Regulatory Financial Performance Reporting
UK Power Networks
2019/20

1. Executive summary

It remains our vision at UK Power Networks to be, consistently, the best performing Distribution Network Operator (DNO) and I am pleased to report that in 2019/20 we have again made progress towards achieving that ambition. We had our best ever performances in both Customer Minutes Lost (CMLs) – a vital measure of our network reliability – and in Customer Service, where we achieved over 90% customer satisfaction for the first time. We also matched our best ever safety performance. We can only achieve this level of performance thanks to the dedication, talent and professionalism of our employees and contractors. Ensuring that we have access to a diverse workforce will be key to our continued success. I am proud that our work on diversity has been recognised by Inclusive Companies, who ranked us as the fifth most inclusive company in the UK. As a company, we do our utmost to make UK Power Networks a great place to work and it is rewarding to see this effort bearing fruit in our day to day work; it is also satisfying to see it reflected in the recognition we receive from third parties. This year, Investors in People awarded us its Platinum standard. This is its highest accolade and is achieved by only 2% of companies that it surveys. Furthermore, after six years of being in the Sunday Times 25 Best Big Companies to Work For in the UK, we were again listed in the top ten, as we were last year.

The UK is the first major economy in the world to pass laws to end its contribution to global warming by 2050. This target requires the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels. UK Power Networks is playing a pivotal role in facilitating this ambitious target. To this end, this year we have refreshed our industry leading EV strategy and applied what we have learnt from this process to roll out the first ever heat strategy by a DNO. This has been well received by the market and you will be able to read more about it in our 2020 Annual Review due for publication in September 2020.

Our greatest contribution to reducing greenhouse gases is in facilitating others to reduce their carbon footprint, but we are also working hard to reduce our own. Last year we launched our Green Action Plan which focused on changing our business to reduce its impact on the environment. In 2019/20 we reduced our carbon footprint to its lowest ever level and, importantly, this reduction has been accredited by the Carbon Trust. This is a first for a DNO. We are going further by working with the Carbon Trust to develop science-based targets to support our own journey to net zero.

The last quarter of 2019/20 saw the early stages of the COVID-19 crisis. Thanks to a well-developed business resilience plan, we were able to maintain excellent performance during that time and we continue to do so. From the outset, our employees (in the field, in our control and call centres and those working remotely from home) ensured that the electricity kept flowing so our customers were able to work from home where circumstances allowed. Looking to the future, it seems likely that the economy is facing a significant downturn and inevitably this will affect all our customers. This reinforces the importance of a key pillar of our strategy: to keep costs as low as possible while delivering the great service our customers expect, especially for those in vulnerable circumstances.

2. Key Financial Performance measures

2019/20 Allowed Revenue (R2) in 2012/13 prices	EPN	LPN	SPN	UKPN
Base Demand Revenue	499.90	381.84	325.37	1207.10
Incentive revenue adjustment	21.40	17.94	13.05	52.39
Allowed Pass-Through Items	-8.32	-9.77	-4.51	-13.59
Network Innovation Allowance	2.31	1.77	1.51	5.59
Low Carbon Networks Fund revenue adjustment	0.12	0.08	0.07	0.27
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	-8.98	-11.76	-13.55	-34.29
Allowed Distribution Network Revenue	**506.41**	**380.08**	**330.96**	**1217.46**

Allowed Revenue

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 licence. 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 licence, 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 2019/20 UK Power Networks' Allowed Revenue as reported in the RFPR and Revenue Return amounted to £1217.5m in 2012/13 Prices.

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	1.3%	1.6%	2.5%	1.7%
IQI Reward	-0.4%	-0.4%	-0.4%	-0.4%
Broad Measure of Customer Satisfaction	0.5%	0.6%	0.6%	0.6%
Interruptions-related quality of service	2.0%	2.1%	1.5%	1.9%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.1%	0.1%	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	-0.1%	0.0%	0.0%	0.0%
RoRE – Operational Performance	**9.4%**	**9.9%**	**10.2%**	**9.8%**
Debt performance – at notional gearing	0.1%	0.8%	0.8%	0.5%
Tax performance – at notional gearing	-0.1%	-1.3%	-1.3%	-0.7%
RoRE – Including financing and tax	**9.4%**	**9.5%**	**9.7%**	**9.5%**

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	1.3%	1.6%	2.5%	1.7%
IQI Reward	-0.4%	-0.4%	-0.4%	-0.4%
Broad Measure of Customer Satisfaction	0.5%	0.6%	0.6%	0.6%
Interruptions-related quality of service	2.0%	2.2%	1.6%	1.9%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.1%	0.1%	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	-0.1%	0.0%	0.0%	0.0%
RoRE – Operational Performance	**9.4%**	**10.2%**	**10.3%**	**9.9%**
Debt performance – at actual gearing	0.1%	0.8%	0.7%	0.5%
Tax performance – at actual gearing	-0.1%	-1.3%	-1.3%	-0.7%
RoRE – Including financing and tax	**9.4%**	**9.7%**	**9.8%**	**9.6%**

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 2020, our view of an eight-year average RoRE including finance and tax over RIIO-ED1 is 9.5% based on notional gearing.

Incentive Revenue

Set out below you will find a summary of our 2019/20 Incentive Revenue by DNO:

Incentives for 2019/20 (2012/13 Prices)	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)	6.50	n/a	14.20	n/a	8.90	n/a	29.60	n/a
Interruptions Incentive Scheme (IIS)	19.89	98%	13.10	99.3%	10.24	75.3%	43.93	93%
Broad Measure of Customer Service (BMCS)[1]	4.60	100%	3.00	100%	2.94	95%	10.54	98%
Time to Connect Incentive (TTC)	0.77	38%	0.35	29%	0.25	20%	1.36	31%
Incentive on Connections Engagement (ICE)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Losses Discretionary Reward scheme (LDR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total incentive payments (Excluding TIM)	**25.26**	**94%**	**16.45**	**95%**	**13.42**	**75%**	**55.84**	**90%**

1. Excludes SECV incentives

3. Key operational performance measures

After five years of RIIO-ED1 UK Power Networks has spent £569.2 million less than the Ofgem allowance (as per the 2019/20 Cost & Volumes packs, before any reopener adjustments).

Total for UK Power Networks	**£m**	**%**
Load Related	-342.0	-58.4%
Non Load Capex (excluding Non-Operational Capex)	-384.8	-32.9%
High Value Projects (HVPs)	-19.8	-17.3%
Network Operating Costs (NOCs)	63.6	8.0%
Closely Associated Indirects (CAIs)	71.1	9.5%
Business Support Costs (BSCs)	-12.8	-3.4%
Non-Operational Capex	17.8	12.8%
Other costs within the Price Control (primarily Atypicals)	107.1	-
Totex adjustments (eg disallowed party margin, scrap/disposal proceeds, DRS8)	-69.3	-
Totex	**-569.2**	**-14.5%**

4. Overview of regulatory performance

- **RoRE**

The forecast operational return on regulated equity (RoRE) for the eight-year period, post tax and financing, is 9.5%, based on notional gearing. 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 2020.

There are two key drivers of the operational RoRE performance: totex outperformance, which contributes 1.7%, and the quality of supply incentive, which contributes 1.9% over the eight years. UK Power Networks has delivered excellent reliability over the first five years of RIIO-ED1. Over the RIIO-ED1 period UK Power Networks expect that incentive mechanism outperformance will increase the base RoRE by 2.4%.

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. In 2019/20 this outperformance reduced as inflation fell and based on latest inflation forecasts we are expecting to underperform for both 2020/21 and 2021/22 and marginally outperform in the last year of the price control. The actual level of performance will be heavily dependent on both the outturn inflation and the actual iBoxx cost of debt index compared to Ofgem's assumptions.

- **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 1.2% over-recovery, which compares favourably against the 6% set out in the licence.

- **Totex performance**

Over RIIO-ED1 UK Power Networks expects to outperform the totex allowances by 11.8% as per our M17 Forecast Totex tables from the RRP (please note that this is before any reopener adjustments).

- **Output incentive performance**

The incentives reported represent the actual RIIO-ED1 to date as submitted to Ofgem in the July 2020 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 licence conditions.

In the first four years of RIIO-ED1 we saw annual improvements in the performance against the Broad Measure incentive. In 2019/20 we have maintained this level and 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 with 2019/20 continuing this trend and SPN exceeding last year's performance by 13%.

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

- **Innovation**

Innovation is critical to delivering the best service and value for our customers and stakeholders. We know from years of experience that innovation cannot happen in isolation. From creating and assessing new ideas, to idea development, delivery and into business as usual deployment, we are working with organisations large and small, from all sectors and backgrounds, to make sure we are developing the best possible outcomes for our customers.

The last 12 months have seen our diverse innovation team continue to work closely with colleagues across our business to create and embed innovative solutions delivering real benefits for our customers. We now have a total of 40 innovative solutions embedded as business as usual, saving a total of £232m.

A key focus in 2019/20 has been to deepen our relationship with our stakeholders to help give us access to even greater ideas and ensure we are solving the challenges that matter the most. Our stakeholders have selected four key priorities for us to focus:

1) **Meeting our customers' evolving** needs by improving existing services and shaping new ones.

2) **Tackling the net zero challenge** by reducing the environmental impact of our operations and enabling our country's net zero transition.

3) **Ensuring no one is left behind** testing and re-testing our services to ensure no one is excluded, aiming to be recognised as a force for good for our highly diverse communities.

4) **Helping customers in vulnerable circumstances** and ensuring nobody is left behind during the complex energy transition.

- **Financing and Net Debt position**

Over the RIIO-ED1 period UK Power Networks expects to outperform the cost of debt allowance by approximately 0.5%. The performance varies across the period as discussed above and is dependent on both the actual inflation and cost of debt allowance values out turning in line with Ofgem's assumptions.

The RAV is forecast to grow broadly in line with average inflation over the period in EPN, whereas LPN and SPN are forecast to see a slightly higher level of growth. The growth profile reflects the actual and forecast totex outperformance in RIIO-ED1, with the ambition to outperform the totex allowance 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)	12.6	44.7	77.7
£m nominal	501.4	355.8	403.8
% real	0.1%	0.4%	0.8%
% nominal	2.7%	3.1%	3.4%

- **Taxation**

Tax has been calculated using the audited CT600 and adjusted for pass-through and true-ups to avoid a double count, and for timing differences.

The forecast tax liability is based on our internal modelling which reflects the forecast totex expenditure.

- **RAV**

As UK Power Network expects to outperformance the allowance, the forecasted totex has been flowed into the RAV. In addition 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. As a result average closing RAV by the end of the price control is expected to be £6.77bn in nominal prices.

- **Dividends paid and current policy**

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

Our dividends are paid in line with the requirements of licence condition 30.

- **Pensions**

The latest available pension scheme valuation was carried out on 31st March 2016. The valuation is triennial; 2019's valuation is in progress but will not be ready until after the 2019/20 submission deadline. The 2016 valuation has therefore been used.

A similar comment applies to the Pension Payment History Allowance (PPH); the last update to these values was in November 2017 and although an update is due in 2020, it will be after the RFPR submission deadline and hence 2017 values have been used.

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 RFPR has an assurance statement which details how the table was prepared, and has been signed by the accountable owner. The data and commentary were populated in line with the RFPR guidance issued in June 2020.

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. Any findings arising from this review have been resolved prior to submission.

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

- The licensees have a statutory reporting year to 31 March, consistent with the Regulatory Year.

- Rows 9-22 have been populated from both the detailed workings supporting the published statutory accounts of each DNO and the RRP templates due for submission in July 2020.

- 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 not 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

- For the 2015/16, 2016/17 and 2017/18 regulatory years, Row 26 is a copy of what we have shown as reconciling items in our submitted F8 tables, aggregated up into one line. In 2018/19, the requirement to populate F8 was replaced by the RFPR R3 table and hence the adjustments are split out from 2018/19 onwards.

- For the current reporting year (2019/20 – column H), the reconciling items have been detailed.

- "Cable damage income shown as part of income in DNO accounts" and "Other income shown as part of income in DNO 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 DNO 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. In row 56, we include materiality differences of no more than £1m, based on the tolerance of the reconciling check in row 50.

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 in relation to the RIIO-ED1 load related reopener. The adjustment has been prepared based on the published RIIO-ED1 load related reopener methodologies. We have converted these methodologies into a spreadsheet to calculate the actual adjustment using the DPCR5 load related methodology spreadsheet as a base. 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 and the estimated benefit from our flexibility programme. With respect to the former we have pro-rated 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.

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 2019/20 will continue for the remainder of ED1.

- RPI has been taken from the May 2020 Treasury forecast to reflect the inflation methodology to be applied to allowed revenue in CRC2A.

- Corporation tax rates are taken from the PCFM model published in November 2019.

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 RIIO-ED1.

- The data for Low Carbon Networks and Successful Delivery Awards is taken from directions from Ofgem.

- 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:

	Comments
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.	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 23 June 2021. These intercompany loans may be rolled forward at maturity. These amounts should be excluded from the net debt.
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.	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. **Interest Rate Swaps (IRS) | Ref | Start | Maturity | £ Notional | Pay Rate | Receive rate** k) Non-reg 2020 £190m (Pre-hedge) | IRSk | 26-Jul-13 | 26-Jul-20 | 190,000,000.00 | 4.3663% | 6m Libor r) Non-reg 2020 £190m (Mirror Swaps) | IRSr | 26-Jul-13 | 26-Jul-20 | 190,000,000.00 | 6m Libor | 2.3087% **Losses and gains:** There was £3.8m favourable (dirty) movement in the above swaps during the regulatory year 2019/2020 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. **Cross Currency Swaps (CCS)) | Ref | Start | Maturity | £'m Notional | Pay Rate GBP Fixed | Receive Rate USD Fixed** Non-Reg 2021 £315m/£203.2 swap | CCSa | 14/12/2011 | 14/12/2021 | $315m/£203.2m | 5.4020% | 5.0000% The above hedge is designated as a cash flow hedge. The swap moved in-the-money by £21.0m during the regulatory year 2019/2020 because of the movement in GBP/USD exchange rate. However, this movement was posted to the OCI (Other Comprehensive Income).
Identify any new debt or debt refinanced, or new derivative financial instruments in the regulatory year.	**New debt in the year:** **1. Debt Issuance and Swaps:** • **EPN £250m 2.125% 2033 Bond:** In November 2019, EPN issued a £250.0 bond maturing in November 2033 with a coupon payable of 2.125%.

	2. RCF Facility £250m: • The RCF facilities for EPN (£105m), LPN (£72.5m) and SPN (£72.5m) were undrawn as at 31st March 2020.
Detail the covenants relating to the top five loans by value.	(see table below)

No	Loan Facility	Amount (£'m)	Covenants
1	Revolving Credit Facility	250.0	None
2	EIB (European Investment Bank) Loan	350.0	(i) RAR- Total Net Debt to RAV (ii) PMICR (Post Maintenance Interest Cover Ratio)
3	EIB (European Investment Bank) Loan	190.0	(i) RAR- Total Net Debt to RAV (ii) PMICR (Post Maintenance Interest Cover Ratio)
4	EIB (European Investment Bank) Loan	150.0	(i) RAR- Total Net Debt to RAV (ii) PMICR (Post Maintenance Interest Cover Ratio)

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 which come from the costs outside price control data submitted as part of the RRP. 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 (November 2019).

- 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 2012/13 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 19%). 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.

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 and SPN we have linked the fines and penalties row to the C12 table of the submission. For LPN 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" in accordance with the RIGs.

- We have not forecast any GS payments for the remainder of RIIO-ED1.