Regulatory Financial Performance Reporting
UK Power Networks
2018/19

1. Executive summary

The purpose of UK Power Networks remains, as ever, to reliably deliver electricity to our 8.3 million customers in London, the East and South East of England. Our strategy since we started business in 2010 has focused on putting the interests of our customers at the forefront of everything we do. In that period, we have seen the electricity industry go through unprecedented changes; the UK economy is transitioning to low carbon, and our electricity network is playing an important part in enabling that transition. These are exciting times to be in the power industry. The move to a low carbon, decentralised energy network will transform the way we all get around and live our lives. As a company, we face a range of complex challenges. We must maintain the resilience of our network at the same time as we are developing it in order to connect renewable energy sources, electric vehicles and batteries.

I am pleased to report that 2018/19 was another excellent year for us, with performance improvements in all our key measures. UK Power Networks manages the safest, most reliable and lowest cost distribution network in Great Britain. Our customer satisfaction levels sit at nearly 90% and our employee engagement places UK Power Networks in the top ten of the Sunday Times Best Big Companies to work for. With an eye to the future, we are pleased that our network was ranked 1st in Europe and 3rd globally in the Singapore Power Group's Smart Grid Index.

We recognise the privileged position we hold as a monopoly provider of an essential service, so we pay special attention to our social role. We take particular care of those customers who, due to a variety of circumstances, are vulnerable. The elderly, those with disabilities, or for whom energy costs are a disproportionate element of their expenses all warrant extra care and consideration from us. Our work with National Energy Action tells us that nearly a million households we serve are in fuel poverty; we believe we have a responsibility to help tackle this issue. This has been a priority for us since we started in business in 2010. Working with a range of trusted partners, our energy efficiency programmes have, so far, saved nearly £10 million for our customers who are most in need.

As part of our vision of being the most environmentally responsible DNO, this year we have launched our Green Action plan. In this we have set ourselves ambitious environmental targets that will help us to realise our vision. We believe this plan will mean we can demonstrate best-in-class environmental credentials that show that we go above not only our ED1 business plan commitments, but also those of our peers. The quality of our plan was only achievable through direct stakeholder engagement. The Green Action plan is built on three pillars:

1. Minimise our environmental impact – reduce the impact of our own operations on the environment;
2. Support the global low-carbon transition – fighting climate change; and
3. Leading by example – setting a standard for other DNOs to follow.

Furthermore, the plan includes commitments to achieve accreditation from organisations such as the Carbon Trust that require us to meet challenging targets. We also adopted the United Nations' Sustainable Development Goals to demonstrate and reaffirm our commitment to enabling social progress, sustainable and economic growth while taking care of the environment.

Overall, 2018/19 was another successful year for UK Power Networks which would not have been possible without the efforts of our highly skilled and committed employees.

2. Key Financial Performance measures

Allowed Revenue

2018/19 Allowed Revenue (R2) in 2012/13 prices	EPN	LPN	SPN	UKPN
Base Demand Revenue	473.14	367.17	304.94	1145.25
Incentive revenue adjustment	25.81	17.01	15.43	58.25
Allowed Pass-Through Items	-4.62	-5.41	0.96	-9.07
Network Innovation Allowance	2.00	0.98	1.34	4.32
Low Carbon Networks Fund revenue adjustment	0.89	0.58	0.57	2.04
Clawback Direction - sums unpaid	0.00	0.00	0.00	0.00
Connections performance standards payments adjustment	0.00	0.00	0.00	0.00
DPCR4 residual distribution losses incentive and Growth Term (ENWL, NPg, UKPN and SP licensees)	0.00	0.00	0.00	0.00
Less: Correction factor	10.53	4.68	5.19	20.40
Allowed Distribution Network Revenue	**486.69**	**375.65**	**318.05**	**1180.39**

The Allowed Revenue is the amount of money that is to be collected by each DNO in respect of Use of System charges for a given year. The amount of Allowed Revenue that can be collected is determined by a set of formulae, performance measures and values that are set out in our Operating License. The values included in the RFPR are taken from the annual Revenue Returns submitted to Ofgem in which all of the relevant information set out in the License, is brought together to establish the final Allowed Revenue for the given year. The Allowed Revenue is compared to the actual revenue collected from our customers in the year and any over/under-recovery is calculated and carried over to subsequent years' calculations.

In 2018/19 UK Power Networks' Allowed Revenue as reported in the RFPR and Revenue Return amounted to £1,180.39m.

RORE

The tables below present the overall ED1 RoREs based on both Notional Gearing and Actual Gearing.

RoRE based on Notional Gearing	EPN RoRE (%)	LPN RoRE (%)	SPN RoRE (%)	Overall RoRE (%)
Allowed Equity Return	6.0%	6.0%	6.0%	6.0%
Totex Outperformance	2.3%	1.8%	2.5%	2.2%
IQI Reward	-0.4%	-0.4%	-0.4%	-0.4%
Broad Measure of Customer Satisfaction	0.5%	0.5%	0.5%	0.5%
Interruptions-related quality of service	2.0%	2.2%	1.4%	1.9%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.1%	0.2%	0.1%	0.1%
Losses discretionary reward scheme	0.0%	0.0%	0.0%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%
Penalties and Fines	0.0%	0.0%	0.0%	0.0%
RoRE – Operational Performance	**10.4%**	**10.2%**	**10.0%**	**10.2%**
Debt performance – at notional gearing	0.3%	1.1%	1.2%	0.8%
Tax performance – at notional gearing	0.3%	-0.7%	-0.9%	-0.3%
RoRE – Including financing and tax	**11.0%**	**10.7%**	**10.3%**	**10.7%**

RoRE based on Actual Gearing	EPN RoRE (%)	LPN RoRE (%)	SPN RoRE (%)	Overall RoRE (%)
Allowed Equity Return	6.0%	6.2%	6.1%	6.1%
Totex Outperformance	2.3%	1.9%	2.5%	2.3%
IQI Reward	-0.4%	-0.4%	-0.4%	-0.4%
Broad Measure of Customer Satisfaction	0.5%	0.5%	0.5%	0.5%
Interruptions-related quality of service	2.0%	2.2%	1.4%	1.9%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.1%	0.2%	0.1%	0.1%
Losses discretionary reward scheme	0.0%	0.0%	0.0%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%
Penalties and Fines	0.0%	0.0%	0.0%	0.0%
RoRE – Operational Performance	**10.3%**	**10.6%**	**10.2%**	**10.4%**
Debt performance – at actual gearing	0.3%	1.1%	1.2%	0.8%
Tax performance – at actual gearing	0.3%	-0.7%	-0.9%	-0.3%
RoRE – Including financing and tax	**11.0%**	**11.0%**	**10.4%**	**10.8%**

Ofgem uses the Return on Regulatory Equity (RoRE) as an indicator of overall financial performance. RoRE performance is compared to the cost of equity allowed at the start of the price control. UK Power Networks was allowed a 6% cost of equity.

Based on the forecast submitted as part of the Regulatory Reporting Pack submission in July 2019, our view of an eight-year average RoRE including finance and tax over RIIO-ED1 is 10.7% based on notional gearing.

Incentive Revenue

Below you will find a summary of our 2018/19 Incentive Revenue by DNO:

Incentives excluding SECV for 18/19	**EPN**		**LPN**		**SPN**		**UK Power Networks**	
	£m	**% of maximum reward**	**£m**	**% of maximum reward**	**£m**	**% of maximum reward**	**£m**	**% of maximum reward**
Totex Incentive Mechanism (TIM)	13.70	NA	9.18	NA	9.21	NA	32.09	NA
Interruptions Incentive Scheme (IIS)	20.22	100%	13.20	100%	8.88	65%	42.30	90%
Broad Measure of Customer Service (BMCS)[1]	4.82	70%	3.29	73%	3.14	67%	11.25	70%
Time to Connect Incentive (TTC)	0.79	40%	1.03	86%	0.59	49%	2.41	55%
Incentive on Connections Engagement (ICE)	N/A	NA	N/A	NA	N/A	NA	N/A	NA
Losses Discretionary Reward scheme (LDR)	N/A	NA	N/A	NA	N/A	NA	N/A	NA
Total incentive payments	**25.83**	**88%**	**17.52**	**93%**	**12.61**	**65%**	**55.96**	**83%**

Incentives including SECV for 18/19 but excluding GSoP payments	EPN		LPN		SPN		UK Power Networks	
	£m	**% of maximum reward**	**£m**	**% of maximum reward**	**£m**	**% of maximum reward**	**£m**	**% of maximum reward**
Totex Incentive Mechanism (TIM)	13.70	NA	9.18	NA	9.21	NA	32.09	NA
Interruptions Incentive Scheme (IIS)	20.30	100%	13.20	100%	8.99	66%	42.49	90%
Broad Measure of Customer Service (BMCS)[1]	5.14	74%	3.50	78%	3.36	72%	12.00	75%
Time to Connect Incentive (TTC)	0.79	40%	1.03	86%	0.59	49%	2.42	55%
Incentive on Connections Engagement (ICE)	N/A	NA	N/A	NA	N/A	NA	N/A	NA
Losses Discretionary Reward scheme (LDR)	N/A	NA	N/A	NA	N/A	NA	N/A	NA
Total incentive payments	**26.23**	**90%**	**17.73**	**94%**	**12.95**	**66%**	**56.91**	**84%**

3. Key operational performance measures

After four years of RIIO-ED1 UK Power Networks has spent £516.0 million less than the Ofgem allowance (as per M17 Forecast Totex tables from the Cost & Volumes packs, before any reopener adjustments). Of the eight high level categories, four are currently underspent, with the other four overspent.

Total UK Power Networks	Cumulative RIIO-ED1 to Date Actuals *minus* Allowance		
	£m		%
Load Related	-	280.13	-59%
Non Load Capex (excluding Non-Operational Capex)	-	305.66	-32%
High Value Projects (HVPs)	-	23.40	-25%
Network Operating Costs (NOCs)		24.39	4%
Closely Associated Indirects (CAIs)		39.94	7%
Business Support Costs (BSCs)	-	18.87	-6%
Non-Operational Capex		13.65	12%
Other costs within the Price Control (primarily Atypicals)		92.46	-
Totex adjustments (eg disallowed party margin, scrap/disposal proceeds, DRS8)	-	58.35	-
Totex	**-**	**515.97**	**-16%**

4. Overview of regulatory performance

- **RoRE**

The forecast operational return on regulated equity (RoRE) for the eight-year period, post tax and financing, is 10.7%, based on notional gearing. The key driver of the operational RoRE is totex outperformance which contributes 2.2% over the eight years. The RoRE forecast uses a mix of actual data and forecast performance to calculate eight-year average return. The cost data is sourced from the M17 table which forms part of the RRP submitted to Ofgem in July 2019.

The other key driver of the operational RoRE is performance against the range of output incentives. UK Power Networks has delivered excellent reliability and customer service performance over the first four years of RIIO-ED1. Over the RIIO-ED1 period UK Power Networks expect that incentive mechanism outperformance will increase the base RoRE by 2.5%.

Interest cost performance is heavily dependent on actual inflation and the movements in the cost of debt allowance. In 2015/16 and 2016/17 the low level of inflation resulted in both EPN and LPN underperforming the cost of debt allowance. This situation was reversed in 2017/8 and 2018/19 due principally to an increase in inflation. Over the remainder of the ED1 period we are forecasting that cost of debt outperformance will increase the RoRE by approximately 0.8% on average. However, it must be noted that this is dependent on both the outturn inflation and the actual iBoxx index out turning in line with Ofgem's assumptions.

- **Revenue, including narrative on forecast revenue**

Allowed Revenues have been calculated in line with the relevant license conditions to reflect actual economic data, incentive performance and actual pass through costs. They have been further adjusted in accordance with the annual iteration process to reflect adjustments for items such as the cost of debt, Pension deficit performance and spending against cost allowances. The actual revenue collected over the four years represents an average 1.5% over-recovery, which compares favourably against the 6% tolerance allowed by Ofgem each year.

- **Totex performance**

Over RIIO-ED1 UK Power Networks expects to outperform the totex allowances by 11.9% as per our M17 Forecast Totex tables from the Cost & Volumes packs (please note that this is before any reopener adjustments).

- **Output incentive performance**

The incentives reported represent the actual ED1 to date as submitted to Ofgem in the July 2019 Revenue Return submission, this data generates the Incentive income for the 2021/22 Allowed Revenue calculations. Subsequent years' performance are forecast. The data is presented in the year earned using 2012/13 prices and in the year that it impacts Allowed Revenue, where it is inflated and interest is added per the relevant license conditions.
In the first four years of ED1 we have seen annual improvements in the performance against the Broad Measure incentive. For the forecast period we are expecting performance on the core elements to continue at the current level but we have not included an award under the Stakeholder Engagement component at this stage.

Performance against the Interruptions incentive improved significantly from 2013/14 up to 2016/17. In 2017/18 we saw a small reduction in performance attributable to the unusually stormy weather in the winter of 2017/18. 2018/19 however saw performance return to a similar level to the first two years of RIIO-ED1.

The Incentive on Connections Engagement has so far attracted no penalty and we are forecasting that we will perform well enough in the future to continue to avoid any penalty.

Against the Time to Connect incentive, we have earned an average of £2.4m per year for the four years of ED1 and we forecast that we will continue to deliver similar levels of performance each year.

- **Innovation**

The rapid de-carbonisation of Great Britain's electricity system presents great opportunities and unique challenges to the electricity network. Traditional models are rapidly being left behind, we are balancing an increasingly complex and interconnected electricity network while maintaining focus on our core responsibility of keeping the lights on. It is a change that UK Power Networks is embracing. Our business ethos is one of innovation and disruption, developing and implementing smart technologies to benefit our customers.

Our innovation strategy sets to prepare the network for the future while delivering a safer, more sustainable, cost-efficient and reliable network for today. The greatest measure of our success is the benefits this funding unlocks for our customers. Innovation initiatives have saved customers £183m since the beginning of ED1. The business has transitioned 30 innovative solutions into business as usual over the same period.

Our Innovative Solutions are at various stages of roll-out. Throughout their life-cycle they undergo a process of assessment, development and monitoring through to a completed roll-out to business as usual. How we do this is via a focused innovation strategy covering three key strands:

- **Efficient & Effective:** Developing equipment and processes that help us keep the lights on more safely, efficiently or environmentally sustainably
- **Low Carbon Ready:** Enabling low carbon technology such as electric vehicles, renewable energy and domestic or commercial storage to connect to our network
- **Future Ready:** Developing a future-ready distribution business that meets the needs of tomorrow's customers

- **Financing and Net Debt position**

Over the RIIO-ED1 period UK Power Networks expects to outperform the cost of debt allowance by approximately 0.8%. The performance varies across the period with under performance in the first two years of the period due to low inflation and then outperformance in 2017/18 and 2018/19 principally due to high inflation. Over the period 2019/20 to 2022/23 the current forecast is UK Power Networks will outperform the cost of debt allowance. This is dependent on both the inflation and cost of debt allowance values out-turning in line with Ofgem's assumptions.

The RAV is forecast to grow in line with inflation in EPN, whereas LPN and SPN are forecast to see a slightly higher level of growth. The growth profile demonstrates the actual and forecast totex outperformance in ED1, with the ambition to outperform the totex outperformance whilst maintaining a strong level of network health, reliability, customer service and other such commitments.

RAV growth across ED1	EPN	LPN	SPN
£m real (2012/13 prices)	35.7	91.2	102.5
£m nominal	644.0	487.1	509.2
% real	0.2%	0.8%	0.9%
% nominal	3.0%	3.6%	3.7%

- **Dividends**

Dividends have been populated in the RFPR in line with the dividends paid, as disclosed in the Statutory Accounts.

- **Pensions**

The latest pension scheme valuation was carried out on 31st March 2016. The valuation is triennial; 2016 is the latest valuation we have and the 2019 valuation has not yet been completed.

The "Revised pension allowance values and completion of 2017 reasonableness review" issued on 30 November 2017 has been reflected in the "Established deficit allowance less PPH" (Pension Payment History Allowance) and thus deficit repair payments in 2019 and more closely aligned to allowance then has been the case in previous regulatory reporting years.

1. Data assurance statement

In line with UK Power Networks' Data Assurance Guidelines commitment, each table within the RFPR has been reviewed by a data owner, an accountable owner and a member of the Executive Management Team.

Each table in the return has an assurance statement which details how the table was pulled together, and has been signed by the accountable owner. The data and commentary were populated in line with the RFPR guidance issued in April 2019.

An independent assurance provider conducted an accuracy check on UK Power Networks' RFPR data table files to confirm that figures are aligned with source data. They also reviewed the associated commentary document to assess that it accurately reflects the data in the data tables. Following this review, all issues have been resolved and closed.

2. Appendices

R1 – RoRe

- Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
- Enduring Value Adjustments
- Basis of any estimates and allocations
- Other relevant information

This table is automatically calculated.

R2 – Revenue

- Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
- Enduring Value Adjustments
- Basis of any estimates and allocations
- Other relevant information

- *All data down to Collected Regulated Network Revenue is taken from the Revenue return.*
- *Other Turnover items have been accumulated in accordance with the RIGS and the AUPs*
- *All adjustments and reconciling items have been accumulated from our statutory accounts and supporting records.*

R3 – Reconciliation to Totex

- Reconciliation where licensees have a different statutory reporting year to the Regulatory Year

Rows 9-22 have been populated from the detailed workings supporting the published accounts of each DNO.

In row 11, Disposals (cash proceeds), the proceeds from the sale of scrap are not separately disclosed in our accounts, they are included within cash generated from operations. We have however split the scrap proceeds out in our RRP submission and hence we have sourced the figure from there. This is a more accurate representation of the disposals figure but this does nott reconcile back to a particular line in the accounts.

The Customer Contributions Additions in row 12 are not separately disclosed in the accounts. However, it can be seen that this, when added to the Tangible Fixed Asset Additions agrees to the Tangible Fixed Asset disclosure in the accounts.

Tangible fixed assets are subject to an annual impairment review that has deemed there are no impairment losses to the value of assets and therefore the values in row 14 are zero.

The Operational Costs Incurred in row 19 reflect the Cost of Sales, Distribution Costs and Administrative Expenses in the accounts, excluding depreciation and profit/loss on disposal of fixed assets.

- Enduring Value Adjustments
- Basis of any estimates and allocations
- Other relevant information

From previous reporting years, Row 26 is a copy of what we have shown as reconciling items in our submitted F8 tables, aggregated up into one line.

For the current reporting year (2019 – column G), the reconciling items have been detailed.

- *"Cable damage income shown as part of income in accounts", "Income not allocated from Networks Ltd in accounts" – the items reported as cost recoveries in the Cost and Volumes Reporting Pack form part of the Total Expenditure (this mainly being cable damage cost recoveries) but is reported as revenue in the accounts and hence produces a reconciling item.*

- *"Deficit costs shown as a balance sheet movement" – the pension contributions made to reduce the scheme deficit, which are a mixture of contributions to reduce the established pension scheme deficit (found within table C23 – Other NABC) and contributions to reduce the incremental pension scheme deficit (those arising from the increase in salaries and hence an increase in the pensions payable based on final salary). These costs, forming part of the "pensions" cost type across C1, are recorded as a balance sheet movement within the accounts (reduction of a liability) and are not included within the accounts total expenditure.*

- *"Provision movements & Accruals/Prepayments not captured in cost tables" and "Remove Pension provision movements" – this reconciling item reflects provision charges and releases that form part of the Income Statement, and hence Total Expenditure in the accounts, but for the purposes of the Cost and Volumes Reporting Pack do not form part of Total Expenditure as the requirement is to only report cash expenditure within C1 (aside from normal business accruals/prepayments).*

- *"De minimis works and other costs not recharged from UKPN (Operations) Ltd in accounts" – UK Power Networks (Operations) Ltd does not transfer the cost of work for National Grid and the cost of out of hours shutdowns into the ledgers of its three DNOs – as such they do not form part of the accounts. However, this activity has been included within the RIGs for completeness of DNO activities. De minimis costs are outside of price control and do not affect RAV additions.*

- *"Non op capex held by UKPN (Transport) Ltd" – Commercial vehicles are purchased and owned by UK Power Networks (Transport) Ltd but are used exclusively for the purpose of DNO activities. The commercial vehicles are not recorded as assets in the accounts of the DNOs, but constitute non op capex made on behalf of the DNOs (and in the case of company cars, indirect cost expenditure made on behalf of the DNOs), and therefore are considered as reportable in the Cost and Volumes Reporting Pack.*

- *"Book value of disposed tangible assets" – The Cost and Volumes Reporting Pack includes the Profit/Loss on disposal of fixed assets within Total Expenditure. However, the top half of the reconciliation pulls through only the disposal proceeds of these fixed assets. As such the difference (being the book value of tangible assets sold) is a reconciling item.*

- *"To net down gross costs by customer contributions" – the Total Expenditure pulled through from the accounts in the top half of the reconciliation is gross of customer contributions but is expected to reconcile to the Total Expenditure brought through from the Cost and Volumes Reporting Pack which is net of customer contributions. As such, the value of customer contributions in the Cost and Volumes Reporting Pack forms a reconciling item.*

- *"Management charge included in accounts" – the majority of the costs related to the regulated activity of the DNOs is incurred by UK Power Networks (Operations) Limited and then recharged to the accounts of each DNO based on the project costs that relate to each DNO and cost reflectivity rules for costs that are not DNO specific. In addition to this cost recharge is a management charge from UK Power Networks (Operations) Limited of £1 per customer. This management charge does not relate to any specific activities performed by UK Power Networks (Operations) Limited, it is in addition to the cost recharges from UK Power Networks (Operations) Limited that contain all of the costs incurred relating to the regulated activity of the DNOs. As such, it is excluded from total expenditure in the Cost and Volumes Reporting Pack.*

- *"Remove vehicle depreciation charged through UKPN (Operations) Ltd" – UK Power Networks (Transport) Ltd issue a cost recharge to UK Power Networks (Operations) Ltd to cover the costs of operating the vehicle fleet on behalf of the DNOs. UK Power Networks (Operations) Ltd then recharges these costs to the relevant DNO, as above. Included in this recharge is the value of depreciation on the vehicle fleet, a value that UK Power Networks (Transport) Ltd seeks to recover from the DNOs. Depreciation is excluded from total expenditure in the Cost and Volumes Reporting Pack as it is prepared on a cash basis (including ordinary business accruals, prepayments and provisions).*

- *"Strategic stock movements not recharged from UKPN (Operations) Ltd in accounts" – The cost of maintaining strategic stock (or otherwise a credit where strategic stock is used in the course of direct network activities) is reported as an asset replacement cost in the Cost and Volumes Reporting Pack. The movement on the strategic stock balance does not form part of the cost recharge from UK Power Networks (Operations) Limited to the DNOs.*

The second half of the table, rows 53 & 54, we has taken data from our submitted RRP submission. The M17 adjustments are the sum of rows 12-19 in the M17 table and then uplifted to nominal prices. We have also excluded costs outside price control which we have sourced from the C1 tables for each relevant year.

R4 – Totex

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments

- *An enduring value adjustment has been made for EPN, SPN and LPN. For EPN and SPN the adjustment has been made in relation to the RIIO-ED1 load related reopener. For LPN it has been made for the high value project reopener. The adjustment has been prepared based on the current draft RIIO-ED1 load related reopener methodologies. We recognise that these have not been formally published but in our opinion they represent the best current basis available for calculating the reopener adjustment. The adjustment uses the actual and forecast load related expenditure taken from table M16 of the RIGs. This is then adjusted by the load related innovation savings taken from table E6 of the RIGs. With respect to the latter we have doubled the actual achieved value to estimate the impact for the whole RIIO-ED1 period. This adjusted value is then compared to the RIIO-ED1 load related allowance to derive a totex impact.*

- *A similar process is followed for RIIO-ED1 high value projects. The basis of the input is the actual and forecast expenditure taken from table M16 of the RIGs. There are two of the high value project schemes that we believe will now extend beyond RIIO-ED1 into RIIO-ED2. These are the PO route in SPN and the West End substation in LPN. In line with the process that was used for overrunning DPCR5 high value projects we have assumed that we will fund the costs in RIIO-ED2 and as such have adjusted the high value projects reopener to remove the impact of this.*

- *There have also been enduring value adjustments made for all licencees for Smart metering volumes. Based on the latest data we have calculated the impact of the proposed volumes on forecast allowances. The values have been taken directly from Table M17 for each licensee.*

Similarly for EPN and SPN we have also made a forecast of allowances relating to both AoNB and Worst Served Customers. These forecasts are based on the forecast expenditure detailed in table M16 and are included on table M17.

- *Finally for EPN we have included the impact of our streetworks reopener claim to Ofgem.*

  - Basis of any estimates and allocations
  - Other relevant information

R5 – Output Incentives

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other relevant information

- *All forecasts assume that the reported performance for 2018/19 will continue for the remainder of ED1.*
- *The 2018/19 stakeholder engagement element of broad measure of customer service has not currently been directed by Ofgem and therefore the incentive performance is held is held at 2017/18 performance.*
- *RPI has been taken from the May 2019 Treasury forecast to reflect the inflation methodology to be applied to allowed revenue in CRC2A.*
- *As they have not yet been directed we have assumed that the Time to Connect/ Incentive rates and targets will remain unchanged in the second half of ED1.*
- *Corporation tax rates are taken from the PCFM model published in November 2018.*

R6 – Innovation

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other relevant information

- *The Network Innovation forecast is our latest forecast and assumes that we will try to use our maximum allowance for the rest of ED1.*
- *The data for Low Carbon Networks and Successful Delivery Awards is taken from directions from Ofgem, we have no included a forecast for any years for which we have received no direction.*
- *The NIC data represents our latest forecast of spending for the three projects which we have been awarded funds, Optimise Prime, Powerful CB and Active Response. We have included no forecast for any other projects that we might bid for in the future.*

R7/R7a – Financing - R8/R8a – Net Debt/Net Debt Inputs

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other Relevant Information:

<table>
<tr><th></th><th>Comments</th></tr>
<tr><td>Within the "Other amounts due to/ (from) group companies per Balance Sheet (memorandum)" there are any amounts that are more than one year old. If this is so, explain whether or not these amounts should be considered as part of net debt for the purpose of assessing whether the gearing ratio has been exceeded.</td><td>The rolled over intercompany structural loans from the DNOs (EPN: £144.5m, LPN: £196.1m: SPN £134.4m) to UKPN Holding Company since acquisition will mature on 23rd June 2021. These intercompany loans may be rolled forward at maturity.

These amounts should be excluded from the net debt.</td></tr>
<tr><td>If there are any derivative financial instruments held by a related party that are not included in the value reported in the table, quantifying them and stating which debt(s) is being hedged.</td><td>The following derivatives are held by UK Power Networks Services Holdings Limited (Unregulated business) which is a related party to the DNOs.

(i) Interest rate swaps:

The following swaps are fixed rate annuities and are not hedging any debt.

<table>
<tr><th>Interest Rate Swaps (IRS)</th><th>Ref</th><th>Start</th><th>Maturity</th><th>£ Notional</th><th>Pay Rate</th><th>Receive rate</th></tr>
<tr><td>k) Non-reg 2020 £190m (Pre-hedge)</td><td>IRSk</td><td>26-Jul-13</td><td>26-Jul-20</td><td>190,000,000.00</td><td>4.3663%</td><td>6m Libor</td></tr>
<tr><td>r) Non-reg 2020 £190m (Mirror Swaps)</td><td>IRSr</td><td>26-Jul-13</td><td>26-Jul-20</td><td>190,000,000.00</td><td>6m Libor</td><td>2.3087%</td></tr>
</table>

Losses and gains:

There was £3.7m favourable movement in the above swaps during the regulatory year 2018-2019 that was fair valued through profit and loss (FVTPL).

(ii) Cross currency swaps:

The following cross- currency swaps are hedging FX risk related to the $315m US Private Placement.

<table>
<tr><th>Cross Currency Swaps (CCS))</th><th>Ref</th><th>Start</th><th>Maturity</th><th>£'m Notional</th><th>Pay Rate GBP Fixed</th><th>Receive Rate USD Fixed</th></tr>
<tr><td>Non-Reg 2021 £315m/£203.2 swap</td><td>CCSa</td><td>14/12/2011</td><td>14/12/2021</td><td>$315m/£203.2m</td><td>5.4020%</td><td>5.0000%</td></tr>
</table>

The above hedge is designated as a cash flow hedge. The swap moved in-the-money by £23.2m during the regulatory year 2018-2019 because of the movement in GBP/USD exchange rate. However, this movement was posted to the OCI (Other Comprehensive Income).</td></tr>
<tr><td>Identify any new debt or debt refinanced, or new derivative financial instruments in the regulatory year.</td><td>New debt in the year:

1. Debt Issuance and Swaps:

• EPN 1.035% JPY 5bn 2038 Bond & Cross-Currency Swap:
In July 2018, EPN issued its first non-Sterling denominated bond for 5 billion Japanese Yen. The proceeds were swapped into Sterling via the cross-currency swaps to give an effective liability of £33.8 million with a semi-annual interest rate of 2.972 per cent. The bond matures in July 2038. Interest payments are every January and July.

• SPN £50m 5.625% Tap-1 Issuance 2030:
In September 2018, SPN issued a £50m tap of its 5.625% September 2030 bond for a consideration of £63.8m. This brought the total size of the bond £250.0m and made it benchmark eligible.

• SPN £50m 5.625% Tap-2 Issuance 2030:
In January 2019, SPN issued a further £50.0m tap of its 5.625% September 2030 bond for a consideration of £62.7m.

• LPN £250m 2.625% Bond 2029- 01/03/2019:
In March 2019, LPN issued a £250.0 bond maturing on March 2029 with a coupon payable of 2.625%.</td></tr>
</table>

<table>
<tr>
<td></td>
<td>2. RCF Facility £250m:
• The RCF facilities for EPN (£105m), LPN (£72.5m) and SPN (£72.5m) were undrawn as at 31st March 2019.</td>
</tr>
<tr>
<td>Detail the covenants relating to the top five loans by value.</td>
<td>
<table>
<tr><th>No</th><th>Loan Facility</th><th>Amount (£'m)</th><th>Covenants</th></tr>
<tr><td>1</td><td>Revolving Credit Facility</td><td>250.0</td><td>None</td></tr>
<tr><td>2</td><td>EIB (European Investment Bank) Loan</td><td>350.0</td><td>(i) RAR- Total Net Debt to RAV
(ii) PMICR (Post Maintenance Interest Cover Ratio)</td></tr>
<tr><td>3</td><td>EIB (European Investment Bank) Loan</td><td>350.0</td><td>(i) RAR- Total Net Debt to RAV
(ii) PMICR (Post Maintenance Interest Cover Ratio)</td></tr>
<tr><td>4</td><td>EIB (European Investment Bank) Loan</td><td>150.0</td><td>(i) RAR- Total Net Debt to RAV
(ii) PMICR (Post Maintenance Interest Cover Ratio)</td></tr>
</table>
</td>
</tr>
</table>

R9 – RAV

- Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
- Enduring Value Adjustments
- Basis of any estimates and allocations
- Other relevant information

The RAV has been adjusted to take into account the impact of the enduring value totex adjustments. This has been derived by flowing the adjusted totex through the PCFM to calculate a revised RAV and then used this to determine the relevant additions and depreciation adjustments.

R10 - Tax

- Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
- Enduring Value Adjustments
- Basis of any estimates and allocations
- Other relevant information

- *Adjustments to remove non regulatory tax include unregulated element of the tax liability for 2015/16 and 2016/17 which come from the costs outside price control data submitted as part of the RIGs pack. This includes connections outside price control and de minimis activities. The profit or loss associated with these activities is then multiplied by the tax rate relevant for that year to produce the tax impact.*

- *Other adjustments include:*

    - *Incentives: the tax element of the earned incentive revenue (source tab R5- Output incentives) has been removed to avoid double counting on the RoRE*
    - *Collected revenue adjustment ('k'), MOD, True Up, Adjustments for Allowed Pass-Through items, Network Innovation Allowance, Low Carbon Networks Fund revenue adjustment, DPCR4 residual distribution losses incentive and Growth Term: as above, removing the tax element of other collected revenue streams in R2 - Revenue*
    - *Pension – timing adjustment: the tax effect of the difference between allowed and paid deficit funding contributions*
    - *Tax on derivatives not disregarded: the tax effect of gains/losses/amortisation of financial derivatives*

- *The forecast tax data is based on internal modelling which reflects the forecast totex expenditure. This value has then been adjusted for any movements in the Tru term or passthrough terms on the revenue tab (of which there are none) and for the tax impact of forecast incentive revenue which is already included in the underlying numbers.*

- *Tax Allowance is as per latest published PCFM. Adjustments have been made to include the tax clawback. The tax clawback value has been calculated by inputting the regulatory net interest (Row 30 tab R7) and the Regulatory net debt derived from tab R8. These have been input into Ofgem's tax clawback model. The resultant answers are then uplifted from 12/13 prices and input into the relevant year. The tax allowance also reflects enduring value adjustments.*

- *This has been derived by flowing the adjusted totex through the PCFM to calculate a revised Tax and then used this to determine the relevant additions and depreciation adjustments.*

- *The reconciliation of forecast movement in allowance is made up of changes in the tax rate due to impact of the reduction of corporation tax rate (from 20% down to 17% by the end of ED2) announced in the budget. In addition the tax allowance retained within deadband has been set by Ofgem. All other adjustments are stated within other.*

- *The tax impact of financing performance has been calculated by taking the Cost of Debt out(under)performance from F7 – Financing and applying the tax rate.*

- *In row 25, Pension Deficit Adjustment is as per Pension Model.*

R11 - Dividends

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other relevant information

Dividends have been populated in the RFPR in line with the dividends disclosed in the statutory accounts.

R12 - Pensions

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other relevant information

Row 18 has been amended to reflect the Ofgem payment profile as instructed by the letter ***Revised pension allowance values and completion of 2017 reasonableness review*** *issued on 30 November 2017.*

R13 – Other Activities

  - Reconciliation where licensees have a different statutory reporting year to the Regulatory Year
  - Enduring Value Adjustments
  - Basis of any estimates and allocations
  - Other relevant information

- *All figures in the R13 table are sourced from the latest RRP submission. In EPN we have linked the fines and penalties row to the C12 table of the submission. For LPN and SPN, we have no fines to report. In row 19, Total GS Payments, we have taken our figures from the C23 – Other NABC table which has all compensation payments listed out and we have aggregated them for the purposes of the R13 table. This excludes "Any Other Ex-Gratia/Goodwill Compensation Payments".*
- *We have not forecast any GS payments for the remainder of ED1.*