			
At 1 April 2008	1,385.9	15.4	1,401.3
Additions	145.3	1.3	146.6
Disposals	(4.1)	(0.3)	(4.4)
At 1 April 2009	1,527.1	16.4	1,543.5
Additions	117.7	1.9	119.6
Disposals	(4.8)	(0.2)	(5.0)
At 31 March 2010	1,640.0	18.1	1,658.1
<b>ACCUMULATED DEPRECIATION</b>			
At 1 April 2008	154.8	12.9	167.7
Charge for the year	39.5	1.6	41.1
Disposals	(4.1)	(0.3)	(4.4)
At 1 April 2009	190.2	14.2	204.4
Charge for the year	43.1	1.5	44.6
Disposals	(4.8)	(0.2)	(5.0)
At 31 March 2010	228.5	15.5	244.0
Net book value at 31 March 2010	1,411.5	2.6	1,414.1
Net book value at 31 March 2009	1,336.9	2.2	1,339.1
<b>Assets in the course of construction included above:</b>			
At 1 April 2008	64.8	-	64.8
Additions	145.3	-	145.3
Available for use	(135.2)	-	(135.2)
At 1 April 2009	74.9	-	74.9
Additions	117.7	-	117.7
Available for use	(144.5)	-	(144.5)
At 31 March 2010	48.1	-	48.1

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £16.0m (2009: £9.2m).

# NORTHERN ELECTRIC DISTRIBUTION LIMITED

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## NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

### 12 INTANGIBLES

	Software Development Costs £m
<b>COST</b>	
At 1 April 2008	17.0
Additions	0.8
	<hr/>
At 1 April 2009	17.8
Additions	0.4
	<hr/>
At 31 March 2010	18.2
	<hr/>
<b>AMORTISATION</b>	
At 1 April 2008	10.7
Charge for the year	1.6
	<hr/>
At 1 April 2009	12.3
Charge for the year	1.5
	<hr/>
At 31 March 2010	13.8
	<hr/>
Net book value at 31 March 2010	4.4
	<hr/>
Net book value at 31 March 2009	5.5
	<hr/>

### 13 INVESTMENTS

Details of the principal investments of the Company at 31 March 2010 are listed below:

Name of Company	Country of Registration	Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	619 at 10p	6.7%	Data transfer network operator
MRA Service Company Limited	England and Wales	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	1 at £1	2.0%	Management and governance of the Distribution Connection and Use of System Agreement
Northern Electric Finance plc	England and Wales	50,000 at £1	100%	Finance company

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £62 (2008: £62), MRA Service Company Limited £1 (2008: £1), DCUSA Limited £1 (2008: £1) and Northern Electric Finance plc £50,000 (2008: £50,000).

# NORTHERN ELECTRIC DISTRIBUTION LIMITED

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## NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

### 14 INVENTORIES

	2010 £m	2009 £m
Raw materials and consumables	6.1	7.0
Work in progress	0.2	0.3
	<u>6.3</u>	<u>7.3</u>

### 15 OTHER FINANCIAL ASSETS

#### **Trade and other receivables**

	2010 £m	2009 £m
Distribution use of system receivables	32.3	29.1
Amounts receivable from sale of goods and services	1.5	5.8
Prepayments and accrued income	1.0	1.4
Other receivables	3.4	0.2
	<u>38.2</u>	<u>36.5</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value calculated by discounting the future cash flows at the market rate at the balance sheet date. The maximum exposure to risk to the Company is the book value of these receivables less any provisions for impairment.

#### **Distribution use of system receivables**

The customers served by the Company's distribution network are supplied predominantly by a small number of electricity supply businesses with RWE NPower plc accounting for approximately 32% of distribution revenues in 2010 (2009: 35%). Ofgem has determined a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage) exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or an escrow account. Included within other payables are customer deposits of £1.5m as at March 2010 (2009: £1.5m).

Ofgem has indicated that, provided the Company has implemented credit control, billing and collection processes in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Losses incurred to date have not been material. Included in the Company's use of system ("UoS") receivables are debtors with a carrying value of £0.2m, which have been placed into administration and have therefore been provided in full at the year end (2009: £0.3m)

#### **Amounts receivable from sale of goods and services**

Sales of goods and services comprise all income streams which are not classified as UoS income. Examples of non-UoS income streams would be customer contributions in relation to distribution system assets and recovery of amounts for damage caused by third parties to the distribution system.

The average credit period on sales of goods and services is 30 days. Interest is not generally charged on the trade receivables paid after the due date. An allowance for doubtful debts is made for debts past their due date based on estimated irrecoverable amounts from the sale of goods and services, determined by reference to past default experience.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED****REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)****15 OTHER FINANCIAL ASSETS (CONTINUED)****Amounts receivable from sale of goods and services (continued)**

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.7m (2009: £0.3m) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.1m (2009: £0.3m) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 342 days (2009: 516 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.3m (2009: £0.9m). These amounts are past due at the reporting date and the Company has not provided for any amounts as not being recoverable, because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 67 days (2009: 108 days).

Ageing of past due but not impaired receivables

	2010 £m	2009 £m
30-60 days	0.2	0.1
60-120 days	0.1	0.5
120-210 days	-	0.3
Total	<u>0.3</u>	<u>0.9</u>

**Movement in the allowance for doubtful debts**

	£m
At 1 April 2009	0.6
Amounts utilised/written off in the year	(0.3)
Amounts recognised in income statement	-
At 31 March 2010	<u>0.3</u>

In determining the recoverability of the trade and other receivables, the Company considers any change in the credit quality of the trade and other receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk, other than in relation to UoS receivables, is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are specific trade receivables, with a balance of £0.2m (2009: £0.3m) which have been placed in administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.



**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**15 OTHER FINANCIAL ASSETS (CONTINUED)**

**Categories of financial assets**

	2010 £m	2009 £m
Loans and receivables at amortised cost	37.2	35.1
Total financial assets	<u>37.2</u>	<u>35.1</u>
Non current assets	1,418.5	1,344.6
Inventories	6.3	7.3
Prepayments and accrued income	1.0	1.4
Total non-financial assets	<u>1,425.8</u>	<u>1,353.3</u>
Total Assets	<u>1,463.0</u>	<u>1,388.4</u>

**16 OTHER FINANCIAL LIABILITIES**

**Trade and other payables**

	2010 £m	2009 £m
Payments received on account	22.7	16.5
Trade payables	4.2	4.0
Amounts owed to Group undertakings	0.3	0.3
Other taxes and social security costs	5.2	2.3
Accruals	13.2	15.4
Other payables	1.3	4.1
	<u>46.9</u>	<u>42.6</u>

**Current income tax liabilities**

	2010 £m	2009 £m
Corporation Tax	8.8	7.3
Group Relief	1.8	-
	<u>10.6</u>	<u>7.3</u>

The directors consider that the carrying amount of other financial liabilities approximates their fair value, calculated by discounting future cash flows at market rate at the balance sheet date. Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Invoices are paid at the end of the month following the date of the invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**16 OTHER FINANCIAL LIABILITIES (CONTINUED)**

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Note 16. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Less than 3 months £m	3 months To 1 year £m	1 to 5 years £m	5+ Years £m	Total £m
2010:					
Non-interest bearing	24.2	-	-	-	24.2
Variable interest rate liability	107.2	-	-	-	107.2
Fixed interest rate liability	2.6	19.9	89.9	688.1	800.5
	<u>134.0</u>	<u>19.9</u>	<u>89.9</u>	<u>688.1</u>	<u>931.9</u>
2009:					
Non-interest bearing	26.1	-	-	-	26.1
Variable interest rate liability	87.5	-	-	-	87.5
Fixed interest rate liability	2.6	19.9	89.9	710.6	823.0
	<u>116.2</u>	<u>19.9</u>	<u>89.9</u>	<u>710.6</u>	<u>936.6</u>

**Categories of financial liabilities**

	2010 £m	2009 £m
Loans and payables at amortised cost	469.7	452.5
Total financial liabilities	<u>469.7</u>	<u>452.5</u>
Payments received on account	22.7	16.5
Income tax liabilities	148.3	142.0
Other taxes and social security	5.2	2.3
Accruals	13.2	15.4
Deferred Revenue	414.8	402.2
Provisions	2.1	2.3
Total non-financial liabilities	<u>606.3</u>	<u>580.7</u>
Total liabilities	<u>1,076.0</u>	<u>1,033.2</u>

# NORTHERN ELECTRIC DISTRIBUTION LIMITED

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## NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

### 17 BORROWINGS

The Directors consideration of liquidity, interest rate and foreign currency risk is described in detail in the Directors Report on pages 9 and 10.

	Book value		Fair value	
	2010 £m	2009 £m	2010 £m	2009 £m
Loans	25.0	38.0	25.0	38.0
Amounts owed to Group undertakings	438.9	406.1	456.1	388.5
	<u>463.9</u>	<u>444.1</u>	<u>481.1</u>	<u>426.5</u>
The borrowings are repayable as follows:				
On demand or within one year	116.3	96.6	116.3	96.6
After five years	347.6	347.5	364.8	329.9
	<u>463.9</u>	<u>444.1</u>	<u>481.1</u>	<u>426.5</u>
Analysis of borrowings:				
Short term loan	25.0	38.0	25.0	38.0
Inter-company short term loan	82.2	49.5	82.2	49.5
Northern Electric Finance plc 2020 – 8.875%	104.0	104.0	129.2	126.9
Northern Electric Finance plc 2035 - £50m 5.125%	49.9	49.8	48.2	42.1
Yorkshire Electricity Group plc 2037 – 5.9%	101.5	101.5	103.7	89.9
Northern Electric Finance plc 2037 – 5.125%	101.3	101.3	92.8	80.1
	<u>463.9</u>	<u>444.1</u>	<u>481.1</u>	<u>426.5</u>

The fair value of the external borrowings is determined with reference to quoted market prices. The directors' estimates of the fair value of internal borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments.

Interest on the inter-company short-term loan is charged at base rate and on short-term loans is charged at a floating rate of interest at LIBOR plus 0.25%, thus exposing the Company to cash flow interest rate risk. A 1% movement in interest rates would subject the Company to an approximate change in interest costs of £1.3m per year. This is considered to be an acceptable level of risk. All other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

The loans are non-secured and are denominated in sterling.

The covenants associated with the 2035 bonds issued by Northern Electric Finance plc, a wholly-owned subsidiary of the Company, include restrictions on the issuance of new indebtedness and the making of distributions dependent on the scale of the ratio of Senior Total Net Debt to Regulatory Asset Value ("RAV"). The definition of Senior Total Net Debt excludes any subordinated debt and any debt incurred on a non-recourse basis. In addition, it excludes interest payable, any fair value adjustments and unamortised issue costs.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**17 BORROWINGS (CONTINUED)**

The Company's Senior Total Net Debt as at 31 March 2010 totalled £452.3m. Using the RAV value as at March 2010, as outlined by Ofgem in its Final Proposals for Distribution Prices published in December 2009, and up rating for the effects of movements in the value of the Retail Price Index gives an approximation for the RAV value as at 31 March 2010 of £879.1m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 51.4%.

At 31 March 2010, the Company had available £52.0m (2009: £52.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**18 DEFERRED TAX**

	Accelerated Tax Depreciation £m	Other £m	Total £m
At 1 April 2008	125.4	(0.4)	125.0
Charge to income statement	9.7	-	9.7
At 1 April 2009	135.1	(0.4)	134.7
Charge to income statement	2.9	0.1	3.0
At 31 March 2010	138.0	(0.3)	137.7

Other comprises provisions and employee expenses deductible for tax on a paid basis and claims for hold over relief.

**19 DEFERRED REVENUE**

	£m	
At 1 April 2008	370.4	
Additions	42.6	
Amortisation	(10.8)	
At 1 April 2009	402.2	
Additions	24.6	
Amortisation	(12.0)	
At 31 March 2010	414.8	
	2010 £m	2009 £m
Included in current liabilities	12.6	12.7
Included in non-current liabilities	402.2	389.5
	414.8	402.2

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the income statement over 45 years on a straight line basis, in line with the useful economic life of the distribution system assets. Management have reviewed their assumptions regarding deferred revenue in the year, meaning that on average, contributions are transferred from payments on account to deferred revenue more quickly. If this change had been in place in the prior year, the impact on the deferred revenue balance would have been £8.0m.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2010 CONTINUED**

**20 PROVISIONS**

	Claims £m	Other £m	Total £m
At 1 April 2008	1.9	0.6	2.5
Utilised/paid in the year	(1.2)	-	(1.2)
Charged to the income statement	0.6	0.4	1.0
At 1 April 2009	1.3	1.0	2.3
Utilised/paid in the year	(0.9)	0.1	(0.8)
Charged to income statement	0.6	-	0.6
At 31 March 2010	1.0	1.1	2.1
		2010 £m	2009 £m
Included in current liabilities		1.1	1.3
Included in non-current liabilities		1.0	1.0
		2.1	2.3

Claims: Provision has been made to cover costs arising from actual claims, which are not externally insured. Settlement is expected substantially within 12 months.

Other: Primarily consists of a provision for future safe disposal of transformers which contain oil contaminated with Polychlorinated Biphenyls (PCBs) and for an amount to cover claims made under section 74 of the New Road and Street Works Act 1991. Costs are expected to be incurred over the next 20 years.

**21 SHARE CAPITAL**

	2010 No./£	2009 No./£
Ordinary shares of £1 each		
Authorised	300,000,000	300,000,000
Allotted, called up and fully paid	200,000,100	200,000,100

The Company has one class of ordinary shares which carries no right to fixed income.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED****REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)****22 NET CASH FROM OPERATING ACTIVITIES**

	2010 £m	2009 £m
Operating profit	94.8	80.9
Depreciation and amortisation	46.1	42.7
Amortisation of deferred revenue	(12.0)	(10.8)
Decrease in provisions	(0.2)	(0.2)
Operating cash flows before movements in working capital	128.7	112.6
Decrease in inventories	1.0	0.8
(Increase)/decrease in receivables	(2.6)	2.6
Increase/(Decrease) in payables	2.2	(4.6)
Cash generated by operations	129.3	111.4
Income taxes paid	(6.7)	(5.0)
Group relief paid	(7.0)	(9.4)
Dividends received	-	0.1
Interest received	-	0.2
Interest paid	(24.0)	(24.5)
Net cash from operating activities	91.6	72.8

**23 PENSION COMMITMENTS**

The Company has two retirement benefit schemes.

The Northern Electric Group of the ESPS is a defined benefit scheme for directors and employees, which provides pension and other related benefits based on final pensionable pay. The assets of the Northern Electric Group of the ESPS, which was closed to staff commencing employment on or after 23 July 1997, are held in a separate trustee-administered fund. The Northern Electric Money Purchase Scheme was made available to new employees from that date.

The Northern Electric Group of the ESPS and the Northern Electric Money Purchase Scheme are operated by Northern Electric plc on behalf of the participating companies within the CE Group.

The last full actuarial valuation of the Northern Electric Group of the ESPS was carried out by the Group Trustees' actuarial advisors, Hewitt Associates, as at 31 March 2007. The projected unit method was used for the valuation. The principal actuarial assumptions were that pre retirement investment returns would exceed salary increases by 1.8% per annum (inclusive of merit awards) and post retirement returns would exceed future pension increases by 1.8% per annum.

The total market value of the assets of the Northern Electric Group of the ESPS, at the date of the actuarial valuation, was £926.7m.

For the Northern Electric Group of the ESPS, the actuarial valuation showed that the value of the assets represented 90.7% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £95.1m. The accrued benefits include all benefits for pensioners and other former members, as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

## NORTHERN ELECTRIC DISTRIBUTION LIMITED

REGISTERED NUMBER 2906593

### NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)

#### 23 PENSION COMMITMENTS (CONTINUED)

The CE Group reached agreement during March 2008 with the Group Trustees to repair this deficit. The agreement comprises monthly cash payments of £2.4m (£28.8m per annum) backdated to commence in April 2007 in addition to the normal employer contributions. Of these annual payments, £21.9m will be paid by the Company. These payments aim to remove the shortfall of £95.1m by December 2010 subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2007 being borne out in practice.

The Northern Electric Group of the ESPS is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Company accounts for the scheme as if it were a defined contribution scheme.

The contribution rates to the Northern Electric Group of the ESPS, in addition to the deficit repair contributions mentioned above, for 2009 were 44.7% for certain senior management and 26.3% for other employees. These rates will remain in place until a time as a new schedule of contributions is agreed between the trustees of the Northern Electric Group of the ESPS and the Company as part of the triennial valuation process.

The money purchase pension scheme is also accounted for as a defined contribution scheme.

The Company pension cost for the year ended 31 March 2010 was £28.5m (2009: £28.3m).

Disclosures in relation to the Northern Electric Group of the ESPS are:

Principal assumptions:

	2010 Projected unit	2009 Projected unit
Valuation method		
Discount rate	5.60%	6.70%
Inflation rate	3.30%	3.15%
Increase to pensions	3.30%	3.15%
Increase to deferred benefits	3.30%	3.14%
Salary increases	3.00%*	3.40%

\* 3.00% per annum for five years then 3.30% thereafter

The mortality assumptions are based on the recent actual mortality experience of members within the CE Group and the assumptions also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 27.3 years, if he is male, and for a further 27.6 years, if she is female. Life expectancy at age 60 for non-pensioners (currently aged 45) is assumed to be 29.3 years, if they are male, and 29.4 years, if they are female.

For closed schemes, such as the Northern Electric Group of the ESPS, under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED**

**REGISTERED NUMBER 2906593**

**NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)**

**23 PENSION COMMITMENTS (CONTINUED)**

Changes in present value of the defined benefit obligation are as follows:

	2010 £m	2009 £m
Opening defined benefit obligation	830.4	819.7
Current service cost	7.4	7.4
Interest cost	54.5	55.5
Contributions from employees	3.0	3.0
Actuarial gains/(losses)	171.8	(13.6)
Benefits paid	(43.9)	(41.6)
Closing defined benefit obligation	<u>1,023.2</u>	<u>830.4</u>

Changes in the fair value of the plan assets are as follows:

	2010 £m	2009 £m
Opening fair value of plan assets	755.1	912.5
Expected returns	51.5	62.4
Actuarial gains/(losses)	172.0	(223.6)
Contributions by employer	44.1	42.4
Contribution from employees	3.0	3.0
Benefits paid	(43.9)	(41.6)
Closing fair value of plan assets	<u>981.8</u>	<u>755.1</u>

The fair value of the plan assets at the balance sheet date is analysed below:

	Long term rates of return expected at		Value	
	2010 %	2009 %	2010 £m	2009 £m
Equities	8.5	8.9	364.5	301.4
Gilts	5.1	5.3	531.0	373.5
Cash	4.5	4.5	0.3	0.7
Property	8.5	7.9	86.0	79.5
Total fair value of scheme assets			<u>981.8</u>	<u>755.1</u>

The CE Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rates of return on each asset class are set out within these disclosures. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Northern Electric Group of the ESPS.

The CE Group expects to contribute approximately £44.6m to its defined benefit plan in 2010, including £28.4m of pension deficit repair costs.



**NORTHERN ELECTRIC DISTRIBUTION LIMITED****REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)****24 OPERATING LEASE ARRANGEMENTS**

	2010 £m	2009 £m
Minimum lease payments under operating leases recognised in the year	<u>6.5</u>	<u>6.8</u>

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £m	2009 £m
Within one year	4.4	4.3
In the second to fifth year inclusive	13.4	13.5
After five years	<u>15.2</u>	<u>18.6</u>
	<u>33.0</u>	<u>36.4</u>

Leases consist of rent payable in respect of properties and vehicle leases both primarily from related parties.

**25 RELATED PARTY TRANSACTIONS**

The Company has advanced loans to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 March 2010 was nil (2009: £0.2m).

The Company has received loans from other companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 March 2010 was £23.0m (2009: £24.2m). Included within borrowings is £438.9m as at 31 March 2010 (2009: £406.1m).

Interest on loans from CE Group companies is charged at a commercial rate.

**NORTHERN ELECTRIC DISTRIBUTION LIMITED****REGISTERED NUMBER 2906593****NOTES TO THE ACCOUNTS - 31 MARCH 2010 (CONTINUED)****25 RELATED PARTY TRANSACTIONS (CONTINUED)**

The Company entered into transactions, in the ordinary course of business, with affiliated companies. Transactions entered into and trading balances outstanding at the year end were as follows:

Related Party	Sales to Related Party  £m	Purchases from Related Party  £m	Amounts Owed to Related Party (Note 16) £m
2010:			
CE Insurance Services Limited	-	0.5	-
Integrated Utility Services Limited	0.4	0.3	-
Integrated Utility Services Limited (registered in Eire)	-	0.5	-
Northern Electric plc	0.1	5.4	-
Northern Electric Properties Limited	-	0.7	-
Yorkshire Electricity Distribution plc	13.8	8.4	-
Vehicle Lease and Service Limited	-	3.1	0.3
2009:			
CE Insurance Services Limited	-	0.6	-
Integrated Utility Services Limited	0.1	0.1	-
Integrated Utility Services Limited (registered in Eire)	-	0.4	-
Northern Electric plc	0.2	5.5	-
Northern Electric Properties Limited	-	1.1	-
Yorkshire Electricity Distribution plc	10.1	6.2	-
Vehicle Lease and Service Limited	-	3.4	0.3

Sales and purchases from related parties were made at commercial prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties

**26 IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate parent undertaking of Northern Electric Distribution Limited is Northern Electric plc. The ultimate controlling party and ultimate parent undertaking of Northern Electric plc is Berkshire Hathaway, Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway, Inc. (the parent undertaking of the largest group preparing group accounts) which include Northern Electric Distribution Limited and the group accounts of Northern Electric plc, the smallest parent undertaking to prepare group accounts in the UK, can both be obtained from the Company Secretary, CE Electric UK Funding Company, Lloyds Court, 78. Grey Street, Newcastle upon Tyne, NE1 6AF.