Regulatory Financial Performance Report

2021/22

SP Distribution &

SP Manweb

Contents

Executive Summary

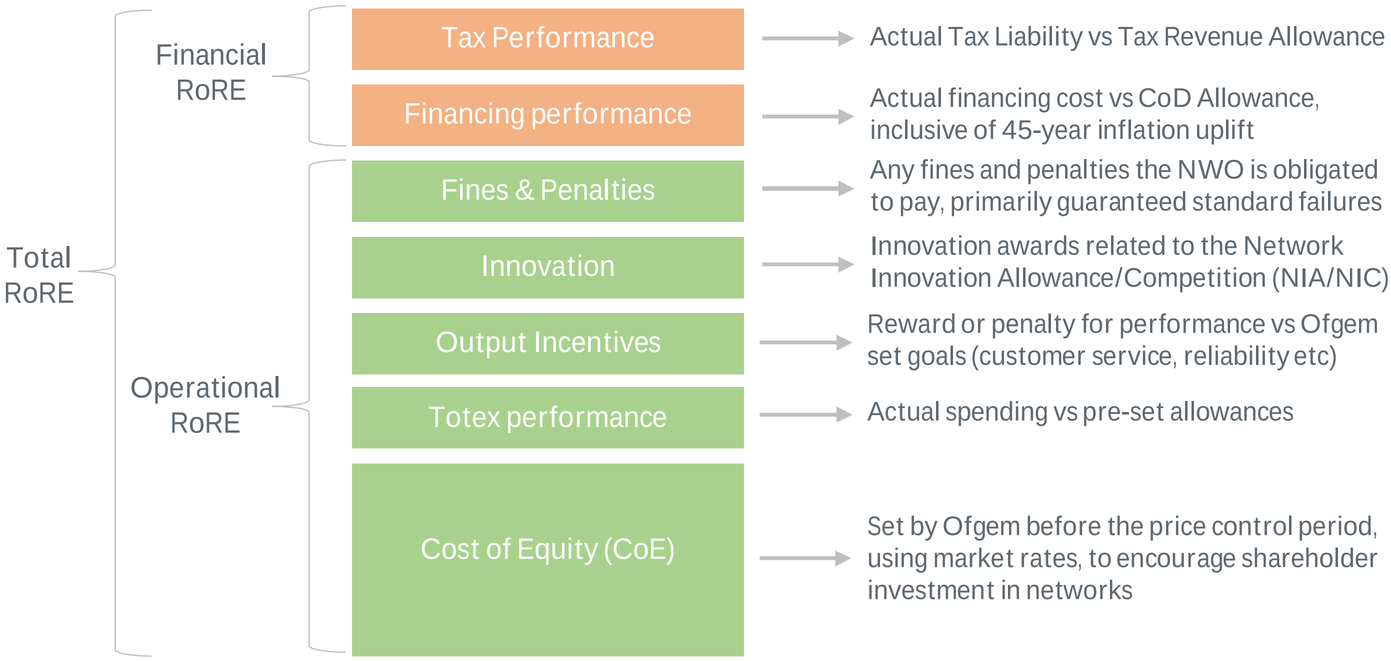
WHAT IS THE RFPR?

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 (e.g., 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 – 65% 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 **62%** for our two distribution 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*).

The consistency and comparability of the RFPR needs to be enhanced through continued development of the RIGs guidance. There are areas like taxation, forecast financing costs and enduring value adjustments where different approaches may be adopted. We believe enduring value adjustments should be completed by all companies.

Ofgem have previously said that consistency was applied in some areas, but no specifics were mentioned. It would be beneficial for stakeholders for this to be quantified.

OUR PERFORMANCE

We are pleased to present the 2021/22 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. We have therefore provided an additional cashflow performance measure in addition to Ofgem's view in table R7.

We have now completed the penultimate year of the RIIO-ED1 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 todays 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. The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme.

To provide our essential services it costs SPEN customers an average of **32p/day** This is less than a Netflix subscription

Our operations during the RIIO-ED1 price control are forecast to reduce Domestic customer's bills over the price control period in real terms (bill movements are lower than inflation). For SPD this is forecast to be a **6%** reduction, from **£116$_{21/22\ prices}$ p.a. in 2015/16 to £109$_{21/22\ prices}$ p.a. by 2022/23**. For SPM this is forecast to be a **6%** reduction, from **£139$_{21/22\ prices}$ p.a. in 2015/16 to £131$_{21/22\ prices}$ p.a. by 2022/23**. Please note this excludes the impact of the Supplier of Last Resort (SoLR) mechanism which relates to the costs associated with failed suppliers and not DNO activity.

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 2021/22 and the movement on the prior year are summarised below:

	SPD			SPM		
	2020/21	2021/22	△	2020/21	2021/22	△
Revenue	446.9	460.3	13.4	407.6	419.8	12.2
Operating profit	174.0	181.0	7.0	165.3	164.6	-0.7
Net profit	108.5	52.4	-56.1	101.3	38.5	-62.8
Investment	181.3	168.6	-12.7	203.0	186.7	-16.3

While this commentary focusses on **SPEN's** financial performance, a separate report, the Distribution Annual Performance Report for 2020/21 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-ED1 business plans. This information can be found on our website at:

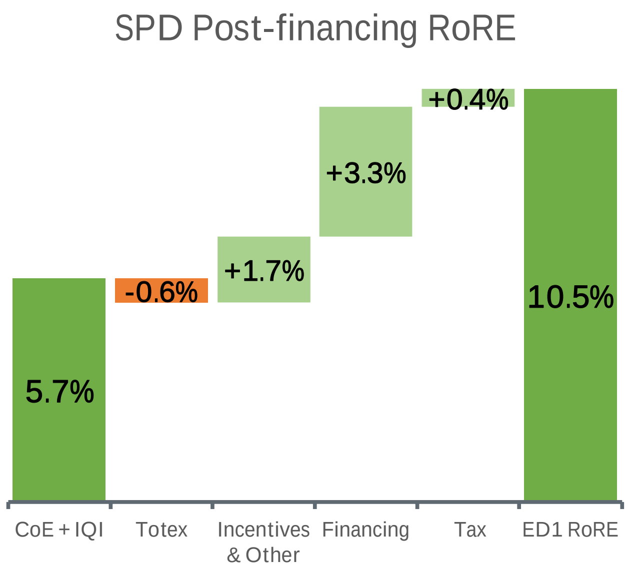
Distribution Annual Performance Report (SLC50) - SP Energy Networks

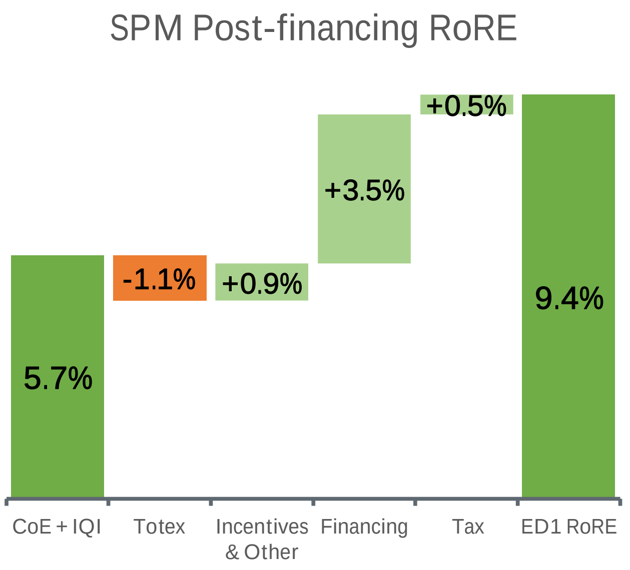
Financial KPI

OVERVIEW

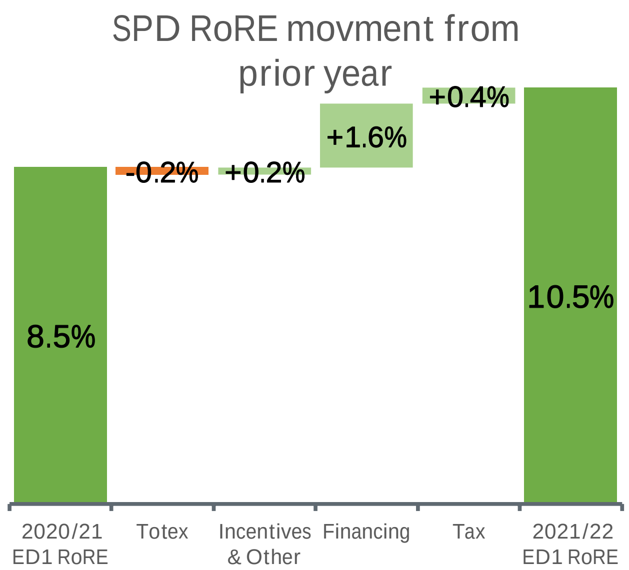
SPEN's financial performance is detailed below. Overall, we expect to over deliver on our business plan contract. Our Operational RoRE forecast for the RIIO-ED1 period is 6.8% and 5.5% for SPD and SPM respectively, and when including our financing and tax performance, this rises to 10.5% and 9.4% for SPD and SPM respectively. As mentioned previously, Ofgem's methodology compresses performance which is earned in the RIIO-ED1 period but realised over a 45-year period into in year performance, potentially misleading stakeholders into believing reported RoRE is in line with profits.

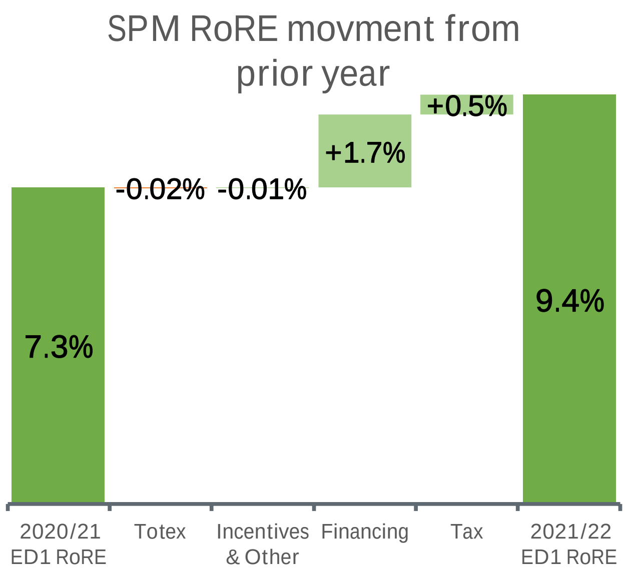
The breakdown of our total RoRE is shown in the graphs below:





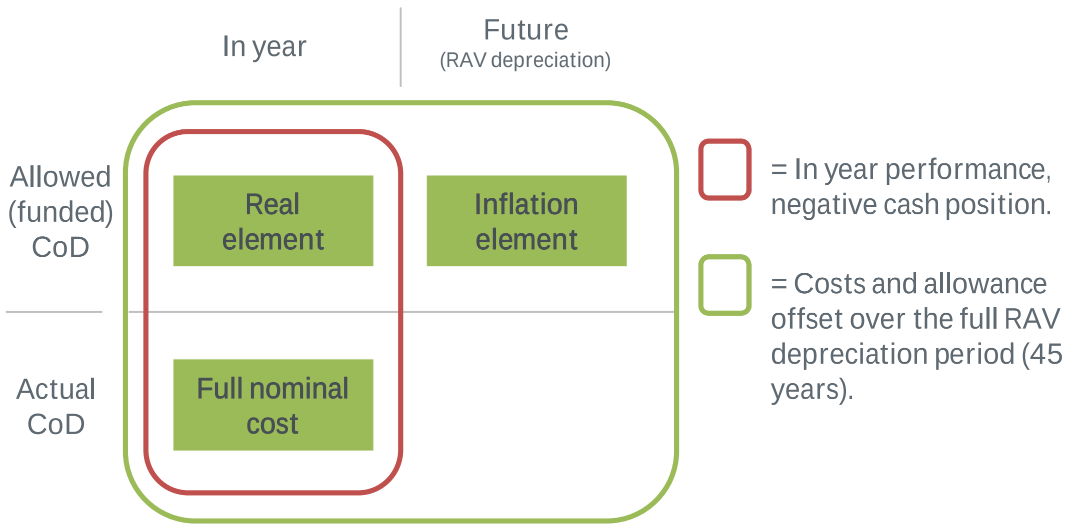
For context, the movements versus the 2020/21 RFPR report are shown below:





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.

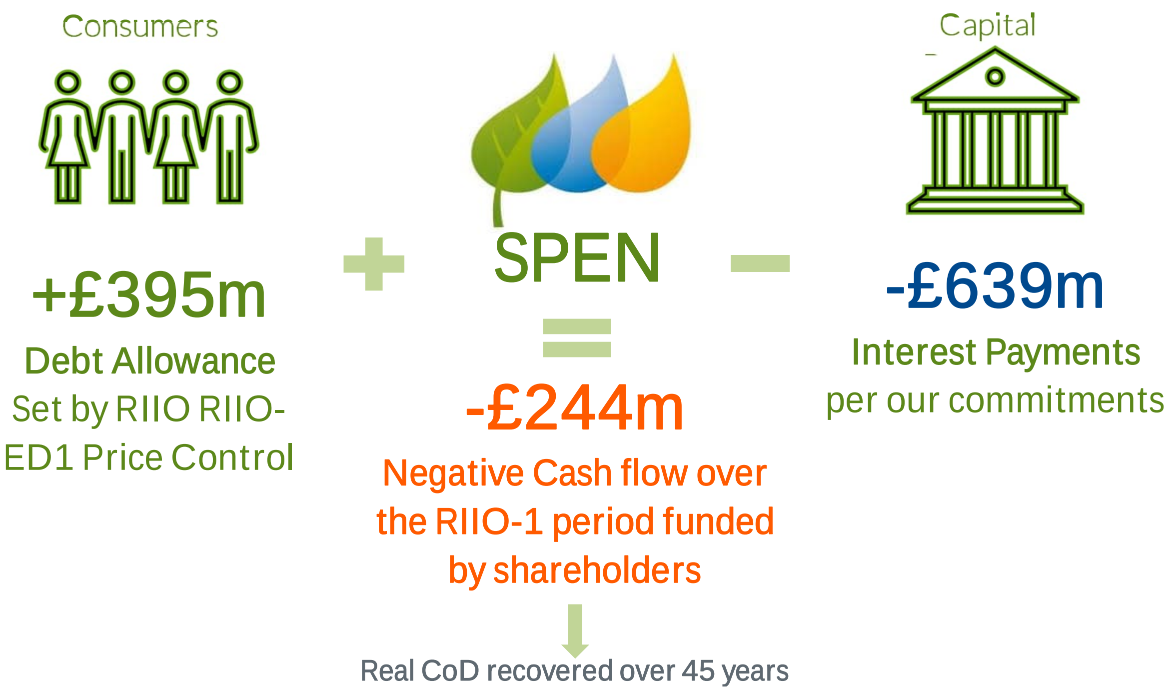
Ofgem's current "economic performance" of financing method in the RFPR effectively takes the inflation element of our cost of debt allowance that would be applied to the RAV over the course of its depreciation, so collected over up to 45 years, and attributes that performance to a single year's results.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



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 and in periods of **high inflation – where 2021/22 inflation was 5.8% and 2022/23 inflation is forecast to be 8.3%**. However, RIIO-ED1 inflation has been below Ofgem's projections for most of the price control.

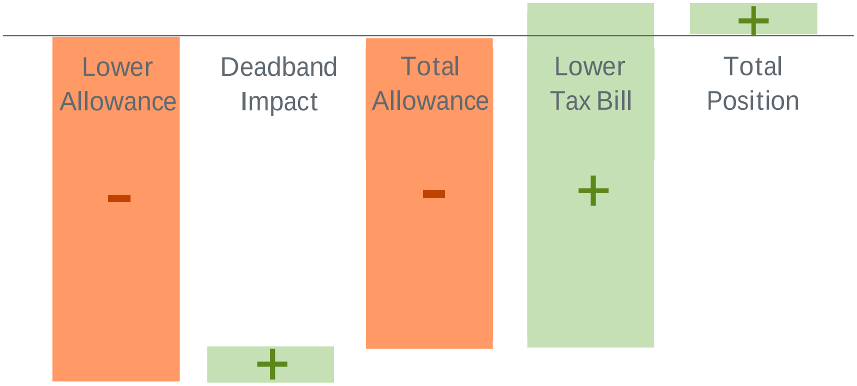
Therefore, we have a funding gap in the short term driven by this negative cashflow relating to financing, this is set out below:



This long-term collection of returns is set by Ofgem to incentivise long term responsible investment and stability in the networks, but 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 reported in this year's RFPR has moved higher as a consequential impact of the inflation in the financing performance. Ofgem's methodology allocates an element of our tax performance that is driven by our financing into financing performance, thereby increasing our overall tax performance.

As part of the government's 2021 Budget, they announced a 'super-deduction' on capital allowances, impacting the main rate and special rate pool additions. The main 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 rate pool. 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%).



Totex performance reported in this year's RFPR has decreased slightly due to upward pressure on costs, predominantly associated with our indirect cost base required to meet investment delivery, offsetting cost efficiencies via competitive re-tendering of Global contracts, Innovation, and Digitalisation.

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 20% of this performance is realised in year/period, the rest is collected over the 45-year RAV depreciation period.

Incentives and other performance reported in this year's RFPR has increased in our SPD business as a result of strong performance in the Interruptions Incentive Scheme (IIS) for 2021/22 and forecast for 2022/23. In SPM we have seen a marginal improvement in incentives rewards.

These improvements were offset slightly by Guaranteed Standards (GS) payments to customers in relation to storm Arwen, approximately £1.5m and £0.5m in SPD and SPM, respectively.

REVENUE BREAKDOWN

SPEN's Regulated Revenue for the regulatory year 2021/22 was **£827.2m**, the table below:

2021/22 Regulated Revenue (£m$_{nominal}$)	SPD	SPM	SPEN Total
Base Revenue	£415.8m	£378.5m	£794.3m
Incentives, LCNF, NIA & Passthrough True-ups	£16.3m	£18.7m	£34.9m
Under / Over Recovery and K term	-£3.3m	£1.3m	-£2.0m
Regulated Distribution Network Revenue	£428.8m	£398.4m	£827.2m

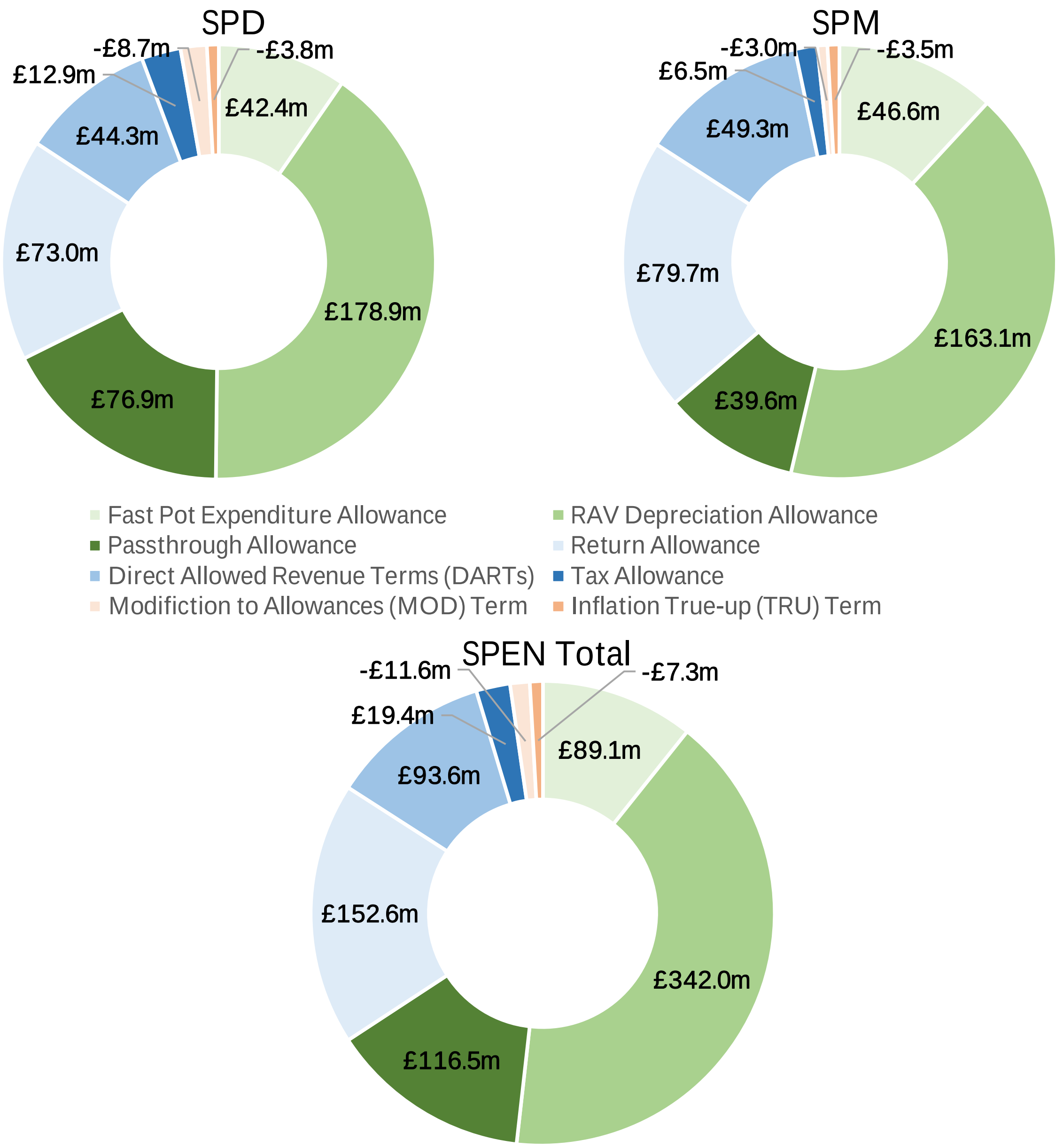
Base Revenue is the largest element of SPEN's Regulated Revenue and is calculated in Ofgem's published Price Control Financial Model (PCFM).

Performance incentives make up around 4.2% of SPEN's 2021/22 Regulated Revenue. These are penalties or rewards received under the various regulatory incentive schemes, plus the element of the Low Carbon Network Fund and 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 Incentive Scheme (IIS).

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

This is the largest element of SPEN's Regulated Revenue. SPEN's 2021/22 Base Revenue was £794.3m. The charts below show the breakdown of this:



Under the RIIO framework, **SPEN** receives a Totex allowance, 20% of which is received in the year incurred; this is the Fast pot expenditure allowance. The remaining 80% 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 an allowance for the cost of equity as set at the start of a price control period.

Direct Allowed Revenues (DARTs) includes allowances for pension deficit repair payments, revenue profiling adjustments and prior price control revenue to be recovered over RIIO-ED1.

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

MOD is an annual adjustment to Base Demand Revenue, to reflect updates to costs shared with customers and adjustments for uncertainty mechanisms.

RPI true up relates to an adjustment to previous years' revenues inflated using forecast RPI, once the actual RPI is known.

RORE BREAKDOWN

Our overall Return on Regulatory Equity (RoRE) forecast for the RIIO-ED1 period is **10.0%** based on Ofgem's notional gearing calculation (**9.2%** 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	
RIIO-ED1 RoRE	Notional Gearing 2021/22	Actual Gearing 2021/22	Notional Gearing 2021/22	Actual Gearing 2021/22
Allowed Equity Return	6.0%	5.5%	6.0%	5.6%
Totex Performance	-0.6%	-0.6%	-1.1%	-1.0%
IQI Reward	-0.3%	-0.3%	-0.3%	-0.3%
Output Incentives and Innovation	1.7%	1.5%	0.9%	0.8%
RoRE - Operational Performance	6.8%	6.2%	5.5%	5.1%
Debt Performance	3.3%	3.0%	3.5%	3.2%
Tax Performance	0.4%	0.4%	0.5%	0.4%
RoRE - Including Financing & Tax	10.5%	9.6%	9.4%	8.8%

Allowed Equity Return & IQI Reward

The Allowed Equity Return percentage and the IQI Reward are both set before the beginning of the RIIO-ED1 price control.

The level of return was set at **6%** for DNO's (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.

The IQI Reward represents the reward or penalty given to DNO's for their Business Plan submissions to Ofgem and the level of scrutiny required by Ofgem.

Totex

Forecasts for SPD and SPM have consistently been prepared based on fully delivering our outputs for customers, managing emerging asset risks on our networks, and in line with our long-term asset management strategy. As outlined in previous years, reviews of our investment plan have led to a reprofiling of our expenditure and outputs across categories in both SPD and SPM over the RIIO-ED1 eight-year period. Following the passing of the midpoint, and our submission of the 2018/19 regulatory reporting pack, we undertook a comprehensive review of our RIIO-ED1 business plan. This included the evaluation of the business challenges that we have experienced during RIIO-ED1 to date, and those we foresee for the remainder of the price control period.

These challenges have had an adverse impact our ability to deliver our outputs within the agreed RIIO-ED1 allowances. Whist we have delivered cost efficiencies via competitive re-tendering of Global contracts, Innovation, and Digitalisation, the level of efficiency achieved is not sufficient to offset the upwards pressure we have experienced, or to mitigate the emergent issues we have faced in managing network risks.

Upwards pressure on costs have predominantly affected our Indirect cost base due to the level of indirect staff required to support our outsourced investment delivery and increased personnel costs (including salary, pension, and training costs). The turnover in our employee population, as well as the implementation of our Digitalisation strategy, will drive future efficiencies from the Business, and we continue to focus on achieving efficiencies across all categories.

Load Related

In SPD and SPM, timing is the main factor in the enduring value adjustment, however we also identify opportunities in this area and expect to outturn with efficiencies in both SPD and SPM.

In SPD, after the 7th year of RIIO-ED1, the total value of primary substation schemes identified in the RIIO-ED1 Business Plan have been approved. Expenditure in the 2021/22 regulatory year was £20.9m, a minor reduction on the peak of £24.7m in 2020/21. In SPM, 100% of planned schemes are financially approved.

Totex efficiencies are being delivered through the application of innovative solutions, including procurement of flexibility rather than traditional solutions, and deployment of Active Network Management (ANM) schemes to enable quicker and more cost-effective generator connections.

We are also deploying sophisticated weather correction tools to understand the need for, and timing of, interventions. These solutions deliver efficiencies however incur increased indirect costs in the planning phases. We also see and anticipate efficiencies from the detailed planning undertaken on these projects as they reach completion. We are maintaining our commitment to delivering our RIIO-ED1 outputs in both SPD and SPM Load Programmes.

Non-Load Related

In SPD and SPM, timing is the main factor in the enduring value adjustment. We are maintaining our commitment to delivering our full RIIO-ED1 outputs in both SPD and SPM. We expect to outturn with efficiencies in both networks across our Non-Load Programme in order to offset the upwards pressure on costs experienced in our Network Operating Costs and Indirects.

Some of the timing impact experienced in the first half of RIIO-ED1 was due to elements such as lengthy contract negotiations, the bedding-in of our new District delivery model, and land rights/wayleaves issues affecting our overhead line programme. The lengthy contract negotiations and new District delivery model have enabled us to deliver efficiencies, and our land rights and Wayleaves issues have now resolved.

We have accelerated our overhead line modernisation programme to maximise the benefits to customers as early as possible in RIIO-ED1. At year 7, utilising the significant numbers of framework contracts placed prior in 2018, we have made substantial progress in delivering our RIIO-ED1 Non-Load programme. Major programmes such as the Rising Mains and Laterals and the Service Modernisation programmes have seen the benefits of their framework contracts, and we have seen progress in other areas, including our civils and our refurbishment programmes.

One of the most significant emergent issues during RIIO-ED1 has been our proactive investment programme to address an emergent type failure issue with 33kV cable Triff joints. This has required significant investment and indirect cost increases that were unforeseen at the time of the RIIO-ED1 plan, to effectively manage the risk to our network and ensure supply security.

Network Operating Costs (NOCs)

Within our Network Operating Costs (NOCs), the majority of our activities are delivering in line with RIIO-ED1 Business Plan. Both SPD and SPM continue to deliver our Inspection and Maintenance programme and our Trees programme in line with the commitments made.

In SPD, expenditure on NOCs is lower than allowance after 7 years, driven by underspends in our Tree cutting programme. We continue to deliver our tree-cutting programme in line with our 3-year cyclical methodology, with our outsourced contract strategy achieving sustained cost efficiencies.

In SPD, faults expenditure is in line with allowance after 7 years. In SPM, faults expenditure is ahead of allowance after 7 years. Weather events have affected fault volumes during the RIIO-ED1 period, in particular in SPM where we have experienced significant weather-related activity that did not breach the threshold for an exceptional event. These weather patterns are affecting the nature of our faults compared to historical trends and are forecast to continue into RIIO-ED2.

In addition, high ambient temperatures between May and July in the last four years have adversely affected fault volumes on our 33kV cable network. This has led to greater costs in both SPD and SPM to resolve acute network risks, followed by an ongoing, proactive investment programme.

Closely Associated Indirects (CAIs)

Across both our Closely Associated Indirects and Business Support categories, both SPD and SPM set themselves a challenging RIIO-ED1 target within their business plans. Efficiencies were built into every aspect of our costs. Given the final determination package set at the outset of RIIO-ED1, we are finding it very challenging to reach the levels required to meet our allowance without affecting our commitment to output and customer service delivery.

Closely associated indirects are sensitive to increases in salary and pension costs; with c10% of our closely associated indirects related to pensions. Pension costs during RIIO-ED1 have been higher than expected due to ongoing pension contributions and pension deficit payments, which have increased to reflect macro-economic factors.

As part of our ED1 strategy, we have placed a significant focus on Digitalisation, and have developed and implemented our NAMS project. NAMS is a major investment to deliver a fully integrated work management and regulatory reporting system. The aim is to provide efficiencies through streamlining business processes, increasing integration in work management, and fully automating our regulatory reporting. NAMS went live in January 2018; and we continue to review our business practices to ensure full utilisation and delivery of all associated benefits.

In the short term, our Digitalisation strategy has resulted in cost increases due to the level of indirect staff required to support, develop, and implement these solutions, as well as re-training our wider organisation to utilise the technology. These increases will offset in the long term as the benefits of automation and digitalisation are realised.

We note from the data issued with Ofgem's RIIO-ED1 Performance Reports the majority of DNO's are experiencing cost increases in Indirects compared to DPCR5 levels.

Business Support Costs (BS)

Business Support costs have increased in comparison to the level forecast for RIIO-ED1. Our increased focus on Digitalisation during RIIO-ED1 has increased our IT & Telecoms costs within Business Support, and we expect a continuation of this trend as we move towards a DSO and Flexibility model at an accelerated rate in RIIO-ED2.

Looking ahead, we anticipate a continued focus on the enablers for decarbonisation, with data and digitalisation playing increasingly import roles in providing the evidence base for decisions. We welcome Ofgem's "Modernising Energy Data" initiative, and are investing in innovative projects, as well as are undertaking cross-sector collaboration to develop solutions that meet objectives.

We have partially offset cost increases through initiatives within SPEN to reduce costs incurred directly by the company, however, have not been able to materially reduce the overall level of Business support costs which are required to deliver our business plan commitments.

Incentives

On a notional gearing basis, total incentives contribute +1.7% to SPD and +1.0% to SPM RoRE over the RIIO-ED1 period. This contribution lowers slightly throughout the period as a result of tightening targets within the reliability incentive.

Output Incentive Rewards (£m 12/13prices)	SPD			SPM		
	2021/22	Cumulative	RIIO-1 Forecast	2021/22	Cumulative	RIIO-1 Forecast
Broad measure of customer service	3.0	22.7	25.8	3.0	25.3	28.7
Interruptions-related quality of service	9.4	52.2	61.2	2.6	21.0	23.0
Incentive on connections engagement	0.0	0.0	0.0	0.0	0.0	0.0
Time to Connect Incentive	0.5	4.5	5.1	0.3	3.3	3.7
Losses discretionary reward scheme	0.0	0.4	0.4	0.0	0.4	0.4
Total Incentives	12.9	79.7	92.4	5.8	50.0	55.8

In 2021/22 we added **£18.7m** 12/13 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 earned **£128.6m** 12/13 prices to date with a further **£18.7m** 12/13 prices forecast for the final year in RIIO-ED1 resulting in total forecast incentive reward of **£147.3m** 12/13 prices in RIIO-ED1, which we estimate to pay **c£31.8m** 12/13 prices of tax on.

Broad measure of customer service

Our vision for 2023 is to achieve a score of 9.42 out of ten for Customer Satisfaction in Ofgem's survey of DNO performance and to be a leader in Customer Service across the UK. This year's score was 9.15 in SPD and 9.09 in SPM. These scores resulted in **£6.0m** 12/13 prices of additional incentive reward revenue.

Stakeholder Engagement

From previous performance, our targets were met across the board, illustrated by positive assurance reports, stable stakeholder satisfaction scores and positive results in Ofgem's annual assessment. The associated rewards to 2020/21 are included in the Broad Measure of Customer Service incentive values with table R5.

Ofgem's independent panel assessment of our 2021/22 regulatory submission and subsequent Q&A session will be determined later in the year.

Interruptions-related Quality of Service

SPEN have targeted the reduction of the volume and duration of interruptions over the course of RIIO-ED1. SPEN's investment plan is delivering on that promise; both SPD and SPM are significantly out-performing against the regulatory target, and CI & CML have all significantly improved since the end of DPCR5.

Future targets flex in accordance with historical performance, hence the forecast level of financial award decreases year-on-year. Therefore, despite SPM's Customer Interruptions (CI) absolute performance being amongst the best in the UK, the ED1 targets were set based on historical performance which reflects SPM's position as an industry leader therefore the ED1 performance is not as high as SPD.

Incentive on connections engagement

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.

Time to Connect Incentive

For SPD, our average time to quote was 3.97 working days for single premises, and 7.35 days for multiple premises. The corresponding average time to connect was 34.24 days and 39.34 days, from accepted and payment - resulting in **£0.5m** 12/13 prices of incentive reward.

For SPM, our average time to quote was 4.93 working days for single premises, and 10.09 days for multiple premises. The corresponding average time to connect was 35.68 days and 38.98 days, from accepted and payment - resulting in **£0.3m** 12/13 prices of incentive reward.

Losses Discretionary Reward Scheme

The Losses Discretionary Reward (LDR) is worth up to £32 million across all Distribution Network Operators (DNOs), spread over three tranches during the eight years of the RIIO-ED1 price control.

Tranche 1: In 2016, SPEN were awarded £770k – SPD £385k, SPM £385k.

Tranche 2: Submission not eligible for reward

Tranche 3 Submission not eligible for reward.

Innovation

SPEN is dedicated to becoming the Utility of the Future, embedding innovation throughout our business in order to respond to the opportunities and challenges 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. We stand ready to facilitate the Government's low carbon aspirations and are innovating to ensure that the smart networks of the future are flexible, resilient, and accessible to all.

Our innovation strategy describes how we plan to innovate to meet the challenges and deliver benefits to customers and details the processes we intend to follow to ensure that we spend customers' money in the most efficient and effective manner. The strategy outlines how we will prioritise our innovation activities to ensure that our customers benefit from improved levels of service, whilst ensuring the network is flexible and resilient to changing future requirements. It outlines our three core priority areas, developed in conjunction with stakeholders, and goes on to highlight the opportunities and challenges we aim to overcome.

Our core priority areas:

1. Deliver Value to Customers
2. A Smarter Flexible Network
3. Sustainable Networks

Within each priority area, we highlighted the opportunities and challenges that our stakeholders have told us should be the focus of our attention over the remainder of this price control period through until 2030. We outline how interested parties can get involved through different platforms and help develop our Innovation Strategy. We will continue to engage with stakeholders and communities to ensure our Innovation Strategy is developing according to our customers changing needs.

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 2018/2019 only, Eligible Bid Preparation Costs.

The below summarises key aspects of the NIA portfolio at the end of 2021/22:

- 31 live projects and 35 closed projects
- 20 collaborative projects
- 46 projects undertaken solely by SPEN
- 11 projects led by other LNOs, including 3 by GDNs
- 55 projects led by SPEN
- £3.5m 'Virtual World Asset Management' being the largest project

SPD and SPM have been allowed to recover £12.1m nominal and £10.9m nominal, respectively, of allowable expenditure through DUoS charges to date, forecasting a further £1.8m nominal and £1.4m nominal, respectively, for the final year of RIIO-ED1.

Unrecoverable Expenditure

Unrecoverable NIA Expenditure cannot be recovered from Allowable NIA Expenditure. Unrecoverable NIA Expenditure is any NIA Project Expenditure arising from a failure to conform to technical requirements or arising from an increase in payments associated with a reduction in standards of performance. No Unrecoverable Expenditure has been incurred to date, nor is forecast for the remainder of RIIO-ED1.

Low Carbon Networks Fund

As part of the electricity distribution price control that ran until 31 March 2015, Ofgem established the Low Carbon Networks (LCN) Fund.

The LCN Fund allowed up to £500m to support projects sponsored by the Distribution Network Operators (DNOs) to try out new technology, operating and commercial arrangements. The aim of the projects is to help all DNOs understand how they can provide security of supply at value for money as Britain moves to a low carbon economy.

There are two tiers of funding under the LCN Fund. The First Tier allowed DNOs to recover a proportion of expenditure incurred on small scale projects. Under the Second Tier of the LCN Fund, Ofgem ran an annual competition for an allocation of up to £64 million to help fund a small number of flagship projects.

DNOs explore how networks can facilitate the take up of low carbon and energy saving initiatives such as electric vehicles, heat pumps, micro and local generation, and demand side management. They also investigate the opportunities that smart meter roll-out provides to network companies. LCN Fund projects should provide valuable learning for the wider energy industry and other parties.

The LCN Fund has now been replaced and funding for new projects is either via the Network Innovation Competition or the Network Innovation Allowance.

Discretionary Reward

In the LCN Fund, Ofgem seek to use the discretionary reward to imitate the commercial benefits of innovation by rewarding DNOs for successful innovation by relating these rewards to the risks that their shareholders have borne, typically 10 per cent of the expected costs.

As the potential learning from the LCN Fund Projects provides benefits to all Distribution Services Providers (DSPs), the projects were funded by all DSPs through Distribution Use of System Charges.

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. This year we made additional payments to customers in relation to Storm Arwen, bringing our combined total to £2.0m nominal (SPD £1.5m, SPM £0.5m) 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:

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

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 report, alongside Ofgem's standard view. Where our own view details the cash performance impact over the 8-year period, while Ofgem's view shows an estimated RIIO-1 performance over the full depreciation period. We believe other network companies, as well as Ofgem should adopt this cashflow performance approach.

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').

In order 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. In order 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.

Our 2021 CT600 is not yet due for submission to HMRC, consequently the 2020/21 value in [R10 –Tax, I12] is a forecast to compare against the allowance. The additional other adjustments will be trued up in due course.

SPEN Tax Position (£m12/13 prices)	SPD		SPM	
	Cumulative	RIIO-ED1 Forecast	Cumulative	RIIO-ED1 Forecast
Tax Liability	69.9	85.5	34.2	38.0
Tax Allowance	57.7	70.3	20.0	20.7
Tax Performance	-12.2	-15.2	-14.1	-17.3
Tax on incentives	13.9	19.4	9.4	12.4

In respect of 2015/16 to 2020/21, SPD and SPM paid additional tax to HMRC above what we receive an allowance for, calculated by our tax performance in addition to the tax we pay on incentives and other items where no allowance is given in the licence.

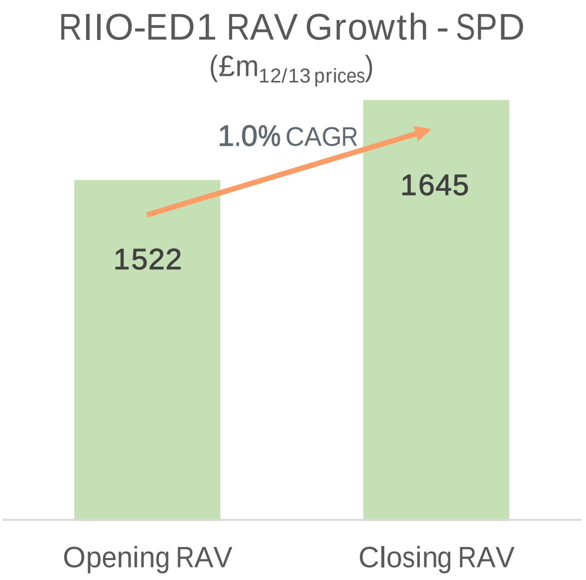
The RFPR RIGs commentary also requires us to detail our methodology for calculating the 'Tax on financing performance at actual/Notional gearing' included in the table. These entries have been calculated by taking the actual/notional financing cost (at actual/notional gearing) less the Tax allowance which is derived from the cost of debt multiplied by 65% of the RAV. The result is multiplied by the appropriate tax rate.

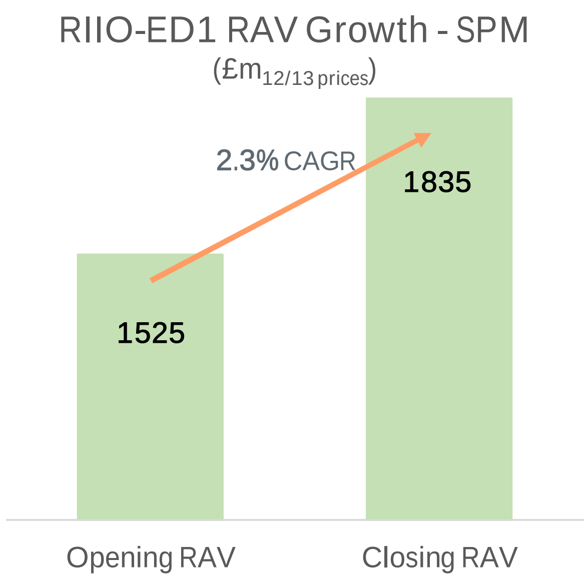
RAV

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 (80%) 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 November 2021 following the Annual Iteration Process (AIP). The AIP PCFM is designed to update future revenues as a result of past performance and the latest available debt index allowance. It does not forecast future total expenditure performance. Consequently, future RAV values and allowances (including financing and tax) are not necessarily representative of a network company's position through the remainder of RIIO-ED1. We address this issue in the RFPR by updating a version of the PCFM for the totex, allowances and enduring value adjustments reported in the RFPR (Table R4).

Because of the scale of investment required to deliver a network for todays and future customers we see the RAV value growing across the period:





SPD report a compound annual growth rate of **1.0%**, an **8.0%** increase from opening ED1 RAV of **£1.522bn$_{12/13\ prices}$** to an ED1 closing RAV of **£1.645bn$_{12/13\ prices}$**.

SPM report a compound annual growth rate of **2.3%**, a **20.3%** increase from opening ED1 RAV of **£1.525bn$_{12/13\ prices}$** to an ED1 closing RAV of **£1.835bn$_{12/13\ prices}$**.

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-ED1 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:

- Achieve zero employee lost time accidents.
- Remove high risk 'low' lines by 2020.

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 7%.
- Reduce by 16% the length of time those customers have no power.

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

- Reduce the carbon footprint of the business by 15%.
- Underground 85km of over-headlines in areas of visual importance.

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

- Continue to facilitate industry leading competition in our network areas.
- Improve availability and transparency of connection information and costs.

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

- Improve our overall customer satisfaction scores by 20% by 2023.

A detailed overview of our Output performance will be provided as part of our upcoming Distribution Annual Performance Report for 21/22 which will be published in Oct 2022.

Previous report can be found here: Distribution Annual Performance Report (SLC50) - SP Energy Networks

Safety

We complied with Health and Safety Executive legislation, engaged with 3rd parties and members of the public to enhance safety awareness, and continued to deliver our Occupational Health monitoring programme.

Reliability and availability

A reliable supply of electricity to homes and businesses is priority number one; a message that our stakeholders consistently endorse. This includes when the network is put under pressure by extreme weather events.

SPEN have targeted a reduction in the volume and duration of interruptions over the course of RIIO-ED1. During 2021/22, in both SPD and SPM there was a reduction in Customer Minutes Lost compared with previous year's performance. SPD was impacted by four significant weather events during the year; caused by storms Arwen, Barra, Corrie/Malik, and Franklin. SPM was impacted by an Other exceptional event and four significant weather events; caused by storms Arwen, Barra, Eunice, and Franklin. Both SPD & SPM continue to out-perform against regulatory targets.

Environment

We have a key role in enabling greater adoption of low carbon technologies (LCTs), such as Electric Vehicles and micro-generation. We are also focusing on reducing the environmental impacts of our own operations.

In November 2021, we published our Sustainable Business Strategy annual update which now aligns with our RIIO-ED2 submission. The strategy focuses on our six Sustainability Drivers. These Drivers guide the activities and projects we take forward, allowing us to focus on our priorities and to connect activities that contribute to the delivery of our Goals and Objectives. Despite the great number and range of policy changes proposed or published since we first developed this strategy, the ambitious goals we set deliver the necessary change to stay at the forefront of sustainable business.

The Sustainable Business Strategy is accessible here – SPEN_Sustainable_BusinessStrategy_2021_FINAL_Online.pdf (spenergynetworks.co.uk)

Underpinning the Strategy is our annual Sustainability Plan, which outlines the improvement actions required to reduce our impact and meet our targets. These actions and the associated metrics cover a wide range of environmental impacts and aim to ensure compliance, minimise incidents, and drive reductions in our environmental footprint.

Connections

We go the extra mile for our customers – far beyond the typical energy business remit – engaging through social media, innovating, and preparing for the future.

Core engagement, such as connections stakeholder panels and in-depth annual surveys, help us to shape our strategic direction, confirming stakeholder priorities and identifying new themes as they emerge.

Customer satisfaction

Our customers have every right to expect a good experience when they interact with us – whatever the reason. We are committed to delivering this, and to improving year-on-year against the standard industry-wide metrics.

Our vision for 2023 is to achieve a score of 9.42 out of ten for Customer Satisfaction in Ofgem's survey of DNO performance and to be a leader in Customer Service across the UK.

Innovation

We have challenged ourselves to deliver a highly ambitious innovation programme and have built a strong track record during RIIO-ED1 which reflects our capability. The wider community benefits directly from at least 75% of our NIA innovation funding. So far in RIIO-ED1, nearly £14m has been shared with small and medium sized enterprises (SMEs), local communities and academic partners via our open, transparent, and inclusive approach. We have worked with 186 SMEs and 13 Academic Partners.

We benefit from their know-how and resources as for every £1 invested, we leveraged almost an additional £2 funding – creating more value for our customers. We recognise the importance of collaboration and regularly collaborate with UK and International partners.

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-ED1. The table provides a RoRE value for; each individual year of RIIO-ED1, 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). Therefore, this table contains the actual revenue values over RIIO-ED1 for both SPD & SPM. There is no requirement to forecast revenue.

The first section shows a breakdown of Allowed Revenue calculated in accordance with the RIIO-ED1 licence. The main input values are:

- Base revenue allowance (PU term),
- MOD term,
- RPI true up (TRU term),
- RPIF term,
- Allowed pass through items (PT term),
- Correction factor (K term).

Collected Regulated Distribution Network Revenue (RDN term) is then compared with the Allowed Revenue to derive the Under/Over recovery of revenue for each year of RIIO-ED1.

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).

R3 REC TO TOTEX

The purpose of this worksheet is 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.

Therefore, this table 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 TOTEX

The purpose of this worksheet is for the NWO to report their Totex performance against the RIIO-ED1 allowance adjusted for Enduring Value. Therefore, this tab contains a view of SPD & SPM's current and forecast expenditure performance against the allowances set as part of the RIIO-ED1 price control. This under/overspend is then shared with the UK consumer via the Sharing factor which is currently 46.5% for RIIO-ED1. The table also includes any Enduring Value adjustments that are applied to help understand DNO's performance. An Enduring Value adjustment is an adjustment made to in year performance that impacts the return and RAV of a DNO. Examples of Enduring Value Adjustments include:

- future uncertainty mechanism claims.
- expected adjustments for close out mechanisms (e.g., network asset secondary deliverables (RIIO-ED1)).
- 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 & 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-ED1.

R5 OUTPUT INCENTIVES

The purpose of this worksheet is for the NWO to report their annual actual and forecast performance against the RIIO-ED1 price control incentives.

The first section of the table contains a breakdown of performance against each of the RIIO-ED1 incentives in 12/13 prices on a pre-tax basis. These values relate to the year the incentive has been (or is forecast to be) operationally earnt. This section is then repeated on a post-tax basis.

A summary of each Output incentive is outlined below:

Broad measure of customer service

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 **£6.5m**12/13 prices per year. To earn a reward DNO's need a score above 8.2, this is incredibly challenging, but a challenge SPD and SPM have risen to, regularly earning the maximum reward.

There is an additional reward earned for stakeholder engagement used to encourage network companies to engage proactively with stakeholders in order to anticipate their needs and deliver a consumer focused, socially responsible, and sustainable energy service. Both SPD and SPM have consistently performed strongly and earned rewards in this area.

Interruptions-related quality of service

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

Incentive on connections engagement

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.

Time to Connect Incentive

DNO's 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 assess individual DNO's performance with a reward available for those who manage to outperform these targets.

Losses Discretionary Reward Scheme

The Losses Discretionary Reward (LDR) is worth up to £32 million across all Distribution Network Operators (DNOs), spread over three tranches during the eight years of the RIIO-ED1 price control. The first tranche was reviewed in 2016 with **SPEN** successful in our application and awarded **£770k** – **SPD £385k**, **SPM £385k**. **SPEN** was unsuccessful in both the second and third tranches of the LDR in 2018/19 & 2020/21 respectively.

The remain section of the table shows the timing impact of earned incentives i.e., when both SPD & SPM will receive the revenues related to the earned incentives based on the methodology set out within the RIIO-ED1 licence. Most incentives operate on a 2-year lag (i.e., incentive revenue earned in regulatory year 2015/16 will be collected by SPD/SPM as part of Use of System charges in regulatory year 2017/18).

R6 INNOVATION

The purpose of this worksheet is for the NWO to report their annual actual and forecast total innovation related expenditure. Therefore, this table contains the actual and forecast performance of both SPD & SPM in relation to the three main innovation mechanisms as set out in the RIIO-ED1 licence. These mechanisms are Network Innovation Allowance (NIA), Low Carbon Networks Fund (LCNF) and Network Innovation Competition (NIC).

Network Innovation Allowance (NIA)

The Network Innovation Allowance provides limited funding to RIIO-ED1 NWO's to use for two purposes 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 and its customers; and/or the preparation of submissions to the Network Innovation Competition (NIC) which meet the criteria set out in the NIC Governance Document.

Low Carbon Networks Fund

As part of the electricity distribution price control that ran until 31 March 2015, Ofgem established the Low Carbon Networks (LCN) Fund. The LCN Fund allowed up to £500m to support projects sponsored by the Distribution Network Operators (DNOs) to try out new technology, operating and commercial arrangements. The aim of the projects is to help all DNOs understand how they can provide security of supply at value for money as Britain moves to a low carbon economy.

There are two tiers of funding under the LCN Fund. The First Tier allowed DNOs to recover a proportion of expenditure incurred on small scale projects. Under the Second Tier of the LCN Fund, Ofgem ran an annual competition for an allocation of up to £64 million to help fund a small number of flagship projects.

The LCN Fund has now been replaced and funding for new projects is either via the Network Innovation Competition or the Network Innovation Allowance. Therefore, values reported here are in relation to payments made for these legacy schemes.

Network Innovation Competition (NIC)

The Network Innovation Competition is Ofgem's successor to the LCN fund in RIIO-ED1. SPD and SPM currently have 4 live projects in RIIO-ED1 as outlined above.

R7 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-1) 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-1) 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 report, alongside Ofgem's standard view (SP Cashflow View). Where our own view details the cash performance impact over the 8-year period, while Ofgem's view shows an estimated RIIO-1 performance over the full depreciation period. We believe other network companies, as well as Ofgem should adopt this cashflow performance approach.

R8 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-1) definition. Therefore, this table contains the annual actual and forecast Net Debt positions for both SPD & SPM over the RIIO-ED1 period as per the statutory definition. These values are then converted to reflect the Regulatory (RIIO-1) 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 R9 – RAV. This also allows the calculation of the delta between Actual reported gearing and the Notional gearing RIIO-ED1 value of 65% for use in the R7 financing tab.

R9 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-ED1 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 November 2021 following the Annual Iteration Process (AIP). As this PCFM does not include any forecast expenditure the RAV additions and depreciation values are updated to reflect the current forecast performance from the annual Regulatory Reporting Pack (as summaries in R4). A further adjustment is made to ensure that the Enduring value adjustments recorded in R4 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, R7 Financing, R8 Net Debt, R10 Tax)

R10 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.

One final adjustment is made to adjust the Tax performance to remove the impact of 'financing at actual/Notional gearing'. Per the RIG's this is reported as financing performance with the RoRE. These entries have been calculated by taking the actual/notional financing cost (at actual/notional gearing) less the Tax allowance which is derived from the cost of debt multiplied by 65% of the RAV. The result is multiplied by the appropriate tax rate.

R11 DIVIDENDS

The purpose of this worksheet is for the NWO to report the dividend paid that relates to the regulated business. Actual dividends paid per year are recorded in row 8. There is no requirement to forecast future dividend payments.

R12 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 R12 Pensions 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 31/3/19. The final section of the table sets out the key pension scheme parameters as at the last valuation in 18/19 prices.

R13 OTHER ACTIVITIES

The purpose of this worksheet is to capture any Ofgem related fines and penalties incurred by the NWO over the RIIO-ED1 period to date.

The first 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-ED1.

The second part of the workbook captures any guaranteed standard payments (Excluding Ex-gratia payments) paid by the NWO over RIIO-ED1 to compensate for the inconvenience caused by loss of supply.

Data Assurance Statement

Data assurance was conducted in accordance with **SPEN's** "Regulatory Submissions Procedure" developed and implemented to ensure compliance with Ofgem's DAG. The details of the accountabilities we have in place are contained in the **SPEN** NetDAR Submission, 28 February 2022, 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	Medium	3	2	**Impact:** · Financial category was allocated '3' · Comparative Efficiency was allocated '3' · All other categories were allocated '1'. **Probability:** Reporting Assessment: · Complexity and Manual intervention '4' · Completeness '2' · Reporting rules 3' Control Framework Assessment: · Control activities '1' · Experience of personnel '2' · Historical Errors '2'

The 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. Also, due to parts of the submission being published, CEO Sign-off was deemed 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	Reconciliation to Totex
R7/7a	Financing
R8/8a	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

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:

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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.