

**NORTHERN POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

**REGULATORY ACCOUNTS  
TO 31 MARCH 2013**

**NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

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for the Year Ended 31 March 2013**

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# NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 4112320

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 Regulatory Accounts for the year ended 31 March 2013 (the "Regulatory Year") of Northern Powergrid (Yorkshire) plc (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 and, therefore, may differ from the statutory financial statements of the Company for the year ended 31 December 2012, which were drawn up and presented in accordance with the Companies Act 2006.

### **PRINCIPAL ACTIVITIES**

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid 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 10,700 square kilometres encompassing the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. The Company's distribution system of transformers, switchgear and overhead and underground cables receives electricity from generators connected to it and from the National Grid's transmission system and distributes that electricity to approximately 2.3 million customers 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. The main classes of asset, which make up the Company's distribution network, include:

<b><u>Asset class</u></b>	<b><u>Approximate number</u></b>
Total circuit length (underground and overhead)	53,200 kilometres
Ground-mounted distribution substations	17,400
Pole-mounted distribution substations	17,300
Major substations	475
LV services (overhead)	80,300
LV services (underground)	2.2 million

## NORTHERN POWERGRID (YORKSHIRE) PLC

REGISTERED NUMBER 4112320

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)

#### PRINCIPAL ACTIVITIES (CONTINUED)

In common with the Northern Powergrid 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 and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, dependability, 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, system investment and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	Leading safety performance, engaging employees and effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Company's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	Strong internal controls, effective regulatory engagement and industry influence.

#### Strategic objectives

The Company's strategic objectives are based on the Core Principles, remain consistent 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 shaping the future direction of the electricity distribution 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 to major incidents on the network in times of severe weather and caring for its local environment.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **BUSINESS REVIEW**

##### **Review of the Regulatory Year**

The Company delivered a satisfactory financial performance for the Regulatory Year, which was mainly attributable to a benefit from higher distribution tariffs, which resulted in an increase in revenue compared to the prior year, continued effective cost control and a further change in the rate of corporation tax.

The long-term trend in the Company's overall safety performance continued to compare well with that of the industry but the internal targets were missed in respect of operational incidents and preventable vehicle accidents. However, fewer lost time accidents occurred in 2012 than in the previous year.

The Company delivered the largest ever capital expenditure programme compared to other regulatory years, investing £239.9 million in the distribution network. This expenditure represented a £52.7 million (28%) increase on the £187.2 million recorded in the regulatory year to 31 March 2012 and was a significant achievement in the context of the outputs the Company intends to deliver by the end of the Distribution Price Control 5 period ("DPCR5").

The Company also continued to implement initiatives to improve the quality of service provided to customers, as the new regulatory incentive known as the Broad Measure of Customer Satisfaction took effect from 1 April 2012. Those improvements included the enhancement of the Northern Powergrid Group's website and the continued development of internet-based services with the Company and its affiliate, Northern Powergrid (Northeast) Limited, being the first in the electricity distribution industry to provide a web-based facility so that customers are able to order certain services themselves.

The Company beat Ofgem's targets for the quality of the electricity supply provided to its customers and achieved a reduction in the average times taken to restore supplies following a power cut, as compared to regulatory year to 31 March 2012. While recognising that improvements still have to be made in the level of customer service provided in order to meet its targets, the upward trend in the Company's performance continued with the best ever performance being recorded in 2012.

As delivery of the capital expenditure programme, the provision of excellent customer service and ensuring a reliable electricity supply are some of the most significant outputs the Company is required to deliver during DPCR5, the directors are confident that the Company's performance during the Regulatory Year provides a strong basis for a successful conclusion to DPCR5 in March 2015.

As Ofgem began the process for determining the next price control review in the first quarter of 2012, one of the most significant projects undertaken by the Company during the Regulatory Year was to review developments in Ofgem's price control policies and draft the required well-justified business plan, which was submitted to Ofgem on 28 June 2013. This price control review is known as RIIO-ED1 and will set the distribution price control for the period of eight years through to 2023, as opposed to the five year periods previously used.

There was a higher than usual number of major weather-related incidents during the Regulatory Year, which impacted on the distribution network, with more serious flooding incidents being experienced than in any previous year as well as the most significant snow and ice storm for a number of years. The Company reacted robustly to those incidents by activating its major incident management plan on a number of occasions to deal with the consequential power cuts.

Environmental performance continued to be strong with the Company's response time to environmentally-related network events improving, such that fewer incidents were reportable to the Environment Agency than in the previous regulatory year. However, more oil was lost to the ground during the Regulatory Year than in any other year in the last five regulatory years, with interference with the Company's assets by third parties intent on metal theft being a significant contributory factor. The Company recognises the impact on the environment of such events, is committed to reducing losses from its fluid-filled cables and has a programme in place in order to replace those assets on a phased and prioritised basis.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Financial strength**

During the Regulatory Year, the Company continued to maintain good control in respect of both its capital and operating costs by effectively managing the various financial risks that could have had an adverse impact on its business as a result of the general economic climate.

In terms of its income until 31 March 2015, the Company benefits from the stability provided by the arrangements agreed in respect of DPCR5 and recognises that it needs to show that it is delivering reliable services at a fair price to its customers, while operating in an efficient and effective manner.

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

##### **Revenue**

The Company's revenue at £382.7m was £13.7m higher than the prior year mainly due to additional allowances arising from the DPCR5 settlement.

##### **Operating profit**

The Company's operating profit at £197.9m was £1.3m higher than the previous year reflecting the increase in revenues in the year, partly offset by increased operating costs, predominantly as a result of an increase in depreciation, amortisation, vegetation management and business rates costs in the year.

##### **Finance costs and investments**

Finance costs net of investment income at £40.6m were broadly in line with the previous year.

##### **Taxation**

The effective tax rate in the Regulatory Year was 14%. Details are provided in Note 9 to the Regulatory Accounts.

##### **Results and dividends**

The Company made a profit after tax for the Regulatory Year of £135.4m (2012: £-130.1m). An interim dividend of £40.0m was paid during the statutory accounting year ended 31 December 2012 (2011: £40.0m) and the directors recommended that no final dividend was paid in respect of that year.

No interim dividend was paid during the period from 1 January 2013 to 31 March 2013.

##### **Share capital and debt structure**

On 5 July 2012, the Company issued £150 million 4.375% bonds due 2032 and repaid an inter-company loan of £54.2 million provided by Yorkshire Electricity Group plc ("YEG"), a company in the Northern Powergrid Group. There were no changes to the Company's share capital 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.

##### **Cash flow**

The Company aims to collect from customers and pay suppliers within contracted terms. Any surplus cash held is remitted to YEG 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 £177.9m was £17.7m higher than the previous year mainly due to lower income taxes paid and net favourable movements in working capital.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

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

###### **Cash flow (continued)**

Investing activities: Net cash used in investing activities at £187.3m was £63.3m higher than the previous year, reflecting higher net capital expenditure.

Financing activities: The net cash generated by financing activities at £19.1m represents a £55.3m favourable variance compared to the previous year, reflecting the issue of the £150 million 4.375% bonds during the year, partly offset by the repayment of loans from group undertakings.

###### **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 £75m under a five year committed revolving credit facility provided by Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc. The facility was renewed during the Regulatory Year, such that it now expires on 20 August 2017. The Company expects to raise further facilities, as required, at that time.

In addition, the Company has access to further short-term borrowing facilities provided by YEG and a £4m overdraft facility provided by Lloyds TSB Bank plc, which is renewable annually.

The directors do not consider there to be any doubt over the Company's ability to raise appropriate levels of finance in the future, given its investment grade issuer credit rating 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 2013, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years.

###### **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.

###### **Financial derivatives**

As at 31 March 2013 and during the Regulatory Year it was the Company's policy not to hold any derivative financial instruments.

###### **Pensions**

The Company is a participating employer in the Northern Powergrid 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 Regulatory Accounts.

The Company also participates in the Northern Powergrid Pension Scheme and contributes to the Yorkshire Electricity Pension Plan, which are defined contribution schemes.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

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

##### **Insurance**

As part of its insurance and risk strategy, the Northern Powergrid Group has 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 Northern Powergrid 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 remains focused on delivering a reliable and dependable supply of electricity and a high standard of service to its customers.

The Company is taking forward various initiatives in order to deliver the overall goal of improving customer satisfaction with the service provided, including:

- monthly connections surgeries to enable new connections customers to discuss their specific projects with the Company;
- extending the means by which it undertakes its stakeholder engagement, as part of the drafting of the well-justified business plan, to include channels such web-based communication, small face-to-face meetings and expert panels and groups active in the area of fuel poverty and by increasing joint initiatives with other utility companies;
- an online community to facilitate discussion among stakeholders regarding the Company's services and to provide a dedicated web area so that stakeholders can influence the Company's policies and priorities and also maintain contact with the Company;
- developing customer relationship management information technology and social media and website services to provide more accurate information to customers, particularly in respect of estimated times for the restoration of supply during power cuts and to engage more effectively with and receive feedback from customers. In that respect, the Company was the first in the electricity distribution industry to provide the facility for customers to order certain services online themselves;
- improvements to the reliability of under-performing parts of the distribution network by identifying "hot spots" of particularly poor network performance and taking specific action to address the issues in those areas;
- maintaining and promoting the priority services register so that the Company becomes aware of people with disabilities or special needs who may be affected by power cuts so that it can take appropriate action to assist those people in such circumstances, engaging the support of the Red Cross where appropriate; and
- completing a substantial training programme to provide employees from across the Northern Powergrid Group with enhanced customer service awareness and the tools and skills needed to handle power cut calls during periods of peak call demand.



## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Customer service (continued)**

The performance of the DNOs against guaranteed standards, which are set for activities such as restoring supplies after power cuts, provides a measure of the level of customer service. Performance against these measures forms part of the Company's regular reporting to Ofgem.

Ofgem's incentive scheme for quality of service, by which the DNOs are provided with financial incentives, is based upon targets set by Ofgem with regard to each DNO's performance in terms of the number of power cuts, the duration of those power cuts and customer satisfaction.

The Regulatory Year was the third year in which the Ofgem Discretionary Reward for stakeholder engagement had been in operation and the first year that a financial incentive had been available. Building on the good performance in its stakeholder engagement over the Regulatory Year, the Company put forward a submission for consideration by Ofgem's panel, which achieved a score of 78.5%. As a result, the Company, together with its affiliate Northern Powergrid (Northeast) Limited, was ranked as the third placed DNO group and secured a reward which totalled some £940,000 for the Northern Powergrid Group.

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 measures the average number of supply minutes lost for every connected customer due to power cuts and planned interruptions to the electricity supply that last for three minutes or longer. CI measures the average number of supply interruptions for every 100 connected customers due to power cuts and planned interruptions to the electricity supply that last for three minutes or longer.

Although confirmation of certain adjustments due to weather-related incidents is awaited, as at the date of the Regulatory Accounts the Company's reported performance for the Regulatory Year is as follows:

	Year to 31 March 2013		Year to 31 March 2012	
	Actual	Target	Actual	Target
<b>CML:</b>	<b>62.8</b>	<b>76.0</b>	65.0	76.0
<b>CI:</b>	<b>72.3</b>	<b>75.3</b>	69.3	75.3

In respect of these key customer service performance indicators, the goal is to achieve performance that is below the target number in respect of CML and CI. Consequently, the performance for the Regulatory Year was better than Ofgem's target in both categories. This performance did, however, contribute to the overall improvement in the customer service provided by the Company in the Regulatory Year. With the introduction of the Broad Measure of Customer Satisfaction with effect from 1 April 2012, an independent market research company, Accent, carries out telephone surveys with the Company's customers to find out how satisfied they are with the services provided. During the Regulatory Year, Accent surveyed a number of customers who had contacted the Company regarding an unplanned or a planned power cut, had requested a price quotation and a subsequent connection or had a general enquiry where a service had been provided or a job completed. As a result, the Company recorded an overall satisfaction score of 78.1% for the Regulatory Year. Work began during the Regulatory Year to develop the Company's customer service improvement plan, which includes a range of process and technology initiatives in order to integrate the Company's various customer facing processes more effectively, with the aim of improving the services provided to customers and so increasing the satisfaction rating year-on-year.

##### **Connections to the Network**

During the Regulatory Year, the Company continued to improve the connections services it provides, whilst also actively facilitating the development of competition from independent connections providers ("ICPs"), so providing choice to customers in the region.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Customer service (continued)**

##### **Connections to the Network (continued)**

As part of the DPCR5 final proposals, Ofgem put in place a Competition Test to encourage all of the DNOs to make it easier for ICPs to provide competing offers to customers. In October 2012, the Company and its affiliate, Northern Powergrid (Northeast) Limited, became the first DNOs to pass Ofgem's Competition Test in the largest connections market segment that relates mainly to new housing developments and accounts for around 60% of the value of the whole connections marketplace in the region.

Although the economic environment continued to reduce demand for traditional forms of new electricity network connections such as new housing and commercial developments, the proportion of requests for low carbon generation connections continued to strengthen, reflecting the national growth in renewable energy, with onshore wind technology being the most significant feature. The geography of the Company's distribution services area is attractive to wind farm developers and has led to a higher number of distributed generation connections than in most of the other DNOs in England.

The Company regularly seeks feedback from its customers in order to assist with developing further improvements to its service and, in that respect, its connections customers commented that the initiatives in 2012 were beneficial, including the continuation of the customer surgeries, greater collaboration with customers on a one-to-one basis and engagement with groups of customers through bodies such as the National Farmers Union. The new web-based services introduced in the Regulatory Year were very well received by the full range of the Company's connections customers, enabling them to see at a glance the likely costs and timescales for the size of connection they require. In addition, as a result of the feedback received as part of its stakeholder engagement exercise, the Company recognises the need to improve its connections services further and the planned initiatives include a more flexible quotation process, better payment terms and a more tailored service for customers with large projects.

##### **Corporate responsibility**

The Company values its relationship with its customers and other stakeholders and recognises the importance of maintaining a secure and safe power supply for its customers and their local communities. That commitment is underpinned by five customer promises, which are to put safety first, to respect the Company's customers, their time and property, to do a really good job, to be there when needed and to care for the local environment.

The Company aims to enhance its relationship with various stakeholders through direct engagement on the actions and investment planned to improve the performance of the network and on the environmental and social implications of its operations. The Company has in place a small donation programme, which is focused on its key priorities of support for youth, education and the environment and from which grants were made during the Regulatory Year to organisations such as charitable trusts and community groups.

In order to improve its response to emergency situations, the Company has developed key partnerships with the Environment Agency, the local authorities and the local resilience forums, via a Civil Contingency Co-ordinator, so that it can respond quickly to significant faults on or threats to the network. In the event that river levels rise and flood warnings are issued, staff can be deployed immediately to erect perimeter flood defences at major substation sites and portable defence barriers at lower risk sites. In addition, the Company has well-established emergency procedures that are triggered in times of weather-related incidents or long-duration power cuts when people are without power for some time.

As well as redeploying staff from planned works to help restore power as quickly as possible when major incidents occur, the Company dispatches customer service vehicles to the heart of areas affected. Those vehicles are able to distribute hot drinks and to microwave meals and generally assist with the welfare of customers in order to alleviate the impact of the incident. The Company also utilises 'customer ambassadors' and works with the Red Cross in order to pay particular attention to customers on the priority services register so that those customers are kept informed of the situation throughout the event and after the power has been restored.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Customer service (continued)**

##### **Corporate responsibility (continued)**

As safety is its first priority and underpins every aspect of its operations, the Company 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. This campaign and a school visits programme promoting safety messages are supported through an interactive website and mobile phone game. In addition, the Company supports a sports programme in partnership with England Athletics, which is delivered through local schools and combines important safety messages with the promotion of healthy lifestyles.

##### **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, £239.9 million 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 in order to improve the network's resilience by minimising the number of power cuts that occur. Reducing the average number of customers affected by a power cut and providing a quicker restoration service in the event of a power cut are key elements of the Company's operational strategy.

The Company's Field Operations structure is designed to provide the best possible foundation for optimum operational performance and is based on seven individual business units. Those business units are Health and Safety, Network Operations, which provides the day-to-day and reactive management of the network, Service Delivery, which has responsibility for the control and management of the direct labour force, Network Repairs, which focuses on core repair activities, Connections Delivery, which undertakes customer-driven work, Programme Delivery, which includes primary engineering projects and technical services, and Operational Services, which includes supply chain management and training services.

The Company's priorities during the Regulatory Year included delivery of a significant increase in its capital expenditure on the network in comparison to previous years, a further reduction in the average level of fault repair work in progress, continuation of the robust approach to the control of operations on the low voltage network and an increased focus on the restoration times associated with both high and low voltage power cuts. High voltage restoration performance saw on-going improvement through the Regulatory Year and averaged 57 minutes, after allowing for the impact of severe weather incidents.

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

- Completion of major asset replacement work in respect of a 132kV open terminal substation with indoor gas insulated switchgear in the Hull area, the replacement of the 66kV and 11kV assets (including transformers) at substations in Frickley and Ferrybridge and completion of the replacement of a 132kV circuit breaker at Bramham substation, the 33kV switchgear at Four Lane Ends, the 33kV transformers at Claywheels Lane and Horbury and a 66kV transformer at Kirk Sandall;
- Continuation of the replacement of a 132kV transformer at Halifax substation and the replacement of the 132kV circuit breakers at Wold Newton, the 66kV and 11kV assets (including transformers) at Wath, the 33kV and 11kV assets (including transformers) at Blackburn Valley, the 33kV switchgear at Osgodby and the 33kV transformers at Burton Road and Kirk Drive substations;
- Commencement of the replacement of the 66kV switchgear at Beighton and the construction of a new substation to reinforce the network in the Scunthorpe area;

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

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

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

- Completion of a number of projects across the Company's distribution services area that replaced 7km of 33kV fluid-filled cables and 3km of 33kV gas-filled cables;
- Completion of refurbishment works on 40km of 33kV and 66kV overhead line, the light refurbishment of 289km of 132kV overhead line and the refurbishment or rebuilding of 187km of high voltage overhead line and 140km of low voltage overhead line;
- Replacement of 60 units of high voltage outdoor switchgear, 75 high voltage distribution substations and 416 units of high voltage indoor switchgear;
- The upgrade and reinforcement of 27 sites to address the quality of supply performance issues relating to those circuits; and
- The installation and commissioning of 223 new remote control points on the network.

In order to deliver its investment strategy, the Company used a mix of its own staff and contractors to undertake its activities, including affiliated companies in the Northern Powergrid Group.

##### **Employee commitment**

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

The focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. There is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a comprehensive safety and health improvement plan, which reflects the Company's fundamental objective that none of its staff should go home injured and all employees should commit to behaving safely all of the time. The Company 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 intends to build incrementally on its existing strong safety record, remain a leading safety performer in the electricity distribution industry and ensure that safety considerations are always a part of its investment decisions and appraisals.

During the Regulatory Year, the Company received a President's Award from the Royal Society for the Prevention of Accidents for achieving eight consecutive Gold Awards, which had been presented in recognition of achievements in 2012 and for continued or improving standards of health and safety over a sustained period. The Company continued to maintain its occupational health and safety management system and retained its Occupational Health and Safety Assessment Series ("OHSAS") 18001 certification and environmental management system ISO 14001 certification.

The Northern Powergrid Group continued to implement a safety and health improvement plan that targets delivery of continuous improvement and, as part of that plan, carried out a cross-business operational assurance audit programme by senior managers during the Regulatory Year in order to reinforce the operational safety values. The Company also delivered operational seminars and stand down briefings to cascade information on safety trends and to launch a new method of site-specific risk assessment.

An extensive project was concluded during the Regulatory Year to research, design and produce innovative protective work wear clothing, which provides protection for the Company's employees against the effects of events such as electrical flashovers and was issued to staff during the first quarter of 2013. The Company has invested a substantial amount in this new clothing and believes that it is unique in the industry and will be a significant factor in reducing the risk to its employees.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

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

##### **Health and safety (continued)**

The Company measures its health and safety performance in calendar years and, in respect of the main key performance indicators used by the Company to monitor that performance, the goal is to achieve performance that is below the target number. Those key performance indicators are as follows:

	Year to December 2012		Year to December 2011	
	Target	Actual	Target	Actual
Lost time accidents	1	1	1	3
Restricted duty accidents	2	1	2	1
Medical treatment accidents	2	1	2	3
Operational incidents	4	7	4	8
Preventable vehicle accidents	13	20	13	18

The number of lost time accidents experienced by the Company reduced in comparison to 2011, with the Company meeting its internal target, and the long-term trend in the Company's overall safety performance continued to compare well with that of the industry.

Performance in respect of preventable vehicle accidents failed to achieve the target for 2012 and showed a slight decline compared with 2011. The Company continued to implement a robust road risk management plan, which involved electronic driving licence checking, refreshing the Company's expected standards of driving behaviour and using risk reduction tools such as the Institute of Advanced Motorists' online driver assessment and training module followed by an on-road refresher training session if required. The driver training programme provides practical driving training to a targeted population of drivers and is the primary route to improving driver skills in the longer term.

The sickness absence rate across the Northern Powergrid Group in 2012 was 2.55% (2011: 2.82%).

##### **Management structure**

Operational management of the Company and its affiliate, Northern Powergrid (Northeast) Limited, is undertaken by a single senior management team, with specific functional responsibilities. Those functional responsibilities are in respect of field operations (including health, safety and environment), asset management (including procurement), commercial (including customer operations and information technology) and regulation and strategy. The human resources and finance functions also provide services across the Northern Powergrid Group.

##### **Employees**

The Company continued to apply appropriate control to its headcount policy and to place significant emphasis on the importance and application of high standards of management and performance in support of the Core Principles. The Company ensures that a level of consistency is adopted in so doing and, in respect of employee relations, continued to work towards building constructive and partnered relationships with the trades unions. During the Regulatory Year, the Company finalised a long-term pay agreement with its professional and administrative staff, which means that consistent terms and conditions are now in place across the Northern Powergrid Group.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **BUSINESS REVIEW (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 Northern Powergrid Group recruited a total of 118 members of staff in 2012 and has a target to recruit an additional 75 in 2013 under its workforce renewal programme. During 2012, the first of the trainees recruited under the workforce renewal project graduated from their training programmes and formally commenced work as part of the Northern Powergrid Group's operations. Overall, plans are in place to have recruited a total of 275 graduate trainees, technical trainees and craft apprentices by the end of 2015.

The Company is committed to proper business conduct and, in common with MidAmerican Energy Holdings Company ("MidAmerican"), its parent company, 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. A "speaking up" policy is in place so that members of staff are able 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 employed 1,146 staff at the end of March 2013 (2012: 1,098)

###### **Disabled employees**

The Northern Powergrid Group is committed to equality at work and, as such, its policy is to provide all protected groups, including disabled people, with equality at work in respect of employment, training, career development and promotion, having regard to their aptitudes and abilities. Should any member of staff become disabled during their employment, the Company would work to retrain and/or redeploy that member of staff, wherever possible.

###### **Employee consultation**

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

The Northern Powergrid 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 President and Chief Executive Officer delivered quarterly broadcast briefings using telephone conference call facilities in order to provide employees with updates on the Northern Powergrid Group's financial, organisational, safety and customer service performance.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Environmental respect**

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

The Company has operated a United Kingdom Accreditation Service scheme for environmental management since the late 1990s, certified to the environmental management systems standard ISO 14001:2004. It is subject to regular six-monthly assessment visits and a three-yearly certificate renewal assessment by an accredited external certification body in order to retain that status.

The most recent visit was a six-monthly surveillance assessment carried out by Lloyd's Register Quality Assurance in March 2013. The assessment report drew management attention to only two minor non-conformances to be addressed by agreed proposed actions. The report also noted that continual improvement was demonstrated in relation to the modified non-conformance management process and in relation to the key commitments contained in the Company's well-justified business plan that was prepared as part of the RIIO-ED1 price control review process. The assessment report also noted that depot management had improved in relation to housekeeping and a good culture of environmental awareness was apparent amongst the personnel interviewed during the assessment. There were no major non-conformances noted and continued certification was recommended and subsequently confirmed.

Improvements in support of the Company's environmental policy objectives included replacing selected fluid-filled cable sections with non-fluid polymeric equivalents, replacing oil-filled circuit breakers with vacuum and sulphur hexafluoride gas filled units at outdoor substations to reduce the potential for oil leakage and installing underground cables using trenchless technology as opposed to open-cut excavations, where it was efficient and practicable to do so. In addition, the Company provides environmental awareness training for new personnel and contractors and periodic refresher training for all staff.

The environmental impact on protected structures, features, areas, wildlife and habitat is a central consideration when planning improvements to the distribution network. This includes protecting bird life by placing bird-diverters on power lines where they are in proximity to reserves, wetlands, flight paths or in locations where rare species of bird are known to live or breed and also in response to information obtained from incident trends.

##### **Sustainability**

The Company takes its responsibilities in respect of its contribution to reducing the impact of global warming seriously, both in its capacity as a major participant in the United Kingdom energy industry and in terms of its own carbon footprint. The Company is contributing to the target of reducing the carbon emissions of the United Kingdom economy by working with customers to assist in solving issues raised by the introduction of low-carbon generation and technologies and their implications for the planning and operation of the distribution network. The Company is also actively involved in low-carbon interest groups, both regionally and nationally, and has frequent contact on these matters with government and regulators.

The Northern Powergrid Group measures and publishes details of its own carbon footprint and, between 2009 and 2012, reduced its carbon footprint by 12%. The Northern Powergrid Group has set a target to reduce its carbon footprint further by over 3% in the calendar year 2013 and has a policy of fitting speed limiters wherever feasible to the vehicle fleet and recycles office waste at all major office sites. In line with Ofgem's requirements, the Company has contributed to the sustainability agenda through public reporting on its carbon footprint. The Company also holds certification under CEMARS (the Certified Emissions Measurement and Reduction Scheme) that its measurement of its greenhouse gas emissions was in compliance with ISO 14064.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

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

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

The number of installations by customers of low-carbon technologies such as photovoltaic solar panels and heat pumps continued to increase during the Regulatory Year and the Company continued to work with customers and installers to facilitate the process of connecting this technology to the electricity network. As the emphasis on reducing carbon emissions continues, the Company will adapt its approach by increasing the use of new technology to allow the connection of additional capacity to the network without the need to add as much traditional equipment as is currently the case. In addition, the Northern Powergrid Group's Customer-Led Network Revolution project continues to consider how novel network technology and changes in customers' energy usage may lead to the speedier and lower cost connection of low-carbon technologies to the distribution network.

By the end of the Regulatory Year, more than 10,000 customers were participating in the trials and much of the network technology had been installed. Initial results from the monitoring of customers' load profiles, including the impact of time-of-use tariffs, and from industrial and commercial trials of demand side management were published in April 2013 and the testing phase of the project is due to continue throughout 2013.

##### **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 Governance and Risk Management Group ("GRMG") monitored and managed performance in risk-related and compliance areas and met on three 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 1,700 regulatory obligations contained within the compliance database is currently assigned to around 60 responsible managers.

Those responsible managers are required, on a quarterly basis, to review compliance with the relevant obligations that have been assigned to them for certification and report on any perceived risks to the compliance process, which are then addressed. The Regulation Manager reports to the board on the outcome of each quarter's exercise.

A revenue-related issue arose during 2010 in that the adjustment of settlements data by certain suppliers had the effect of distorting the apparent performance of the Company under the losses incentive scheme for the regulatory year ended 31 March 2010. Throughout the Regulatory Year, the Company continued to engage with Ofgem and other industry participants to resolve the complex issues surrounding the losses incentive arrangements for both the current and previous price control periods. At the time of finalising the Regulatory Accounts, Ofgem has taken a decision to remove the DPCR5 losses incentive and is continuing to work towards a potential resolution to the issues associated with the Distribution Price Control Review 4 period losses incentive. The Company expects to reach a final conclusion to this issue with Ofgem during 2013. In accordance with International Financial Reporting Standards, the Company has not included any recognition of this issue in these Regulatory Accounts.

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation, price controls will be set for eight years (rather than five as at present), with provision for a mid-period review of the outputs that network companies are required to deliver. The first price control review in electricity distribution under the RIIO framework (known as RIIO-ED1) was triggered by Ofgem in the first quarter of 2012. During the course of the Regulatory Year, Ofgem developed its price control policies and the Company prepared its well-justified business plan, which was then finalised and submitted for Ofgem's consideration on 28 June 2013. On conclusion of the process, the Company's revenues will be set for the period from 2015 to 2023.



## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Regulatory integrity (continued)**

During the Regulatory Year, at Ofgem's request, the Company joined with the other DNOs in developing and trialling more formalised arrangements for assuring the accuracy of information returns submitted to Ofgem. This exercise has involved the development of risk-assessment matrices and the preparation and submission to Ofgem of risk-based data-assurance plans, which will be followed by the submission of reports detailing the assurance work actually carried out and the findings of that work. This new regime will continue to be trialled by all DNOs until April 2015 when it is expected to be incorporated into the licences for the next price control period.

#### **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 experienced historically. The principal risks are outlined as follows:

##### **Financial risk**

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 the distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year but sets a maximum permitted revenue for each regulatory year and is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. Where the Company recovers more, or less, than this maximum, the difference is carried forward, with interest, into the entitlement for the following year.

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. A resetting of the formula can now be made by GEMA without the consent of the electricity distribution licence holder but, if a licensee wishes to appeal such a modification, the licensee may insist that the matter is referred to the Competition Commission for it to determine whether the modification should be made. Certain other interested parties have the same right.

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. However, the next price control will be set for eight years. During the term of the current price control, changes in costs incurred will have a direct impact on the Company's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

Ofgem recognises that defined benefit pension schemes and, particularly, the current deficit positions of various schemes, represent a significant cost to the DNOs and, in its DPCR5 final proposals, confirmed that DNOs would be allowed to recover the actuarial value of the deficits attributable to a licensee's distribution business in existence as at 31 March 2010 via its regulated revenues (after an adjustment to reflect the residual of unfunded early retirement deficiency costs as at 31 March 2010). However, given the stable and regulated nature of the DNOs' businesses, Ofgem took the view that a notional repair period of 15 years was appropriate for the purpose of assessing the DNOs' allowed revenues in respect of pension costs over the DPCR5 period.

The other financial risks facing the Company are outlined in the Treasury section on page 5 of this report.

##### **Operational risk**

There are a number of risks to the Company's operational performance in respect of which mitigating actions have been taken. Appropriate credit cover arrangements are in place with the electricity suppliers, which would allow recovery of defaulted payments through the price control mechanism, and a robust major incident management plan is implemented whenever severe weather impacts on the distribution network's performance.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

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

Metal theft continued to be a significant issue for the Company during the Regulatory Year with the activities of metal thieves causing power cuts on various occasions, which affected a large number of customers in aggregate. In response, the Company maintained its programme of risk-assessed and enhanced security measures at its sites and pursued awareness raising activity at a national and local level, which contributed to a change in the law such that a new criminal offence was created prohibiting scrap metal dealers from paying for scrap metal in cash.

##### **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 focused on ensuring that its policies for credit checking, payment terms, payment performance tracking and debt management were strictly adhered to.

The Company's relationship with its main customers is governed by a distribution connection and use of system agreement ("DCUSA"), which is in 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 Company's network are RWE Npower, British Gas, EdF Energy, E.on, Scottish and Southern Energy and Scottish Power.

The Company operates its business utilising a mix of direct labour and contracted resource and has a range of contracts in place with various service providers for delivery of its work programmes, which are subject to regular market testing and tendering exercises. Those services include vegetation management, overhead line inspection and construction, substation construction and maintenance, underground cable laying services, vehicle leasing and servicing, tower painting and information technology services. The Company also has an extensive suite of contracts in place for the procurement of all of the goods and equipment it requires to deliver its capital expenditure programme and to run its business, including for varying types of transformers, switchgear and cables.

##### **Risk Management**

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach. 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. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

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 are 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 Northern Powergrid 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 risk management programme includes regular review of the crisis management, disaster recovery and major incident plans, which are periodically tested, the sharing of best practice on disaster preparedness and response, penetration tests against firewall systems and disaster recovery tests of IT servers and priority processes and a peer review of the Northern Powergrid Group's risk management systems by MidAmerican.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

##### **Risk Management (continued)**

Risk management continues to be a central theme of senior management priority setting as well as an explicit business process that helps to stimulate the senior leadership's consciousness of lower probability, high consequence threats to business success or continuity. This approach is reinforced by that of the wider MidAmerican group, whose activities have continued to include a structured benchmarking of risk management activities across its business units, including the sharing of significant lessons learned associated with risk management.

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Executive Officer confirming that the effectiveness of the system of internal controls has been reviewed during the Regulatory 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 Northern Powergrid 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 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 United States Sarbanes-Oxley Act.

A review is undertaken of the company-wide controls in place on a regular basis and, while no significant areas of weakness have been identified, any recommended improvements are implemented, subject to cost/benefit and commercial analysis. In addition, the Northern Powergrid Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals and has a strong internal audit function to provide independent scrutiny of its internal control systems. The Northern Powergrid Group has risk management procedures in place, including the standards required by the United States Sarbanes-Oxley Act, and has centralised treasury operations and established procedures for the planning, approving and monitoring of major capital expenditure.

The Northern Powergrid Group is committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of directors has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The Northern Powergrid Group's compliance policy was reviewed during the Regulatory Year and refresher training provided to a significant number of employees. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via the international, anonymous help line mentioned in the employee section.

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.

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

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

During the Regulatory Year, the Company continued working, in partnership with British Gas, Durham University and EA Technology, on a three-year project under Ofgem's Low Carbon Networks Fund, known as the Customer-Led Network Revolution. This was the largest project supported by Ofgem in the first year of the fund and the Northern Powergrid Group will incur expenditure of £31.0 million over the three-year life of the project. Of that expenditure, 90% is funded by electricity customers in Great Britain.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **Research and development (continued)**

Successful delivery of the project over the three years agreed with Ofgem will enable recovery of the additional 10% from customers and potentially qualify for a further discretionary award. The project is assessing the potential for new network technology and flexible customer response to facilitate speedier and more economical take-up by customers of low-carbon technologies and the connection to the distribution network of increasing amounts of low-carbon or renewable energy generation. The second year of the project has seen the trialling of equipment and operational techniques to allow the efficient application of low carbon technologies to the network. All the key project milestones for the year were met and the project remains on track to deliver learning that is relevant, timely and valuable.

The Company also supports a programme of research that is expected to contribute to higher standards of performance and a more cost-effective operation of its business. That programme includes building on the previously successful field trials of newly developed superconducting fault limiters to provide alternatives to traditional engineering solutions for network constraints, the first device having gone live on the network during 2012.

Other work includes the application of network risk methodologies to a range of business processes allowing better planning and execution of a variety of activities to improve efficiency and effectiveness and a continuing programme to develop and improve further condition-based reliability models of the Company's key assets.

During the Regulatory Year, the Company invested £5.5m (2012: £5.6m) (Note 5 to the Regulatory Accounts) in its research and development activities. The increase in expenditure in comparison to 2012 was mainly due to additional costs incurred in delivering the Customer-Led Network Revolution project noted above.

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

During the Regulatory Year, charitable donations of £29,539 were made (2012: £30,308), principally to local charities serving the communities in which the Company operates. No contributions were made to political organisations (2012: £nil).

#### **Company's policy on payment of creditors**

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 2013 was 23 (2012: 17).

#### **Future Developments**

The financial position of the Company, as at 31 March 2013, is shown in the statement of financial position on page 29.

During the Regulatory Year, the Northern Powergrid Group published its view of the future for the Company and its affiliate, Northern Powergrid (Northeast) Limited, in a document entitled "Your Powergrid". That document and the Company's well-justified business plan set out what are considered to be the priorities for and the outputs the Company intends to deliver during the next price control period, which will last for the eight years until March 2023. Those priorities include the Northern Powergrid Group's plans for investment and where in the asset base that investment is likely to take place, how the Company intends to deliver service improvements in a cost-effective way and how the Company plans to approach adapting its network to support the move towards a low-carbon economy. Building on those plans, the directors intend to continue to develop the Company's business in a manner that concentrates on its core activity of electricity distribution by continuing to operate 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.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

#### **Directors**

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

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

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.

#### **Corporate Governance Statement**

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.

The Company, therefore, provides the following statement by reference to the principles in the June 2010 edition of the UK Corporate Governance Code (the "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 main principles of the Code. The Company has not complied with certain of the main principles of the Code, including main principles A2, A3, B2, B6, B7, C3, D1, D2 and E2. 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 Chairman 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 United States Sarbanes-Oxley Act.

The Code includes the "comply or explain" approach and the directors are of the opinion that, in the instances where the Company does not comply with certain provisions of the 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 Northern Powergrid Group is agreed with MidAmerican.

#### **Section A: Leadership**

##### **Principle A1: The Role of the Board**

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 include general business performance, internal control and key business activities.

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

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section A: Leadership (continued)**

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

The board meets quarterly and as required to consider relevant issues and met on eight occasions in total during the Regulatory Year, with the attendance of the directors being as follows:

J P Barnett	Commercial Director	7
R Dixon	Non-Executive Director	8
T E Fielden	Finance Director	8
J M France	Regulation Director	7
N M Gill	Field Operations Director	5
P A Jones	President and Chief Executive Officer	8

The directors have overall responsibility for the internal control environment, which, within the Northern Powergrid 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 United States Sarbanes-Oxley Act. A review is undertaken of the company-wide controls in place on a regular basis and, while not identifying any areas of significant weakness, the most recent review resulted in the implementation of various recommended improvements. The key features of the Company's internal control system and the issues addressed by the Company during the Regulatory Year can be found 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 Northern Powergrid Group and, therefore, Company policy. As part of the approved terms of reference, certain of those committees report regularly to the board on their activities and are as follows:

##### **Health and Safety Management Committee**

The board of Northern Powergrid Holdings Company has established the Northern Powergrid Group Health and Safety Management Committee with delegated powers to manage the health and safety policy and performance of the Northern Powergrid 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 Executive Officer
A J Maclellan	Managing Director, Integrated Utility Services Limited (an affiliated company)
G M Earl	Head of Health, Safety and Environment

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

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section A: Leadership (continued)**

###### **Treasury Committee**

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

G E Abel	Chairman, MidAmerican
P Ainsley	Financial Controller
D Brady	Treasurer
T E Fielden	Finance Director
P J Goodman	Executive Vice President and Chief Financial Officer, MidAmerican
P A Jones	President and Chief Executive Officer
M Flint	Corporate Accountant and Secretary to the Committee
O Sutherland	Investor Reporting Manager

###### **Pensions Committee**

The Pensions Committee oversees the Northern Powergrid 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 Tweedie	Head of Field Change

###### **Governance and Risk Management Group**

The GRMG is the principal management forum in the Northern Powergrid Group with regard to corporate governance. Its purpose is to ensure that companies in the Northern Powergrid Group apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee. The GRMG comprises:

P Ainsley	Financial Controller
D Anderson	Head of Internal Audit
J P Barnett	Commercial Director
R Dixon	Non-Executive Director
M Drye	Director of Asset Management
G Earl	Head of Safety, Health and Environment
J Elliott	Company Secretary
T E Fielden	Finance Director
J M France	Regulation Director
N M Gill	Field Operations Director
A J Maclellan	Managing Director, Integrated Utility Services Limited (an affiliated company)
A Patterson	Director of Human Resources

The risk management framework was monitored regularly during the 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 GRMG to provide an independent view in respect of the matters discussed.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section A: Leadership (continued)**

##### **Governance and Risk Management Group (continued)**

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

As explained in respect of main principles B2 and D1, the Company does not have either a remuneration committee or a nomination committee.

##### **Main Principle A2: Division of Responsibility**

Mr G E Abel, the Chairman of MidAmerican, is also Chairman of Northern Powergrid Holdings Company. As President and Chief Executive Officer, Dr Jones is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

##### **Main Principle A3: The Chairman**

Dr Jones chairs board meetings and is responsible for the operation and management of both the Company and the Northern Powergrid Group and reports directly to Mr Abel.

##### **Main Principle A4: Non-Executive Directors**

Mr Dixon was the Company's sole independent non-executive director during the Regulatory Year and acts under agreed terms of reference.

##### **Section B: Effectiveness**

##### **Main Principle B1: The composition of the board**

The board comprises five executive directors and Mr Dixon, an independent 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 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.

##### **Main Principle B2: 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 Executive Officer.

##### **Main Principle B3: Commitment**

The Company's non-executive director commits sufficient time to preparation for and attendance at board meetings, although his terms of reference do not quantify the time commitment required.

##### **Main Principle B4: Development**

The directors continually update their knowledge of and familiarity with the operations of the Company due to the robust reporting arrangements in place and have on-going access to the Company's operations and its staff.



## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section B: Effectiveness (continued)**

###### **Main Principle B5: Information and support**

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 are also able to 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. 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.

###### **Main Principle B6: Evaluation**

As part of their approved terms of reference, certain 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 Northern Powergrid Group is subject to a formal annual appraisal of performance against his individual and MidAmerican's goals.

###### **Main Principle B7: Re-election**

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

##### **Section C: Accountability**

###### **Main Principle C1: Financial and business 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 2, the Core Principles behind the Company's strategy and, at pages 25 and 26, their responsibility for preparing the report and accounts, have reported, at page 25 in the directors' report, that the Company is a going concern and included the independent auditor's report to the Company at pages 27 and 28 of the Regulatory Accounts.

###### **Main Principle C2: Risk management and internal control**

Details of the principal risks and uncertainties facing the Company and its internal control system, together with details of the issues addressed by the Company during the Regulatory Year, can be found at pages 14 to 17 of the directors' report.

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, which provides independent scrutiny of internal control systems and risk management procedures, including the standards required by the United States 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;

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section C: Accountability (continued)**

- Processes and procedures to operate under OHSAS 18001, which is subject to external certification and regular assessment;
- An external obligations register, which assists with 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.

##### **Main Principle C3: Audit committee and auditor**

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid 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.

The Audit Committee comprises one member who is independent and one member who has competence in accounting and receives annual reports from the GRMG and from the Northern Powergrid 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. The Audit Committee comprises:

R Dixon	Non-Executive Director
T E Fielden	Finance Director

Details of the fees paid by the Company to Deloitte LLP in relation to non-audit services during the Regulatory Year are provided in Note 5 to the Regulatory Accounts.

The employee section on page 11 of the directors' report contains details of the Company's "speaking up" policy.

##### **Section D: Remuneration**

##### **Main Principle D1: The level and components of remuneration**

The Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. As the Company has no equity securities listed on the London Stock Exchange, it is not required to make directors' remuneration disclosures, other than those required for private companies.

##### **Main Principle D2: Procedure**

As noted under main principle D1, the Company does not have a remuneration committee. Annual remuneration awards for the senior management of the Northern Powergrid Group are subject to the performance appraisal and development scheme process and consideration by the Chairman of MidAmerican and the President and Chief Executive Officer. No director is involved in deciding his own remuneration.

## **NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

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

##### **Section E: Relations with shareholders**

##### **Main Principle E1: Dialogue with Shareholders**

As a wholly-owned subsidiary of a privately held group of companies, the board is in continuing dialogue with MidAmerican.

##### **Main Principle E2: Constructive use of the AGM**

This section of the 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.

##### **Going Concern**

The Company's business activities, together with details regarding its future development, performance and position are set out in the directors' report. 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 Regulatory Accounts.

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

- 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;
- The Company is profitable with strong underlying cash flows and holds investment grade credit ratings; and
- The Company is financed by long-term borrowings with an average maturity of 14 years and has access to borrowing facilities provided by Lloyds TSB Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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"). These Regulatory Accounts have been prepared on a consistent basis with those for the regulatory year ended 31 March 2012.

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.

**NORTHERN POWERGRID (YORKSHIRE) PLC**

**REGISTERED NUMBER 4112320**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013 (CONTINUED)**

**Responsibility of the directors for the preparation of the Regulatory Accounts (continued)**

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;
- 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 Company's financial position and financial performance: and
- Make an assessment of the Company's ability to continue as a going concern.

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's 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 auditor is 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 auditor is aware of that information.

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

**Auditor**

A resolution to re-appoint Deloitte LLP as the Company's auditor and authorise the directors to determine their remuneration was passed at the Annual General Meeting in 2013.

By order of the board



John Elliott  
Company Secretary  
16 July 2013

## **INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN POWERGRID (YORKSHIRE) PLC ("THE COMPANY")**

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2013 on pages 29 to 56 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Cash Flow Statement and the related notes numbered 1 to 26. 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). 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 auditor**

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 pages 25 and 26.

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 32 to 37, 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.

### **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.

**INDEPENDENT AUDITOR'S REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ("THE REGULATOR") AND NORTHERN POWERGRID (YORKSHIRE) PLC ("THE COMPANY") (continued)**

**Basis of opinion (continued)**

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 the 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 21 March 2013, which are prepared for a different purpose. Our audit report in relation to the Statutory Accounts (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 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, 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 of the Company present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 32 to 37, the financial position of the Company as at 31 March 2013 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*

**Deloitte LLP**  
Chartered Accountants and Registered Auditor  
Newcastle upon Tyne

23 July 2013

**NORTHERN POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

**INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2013**

	Notes	2013 £m	2012 £m
Revenue	3	382.7	369.0
Cost of sales		<u>(14.2)</u>	<u>(12.5)</u>
<b>Gross profit</b>		368.5	356.5
Distribution costs		(120.9)	(110.1)
Administrative expenses		<u>(49.7)</u>	<u>(49.8)</u>
<b>Operating profit</b>	5	197.9	196.6
Profit on disposal of property, plant and equipment		0.4	0.2
Investment income		0.1	-
Finance costs	4	<u>(40.7)</u>	<u>(40.3)</u>
<b>Profit before tax</b>		157.7	156.5
Income tax expense	9	<u>(22.3)</u>	<u>(26.4)</u>
<b>Profit for the financial year</b>		<u>135.4</u>	<u>130.1</u>

All activities relate to continuing operations.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2013**

There has been no other income or expense 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 2013**

	Share Capital £m	Retained Earnings £m	Total Equity £m
At 1 April 2011	290.0	341.9	631.9
Comprehensive income for the year	-	130.1	130.1
Dividends paid	<u>-</u>	<u>(40.0)</u>	<u>(40.0)</u>
At 1 April 2012	290.0	432.0	722.0
Comprehensive income for the year	-	135.4	135.4
Dividends paid	<u>-</u>	<u>(40.0)</u>	<u>(40.0)</u>
At 31 March 2013	<u>290.0</u>	<u>527.4</u>	<u>817.4</u>

**NORTHERN POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2013**

	Notes	2013	2012
		£m	£m
<b>Non-current assets</b>			
Property, plant and equipment	11	2,418.1	2,252.4
Intangibles	12	1.0	2.2
		<u>2,419.1</u>	<u>2,254.6</u>
<b>Current assets</b>			
Inventories	14	0.6	0.6
Trade and other receivables	15	60.5	59.6
Cash and cash equivalents		9.7	-
		<u>70.8</u>	<u>60.2</u>
<b>Total assets</b>		<u>2,489.9</u>	<u>2,314.8</u>
<b>Current liabilities</b>			
Trade and other payables	16	(77.8)	(74.6)
Current income tax liabilities	16	(27.1)	(26.0)
Deferred revenue	19	(20.9)	(19.3)
Borrowings	17	(22.3)	(52.2)
Provisions	20	(1.6)	(1.4)
		<u>(149.7)</u>	<u>(173.5)</u>
<b>Net current liabilities</b>		<u>(78.9)</u>	<u>(113.6)</u>
<b>Non-current liabilities</b>			
Borrowings	17	(693.7)	(600.7)
Deferred income tax liabilities	18	(170.5)	(183.5)
Deferred revenue	19	(657.9)	(634.4)
Provisions	20	(0.7)	(0.7)
		<u>(1,522.8)</u>	<u>(1,419.3)</u>
<b>Total liabilities</b>		<u>(1,672.5)</u>	<u>(1,592.8)</u>
<b>Net assets</b>		<u>817.4</u>	<u>722.0</u>
<b>Equity</b>			
Share capital	21	290.0	290.0
Retained earnings		527.4	432.0
<b>Total equity</b>		<u>817.4</u>	<u>722.0</u>

The financial statements were approved by the board of directors and authorised for issue on 16 July 2013 and were signed on its behalf by:



T E Fielden  
Director



**NORTHERN POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013**

	Notes	2013 £m	2012 £m
<b>Net cash from operating activities</b>	22	<u>177.9</u>	<u>160.2</u>
<b>Investing activities</b>			
Proceeds from disposal of property, plant and equipment		0.4	0.2
Purchases of property, plant and equipment		(232.8)	(175.6)
Receipt of customer contributions		<u>45.1</u>	<u>51.4</u>
<b>Net cash used in investing activities</b>		<u>(187.3)</u>	<u>(124.0)</u>
<b>Financing activities</b>			
Equity dividends paid		(40.0)	(40.0)
Movement in external loans		125.9	22.0
Movement in loans from Group undertaking		<u>(66.8)</u>	<u>(18.2)</u>
<b>Net cash generated by/(used in) financing activities</b>		<u>19.1</u>	<u>(36.2)</u>
<b>Net movement in cash and cash equivalents</b>		9.7	-
<b>Cash and cash equivalents at beginning of year</b>		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>		<u>9.7</u>	<u>-</u>

# **NORTHERN POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

## **NOTES TO THE ACCOUNTS - 31 MARCH 2013**

### **1 GENERAL INFORMATION**

Northern Powergrid (Yorkshire) plc 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.

#### **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 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 25.

#### **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 POWERGRID (YORKSHIRE) plc**

**REGISTERED NUMBER 4112320**

**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**Adoption of new or revised standards**

In the Regulatory 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:

**IFRS 7 Financial Instruments: Disclosure**

The amendments to IFRS 7 clarify the required level of disclosure around credit risk and encourage qualitative disclosures to help users to form an overall picture of the nature and extent of risks arising from financial instruments. This change has not led to any change in the disclosures contained within these financial statements.

**IAS 1 Presentation of Financial Statements**

The amendments to IAS 1 clarify that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements. This amendment has not impacted these financial statements.

The followings standards were in endorsed in June 2012 but were not effective in the current year.

**IAS 1 Amendments – Presentation of items of other comprehensive income**

Further amendments to IAS 1 clarify the required format of the statement of comprehensive income. This amendment is effective for periods beginning on or after 1 July 2012 and will have no impact on the financial statements.

**IAS 19 Employee Benefits**

The amendments to IAS 19 require enhanced disclosures about defined benefit pension plans and modified accounting for defined benefit termination charges. There is also a requirement for the immediate recognition of changes in defined benefit plan liabilities/assets, including immediate recognition of defined benefit costs, disaggregation of defined benefit costs into components, recognition of re-measurements in other comprehensive income, plan amendments and settlements.

This amendment is effective for periods beginning on or after 1 January 2013 and will not have a material impact on the financial statements, since the Company accounts for its costs in relation to its defined benefit pension scheme as if it were a defined contribution scheme (see note 23).

**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.

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.

**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**Revenue (continued)**

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 POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (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
Distributed generation.....	15 years
Metering equipment included in distribution system assets.....	up to 4 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 15 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.

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 15 years.

**Investments**

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

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**2 ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

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

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.

**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (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 Powergrid Group of the Electricity Supply Pension Scheme ("the Northern Powergrid Group of the ESPS"). The Northern Powergrid 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 Powergrid Group of the ESPS as if it were a defined contribution scheme. Contributions to the Northern Powergrid 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 the Northern Powergrid Pension Scheme ("NPPS") and contributes to the Yorkshire Electricity Pension Plan ("YEPP"), which are defined contribution schemes. Contributions payable to the defined contribution schemes 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.

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**3 REVENUE**

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 Executive Officer of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") to allocate resources to these segments and to assess their performance.

In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company and Northern Powergrid (Northeast) Limited, another distribution network operator in the Northern Powergrid Group, suggesting that no segmental reporting is required. Therefore, the adoption of IFRS 8 does not impact these financial statements.

Revenue is all in respect of sales to United Kingdom customers.

In accordance with the Company's distribution licence, the Company must publish certain segmental information in the Regulatory Accounts, as follows:

	Distribution 2012/13 £m	Distributed Generation 2012/13 £m	Excluded Services 2012/13 £m	Metering 2012/13 £m	De Minimis 2012/13 £m	Total 2012/13 £m
<b>INCOME STATEMENT</b>						
Sales	365.2	(1.2)	3.3	6.4	9.0	382.7
Cost of sales	(12.7)	-	(1.0)	-	(0.5)	(14.2)
Gross profit	352.5	(1.2)	2.3	6.4	8.5	368.5
Distribution costs	(111.8)	(1.3)	(0.3)	(7.5)	-	(120.9)
Administration costs	(41.7)	-	(0.6)	-	(7.4)	(49.7)
Operating profit/(loss)	199.0	(2.5)	1.4	(1.1)	1.1	197.9
<b>OTHER INFORMATION</b>						
Capital tangible additions	197.3	19.1	25.1	0.9	-	242.4
	Distribution 2011/12 £m	Distributed Generation 2011/12 £m	Excluded Services 2011/12 £m	Metering 2011/12 £m	De Minimis 2011/12 £m	Total 2011/12 £m
<b>INCOME STATEMENT</b>						
Sales	350.7	(1.5)	2.9	6.1	10.8	369.0
Cost of sales	(11.1)	-	(1.0)	-	(0.4)	(12.5)
Gross profit	339.6	(1.5)	1.9	6.1	10.4	356.5
Distribution costs	(101.7)	(0.6)	(0.3)	(7.5)	-	(110.1)
Administration costs	(39.8)	-	(0.4)	(0.3)	(9.3)	(49.8)
Operating profit/(loss)	198.1	(2.1)	1.2	(1.7)	1.1	196.6
<b>OTHER INFORMATION</b>						
Capital tangible additions	156.4	6.4	24.8	0.1	-	187.7



**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**4 FINANCE COSTS**

	2013 £m	2012 £m
Interest payable on loans from Group undertakings	1.0	4.2
Interest payable on other loans	<u>41.6</u>	<u>36.4</u>
Total interest expense	42.6	40.6
Amounts included in the cost of qualifying assets	<u>(1.9)</u>	<u>(0.3)</u>
Total finance costs	<u>40.7</u>	<u>40.3</u>

**5 OPERATING PROFIT**

	2013 £m	2012 £m
This is stated after charging/(crediting):		
Staff costs (Note 6)	27.5	25.0
Research costs	5.5	5.6
Depreciation of property, plant and equipment	76.7	72.0
Amortisation of deferred revenue	(19.2)	(18.0)
Amortisation of intangibles	1.2	1.5
Impairment loss on trade and other receivables	<u>-</u>	<u>-</u>
Analysis of auditor's remuneration is as follows:	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	65	50
Other services supplied pursuant to legislation	<u>38</u>	<u>45</u>

Other services supplied pursuant to legislation relate to regulatory reporting in line with Ofgem's requirements.

**6 STAFF COSTS**

	2013 £m	2012 £m
Salaries	49.8	46.6
Social security costs	4.9	4.3
Defined contribution pension costs	17.1	16.7
Defined benefit pension costs	<u>1.0</u>	<u>0.7</u>
	72.8	68.3
Less charged to property, plant and equipment	<u>(45.3)</u>	<u>(43.3)</u>
	<u>27.5</u>	<u>25.0</u>

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

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**7 STAFF COSTS (CONTINUED)**

The average monthly number of employees during the year was:

	2013 No.	2012 No.
Technical	316	282
Industrial	603	612
Administration	106	117
Other	106	99
	<u>1,131</u>	<u>1,110</u>

**8 DIRECTORS' & KEY PERSONNEL REMUNERATION**

**DIRECTORS' REMUNERATION**

	2013 £	2012 £
<u>Highest Paid</u>		
Short-term employee benefits	178,207	158,676
Post-employment benefits	24,901	23,240
Other long-term benefits	242,468	176,136
	<u>445,576</u>	<u>358,052</u>

Total

Short-term employee benefits	493,439	410,433
Post-employment benefits	84,663	89,649
Other long-term benefits	561,004	387,018
	<u>1,139,106</u>	<u>887,100</u>

Directors who are members of the defined benefit scheme

<u>4</u>	<u>3</u>
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Accrued pension benefit relating to highest paid director

<u>-</u>	<u>-</u>
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**OTHER KEY PERSONNEL REMUNERATION**

	2013 £	2012 £
<u>Total</u>		
Short-term employee benefits	195,510	248,695
Post-employment benefits	47,380	72,939
Other long-term benefits	86,265	120,069
	<u>329,155</u>	<u>441,703</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 Northern Powergrid Group, of which the Company is a subsidiary. The figures above represent the share of the costs borne by the Company.

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**NOTES TO THE ACCOUNTS - 31 MARCH 2012 (CONTINUED)**

**9 INCOME TAX EXPENSE**

	2013	2012
	£m	£m
Tax expense comprises:		
Current tax expense:		
Corporation tax charge for the year	39.2	42.0
(Over)/under provision for prior years	<u>(3.8)</u>	<u>1.8</u>
Total current tax charge	35.4	43.8
Deferred tax:		
Deferred tax income relating to the origination and reversal of temporary differences	(5.7)	(2.1)
Effect of changes in legislation	<u>(7.4)</u>	<u>(15.3)</u>
Total deferred tax credit	<u>(13.1)</u>	<u>(17.4)</u>
Tax on profit before tax	<u>22.3</u>	<u>26.4</u>
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	<u>157.7</u>	<u>156.5</u>
Tax on profit before tax at standard rate of corporation tax in United Kingdom of 24% (2012: 26%)	37.9	40.7
Release of deferred tax provision in relation to temporary differences	(6.2)	-
Effect of changes in tax rate	(7.4)	(15.0)
Disallowable expenditure	0.8	0.7
Over provision for prior years	<u>(2.8)</u>	<u>-</u>
Tax on profit before tax	<u>22.3</u>	<u>26.4</u>

The Finance Act 2012 included a provision that the standard rate of corporation tax in the United Kingdom would reduce from 24% to 23% from April 2013. This was substantively enacted on 3 July 2012. Accordingly, this rate has been applied when calculating deferred tax assets and liabilities as at 31 March 2013. The Finance Bill 2013 includes a provision for a 2% reduction from April 2014 and a further 1% reduction from 1 April 2015, but this Bill will not be substantively enacted until July 2013 and, therefore, has not impacted these financial statements.

**10 DIVIDENDS**

	2013	2012	2013	2012
	Pence per share	Pence per share	£m	£m
Dividend paid	<u>13.79</u>	<u>13.79</u>	<u>40.0</u>	<u>40.0</u>

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NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT

	Distribution system £m	Non- operational land & buildings £m	Fixtures and equipment £m	Total £m
<b>COST</b>				
At 1 April 2011	2,561.1	3.8	15.1	2,580.0
Additions	187.2	0.6	(0.1)	187.7
Disposals	(6.0)	-	(0.5)	(6.5)
At 1 April 2012	2,742.3	4.4	14.5	2,761.2
Additions	239.9	-	2.5	242.4
Disposals	(6.9)	-	-	(6.9)
At 31 March 2013	2,975.3	4.4	17.0	2,996.7
<b>ACCUMULATED DEPRECIATION</b>				
At 1 April 2011	431.4	1.3	10.6	443.3
Charge for the year	69.9	0.2	1.9	72.0
Disposals	(6.0)	-	(0.5)	(6.5)
At 1 April 2012	495.3	1.5	12.0	508.8
Charge for the year	74.4	0.2	2.1	76.7
Disposals	(6.9)	-	-	(6.9)
At 31 March 2013	562.8	1.7	14.1	578.6
Net book value at 31 March 2013	2,412.5	2.7	2.9	2,418.1
Net book value at 1 April 2012	2,247.0	2.9	2.5	2,252.4
 Assets in the course of construction included above:				
	Distribution system £m	Non- operational land & buildings £m	Fixtures and equipment £m	Total £m
At 1 April 2011	77.2	-	-	77.2
Additions	184.1	-	-	184.1
Available for use	(146.2)	-	-	(146.2)
At 1 April 2012	115.1	-	-	115.1
Additions	239.3	-	-	239.3
Available for use	(198.7)	-	-	(198.7)
At 31 March 2013	155.7	-	-	155.7

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The net book value of non-operational land and buildings comprises:

	2013 £m	2012 £m
Freehold	1.7	1.8
Long leasehold	0.8	0.9
Short leasehold	0.2	0.2
	<u>2.7</u>	<u>2.9</u>

The Company has entered into contractual commitments in relation to the future acquisition of property, plant and equipment of £34.6m (2012: £25.5m).

**12 INTANGIBLES**

	Software Development Costs £m
<b>COST</b>	
At 1 April 2011, 1 April 2012 and 31 March 2013	<u>29.7</u>
<b>AMORTISATION</b>	
At 1 April 2011	26.0
Charge for the year	<u>1.5</u>
At 1 April 2012	27.5
Charge for the year	<u>1.2</u>
At 31 March 2013	<u>28.7</u>
Net book value at 31 March 2013	<u>1.0</u>
Net book value at 1 April 2012	<u>2.2</u>

**NORTHERN POWERGRID (YORKSHIRE) plc****REGISTERED NUMBER 4112320****NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)****13 INVESTMENTS**

Details of the principal investments of the Company at 31 March 2013 are listed below:

Name of Company	Country of Registration		Holding of Ordinary Shares	Proportion	Nature of Business
Electralink Limited	England and Wales	and	717 at 10p	7.8%	Data transfer network operator
MRA Service Company Limited	England and Wales	and	1 at £1	1.0%	Governance of the electricity industry's Master Registration Agreement
DCUSA Limited	England and Wales	and	1 at £1	1.7%	Management and governance of the Distribution Connection and Use of System Agreement

The above investments are unlisted. The cost and net book value of the investments are Electralink Limited £72 (2012: £72), MRA Service Company Limited £1 (2012: £1) and DCUSA Limited £1 (2012: £1).

**14 INVENTORIES**

	2013 £m	2012 £m
Work in progress	<u>0.6</u>	<u>0.6</u>

**15 TRADE AND OTHER RECEIVABLES****Trade and other receivables**

	2013 £m	2012 £m
Distribution use of system receivables	57.0	55.6
Amounts receivable from sale of goods and services	0.8	1.0
Prepayments and accrued income	2.0	1.7
Other receivables	<u>0.7</u>	<u>1.3</u>
	<u>60.5</u>	<u>59.6</u>

The directors consider that the carrying amount of trade and other receivables approximate 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.

**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

15 **TRADE AND OTHER RECEIVABLES (CONTINUED)**

**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 29% of distribution revenues in 2013 (2012: 29%). 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 £0.1m as at March 2013 (2012: £1.8m).

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 within the Company's use of system ("UoS") receivables are debtors with a carrying value of £Nil, which have been placed into administration. Consequently, no provision was required at the year-end (2012: £nil).

**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 service alterations/disconnections 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 26 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.

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.6m (2012: £1.0m) which are past due at the reporting date and for which the Company has provided an irrecoverable amount of £0.2m (2012: £0.2m) based on past experience. The Company does not hold any collateral over these balances. The average age of these receivables is 320 days (2012: 317 days).

Included in the Company's amounts receivable for goods and services balance are debtors with a carrying amount of £0.4m (2012: £0.3m). 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 71 days (2012: 53).

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**15 TRADE AND OTHER RECEIVABLES (CONTINUED)**

Ageing of past due but not impaired receivables

	2013 £m	2012 £m
30-60 days	0.2	0.3
60-120 days	0.2	-
Total	<u>0.4</u>	<u>0.3</u>

**Movement in the allowance for doubtful debts**

	£m	£m
At 1 April 2012	0.2	0.3
Amounts (utilised) in the year	-	(0.1)
At 31 March 2013	<u>0.2</u>	<u>0.2</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 £0.1m (2012: £0.1m) for the Company, which have been placed into administration. The impairment represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation dividend.

**Categories of financial assets**

	2013 £m	2012 £m
Loans and receivables	<u>68.2</u>	<u>57.9</u>
Total financial assets	<u>68.2</u>	<u>57.9</u>
Non-current assets	2,419.1	2,254.6
Inventories	0.6	0.6
Prepayments and accrued income	<u>2.0</u>	<u>1.7</u>
Total non-financial assets	<u>2,421.7</u>	<u>2,256.9</u>
Total Assets	<u>2,489.9</u>	<u>2,314.8</u>



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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**16 OTHER FINANCIAL LIABILITIES**

**Trade and other payables**

	2013	2012
	£m	£m
Payments received on account	33.2	33.8
Trade payables	7.6	4.1
Amounts owed to Group undertakings	0.4	-
Other taxes and social security costs	5.1	9.9
Other payables	2.5	2.1
Accruals	29.0	24.7
	<u>77.8</u>	<u>74.6</u>

**Current income tax liabilities**

	2013	2012
	£m	£m
Corporation tax	<u>27.1</u>	<u>26.0</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 on-going 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.

The following tables detail the remaining contractual maturities for the non-derivative financial liabilities included in Notes 16 and 17. The tables have been drawn up based on the undiscounted 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
2013:					44.7
Non-interest bearing	44.7	-	-	-	
Fixed interest rate liability	<u>10.3</u>	<u>31.3</u>	<u>166.2</u>	<u>1,029.1</u>	<u>1,236.9</u>
	<u>55.0</u>	<u>31.3</u>	<u>166.2</u>	<u>970.0</u>	<u>1,281.6</u>
2012:					
Non-interest bearing	40.8	-	-	-	40.8
Fixed interest rate liability	<u>32.4</u>	<u>28.3</u>	<u>206.5</u>	<u>838.7</u>	<u>1,105.9</u>
	<u>73.2</u>	<u>28.3</u>	<u>206.5</u>	<u>838.7</u>	<u>1,146.7</u>

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**16 OTHER FINANCIAL LIABILITIES (CONTINUED)**

**Categories of financial liabilities**

	2013 £m	2012 £m
Loans and payables	726.5	659.1
Total financial liabilities	<u>726.5</u>	<u>659.1</u>
Payments received on account	33.2	33.8
Income tax liabilities	197.6	209.5
Other taxes and social security	5.1	9.9
Accruals	29.0	24.7
Deferred Revenue	678.8	653.7
Provisions	2.3	2.1
Total non-financial liabilities	<u>946.0</u>	<u>933.7</u>
Total liabilities	<u>1,672.5</u>	<u>1,592.8</u>

**17 BORROWINGS**

The Directors' consideration of liquidity, interest rate and foreign currency risk is described in detail in the Directors' Report on page 5.

	Book value		Fair value	
	2013 £m	2012 £m	2013 £m	2012 £m
Loans	716.0	586.0	848.1	681.2
Amounts owed to Group undertakings	-	66.9	-	76.5
	<u>716.0</u>	<u>652.9</u>	<u>848.1</u>	<u>757.7</u>
The borrowings are repayable as follows:				
On demand or within one year	22.3	52.2	22.3	52.2
After five years	693.7	600.7	825.8	705.5
	<u>716.0</u>	<u>652.9</u>	<u>848.1</u>	<u>757.7</u>
Analysis of borrowings:				
Short-term loan	-	22.0	-	22.0
Inter-company short-term loan	-	12.7	-	12.7
Yorkshire Electricity Group plc 2016 (6.5%)	-	54.2	-	63.8
Eurobond due 2020 (9.25%)	202.8	202.6	282.2	277.7
Eurobond due 2035 (5.125%)	206.3	206.2	230.8	214.7
European Investment Bank due 2022 (4.133%)	155.2	155.2	176.8	166.8
Eurobond due 2032 (4.375%)	151.7	-	158.3	-
	<u>716.0</u>	<u>652.9</u>	<u>848.1</u>	<u>757.7</u>

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**17 BORROWINGS (CONTINUED)**

The fair value of the 2020, 2022, 2032 and 2035 bonds 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. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling.

Interest on short-term loans and inter-company short-term loans is charged at a floating rate of LIBOR plus 1.25%, 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 £0.4m 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 covenants associated with the 2035 bonds issued by 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.

The Company's Senior Total Net Debt as at 31 March 2013 totalled £691.2m. Using the RAV value as at March 2013, 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 March 2013 of £1,437.9m. The Senior Total Net Debt to RAV ratio for the Company is therefore estimated at 48.1%.

At 31 March 2013, the Company had available £79m (2012: £57.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**18 DEFERRED TAX**

	Accelerated Tax Depreciation £m	Holdover Relief £m	Other £m	Total £m
At 1 April 2011 (Credit)/charge to income statement	201.1 (17.4)	0.4 (0.1)	(0.6) 0.1	200.9 (17.4)
At 1 April 2012 Credit to income statement	183.7 (13.0)	0.3 -	(0.5) -	183.5 (13.0)
At 31 March 2013	<u>170.7</u>	<u>0.3</u>	<u>(0.5)</u>	<u>170.5</u>

Other comprises provisions and employee expenses deductible for tax on a paid basis.

NORTHERN POWERGRID (YORKSHIRE) plc

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NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)

19 DEFERRED REVENUE

	£m	
At 1 April 2011		632.8
Additions		38.9
Amortisation		<u>(18.0)</u>
		653.7
At 1 April 2012		44.3
Additions		<u>(19.2)</u>
Amortisation		
		678.8
At 31 March 2013		
	2013	2012
	£m	£m
Included in current liabilities	20.9	19.3
Included in non-current liabilities	<u>657.9</u>	<u>634.4</u>
	<u>678.8</u>	<u>653.7</u>

Deferred revenue represents contributions from customers made in advance towards distribution system assets. This income is released to the income statement over 15 - 45 years on a straight line basis, in line with the useful economic life of the distribution system assets.

20 PROVISIONS

	Claims £m	Other £m	Total £m
At 1 April 2012	1.0	1.1	2.1
Utilised/paid in the year	1.2	0.1	1.3
Charged to the income statement	<u>(0.9)</u>	<u>(0.2)</u>	<u>(1.1)</u>
	1.3	1.0	2.3
At 31 March 2013			
		2013	2012
		£m	£m
Included in current liabilities		1.6	1.4
Included in non-current liabilities		<u>0.7</u>	<u>0.7</u>
		<u>2.3</u>	<u>2.1</u>

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.

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**21 SHARE CAPITAL**

	2013 No./£	2012 No./£
Ordinary shares of £1 each		
Allotted, called up and fully paid	<u>290,000,000</u>	<u>290,000,000</u>

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

**22 NET CASH FROM OPERATING ACTIVITIES**

	2013 £m	2012 £m
Operating profit	197.9	196.6
Depreciation and amortisation	77.9	73.5
Amortisation of deferred revenue	(19.2)	(18.0)
Increase in provisions	<u>0.1</u>	<u>0.1</u>
Operating cash flows before movements in working capital	256.7	252.2
Increase in inventories	-	(0.4)
Increase in receivables	(0.2)	(6.4)
Decrease in payables	<u>(5.3)</u>	<u>(2.9)</u>
Cash generated by operations	251.2	242.5
Income taxes paid	(34.3)	(42.1)
Interest paid	(39.1)	(40.2)
Interest received	<u>0.1</u>	<u>-</u>
Net cash from operating activities	<u>177.9</u>	<u>160.2</u>

**23 PENSION COMMITMENTS**

The Company has three retirement benefit schemes.

The Northern Powergrid 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 Powergrid 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 Powergrid Pension Scheme was made available to new employees from that date.

The Northern Powergrid Group of the ESPS and the Northern Powergrid Pension Scheme are operated by Northern Electric plc on behalf of the participating companies within the Northern Powergrid Group.

The last triennial actuarial valuation of the Northern Powergrid Group of the ESPS was carried out by the Group Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2010. The projected unit method was used for the 2010 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 2.8% per annum.

## NORTHERN POWERGRID (YORKSHIRE) plc

REGISTERED NUMBER 4112320

### NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)

#### 23 PENSION COMMITMENTS (CONTINUED)

The total market value of the assets of the Northern Powergrid Group of the ESPS, at the date of the actuarial valuation, was £983m.

For the Northern Powergrid Group of the ESPS, the actuarial valuation showed that the value of the assets represented 78% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £276m. The accrued benefits include all benefits for pensioners and other members, as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 being borne out in practice. The agreement includes cash payments of £29.9m per annum (of which £7.8m is borne by the Company), subject to annual RPI increases, made on a monthly basis, for the first five years of the recovery plan followed by an agreed profile of payments to be made over the remaining ten years of the recovery plan.

The Northern Powergrid 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, as permitted by IAS 19, Employee Benefits.

The contribution rates to the Northern Powergrid Group of the ESPS, in addition to the deficit repair contributions mentioned above, were 47.0% for certain senior management and 29.4% 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 Powergrid Group of the ESPS and Northern Electric plc as part of the triennial valuation process.

The NPPS and YEPP are also accounted for as defined contribution schemes.

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

Principal assumptions:

	2013	2012
Valuation method	Projected unit	Projected unit
Discount rate	4.5%	4.8%
Inflation rate	3.3%	3.0%
Increase to pensions	3.3%	3.0%
Increase to deferred benefits	3.3%	3.0%
Salary increases	3.3%	3.0%

The mortality assumptions used in the triennial actuarial valuation as at 31 March 2010 were based on the recent actual mortality experience of members within the Northern Powergrid Group and also allow for future mortality improvements. The assumption is that a member currently aged 60 will live for a further 27.9 years, if he is male, and for a further 28.1 years, if she is female. For a member who retires in 2027 at age 60 the assumptions are that they will live on average for a further 29.6 years after retirement if they are male and for a further 29.8 years after retirement if they are female.

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

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**23 PENSION COMMITMENTS (CONTINUED)**

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

	2013 £m	2012 £m
Opening defined benefit obligation	1,227.4	1,097.0
Current service cost	12.6	10.7
Interest cost	58.1	59.3
Contributions from employees	1.7	2.2
Actuarial gains	128.7	108.8
Benefits paid	(50.0)	(50.6)
Closing defined benefit obligation	<u>1,378.5</u>	<u>1,227.4</u>

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

	2013 £m	2012 £m
Opening fair value of plan assets	1,156.8	1,045.2
Expected returns	69.1	69.9
Actuarial losses	73.0	32.7
Contributions by employer	50.4	57.4
Contribution from employees	1.7	2.2
Benefits paid	(50.0)	(50.6)
Closing fair value of plan assets	<u>1,301.0</u>	<u>1,156.8</u>

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

	Long-term rates of return expected at		Value	
	2013 %	2012 %	2013 £m	2012 £m
Equities	7.8	8.5	337.9	331.0
Gilts	3.6	3.9	792.7	715.9
Cash	3.0	3.3	6.2	9.4
Reinsurance	7.0	-	60.1	-
Property	6.8	7.5	104.1	100.5
Total fair value of scheme assets			<u>1,301.0</u>	<u>1,156.8</u>

The Northern Powergrid 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 Powergrid Group of the ESPS.

**NORTHERN POWERGRID (YORKSHIRE) plc**

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**23 PENSION COMMITMENTS (CONTINUED)**

The Northern Powergrid Group expects to contribute approximately [£51.2m] to its defined benefit plan in 2013/14, including [£33.9m] of pension deficit repair costs.

The Company pension cost for the year ended 31 March 2013 was £18.1m (2012: £17.4m).

**24 OPERATING LEASE ARRANGEMENTS**

	2013 £m	2012 £m
Minimum lease payments under operating leases recognised in the year	<u>4.3</u>	<u>4.1</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:

	2013 £m	2012 £m
Within one year	2.6	2.3
In the second to fifth year inclusive	8.5	7.3
After five years	<u>1.0</u>	<u>0.5</u>
	<u>12.1</u>	<u>10.1</u>

Leases consist of rent payable in respect of vehicle leases from a related party and property.



**NORTHERN POWERGRID (YORKSHIRE) plc****REGISTERED NUMBER 4112320****NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)****25 RELATED PARTY TRANSACTIONS**

The total interest included in finance costs in the income statement for the year ended 31 March 2013 was £1.0m (2012: £4.2m). Included within borrowings is £66.9m as at 31 March 2013 (2012: £66.9m) in respect of these loans.

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

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	Purchases from Related Party	Amounts Owed to Related Party (Note 16)
	£m	£m	£m
2013:			
CE Insurance Services Limited	-	1.2	-
Integrated Utility Services Limited	0.1	0.3	-
Integrated Utility Services Limited (registered in Eire)	-	0.2	-
Northern Electric plc	-	4.9	-
Northern Powergrid (Northeast) Limited	5.9	12.1	-
Vehicle Lease and Service Limited	-	3.9	0.4
2012:			
CE Insurance Services Limited	-	1.0	-
Integrated Utility Services Limited	0.1	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.5	-
Northern Electric plc	-	4.1	-
Northern Powergrid (Northeast) Limited	8.7	15.5	-
Vehicle Lease and Service Limited	-	4.2	0.4

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.

During the year the Company purchased properties for £0.6m from Northern Electric Properties Limited, an affiliated company within the Northern Powergrid Group.

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**NOTES TO THE ACCOUNTS - 31 MARCH 2013 (CONTINUED)**

**26      IMMEDIATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate parent undertaking of Northern Powergrid (Yorkshire) plc is Yorkshire Electricity Group plc. The ultimate controlling party and ultimate parent undertaking of Yorkshire Electricity Group 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 Powergrid (Yorkshire) plc and the group accounts of Northern Powergrid Holdings Company, the smallest parent undertaking to prepare group accounts in the United Kingdom, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.