



Regulatory Financial Performance Report

2023/24

SP Distribution and SP
Manweb

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Executive Summary

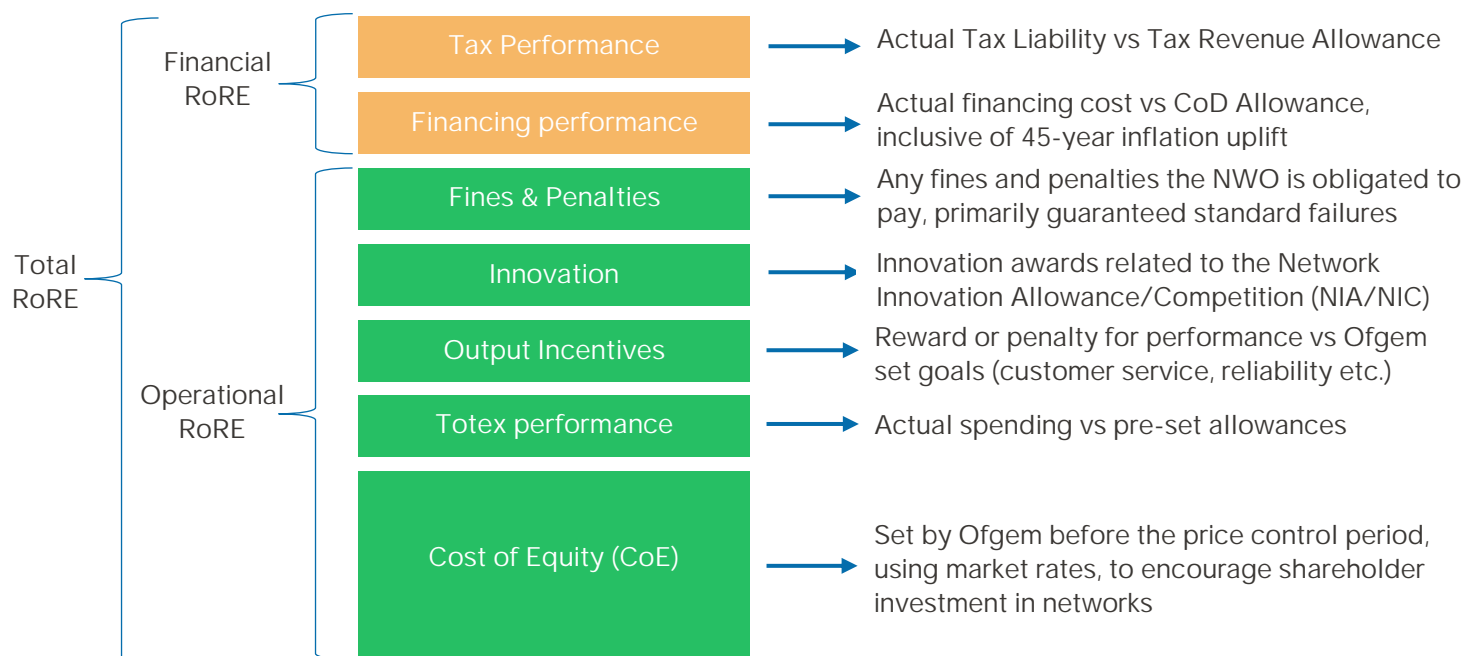
WHAT IS THE RFPR?

The Regulatory Financial Performance Report (RFPR) aims to produce a comprehensive, transparent, accessible, and accurate measure of network company Financial Performance under the RIIO framework. The RFPRs comprise two main elements:

- RFPR templates for reporting the data; and
- This RFPR commentary and supporting information document to be read alongside the tables

The report consists of the different areas of Network Owners (NWO's) activities, including expenditure (totex), output incentives, innovation, financing, and tax among others.

For each of these elements the NWO's actual costs and revenues are compared against allowances (i.e., what NWO's are funded for), the difference between these forming the basis of NWO performance. Performance is shown in the form of Return on Regulatory Equity (RoRE), where the regulatory equity is the portion of the NWO's asset base which is funded by shareholders i.e., the portion of Regulatory Asset Value (RAV) given by NWO's gearing level. The return is then given by the upfront Cost of Equity (CoE) percentage allowance in conjunction with the performance versus allowance of totex, output incentives, innovation, fines and penalties, financing, and tax, as a percentage of the regulatory equity.



The RoRE is presented in terms of both notional gearing and actual gearing. Notional gearing is set by Ofgem as a reasonable level of gearing for NWO's – 60% for Distribution Network Owners (DNO's). Actual gearing is given by the individual companies specific funding structure so can vary

through time and between companies – currently around **60%** for our distribution network companies.

Although this measure of performance is beneficial for comparison across the industry it is important to note that while performance can be earned during the RIIO price control this is often not realised in income and expenditure during the period. Regulatory mechanisms mean this can take up to 45 years, so there remains significant uncertainty in realising this performance. Performance for specific years or across the period should not be seen as related to profits received in that year/period.

In terms of proposing a preferred metric to RoRE, we strongly advocate the Return on Capital Employed (RoCE) as the most appropriate performance metric for the purpose of reporting company returns. The RoCE metric is defined as the earnings before interest and tax (EBIT) divided by total assets less current liabilities. EBIT is used as it measures the return available to meet both equity and debt holders before the impact of taxation. It best reflects operational performance since it is unaffected by corporate and tax structures. It is a commonly used and understood measure of profitability across many industries. For example, the CMA used RoCE as a principal profitability measure in the GB energy market investigation (Source: CMA (2016): Energy Market Investigation, Final Report, Appendix 9.9, Approach to profitability and financial analysis, para 23-25).

OUR PERFORMANCE

We are pleased to present the 2023/24 RFPR templates and commentary for SP Energy Networks (**SPEN**). This document contains information for the two DNO's owned by **SPEN** – SP Distribution (**SPD**) and SP Manweb (**SPM**).

SPEN are keen to promote transparency of our performance and the returns we make. To this end we have refreshed our commentary to provide context and further detail to the numbers presented in the RFPR template in a way that hopes to be more straightforward and understandable to a wider range of readers.

Due to a lack of context and information around the basis of the RoRE performance measure and Ofgem's calculation methodology we continue to believe stakeholders are displaying a fundamental knowledge gap in relation to a number of elements of company performance, notably the cost of debt (CoD) allowance for Network Owners. There is a lack of understanding that companies' annual CoD allowance does not cover the actual annual cash outflows for interest and shareholders are required to fund interest payments in excess of allowance, this is explained in further detail below. We believe this should be addressed through actions including prominently explaining that the cost of debt is provided on a real basis while the interest rate on the majority of company's debt is on a nominal basis.

To illustrate this point further, Ofgem's methodology within the RFPR tables presents companies borrowing costs as a negative value during times of high inflation, asserting that companies face no costs to borrow money for the purposes of calculating performance. This is not the case and highly misleading, we expand on and explain our reasoning further in this document.

We have now completed the first year of the RIIO-ED2 price control, continuing with our strategy of responsibly investing in the network to balance the large scale of investment required to meet the needs of today's and future consumers, while also ensuring the level of costs to customers, via the network charge on electricity bills, stays at a reasonable level. Our investment strategy across **SPD** and **SPM** is to drive the growth and development of its regulated businesses through a balanced programme of capital investment.

We are proud of our delivery and performance over the RIIO-ED1 period and are working hard to continue this into RIIO-ED2.

To provide our essential services it costs SPEN customers an average of

40p /day*
*in today's prices

This is less than a Netflix subscription

*Including the impact of SOLR payments in 23/24, roughly 3p per customer per day

In 23/24, Domestic customer's bills have reduced in real terms (bill movements are lower than inflation) when compared to the previous year. For **SPD** this is an **19%** reduction, from **£163_{23/24 prices} p.a. in 2022/23** to **£132_{23/24 prices} p.a. in 2023/24**. For **SPM** this is also an **12%** reduction, from **£190_{23/24 prices} p.a. in 2022/23** to **£166_{23/24 prices} p.a. in 2023/24**. Please note that these figures include the impact of the Supplier of Last Resort (SoLR) mechanism which relates to the costs associated with failed suppliers and not DNO activity, however Ofgem's methodology means these are collected via DNO network charges.

We have received a derogation to not produce and publish Regulatory Accounts for **SPD & SPM** for 2020/21 onwards. In its place the Regulatory Financial Performance Reporting pack ("RFPR") will provide the required details on regulatory and financial performance for our stakeholders. Key financial performance indicators for 2023/24 and the movement on the prior year are summarised below:

£m	SPD			SPM		
	2022/23	2023/24	Δ	2022/23	2023/24	Δ
Revenue	550.1	574.9	+24.8	469.1	514.4	+45.3
Operating profit	202.0	239.4	+37.4	160.3	197.0	+36.7
Net profit	118.8	111.8	-7.0	83.5	69.1	-14.4
Investment	168.4	221.2	+52.8	197.9	222.4	+24.5

While this commentary focusses on **SPEN's** financial performance, a separate report, the Distribution Annual Performance Report for 2023/24 provides the companies stakeholders with a comprehensive view of our operational performance and how the companies are performing against the commitments made in their RIIO-ED2 business plans. This information can be found on our website via the following link:

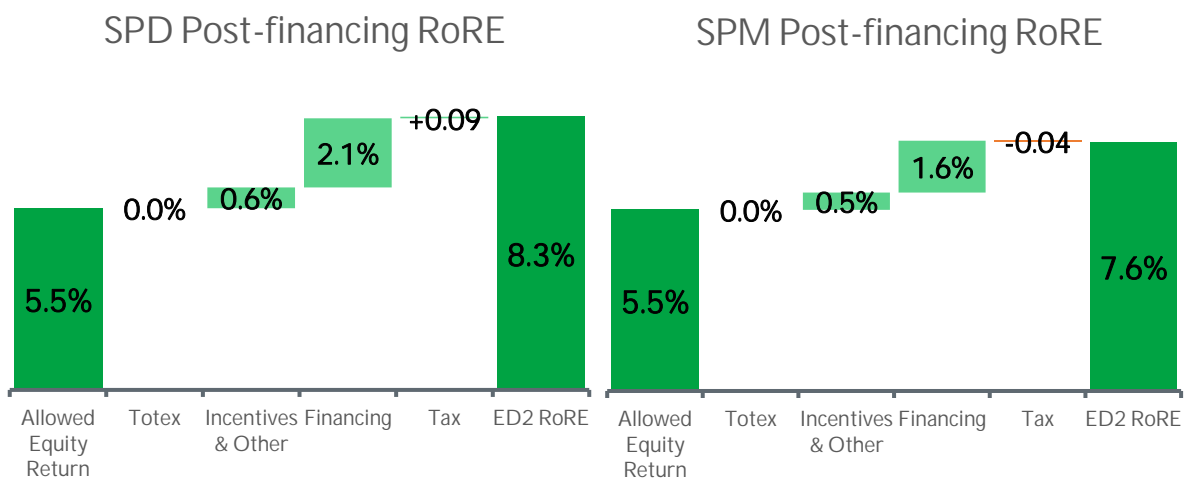
[Distribution Annual Performance Report \(SLC50\) - SP Energy Networks](#)

Financial KPI

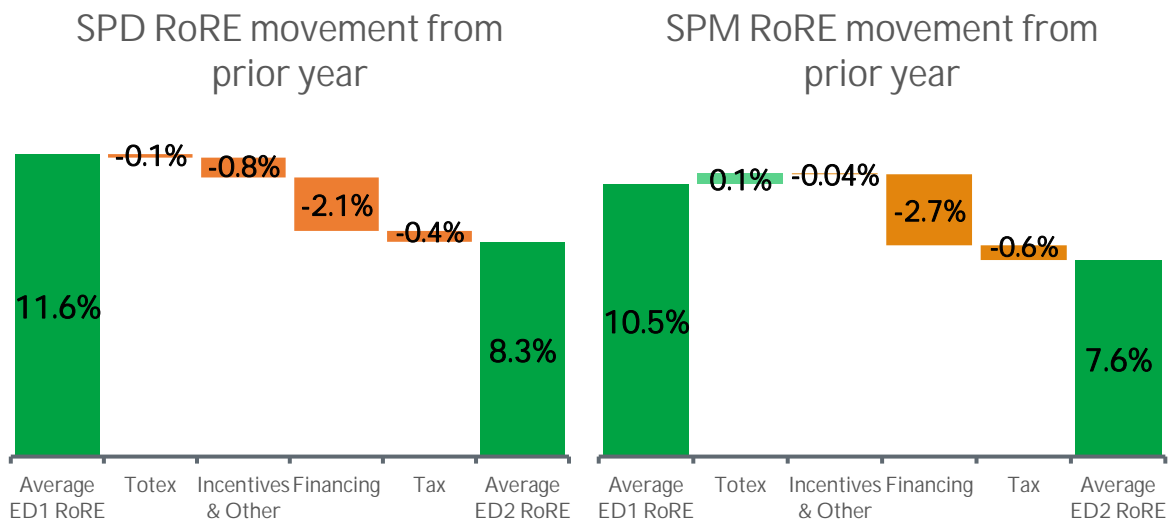
OVERVIEW

SPEN's financial performance is detailed below. Our Operational RoRE forecast for the RIIO-ED2 period is 6.0% and 6.0% for SPD and SPM respectively, and when including our financing and tax performance, this rises to 8.3% and 7.6% for SPD and SPM respectively. As mentioned previously, Ofgem's methodology compresses performance which is earned in the RIIO-ED2 period but realised over a 45-year period into in-year performance, potentially misleading stakeholders into equating reported RoRE within year profits.

The breakdown of our total RoRE is shown in the graphs below:

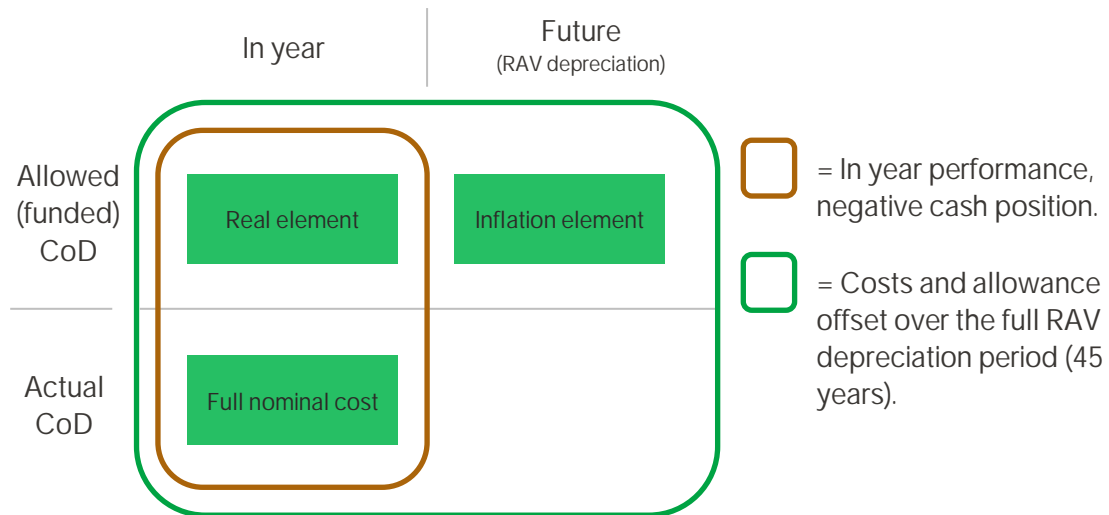


For context, the movements versus the 2022/23 RFPR report are shown below:



Financing performance reported in this year's RFPR, via Ofgem's methodology, shows an increase in financing performance against allowance. This is driven by the current high inflationary environment, in conjunction with Ofgem's methodology for calculating performance.

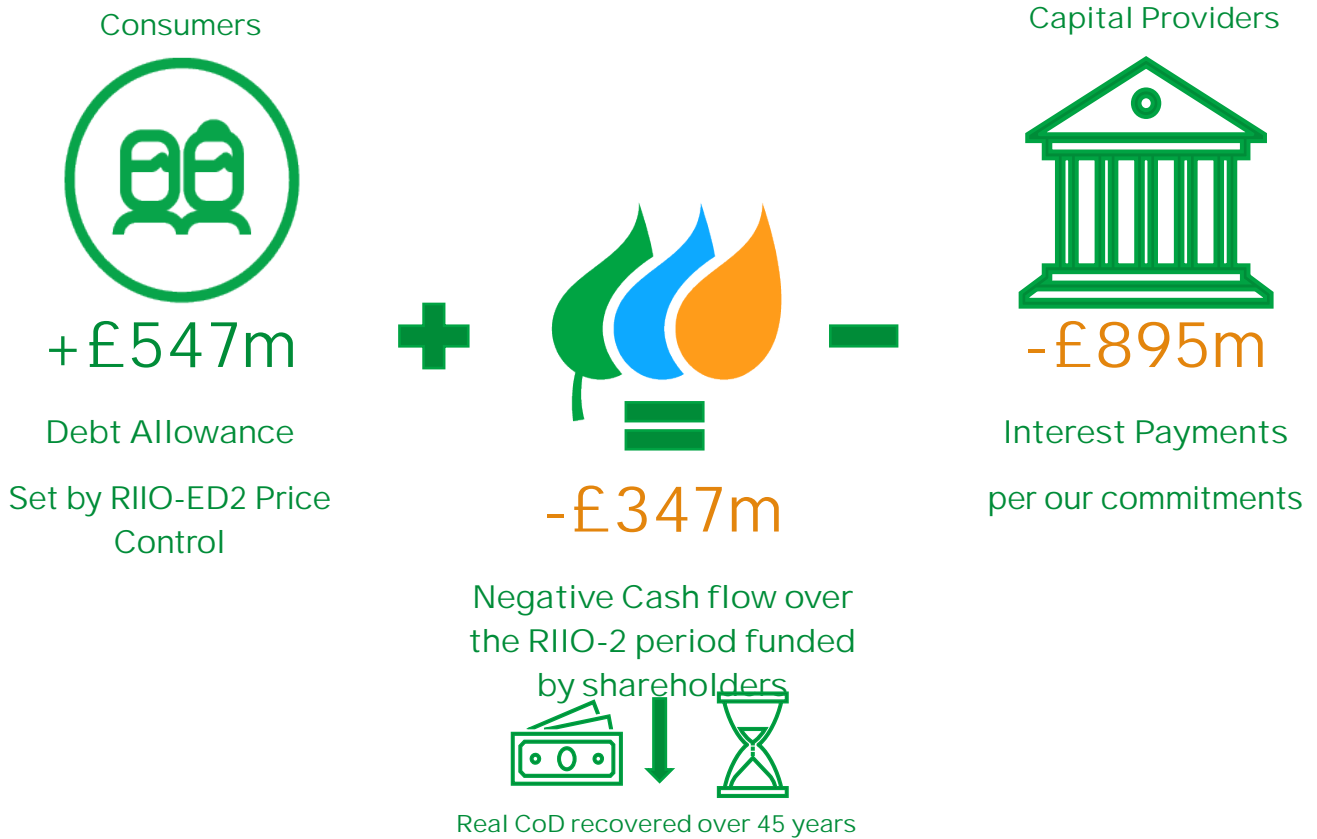
Ofgem’s current “economic performance” measure of financing performance in the RFPR effectively takes the inflation element of our cost of debt allowance that would be applied to the RAV and collected over the course of its depreciation (45 years), and attributes that performance to a single year’s results. This is shown visually below:



In reality, a single year’s results will be driven in part by past years inflation across multiple years, smoothing out peaks and troughs in inflation and tending towards long term inflation averages. Conversely, the cashflow position a network owner faces in year excludes the future inflation returns and demonstrates the cashflow impact of the year in question, i.e., the cost of debt (CoD) allowance minus actual interest costs.

Assuming our CoD is fully funded over the full RAV depreciation period (up to 45 years), we still face a cash negative position within the year. This is exacerbated by an increasing RAV, driven by **high investment requirements and in periods of high inflation – where inflation for 2022/23 & 2023/24 was 8.8% and 5.5% respectively.**

Therefore, we have a funding gap in the short term driven by this negative cashflow relating to financing, this is set out below:



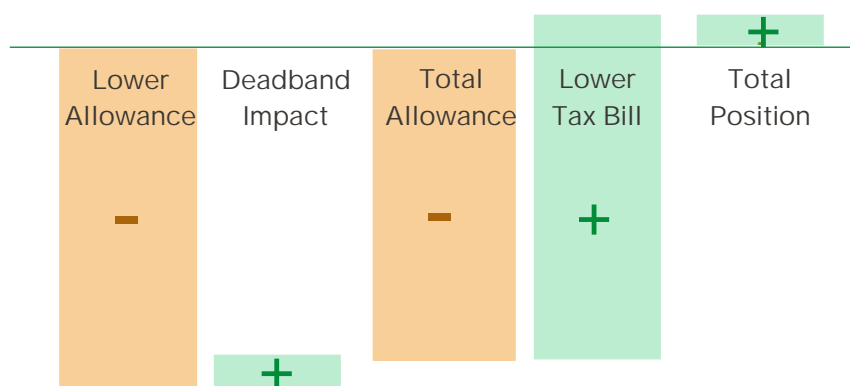
SP Debt Cashflow View - Out(under) performance	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2
Cost of Debt Allowance	98	103	110	115	121	547
Net Interest	170	187	183	177	177	895
Pre-Tax Cost of Debt performance (actual gearing)	-72	-84	-73	-62	-57	-347

This long-term collection of returns is set by Ofgem to incentivise long-term responsible investment and stability in the networks, but the policy leads to a short term negative cashflow position which is then required to be funded by shareholders. To this end, we have included an additional cashflow measure in our RFPR template to highlight this issue and improve clarity.

Tax performance in this year's RFPR shows a slight underperformance against the allowance largely due to differences in the assumptions used to calculate allowances versus our statutory accounting approach (for example capital allowance allocations etc).

As part of the government's 2021 Budget, they announced a 'super-deduction' on capital allowances, impacting the general rate and special rate pool additions. The general rate was increased to 130% (from 18%) and the special rate was increased to 50% (from 6%) for 2021/22 and 2022/23 first year additions only. Most of **SPEN** investment is subject to the special pool rate. This change lowers our tax liability, however, consequently lowers our tax allowance in tandem. Overall, these changes to both net off in our tax performance, save for a small benefit due to the deadband within Ofgem's Price Control Financial Model (PCFM) which gives a small upside when accounting for the large drop off in allowances, the chart below sets out the principle of this. In previous years the deadband has been a downside for **SPEN** when the special rate was reduced to 6% (from 8%).

In 2022, the UK government also announced an extension of this scheme to cover the period 2023/24 through to 2025/26 which covers the remainder of the ED2 period. The introduction of First Year Allowances (FYA's) will have a similar impact to the on both **SPEN's** statutory tax liability and regulatory allowance.



Totex performance reported in this year's RFPR has shown an underspend for both **SPD** & **SPM** for the first year of the price control, however overall, we forecast for this to unwind across the price control for both **SPD** & **SPM**.

As noted previously the performance reported in the year or period is not reflective of in year/period returns. In terms of our totex performance, in simple terms only 30% of this performance is realised in year/period, the rest is collected over the 45-year RAV depreciation period.

Incentives and other

This is the first year of reporting ODI performance for RIIO-ED2. In 23/24 both **SPD** & **SPM** have earned **£4.1m_{20/21 prices}** & **£1.4m_{20/21 prices}**, with a forecast to achieve **£27.2m** & **£25.2m** respectively across the period as a whole. More detail on the breakdown of incentive performance can be found below.

REVENUE BREAKDOWN

SPEN's Regulated Revenue for the regulatory year 2023/24 was **£1,037.5m_{nominal}**, the table below:

2023/24 Regulated Revenue (£m _{nominal})	SPD	SPM	SPEN Total
Base Revenue	£565.0m	£540.0m	£1,105.4m
Legacy Allowed Revenue	£20.5m	£9.5m	£30.0m
Under / Over Recovery and K term	-£40.0m	-£57.9m	-£97.9m
Regulated Distribution Network Revenue	£545.5m	£492.0m	£1,037.5m

Base Revenue is the largest element of **SPEN's** Regulated Revenue and is calculated in Ofgem's published Price Control Financial Model (PCFM), this is further split out below.

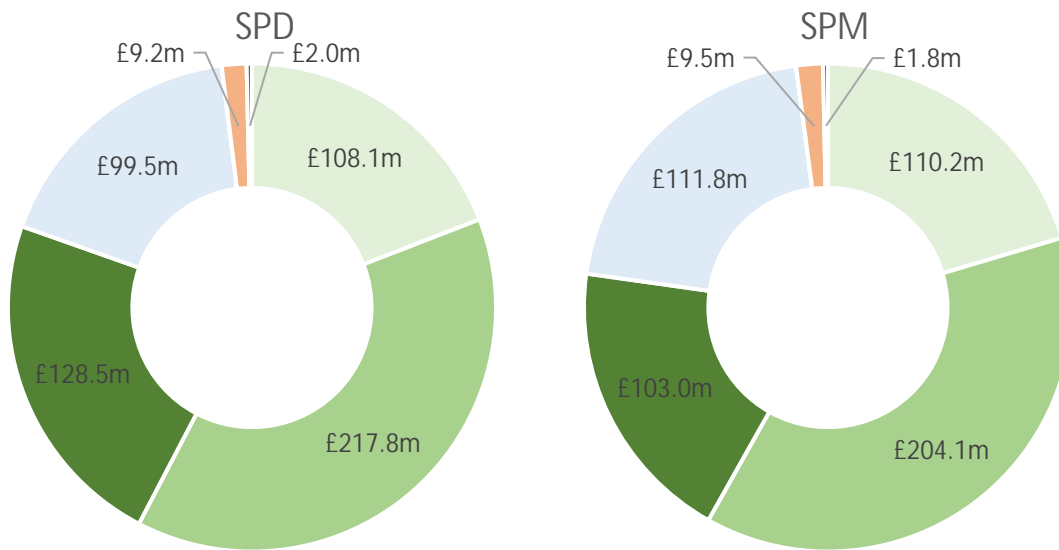
Performance incentives are a large part of the price control regime to drive service, environmental and other policy goals. These are penalties or rewards received under the various regulatory incentive schemes, plus the element of the Network Innovation Allowance flowing through

Regulated Revenue, and true ups of Allowed Pass-Through costs. The main incentives are: Broad Measure of Customer Service (BMCS), Connection's incentives, and the Interruptions-related quality of service.

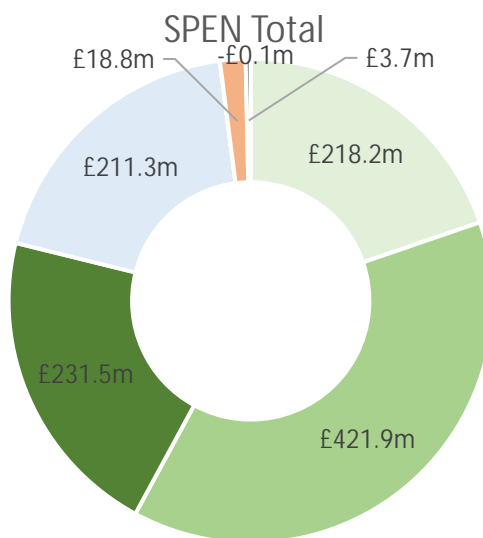
Tariffs are set 15 months in advance, based on forecast volumes of units distributed, and provided to energy suppliers for inclusion in customer bills. Any actual amounts under or over recovered are adjusted through future years' revenues. This is the Under/(Over) recovery, and K factor is the true up of this previous under/(over) recovery.

Base Revenue Breakdown

Base Revenue is the largest element of SPEN's Regulated Revenue. SPEN's 2023/24 Base Revenue was **£1,105.4m_{nominal}**. The charts below show the breakdown of this:



- Fast Pot Expenditure Allowance
- Passthrough Allowance
- DRS Adjustment
- Incentive Rewards
- RAV Depreciation Allowance
- Return Allowance
- Business Plan Incentive
- Other Revenue Allowances



Under the RIIO framework, **SPEN** receives a Totex allowance, 30%¹ of which is received in the year incurred; this is the **Fast pot expenditure allowance**. The remaining 70% is added to the Regulatory Asset Value (RAV) and funded over time (45 years) through the **RAV depreciation allowance**.

Passthrough allowances relate to costs recovered on a 'pass through' basis; these include licence fees, business rates and National Grid charges.

Allowance for return is calculated using the cost of capital and comprises an indexed allowance for the cost of debt and a fixed allowance for the cost of equity set at the start of the RIIO-ED1 price control period.

Business plan incentive is agreed by Ofgem and relates to the reward we receive for the quality of our RIIO-T2 business plan submission. Other **incentive rewards** include rewards (or penalties) for meeting or exceeding customer service, connections, environmental or other objectives.

Other revenue allowances include allowances for other initiatives and innovation projects, such as playing our part in achieving the government's net zero ambitions.

The **Tax Allowance** allows network operators to recover the current regulated tax charge, calculated by Ofgem's methodology.

RORE BREAKDOWN

Our overall Return on Regulatory Equity (RoRE) forecast for the RIIO-ED2 period is **7.9%** based on Ofgem's notional gearing calculation (**7.9%** based on actual gearing) which we believe is a fair and reasonable return on equity for a company expecting to over-deliver on its business plan, over the long term in which it is realised.

	SPD		SPM	
	Notional Gearing	Actual Gearing	Notional Gearing	Actual Gearing
RIIO-ED2 RoRE	2023/24	2023/24	2023/24	2023/24
Allowed Equity Return	5.5%	5.5%	5.5%	5.5%
Totex Performance	0.0%	0.0%	0.0%	0.0%
BPI	0.0%	0.0%	0.0%	0.0%
Output Incentives and Innovation	0.6%	0.6%	0.5%	0.5%
RoRE - Operational Performance	6.1%	6.2%	6.0%	6.0%
Debt Performance	2.1%	2.1%	1.6%	1.6%
Tax Performance	0.1%	0.0%	0.0%	0.0%
RoRE - Including Financing & Tax	8.3%	8.3%	7.6%	7.5%

¹ Capitalisation rate applied to "Baseline" expenditure is 70% which differs from the rate applied to "Uncertain" expenditure 85%, therefore the actual fast pot/slow pot rate applied varies depending on the level of baseline/uncertain expenditure in a given year.

* Fast pot expenditure in relation to uncertainty mechanisms is set at 15% for ED2 with RAV additions making up the remaining 85%.

Allowed Equity Return

The Allowed Equity Return percentage is set before the beginning of the RIIO-ED2 price control.

The level of return was set at **5.23%** for DNOs (on a notional gearing basis), based on prevailing market rates at the time, and is set to incentivise shareholder investment in the networks that is required to replace and expand network assets to deliver for current and future customers. Shareholder investment is key to plug the funding gap for the investment required versus the revenue currently being collected from customers.

Totex

Our ED2 business plan set out our ambition to develop our network to support Net Zero, to become a trusted partner to our customers and stakeholders, and to support a digitally enabled, efficient workforce. After the first year of ED2, our delivery and our forecast remains aligned with this ambition. We plan to deliver our commitments in full as funded and have identified and included additional requirements to manage emerging asset risks, support our long-term asset management strategy, and to address Cyber, Data, Security and Resilience needs.

In preparation for the start of the price control, we completed extensive competitive tendering of Global contracts, ensuing contracts in place are scaled to deliver the material increase in our investment programme, whilst ensuring costs are optimised. Despite global tendering and in some cases re-tendering, we are managing increases in both material and contracting costs, over and above those anticipated and included in our business plan.

In our load programme, in year 1 we accelerated the delivery of our secondary reinforcement programme in response to the needs of our customers and stakeholders. This programme supports the Net Zero transition by enabling our customers to connect their Low carbon technology to their local network. We foresee an increase in this programme during ED2, above our original plan, and will engage with Ofgem in this area. In our primary and fault level programmes, we have seen minor timing delays due to longer lead times for major plant, which extend beyond originally anticipated timescales, however this will be recovered prior to the end of the price control. In our load programme, totex efficiencies are being delivered using flexibility to defer reinforcement schemes, and through the use of innovation. We re-assess the needs of our network on an ongoing basis, to ensure we identify the optimal timing and solution for the required intervention and publish our future energy scenarios and our network options assessments to inform customers and stakeholders on our decisions.

In our non-load programme, we have commenced the delivery of all programmes, and are underway across our major asset replacement and refurbishment programmes. SPEN outsource the delivery of our major programmes, and this has impacted both the timing and the cost of our programme delivery. We have experienced contract rates increasing as contractors protect themselves from risks such as global economic uncertainty, and we are also competing with other competitive markets which offer more lucrative rates than our funding allows, which presents issues with securing resources. This affects all types of work across OHL, cable, and service contracts, and is impacting the delivery, as well as the outturn unit cost.

One of the most significant programmes in the first year of RIIO-ED2 has been our Cyber Resilience investment programme, where we are actively investing in our Operational and Non-Operational portfolio to manage the risk to our network and ensure supply security. Continuing our focus on reliability and availability, we have set out a plan to invest £26m on Quality of Supply,

which includes the installation of **1,126** Network Controllable Points (NCP's) in **SP Distribution** and **1,027** in **SP Manweb**. In year 1, we made good progress, investing £6m and installing a 417 NCP's. This programme is targeting increased network reliability and customer experience, and aiming to deliver a higher standard of electricity supply.

In our Network Operating Costs, we have delivered in line with our plan, managing our faults business closely in line with allowances, and managing unit costs across all programmes. Weather events have affected fault volumes during RIIO-ED2 compared to historical trends, particularly in the **SPM** region, and this is forecast to continue. In response, we seek and develop innovative solutions which enable us to deliver efficiencies and manage our cost base in line with our plan. We continue to deliver on our commitments made across our Inspection, Repair and Maintenance, and Trees programmes in line with our business plan.

In our Indirects costs, our functions are aligned and supporting the delivery of the significant increase in our ED2 programme, delivering our ambition programme to support the needs of our customers and stakeholders, and establishing our data transformation programme. Increased regulatory requirements, external stakeholder engagement, as well as upwards pressure on both salaries and pensions, continue to impact our indirect cost base, and require close management on an ongoing basis to identify and mitigate. Timing has also impacted our closely associated costs, predominantly in **SPD**, as we experienced challenges in recruitment impacting our ability to fully resource our organisation, however we see this unwinding from year 2.

In summary, we believe our totex delivery in year 1 of the RIIO-ED2 price control demonstrates our continued commitment to customer service, ensuring that we are maintaining secure and resilient supplies. We are developing new and innovative solutions to manage our network differently, using flexibility to operate more efficiently, and developing data and digital solutions to support the evolution of our network and our business.

Incentives

On a notional gearing basis, total forecast incentives contribute **+0.6%** to **SPD** and **+0.5%** to **SPM** RoRE over the RIIO-ED2 period.

Output Incentive Rewards (£m _{20/21} prices)	SPD		SPM	
	2023/24	RIIO-2 Forecast	2023/24	RIIO-2 Forecast
Broad measure of customer service	0.6	10.5	1.1	12.1
Interruptions-related quality of service	2.9	8.0	-0.2	4.8
Time to Connect Incentive	0.3	2.1	0.2	0.8
Major connections ODI	0.0	0.0	0.0	0.0
Consumer Vulnerability ODI	0.0	6.5	0.0	7.2
Distribution System Operator ODI	0.3	0.3	0.3	0.3
Total Incentives	4.1	27.2	1.4	25.2

In 2023/24 we added **£5.5m_{20/21 prices}** to our earned incentive reward for going above and beyond delivering a safe, secure, and reliable service to our customers and meeting our stakeholders' needs. We have forecast a further **£47m_{20/21 prices}** during the remaining years of RIIO-ED2 resulting in total forecast incentive reward of **£52.4m_{20/21 prices}** in RIIO-ED2.

Broad measure of customer service

Our vision is to be a leader in Customer Service across the UK. This year's score was **9.16** in **SPD** and **9.18** in **SPM**. These scores resulted in **£1.8m_{20/21 prices}** of additional incentive reward revenue.

Interruptions-related Quality of Service

SPEN have targeted the reduction of the volume and duration of interruptions over the course of RIIO-ED2. **SPEN's** investment plan continues to deliver on that promise; both **SPD** and **SPM** are performing strongly against the regulatory target, and CI & CML have all significantly improved since the end of DPCR5.

Time to Connect Incentive

For **SPD**, our average time to quote was **2.5** working days for single premises, and **7.7** days for multiple premises. The corresponding average time to connect was **27.9** days and **31.7** days, from accepted and payment - resulting in **£0.3m_{20/21 prices}** of incentive reward.

For **SPM**, our average time to quote was **2.5** working days for single premises, and **7.2** days for multiple premises. The corresponding average time to connect was **34.9** days and **40.5** days, from accepted and payment - resulting in **£0.2m_{20/21 prices}** of penalty.

Major connections

This is a penalty only mechanism, where DNOs are evaluated on their adequate engagement and on satisfying the needs of large connection customers. Neither **SPD** nor **SPM** has incurred or is forecast to incur any penalty on this incentive.

Consumer Vulnerability

Consumer Vulnerability (CV) rewards and penalises licensees for their performances in providing services to customers in vulnerable situations. This incentive covers Fuel Poverty Services and Low Carbon Transition Services provided and a Fuel Poverty and Low Carbon Transition Customer Satisfaction Surveys. For **SPD** the reward/penalty is capped at +/- **£3.3m_{20/21 prices}** and for **SPM** it is capped at +/- **£3.7m_{20/21 prices}**. ODI is only applicable for years 2 & 5 of RIIO-ED2.

Distribution System Operator

Distribution System Operator ODI is a reward and penalty mechanism comprised of a Stakeholder Satisfaction survey, Performance Panel assessment, and an outturn performance metric. **SPEN** secured a reward of **£0.6m_{20/21 prices}** in relation to the Stakeholder Satisfaction survey scores for 2023/24.

Innovation

SPEN is dedicated to implementing solutions to address the Whole System Challenges we foresee as part of a Just Transition to Net Zero, embedding innovation throughout our business in order to respond to the opportunities and threats presented by the UK's evolving Energy landscape.

These changes mean we must look at new innovative solutions to ensure that we can continue to deliver value to customers whilst ensuring that costs are fair and equitable for all. Through

continued innovation and collaboration, we seek to deliver a safer, more reliable, and more cost-efficient Net Zero system for our customers and our stakeholders.

At **SPEN**, we stand ready to facilitate the low carbon aspirations of the UK and devolved governments. We are innovating to develop networks of the future that support the transition to Net Zero at the lowest cost to customers. This will unlock capacity, enhance our connections service, and enable us to evolve as a Distribution System Operator (DSO). We will continue to deliver world class levels of safety, reliability, and resilience of supply with efficiencies and substantial savings for our customers realised through continuous improvement and smarter interventions.

As we enter the RIIO-ED2 period, we set out our Innovation Strategy which describes how we innovate to meet the challenges facing our energy system and deliver benefits to customers. It details the processes we will follow to ensure that we ready our business for a digital and sustainable future in the most efficient and effective manner. We have built our strategy around key themes that we believe are core to accelerating the energy system transition.

In recognition of stakeholder feedback, we have developed our innovation portfolio around these themes and continue to embed support for consumers in vulnerable situations across our projects. We remain committed to delivering sector leading innovation, which benefits all GB customers by supporting the energy transition, whilst continuing to deliver world class levels of safety, reliability, and resilience of supply.

Network Innovation Allowance (NIA)

The Network Innovation Allowance provides limited funding to RIIO NWO's to use for two purposes:

- To fund smaller technical, commercial, or operational projects directly related to the NWO that have the potential to deliver financial benefits to the NWO and its customers; and/or
- To fund the preparation of submissions to the Network Innovation Competition (NIC) which meet the criteria set out in the NIC Governance Document.

Allowable Expenditure

Allowable NIA Expenditure is the total expenditure that can be recovered from the NIA. It includes Eligible NIA Expenditure (90% of the total expenditure incurred) and, in relation to NIC Projects which passed the NIC Initial Screening Process (ISP) in or before Relevant Year 2018/19 only, Eligible Bid Preparation Costs.

The below summarises key aspects of the NIA portfolio at the end of 2023/24:

- 4 live projects
- 1 collaborative projects
- 3 projects undertaken solely by **SPEN**
- 1 project led by other Licenced Network Operator LNOs,

SPD and **SPM** have been allowed to recover **£5.9m_{20/21prices}** and **£5.2m_{20/21prices}**, respectively, of allowable expenditure through Distribution Use of System (DUoS) charges across RIIO-ED2.

Strategic Innovation Fund (SIF)

The SIF will support network innovation that contributes to the achievement of Net Zero, while delivering net benefits to energy consumers. It will coordinate network innovation funding with

other public sector funding initiatives, thereby ensuring greater flexibility and strategic alignment in innovation funding, and eliminating both unnecessary duplication and funding gaps.

Ofgem is the decision-maker in relation to the SIF. However, to support the SIF's operation, Ofgem is partnering with UK Research & Innovation (UKRI). UKRI's role is to deliver the SIF in line with this SIF Governance Document - administering the funding programme, monitoring the delivery of Projects, making recommendations to Ofgem on operational matters, supporting third-party innovators and, where possible, supporting successful Projects to become business as usual activities.

Fines & Penalties

Neither **SPD** or **SPM** have been subject to any investigations, fines or penalties as shown on Ofgem's website: <https://www.ofgem.gov.uk/investigations>

Quality of Service Guaranteed Standards

Payments under the guaranteed standards compensate for the inconvenience caused by loss of supply. In 23/24, our combined total of additional payments were **£0.2m_{20/21 prices}** (**SPD** **£0.16m_{20/21 prices}**, **SPM** **£0.04m_{20/21 prices}**) of Guaranteed Standards of Performance payments

Financing

Actual finance cost and debt figures are populated from our underlying reporting systems with further details reported within our published Statutory accounts for both **SPD** and **SPM** on a calendar year basis. This information can be found on our website at:

[Annual Reports & Accounts - SP Energy Networks](#)

We have a licence derogation in place as agreed with Gas and Electricity Markets Authority (GEMA). **SP Distribution Plc** and SP Transmission Plc provide guarantees to Scottish Power UK plc with respect to their external debt holders outstanding as of October 2001.

The overriding rationale of the debt guarantee provided by **SP Distribution** and SP Transmission to the then Scottish Power UK plc external debt holders, at the time of business separation in October 2001, was to ensure that the existing debt holders, effectively had access to the same asset base, and cash flows that they would have had pre that imposed asset separation and that they had originally lent to. The companies providing the guarantees, ultimately, being responsible for the repayment of both the interest and principal of that guaranteed debt. If the guarantees were ever called the companies would assume that external debt obligation and therefore be required to generate sufficient cash flows to satisfy the external debt holders' requirements.

As mentioned above, we believe there is a knowledge gap in the understanding of network companies' financial performance detailed within the report. It should be highlighted that companies annual CoD allowance does not cover the actual annual cash out flows for interest, due to the CoD allowance being set on a real basis while the majority of companies' debt is on a nominal basis. To this end we have included our own view of financing performance within the Financial KPI narrative above. Where our own view details the cash performance impact over the 5-year period, Ofgem's view shows an estimated RIIO-2 performance over the full depreciation period. To reiterate further, we believe Ofgem's current methodology misrepresents the performance over the full 45-year depreciation period as in year returns, this is of particular issue in the current high inflationary environment.

Tax

We receive a tax allowance calculated through the Price Control Financial Model (PCFM), based on a fixed split percentage of tax pool additions, and forecast nominal financing costs ('net interest paid').

To compare like-for-like performance against the allowance, we have revised the tax calculation updating for actual capital allowances and financing costs. SPD and SPM have an accounting period to December, therefore our taxable profits, capital allowances and liabilities are on a calendar year basis. To convert our accounting period reported values to compare with a regulatory year allowance, we have assumed a 25%/75% split of capital allowances to date.

Most of our assets are Special Rate Pool items and have attracted a rate of 6% from 1st April 2019. However, with the introduction of the super deduction on main rate and special rate items in both 2021/22 and 2022/23 (for first year additions only) this rises to 50% for the special rate pool items, therefore lowering our tax bill. However equally our tax allowance has lowered in tandem, save for a small deadband tax adjustment in the PCFM providing a small uplift to allowance. This is also set to continue across the RIIO-2 period with the introduction of "First Year Allowances" by the UK government from 2023/24 to 2025/26.

Our 2023 CT600 is not yet due for submission to HMRC, consequently the 2023/24 value in [R8 – Tax, E36] is a forecast to compare against the allowance. The additional other adjustments will be trued up in due course.

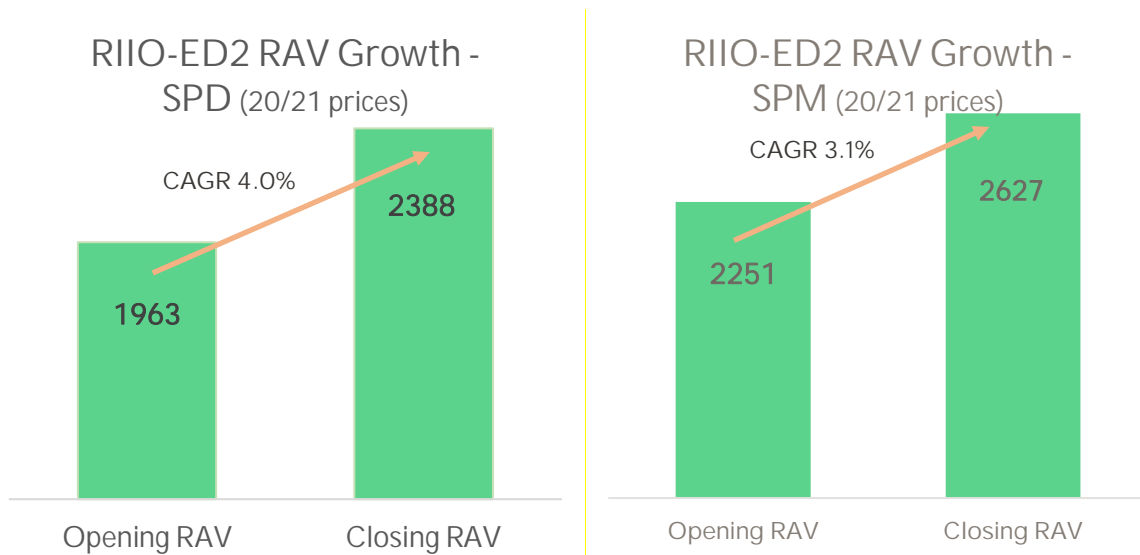
SPEN Tax Position (£m20/21 prices)	SPD		SPM	
	Cumulative (to 20/21)	RIIO-ED2 Forecast	Cumulative (to 20/21)	RIIO- ED12Forecast
Tax Liability	7.3	7.3	4.8	8.7
Tax Allowance	3.9	9.2	1.4	6.9
Tax Performance	-3.5	1.9	-3.4	-1.8

RAV

The regulatory asset value (RAV) is a key building block of the price control and RoRE performance measure. RAV represents the value upon which the companies earn a return in accordance with the regulatory cost of capital and receive a depreciation allowance. Additions to the RAV are calculated as a set percentage (70%) of totex, while in simple terms, the depreciation in a given year is formed of 1/45th of additions in all previous years. The RAV is the mechanism by which return allowances for shareholder investment and financing are collected over the long term.

The latest Price Control Financial Model (PCFM) was published in December 2023 following the Annual Iteration Process (AIP). The AIP PCFM is designed to update future revenues as a result of both past and forecast performance. Therefore, along with the inclusion of our enduring value adjustments the RFPR reflects our current best estimate of RIIO-ED2 performance.

Over the course of the RIIO-ED2 price control, the scale of investment required to deliver a network for today's and future customers means we will see the RAV value growing across the whole period (see charts below). The real RAV growth observed showcases the commitment from SPEN over the RIIO-ED2 regulatory period to spend more to meet the large scale investment required on the network than it recovers in revenue from customers.



SPD report a compound annual growth rate of 4.0%, a 21.7% increase from opening RIIO-ED2 RAV of £2.0bn_{20/21 prices} to a RIIO-ED2 closing RAV of £2.4bn_{20/21 prices}.

SPM report a compound annual growth rate of 3.1%, a 16.7% increase from opening RIIO-ED2 RAV of £2.3bn_{20/21 prices} to a RIIO-ED2 closing RAV of £2.6bn_{20/21 prices}.

Operational KPI

OVERVIEW

Our Outputs are the activities that our customers and stakeholders directly experience and value. The full list of our output commitments is set out in our RIIO-ED2 Business Plan. These Outputs have been developed to meet stakeholder and customer priorities identified through our ongoing programme of stakeholder engagement.

Highlights of our commitments under our six main Output categories:

Safety - Minimising the risks associated with distributing electricity:

- SPD and SPM aim for zero harm in all activities.
- Improve fire safety at over 1,000 substations in third party buildings.
- Replace c2,000 of our poorest condition link boxes and modernise c2,000 low voltage pillars in publicly accessible areas.

Reliability & Availability - Ensuring our network is resilient to extreme events and reliable under normal circumstances:

- Reduce the average number of times customers lose power by 19%.
- Reduce by 19% the length of time those customers have no power.
- Reduce number of interruptions for worst served customers by 33%.

Environment - Reducing our impact on the environment and playing our part in the low-carbon transition:

- Reduce carbon footprint by 67.2% by 2035 from a 2018/19 baseline.
- Decarbonise our operational fleet by 2030.
- Deliver 10% enhancement of biodiversity on 25 hectares across our existing network.

Connections - Providing excellent service to all customers who want new connections:

- Improve connections delivery timescales by 2% year on year from the start of RIIO-ED2.
- Offer 80% of HV and EHV customers the choice of a firm and a flexible connection where a known constraint exists.
- Quote within 70% of guaranteed standard timescales for Major Connections customers using our improved digital solutions.

Customer Service - Aiming to deliver the highest satisfaction scores of any DNO:

- Deliver satisfaction levels of 9.4 out of 10 by the end of RIIO-ED2.
- 90% of complaints resolved in one working day.
- Deliver direct support services to 276,000 vulnerable & disadvantaged customers.

A detailed overview of our Output performance will be provided as part of our upcoming Distribution Annual Performance Report for 23/24 which will be published in Oct 2024. This report will provide SPEN's stakeholders with a comprehensive view of how the company has performed against the commitments made in its RIIO-ED2 business plan. We will be reporting strong performance against our commitments and have delivered on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. This is reflected in positive outcomes

under the various incentive mechanisms that are in place to recognise good performance. We are determined to continue with this positive level of performance into the next price control – to ensure our customers receive the best levels of service and excellent value for money.

Previous reports can be found via the following link:

[Distribution Annual Performance Report \(SLC50\) - SP Energy Networks](#)

RFPR Tables

This section provides context and information on the specific tables within the RFPR excel template. Please refer to the below section as you navigate through the excel template for assistance in understanding the content of the relevant tabs.

R1 RORE

The purpose of this worksheet is to produce a view of the NWO's Return on Regulatory Equity (RoRE) which uses a consistent approach across sector and regulated NWOs.

The RoRE is presented using both the notional and actual gearing and reflects both actual and forecast performance over RIIO-ED2. The table provides a RoRE value for; each individual year of RIIO-ED2, cumulative actuals to date and for the full price control period (actuals and forecast).

R2 REVENUE

The purpose of this worksheet is for the NWO to report allowed and actual revenue and reconcile this to the value reported in the regulatory accounts (Underlying accounting records from 2020/21 onwards). In addition, the worksheet also provides a reconciliation for regulated network profit to statutory accounts.

Therefore, this table contains the actual revenue values over the first year of RIIO-ED2 for **SPD** and **SPM**. There is no requirement to forecast revenue.

The first section shows a breakdown of Allowed Revenue calculated in accordance with the RIIO-ED2 licence. The main input values are:

- Calculated Revenue,
- AIP Adjustment term,
- Adjusted Revenue,
- Legacy Allowed Revenue,
- Correction factor (K term).

Collected Regulated Network Revenue (RR term) is then compared with the Allowed Revenue to derive the Under/Over recovery of revenue for each year of RIIO-ED2.

The final section of the table then provides a reconciliation between the revenue recovered in year and the total turnover/Revenue as per the Income Statement from the regulatory accounts (Underlying accounting records from 2020/21 onwards).

The second part of the table seeks to compare the components of network profits (such as Operating costs, depreciation, interest, depreciation & tax) to the values published in the regulatory accounts (Underlying accounting records from 2020/21 onwards). Each of these elements are covered off in the corresponding RFPR table to show how they reconcile to the published values (such as R3 Totex which covers the difference between regulatory and statutory Opex).

The main difference between the Net Profit values per the Statutory Accounts and related to the Regulatory Business is due to the impact of Deferred Taxes on the Statutory accounting profits. This is offset by the impact due to;

- Transfer of assets revenue (deferred income) being included in the Statutory value but not included as part of the regulatory revenue above (RRt)
- Impact of over/under recovery of revenues due to volume movements
- Impact of our enduring value adjustments for "Timing" on totex performance which reduce the regulatory tax charge (as lower assumed totex allowances will reduce revenues and therefore taxable profits in the PCFM)

R3 REC TO TOTEX

The purpose of this worksheet is twofold:

- For the NWO to report their Totex performance against the RIIO-ED2 allowance adjusted for Enduring Value.
- For the NWO to reconcile their actual costs from their statutory accounts with their actual reported annual Totex. As a result, no information for forecast years is required in this table.

In relation to the first section, this contains a view of SPD and SPM current and forecast expenditure performance against the allowances set as part of the RIIO-T2 price control. Any under/overspend is then shared with the UK consumer via the Sharing factor which is currently 50% for RIIO-ED2. The table also includes any Enduring Value adjustments that are applied to help understand NWO's performance. An Enduring Value adjustment is an adjustment made to in year performance that impacts the return and RAV of an NWO. Examples of Enduring Value Adjustments include:

- future uncertainty mechanism claims.
- expected adjustments for close out mechanisms (e.g., Price control deliverables).
- timing differences of delivery of outputs (e.g., volume drivers).
- known changes to future output delivery (e.g., volume drivers); and
- known adjustments not yet made to the PCFM (e.g., mid- period review decisions).

SPD and SPM have an enduring value adjustment to smooth out the in-year under/over performance to reflect the timing of delivery of outputs. This removes any "noise" from the performance value to show true performance across RIIO-ED2.

In relation to the second section, this contains a reconciliation of the actual expenditure (both Capex & Opex) incurred in a given regulatory year with the expenditure reported within our regulatory accounts (Underlying accounting records from 2020/21 onwards). Reconciling items are listed within the tab and arise due to the reporting rules being different for our regulatory reporting compared with those set out for our statutory accounts. For example, the treatment of reporting of right of use assets differs between regulatory and statutory accounting rules.

R4 OUTPUT INCENTIVES & OTHER REVENUE

The purpose of this worksheet is for the NWO to report their annual actual and forecast performance against the RIIO-ED2 price control incentives as well as its Other Revenue Allowances (ORAs).

The first section of the table contains a breakdown of performance against each of the RIIO-ED2 incentives in 2020/21 prices on a pre-tax basis. These values relate to the year the incentive has been (or is forecast to be) operationally earned. This section is then repeated for Other Revenue allowances, also on a pre-tax basis.

A summary of each Output incentive is outlined below:

Broad measure of customer service

The purpose of this incentive is to encourage companies the quality of service provided to customers. For this incentive hundreds of our customers are surveyed on a regular basis. They score us out of 10 for interruptions, connections, and general enquiries. Scores are combined and used by Ofgem to give us a reward or penalty, worth up to **£7.0m**_{20/21 prices} per year. To earn a reward DNOs need a score above **9.12**, this is incredibly challenging, but a challenge **SPD** and **SPM** have risen to, regularly earning the maximum reward.

Interruptions-related quality of service

DNOs' performance in relation to reliability of supply is monitored annually by Ofgem with a reward available if they manage to outperform the RIIO-ED2 targets. **SPEN** have targeted the reduction of the volume and duration of interruptions over the course of RIIO-ED2. **SPEN's** investment plan is delivering on that promise; both **SPD** and **SPM** have out-performed the regulatory targets for RIIO-ED1, and CI & CML have all significantly improved since the end of DPCR5.

Time to Connect Incentive

DNOs' performance in relation to connections is reviewed annually by Ofgem. The two main metrics are;

- The average time it takes for a DNO to issue a quote (time to quote)
- The average time it takes for a DNO to finalise the connection to the network (time to connect)

Ofgem sets targets for each of these metrics, which are used to assess individual DNO's performance with a reward available for those who manage to outperform these set targets.

Major connections

The purpose of this incentive is to drive DNO's to provide quality service to customers seeking major connections during the RIIO-ED2 period. Licensees will be evaluated against major connections principles and baseline expectations. This is a penalty only mechanism, where DNOs are evaluated on their adequate engagement and on satisfying the needs of large connection customers through the use of the Major Connections Satisfaction Survey.

Consumer Vulnerability

Consumer Vulnerability (CV) rewards and penalises licensees for their performances in providing services to customers in vulnerable situations. This incentive covers Fuel Poverty Services and Low Carbon Transition Services provided and a Fuel Poverty and Low Carbon Transition Customer Satisfaction Surveys.

Distribution System Operator

The Distribution System Operator (DSO) ODI is a new incentive for RIIO-ED2. DSO ODI was introduced with the purpose of driving more efficient development and use of the network, taking into account flexible alternatives to network reinforcement. DSO ODI is a reward and penalty mechanism comprised of a Stakeholder Satisfaction survey, Performance Panel assessment, and an outturn performance metric.

The remaining section of this table covers off our Other Revenue Allowances (ORA's) and contains the actual and forecast performance of both SPD & SPM in relation to the main innovation mechanisms as set out in the RIIO-ED2 licence. These mechanisms are Network Innovation Allowance (NIA), Carry over Network Innovation Allowance (CNIA) and Strategic innovation Fund (SIF).

Network Innovation Allowance (NIA)

The Network Innovation Allowance provides limited funding to RIIO-ED2 NWO's to use to fund smaller technical, commercial, or operational projects directly related to the NWO's network that have the potential to deliver financial benefits to the NWO.

Carry over Network Innovation Allowance (CNIA)

Carry over Network Innovation Allowance (CNIA) are eligible NIA Projects that started in RIIO-T1 as calculated by the licensee in accordance with the RIIO-1 NIA Governance Document and reported to the Authority in accordance with Standard Condition B15.

Strategic innovation Fund (SIF)

The Strategic Innovation Fund is Ofgem's successor to the NIC fund in RIIO-ED1 and is explained above.

R5 FINANCING

The purpose of this worksheet is for the NWO to report their annual actual and forecast Net Interest charges as per the Regulatory (RIIO-2) definition. Therefore, this table contains the annual actual and forecast Net Interest expense for both SPD & SPM as per the statutory definition and then converts/reconciles these to the Regulatory (RIIO-2) definition.

Forecast finance costs are derived from business long term plan projections of cash requirements and assumption that all new debt/refinancing will be via an intercompany on demand loan at a variable rate plus margin.

The table then seeks to compare this charge against the Cost of Debt (CoD) allowance as set out in the most recently published Price Control Financial Model (PCFM). To compare these values, Ofgem adjusts the in-year interest charge by removing inflation to match the real CoD allowance. Performance is assessed on both an Actual & Notional gearing basis to allow for consistent performance reporting across all DNO's.

As mentioned above, we believe there is a knowledge gap in the understanding of network companies' financial performance detailed within the report. It should be highlighted that companies annual CoD allowance does not cover the actual annual cash out flows for interest, due to the CoD allowance being set on a real basis while the majority of companies' debt is on a nominal basis. To this end we have included our own view of financing performance within the Financial KPI narrative above. Where our own view details the cash performance impact over the 5-year period, Ofgem's view shows an estimated RIIO-2 performance over the full depreciation period.

R6 NET DEBT

The purpose of this worksheet is for the NWO to report their annual actual and forecast Net Debt as per the Regulatory (RIIO-2) definition. Therefore, this table contains the annual actual and forecast Net Debt positions for both SPD & SPM over the RIIO-ED2 period as per the statutory definition. These values are then converted to reflect the Regulatory (RIIO-2) definition as set out in the RFPR RIG's. As with the interest charges, forecast Net debt figures are derived from business long term plan projections of cash requirements and assumption that all new debt/refinancing will be via an intercompany on demand loan at a variable rate plus margin.

The table then summarises the annual gearing % based on the current view of NWO Regulatory Asset Value (RAV) as shown in table R7 – RAV. This also allows the calculation of the delta between Actual reported gearing and the Notional gearing RIIO-ED2 value of 60% for use in the R5 financing tab.

R7 RAV

The purpose of this worksheet is to identify an annual Regulatory Asset Value (RAV) position using the annual actual and forecast RAV as published in the latest PCFM. Therefore, this table contains annual actual and forecast Regulatory Asset Value (RAV) for each year of the RIIO-ED2 period for both SPD & SPM.

The starting position is therefore to take the RAV from the latest Price Control Financial Model (PCFM) which was last published in December 2023 following the Annual Iteration Process (AIP). These are then updated to ensure both Expenditure & Allowance values and by extension RAV additions and depreciation values reflect the current actual and forecast performance from the annual Regulatory Reporting Pack (as summarised in R3). A further adjustment is made to ensure that the Enduring value adjustments recorded in R3 are also accounted for in the RAV totals.

The adjusted closing RAV totals are then used to derive a summary of output values that are used in the calculation of performance in other tables (such as R1-RoRE, R5 Financing, R6 Net Debt, R8 Tax)

R8 TAX

The purpose of this worksheet is for the NWO to reconcile their CT600, actual corporation tax liability (pre- group relief), with the adjusted/forecast regulated tax liability. Therefore, this table contains a reconciliation of both SPD & SPM's CT600 actual corporation tax liability (pre- group relief) with the adjusted/forecast regulated tax liability as calculated within the PCFM.

Adjustments are made to the actual/forecast tax liability to allow for comparison to allowance within the PCFM which is done on both an actual and notional gearing basis.

R9 CORPORATE GOVERNANCE

The purpose of this worksheet is for the TO to:

- report actual dividends paid that relate to the regulated business
- report the executive directors' remuneration.

The first part of the table contains the actual dividend paid to date (i.e.23/24). There is no requirement to forecast future dividend payments.

The second part of the table covers off the remuneration of executive directors for the **SP Distribution** & **SP Manweb** businesses for the 23/24 reporting year. Further details can be found in the "Corporate Governance Requirements" section below.

R10 PENSIONS

The purpose of this worksheet is for the NWO to report a summarised position of their pension deficit for their defined benefit schemes. Therefore, figures in R10 Pensions & Other Activities reflect the total of established and incremental NWO costs associated with both the ScottishPower Pension Scheme (SPPS) and the Manweb Group of the ESPS (Manweb). These actual deficit values are then compared to the allowance values that were derived from the latest valuation (Triennial actuarial valuation) which took place on the 31/03/22. The final section of the table sets out the key pension scheme parameters as at the last valuation in 20/21 prices.

The purpose of the second section of this worksheet is to capture any Ofgem related fines and penalties incurred by the NWO over the RIIO-ED2 period to date.

This section deals with any penalties or fines issued by Ofgem (which would be published on Ofgem's website) in relation to any investigation undertaken by Ofgem during RIIO-ED2. Both have incurred no fines or penalties in RIIO-ED2 to date.

Data Assurance Statement

Data assurance was conducted in accordance with SPEN's "Regulatory Submissions Procedure" developed and implemented to ensure compliance with Ofgem's Data Assurance Guidelines (DAG). The details of the accountabilities we have in place are contained in the SPEN NetDAR Submission, 31 March 2024, Section 1.4 Organisational Data Assurance Process.

Based on DAG methodology, a risk assessment was carried out on the submission and the result is as below:

Submission	Total Risk Score	Impact Score	Probability Score	Impact and Probability Breakdown
RFPR	High	3	3	<p>Impact:</p> <ul style="list-style-type: none">Financial category was allocated '3'Customers and Competition were allocated '1' <p>Probability:</p> <p>Reporting Assessment:</p> <ul style="list-style-type: none">Complexity and Manual intervention '4'Completeness '2'Reporting rules '3' <p>Control Framework Assessment:</p> <ul style="list-style-type: none">Control activities '1'Experience of personnel '1'Historical Errors '2'

Minimum DAG was applied per table and based on the 'Total Risk Score' and amount of data in the submission, we selected an Internal Data Audit and Director Sign-off as additional assurance. Furthermore, as parts of the submission is being published, CEO Sign-off was considered relevant.

The Internal Data Audit was performed by our Licence and Assurance Team and our Finance Department who are independent from table preparation. Assurance was performed on a sample basis on the following tables in the submission. No findings were noted.

Table No.	Table Name
R3	Totex & Reconciliation
R5	Financing
R6	Net Debt

In summary, the following assurances were completed:

- Method Statement
- Second Person Review

- Senior Manager Sign-off
- Internal Data Audit
- Director Sign-off
- CEO Sign-off

Corporate Governance Reporting

The section covers the additional RIIO-ED2 reporting requirement as set out in the RFPR RIG's on corporate governance.

To deliver its strategy, ScottishPower, and therefore Energy Networks, and so the Company, conducts business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting its performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

As part of the Iberdrola Group, ScottishPower is developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which ScottishPower operates. ScottishPower strongly believes that effective and meaningful engagement with stakeholders, especially employees, is key to promoting its success and values.

Meaningful engagement with stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the Company for the benefit of its members as a whole.

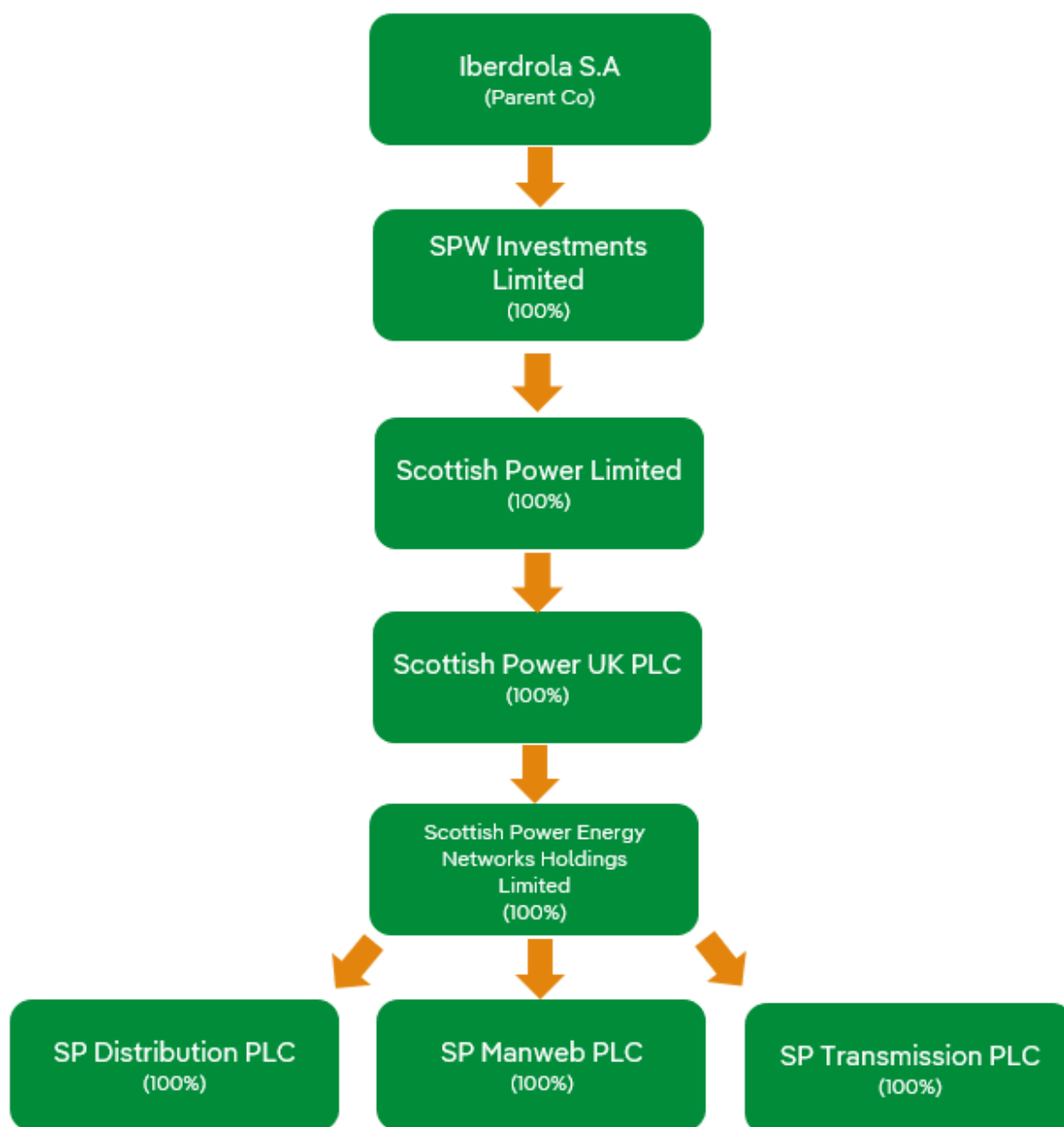
ScottishPower, and therefore Energy Networks and the Company, has four key stakeholder categories: employees and customers; government and regulators; suppliers and contractors; and community and environment. Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower, and they are also affected by ScottishPower's activities. In addition, these stakeholders interact with each other, creating a universe of relationships that ScottishPower needs to manage in order to achieve a better understanding of its operating environment and to deliver a more sustainable performance across its activities.

Details of how ScottishPower, Energy Networks, and so the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out below in our SP Transmission Annual report 2023 within the Directors Report section.

[Annual Reports & Accounts - SP Energy Networks](#)

Corporate Ownership and Governance Framework

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the Company is Scottish Power Energy Networks Holdings Limited ("SPENH"), the holding company of the Scottish Power Energy Networks Holdings Limited group ("SPENH Group" or "Energy Networks"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited Group ("ScottishPower") of which the SP Distribution & SP Manweb are members. This structure is shown below:



Further details on SPEN's & Iberdrolas group structure can be found here:

[Group Structure - Iberdrola](#)

SP Distribution & **SP Manweb** do not apply a corporate governance code on the basis that it, as part of the SPENH Group, have adopted the rules and principles of the SPENH Group as they have been set by the board of directors of SPENH ("the SPENH Board"), in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), all of which are based on widely recognised good governance recommendations ("the SPENH Group corporate governance system"). Those rules and principles of the SPENH Group corporate governance system that applied to the **SP Distribution** & **SP Manweb** as part of the SPENH Group during 2023 are set out as follows:

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'. ([Corporate Governance - SP Energy Networks](#))

The Group Governance Framework is published on www.scottishpower.com ("the SPL Corporate website") under 'Corporate Governance' / 'Governance and Sustainability System' / 'Corporate Governance'. ([Governance and Sustainability System - ScottishPower](#))

The Company (**SP Distribution** & **SP Manweb**) is governed by the Board who bring a broad range of skills and experience to the Company. The Board is regulated in accordance with the Company's Articles of Association. In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association, the Board has, in accordance with the Group Governance Framework, adhered to the SPENH Group corporate governance system which applies to the Company as part of the SPENH Group. The SPENH Group corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of ScottishPower and, ultimately, of the Iberdrola Group.

An overview of the Board for both **SP Distribution** & **SP Manweb** is outlined below:

Licensee	Company number	Sufficiently Independent Directors (SIDs)	Other Directors
SP Distribution plc	SC189125	Alison Mary McGregor Rt. Hon Charles Hendry Gillian Elizabeth King	Nicola Mary Connelly (CEO of SP Energy Networks) Scott Hamilton Mathieson (Network Planning & Regulation Director of SP Energy Networks) Craig David Arthur (Director of SPD)
SP Manweb plc	02366937	Alison Mary McGregor Rt. Hon Charles Hendry Gillian Elizabeth King	Nicola Mary Connelly (CEO of SP Energy Networks) Scott Hamilton Mathieson (Network Planning & Regulation Director of SP Energy Networks) Liam Gavin O'Sullivan (Director of SPM)

Further information in relation to decision-making responsibility (for example on purpose, values and strategy, board director nominations, board director evaluation etc) are described in the Corporate Governance Statements included in each of the licensees' annual report and accounts which are published here:

[Annual Reports & Accounts - SP Energy Networks](#)

Executive Remuneration Policies

The executive directors participate in the group's performance related Annual Incentive Plan and receive a bonus in the year under review. Entitlement to a bonus is dependent upon achievement of objectives set at a group, business and personal level. Business objectives are set annually based on what requires to be delivered by the business and progress is tracked against a scorecard. The objectives set include targets relating to service standards, which include customer minutes lost, customers interrupted and telephone response rate. These are set out below for directors of SP Distribution & SP Manweb.

Role	Customer Service	Health & Safety	Investment Delivery	Performance & Governance
Chief Executive Officer	8%	8%	40%	44%
Director of Network Planning & Regulation	12%	7%	47%	34%
Director of SP Distribution	26%	7%	45%	22%
Director of SP Manweb	26%	7%	45%	22%

SPD & SPM Executive Directors also participate in the Long-term Incentive Plan (LTIP), which is a performance share plan. Eligible directors are granted an award of shares expressed as a percentage of base salary. Before any amount of shares vest the Remuneration Committee must be satisfied that there has been sustained underlying financial and customer service performance. The final amount of shares, which vest, is dependent on performance over a 3-year period.

Further details can be found on our directors pay and standards statement below:

[Directors Pay & Standards of Performance 2023](#)

The directors of the Company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout the SPENH Group.

There is no separate Remuneration Committee within the SPENH Group. Instead, remuneration matters relevant to the SPENH Group and the Company are dealt with and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola Group companies (Incl CEO) and ensure compliance with the relevant remuneration policy for each company.

Dividend Policies

The delivery of the strategy of the SPENH Group, of which **SP Distribution & SP Manweb** are members, requires the SPENH Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the SPENH Group's performance and reputation by prudently managing risks inherent in the business. The Company's approved dividend policy is to pay a sustainable dividend to ordinary shareholders taking into consideration the impacts on current and forecast credit rating metrics and forecast profitability over a medium-term horizon.

As shown in the RFPR, we reinvest a significant portion of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Boards of **SPD & SPM** ensures that it understands and considers shareholder views in order to preserve positive investor relations. In its capacity of providing oversight for the operational performance of the business, the

Board also takes account of the forecast performance against performance targets, other RIIO-ED2 output commitments.

In addition, specific to the regulated companies is a consideration that any proposed dividend aligns with regulatory target capital structure.

The board of SPD & SPM approve a pre dividend certificate to Ofgem to confirm it is comfortable that the proposed dividend will not place the licensee in breach of Standard Licence Condition 30.

Appendices

Reconciliation between regulatory year end and statutory year end

In previous years, given that price controls are set on a March year end we would have reconciled to the March Year End publicised Regulatory Accounts. As of 2020/21, we have been given a derogation by Ofgem to not produce these as the intention of the RFPR was to replace these reports. Therefore, the financial values provided within the RFPR templates are sourced from our underlying accounting records. We still have an obligation to publish Statutory Accounts which are prepared on a calendar year basis. The main differences between these values and those published in the accounts will be due to the timing of expenditure and revenue differences. Our Statutory Accounts can be found on our website using the following link:

[Annual Reports & Accounts - SP Energy Networks](#)

Enduring value adjustments

The enduring value adjustments we have made, and the methodology of these adjustments are embedded within this document. Therefore, we have not explained them in this section separately.

Basis of estimations and allocations

We do not consider our Regulatory Financial Performance Report to contain any estimates and allocations, nor does it include apportionments.

Other relevant information

We do not consider any further information to be relevant in addition to the tables and this commentary.

We have provided our opinion above on a weighted average RoRE and consideration of other methods to be a more appropriate basis of evaluating performance.