



# Investor briefing pack

12 December 2014



# Agenda

- Attendees
  - Basil Scarsella, Chief Executive Officer
  - Ben Wilson, Chief Financial Officer
  - Andrew Kluth, Head of Treasury
- Agenda
  - DPCR5 performance
  - 2018 vision
  - RIIO – ED1 final determination
  - Treasury update

# Our DPCR5 vision and values

**UK Power Networks' vision – to be**

**1. An Employer of Choice**

**2. A Respected Corporate Citizen**

**3. Sustainably Cost Efficient**

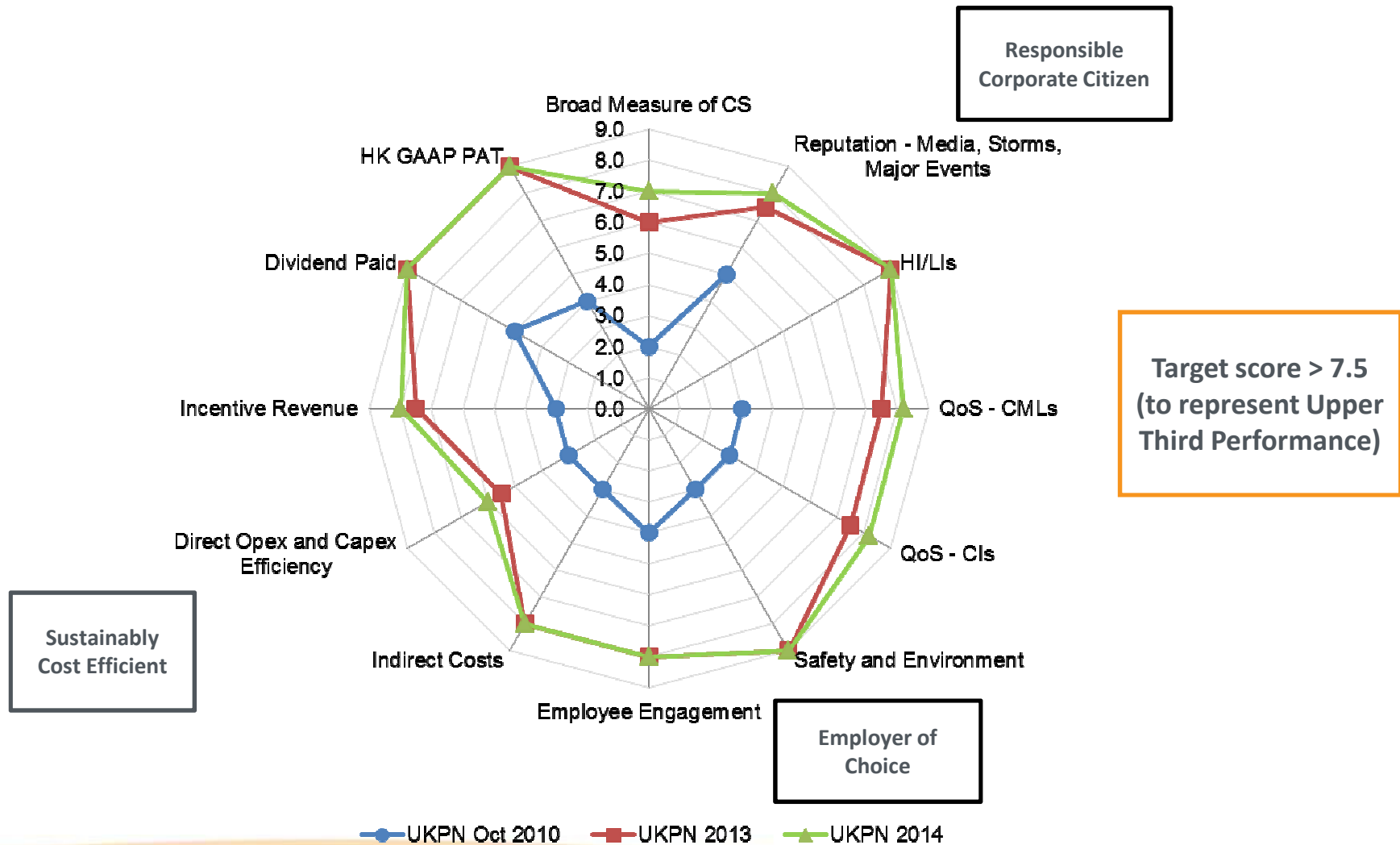
**And achieve upper third performance  
by 2013/14**



**OUR  
values**

Respect • Integrity • Continuous Improvement  
Responsibility • Diversity and Inclusivity • Unity

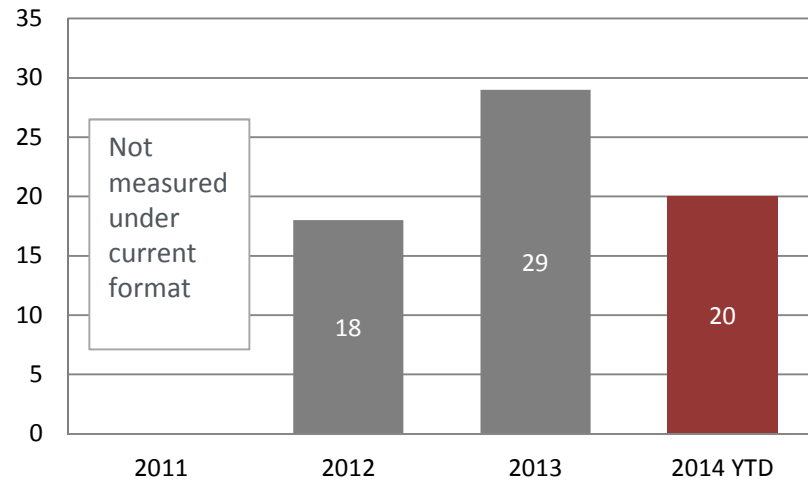
# 2014 Target year end position



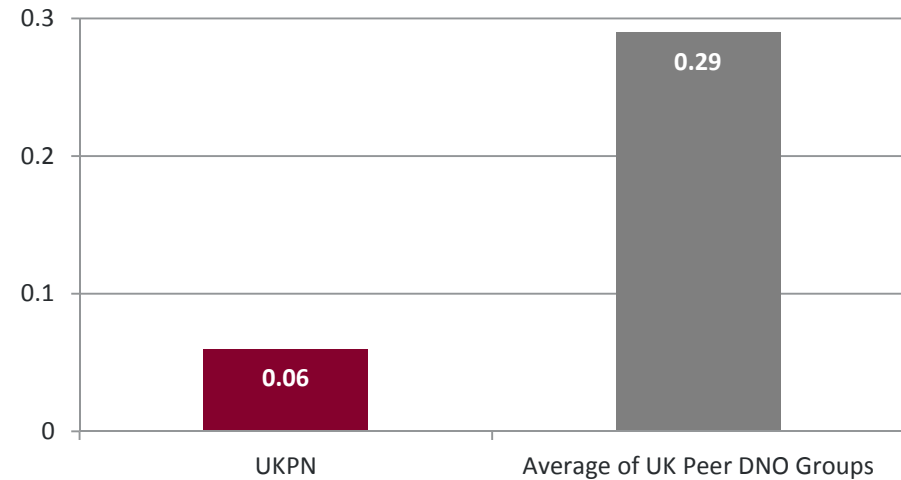
We've reached upper third performance with the exception of customer service and direct cost

# We have the best safety record in the industry

Injuries to the Public - internal cause



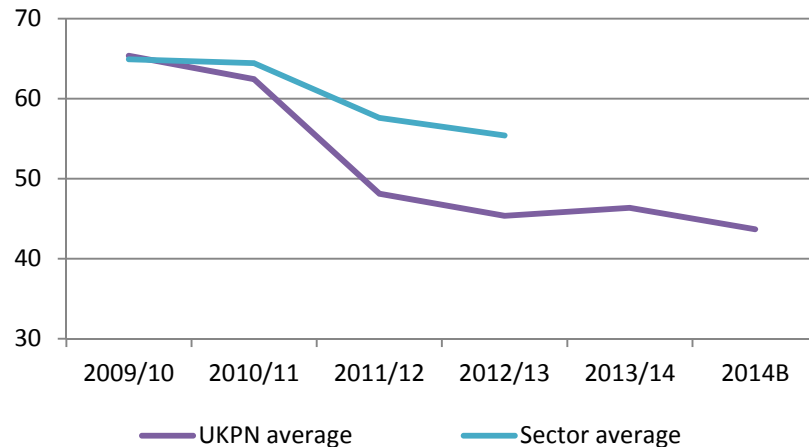
Lost Time Accident Frequency Rate (LTAs per 100 staff)



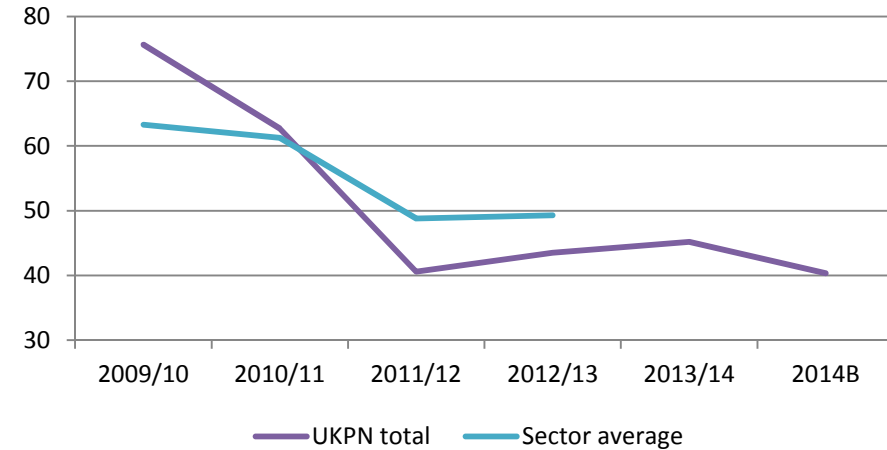
- The changes we have made
  - Started the Stay Safe Culture change programme
  - Produced award winning safety videos
  - Increased management communications on safety
  - Increased awareness on public safety
  - Improved Health and Well being management

# We have delivered a step change in reliability in DPCR5

Average customer interruptions per 100 customers for UKPN



Average customer minutes lost per connected customer for UKPN

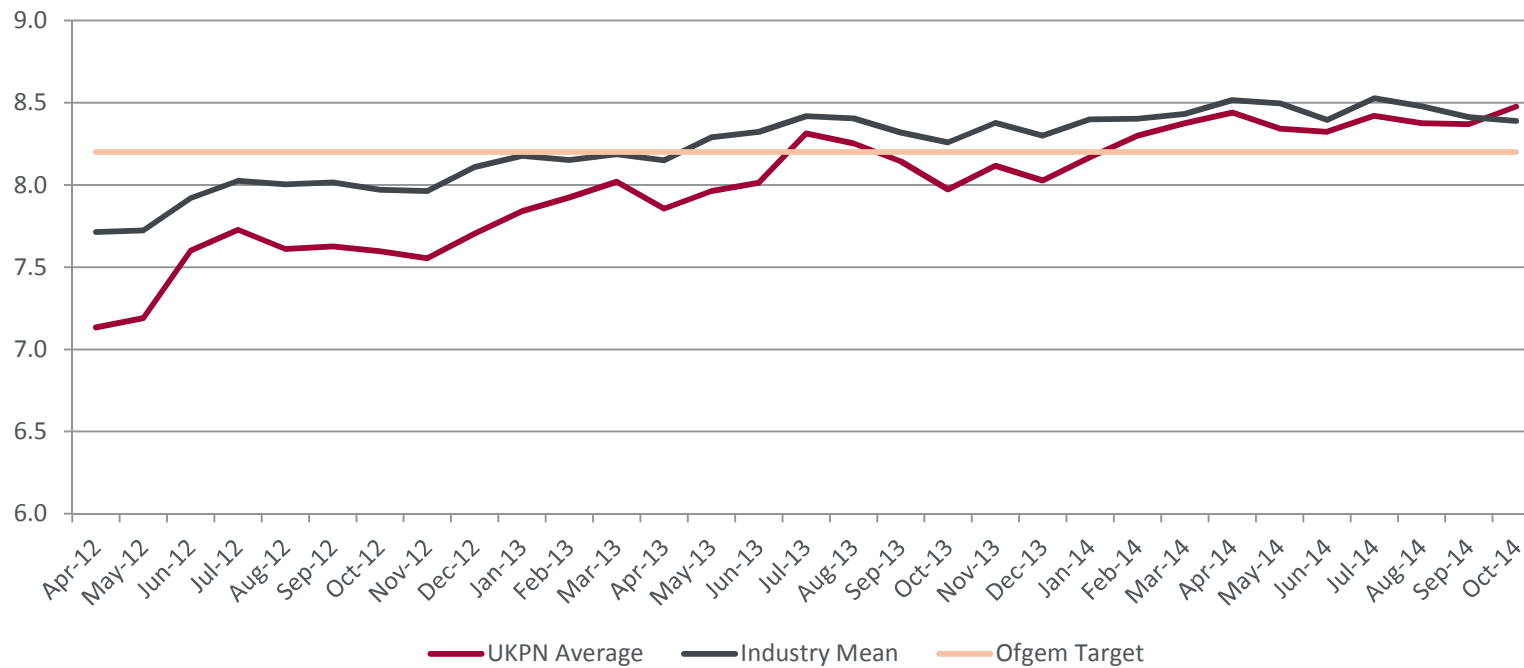


- 2013 performance significantly ahead of Ofgem targets
- 2014 performance is expected to continue to improve

In 2010 we received a reliability penalty of £9m. In 2014 we are forecasting to earn a reward of £41m

# Our customer service is improving

## Broad measure of customer satisfaction monthly scores



Under the RIIO framework our current 2014/15 performance would earn us incentive income of £3.7m. This compares to an expected penalty of £1m under the DPCR5 framework

# We are forecasting to over-deliver on network health and load indices

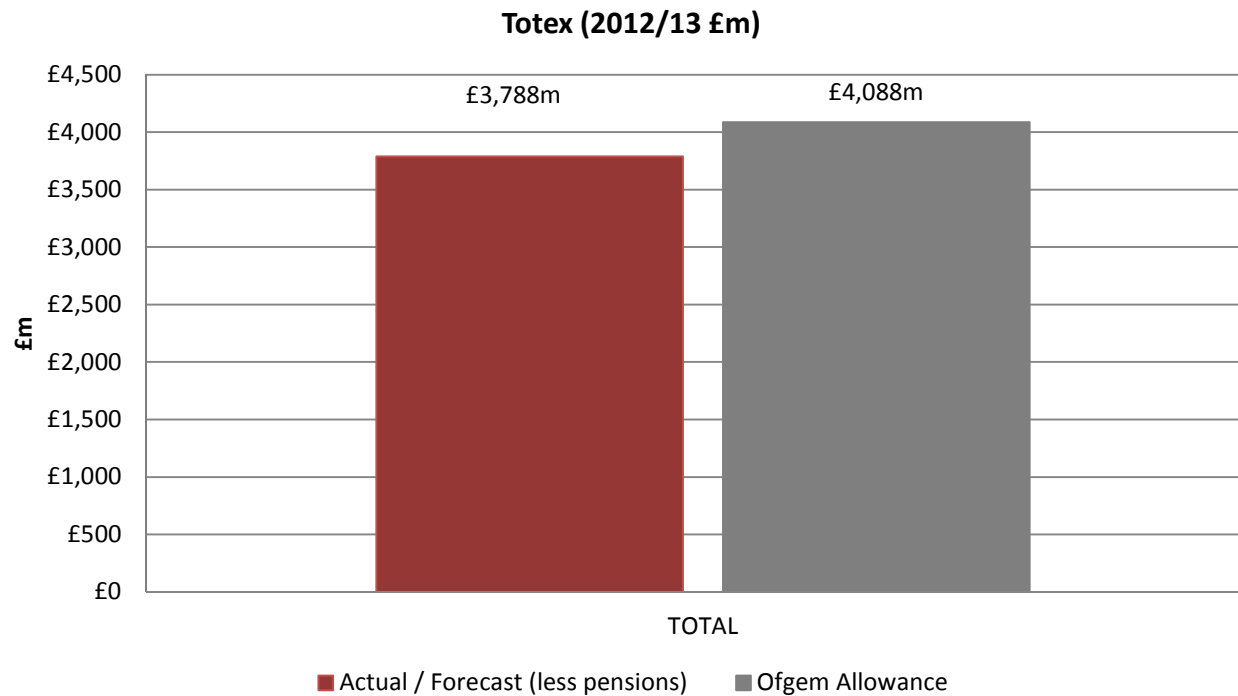
Network health index delivery	13/14 actual	13/14 target
EPN	126%	80%
LPN	81%	80%
SPN	100%	80%

Heavily loaded Sites	14/15 target	14/15 forecast
EPN	56	21
LPN	21	11
SPN	40	16

- The network health index measures a company's investment in improving/maintaining the condition of its network assets. A score of more than 100% indicates that a company has improved the condition of its assets compared to the price control target
- The network load index measures the number of heavily utilised sites on a company's network. A value less than the price control target indicates that there are fewer heavily loaded sites on the network



# We will outperform the DPCR5 allowances



We are forecasting outperformance of £300m (7.3%) on totex and £164m (4%) on incentives

# Key DPCR5 financials for UKPN group

£m (UK GAAP)	2011 Actual	2012 Actual	2013 Actual	2014 Budget
<b>Total turnover</b>	1,294	1,420	1,568	1,697
<b>EBITDA</b>	788	954	1,087	1,132
<b>PAT</b>	310	455	565	543
<b>Net capital expenditure investment</b>	581	598	656	640
<b>Net Debt</b>	3,239	3,341	3,473	3,575
<b>RAV</b>	4,715	4,976	5,230	5,559
<b>Net Debt/RAV</b>	68.7%	67.1%	66.4%	66.2%

We have delivered growing profits and falling debt/RAV

# Our RIIO Vision

delivering our  
**VISION**

1.  
An  
Employer  
of Choice

2.  
A Respected  
Corporate  
Citizen

3.  
Sustainably  
Cost  
Efficient

**...and be the best performing  
DNO group by 2018**

# Our vision and targets

	2014 Forecast	2018 Target
<b>Employer of Choice</b>		
Safety (Lost time injuries) year to date	11	8
Employee Engagement* (Best Companies)	TBC	Top 25 and improving. Above any other DNO
<b>Respected Corporate Citizen</b>		
Customer Service (Broad Measure of Customer Service)	8.4 (2014 YTD)	9
Quality of Supply (Customer Interruptions)	131	< 120
Quality of Supply (Customer Minutes Lost)	121	< 105
Reputation (Positive or balanced media coverage)	80%	> 90%
<b>Sustainably Cost Efficient</b>		
Incentive and Cost (Outperformance)	Exceed DPCR5 contract targets by end 2014/15	Best performance of any DNO Group
Health Index (HI) and Load Index (LI) (Outputs)	Better than DPCR5 HI and LI targets	In line or better than RIIO- ED1 HI and LI targets

\* 2014 Best Companies outcome will be announced in December 2014

# Business Transformation high level plan and scope

May/June 2014




2014

**BACK OFFICE**

- Finance (Automated intercompany transfers)
- Corporate Procurement (Shopping cart)
- ESS/MSS (Modern self-serve HR tools)
- Logistics (Returnable Transport Packaging)

December 2014-February 2015




2014

**CONNECTIONS/  
CUSTOMER SERVICE**

- 360° view of customers
- Customer self service portal to make requests, pay and track jobs online
- New common scheduling solution for EPN/LPN/SPN & types of work
- Mobile solution (e-field forms, maps, drawings, work info)

April 2015




2015

**ASSET MANAGEMENT,  
INSPECTION AND  
MAINTENANCE**

- Integrated portfolio planning
- New single Asset Register (including a new/improved asset hierarchy)
- Alignment of physical and financial assets
- Total asset life cycle management

Q3 2015




2015

**PROJECTS DELIVERY  
& STRATEGIC SOURCING**

- Strategic sourcing and spend analytics
- Integration of capital delivery with portfolio plan
- Earned value calculations for capital projects
- Integrated end-to-end project execution support

Q3 2015



2015

**FAULTS**

- Reactive work mapped to assets
- Improved fault response timescales
- Reduction of CMLs
- Integration of reactive work with 360° customer view

# ED1: UKPN has received the lowest revenue cut relative to end DPCR5

	Draft Determinations			Final Determinations		
	Po	X	CAGR	Po	X	CAGR
LPN	-15.4%	1.7%	-0.6%	-15.4%	2.0%	-0.4%
SPN	-13.4%	2.0%	0.0%	-13.4%	2.3%	0.2%
EPN	-5.7%	1.1%	0.3%	-5.7%	1.3%	0.4%
<b>UKPN</b>	-11.0%	1.6%	-0.1%	-11.0%	1.8%	0.1%
<b><u>Comparison</u></b>						
ENW	-20.1%	-1.1%	-3.7%	-20.1%	-0.8%	-3.5%
NP	-14.8%	0.0%	-2.0%	-14.8%	-0.1%	-2.1%
SP	-12.5%	0.0%	-1.7%	-12.5%	0.3%	-1.4%
SSE	-18.1%	0.0%	-2.5%	-18.1%	0.3%	-2.2%
WPD	-11.4%	0.5%	-1.0%	-11.4%	0.5%	-1.0%

- Po is unchanged from Draft Determinations
- Revenue increases are reflected in increased year on year movements (X)
- UKPN is the only DNO Group with a positive CAGR over ED1

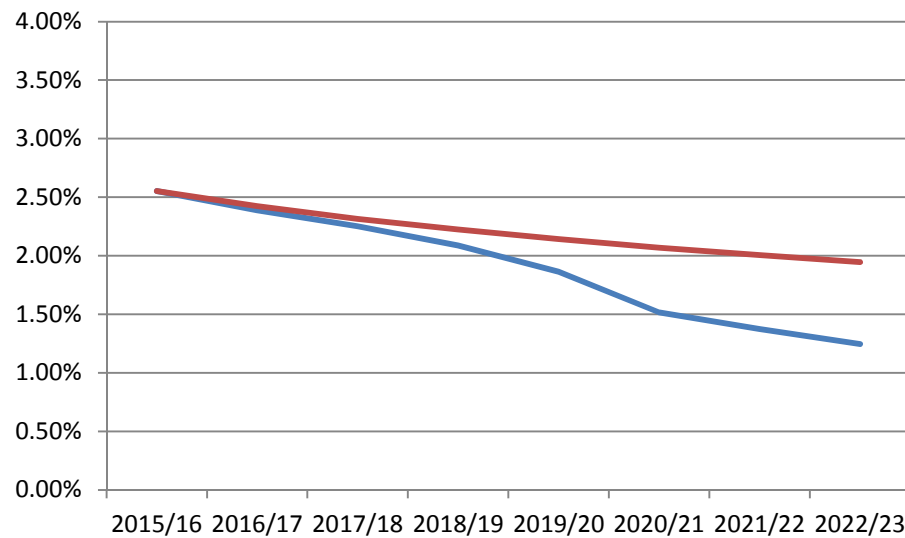
# Totex reduction represents a 2.8% cut relative to actuals

	DPCR5 4yrs actuals	Company plans	Draft Determinations	Final Determinations	FD vs. DD	FD vs. Actuals
<b>UKPN</b>						
LPN	209	245	219	221	1.3%	5.9%
SPN	226	232	214	215	0.7%	-4.8%
EPN	340	346	317	317	0.0%	-6.8%
Total UKPN	775	823	750	754	0.6%	-2.8%
<b>Comparison</b>						
ENW	240	235	224	228	1.7%	-4.9%
NPG	370	397	366	370	1.1%	0.0%
UKPN	775	823	750	754	0.6%	-2.8%
SPEN	421	436	401	398	-0.6%	-5.4%
SSEPD	394	454	425	432	1.7%	9.6%
Total	2200	2345	2165	2182	0.8%	-0.8%

- Expenditure on separation from EDF Energy and EPN defect rectification are included in DPCR5 actuals but are not expected to be repeated in ED1 – this would reduce the gap to actuals further

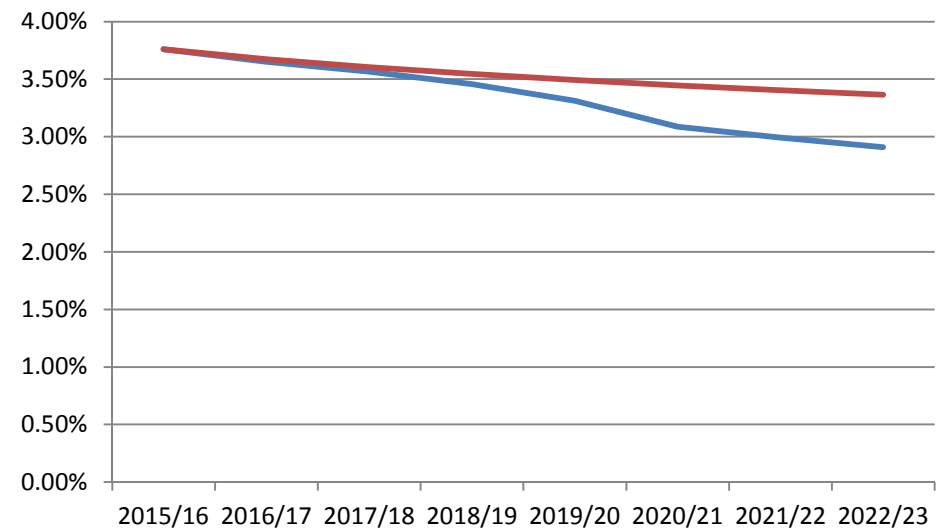
# The change in the cost of debt index will be a major benefit later in ED1

## Cost of debt allowance (real)



— 10 year trailing average CoD index — Trombone CoD index

## Real vanilla WACC allowance



— 10 year trailing average CoD based WACC — Trombone CoD Based WACC



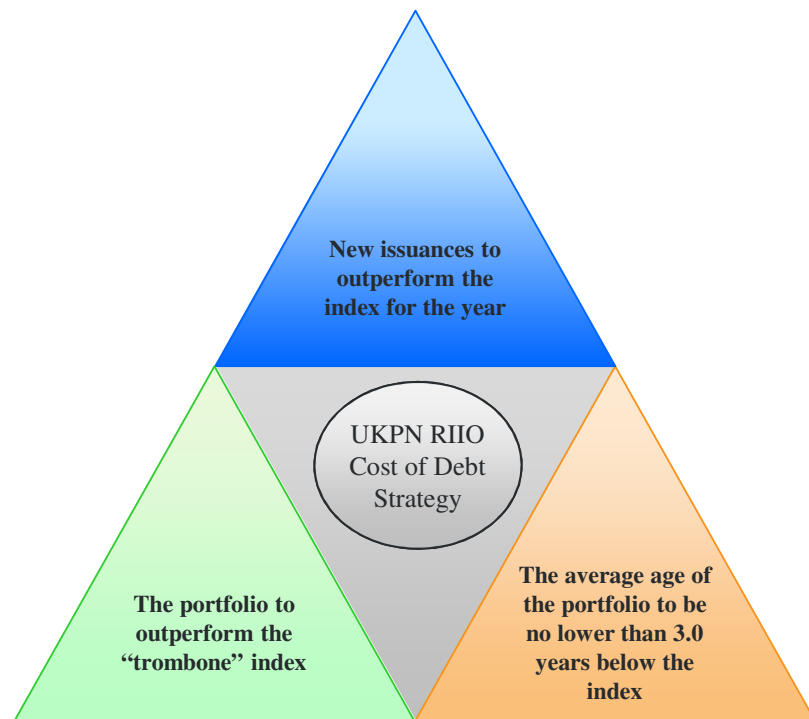
# RIIO-ED1 determination process

2014	28 November	Final determination published by Ofgem
	17 December	Ofgem publish draft ED1 licence consultation
2015	14 January	Draft ED1 licence consultation closes
	~ 21 January	Ofgem publish final ED1 licence consultation
	By ~ 18 February	Licencees accept or reject ED1 licence
	1 April	ED1 commences

# Capital structure commitment & dividend policy

- The shareholders maintain a conservative and flexible dividend policy
- Aim is to maintain a BBB+ credit rating for the three DNOs by keeping combined regulated Net Debt/RAV below 72% (69% for EPN)
- Flexibility evidenced by shareholders taking a reduced dividend from Northern Gas Networks rather than pushing up gearing when RPI fell dramatically

# UKPN's Cost of Debt Strategy



- The cost of debt allowance from Ofgem under RIIO-ED1 will be based on a 10 to 20 year “trombone” average of iBoxx GBP Non-Financials indices of 10+ years maturity
- The average age of the index starts at 6 years. UKPN will attempt to broadly “match” the index by assuming that its debt portfolio will have an average age since issuance or fixing of interest rates of about 6 years (+/- 3 years).
- New issuances will have shorter maturities than previously – other utilities have indicated a similar approach
- New issuances are also likely to be smaller than previously so as to smooth debt issuance

# Group sources of liquidity

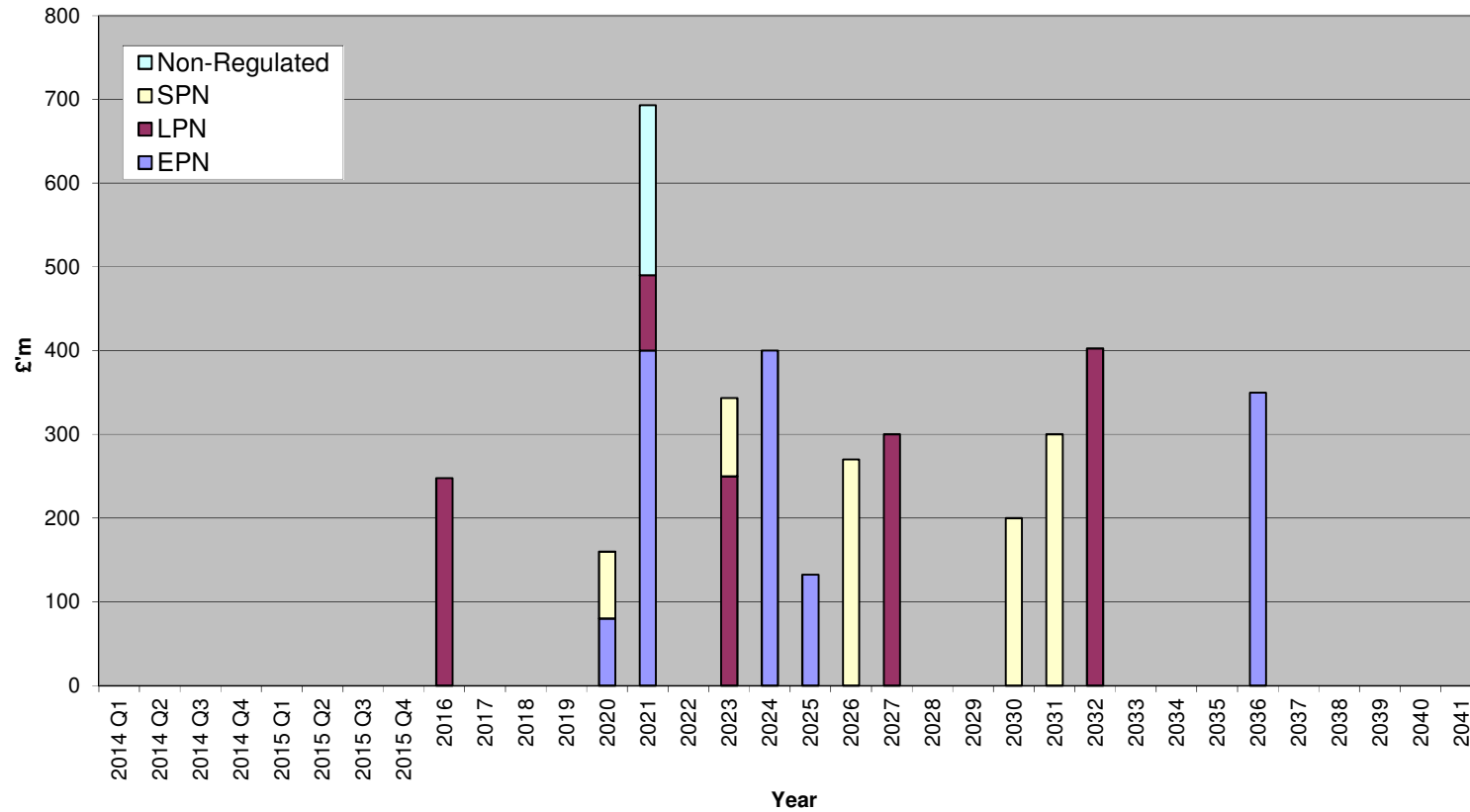
## UKPN Credit Lines at 30 November 2014

Entity	Facility	Drawn Amount £m	Undrawn Amount £m	Total £m	Maturity
EPN	RCF	0	210	210	Feb-17
LPN	RCF	0	145	145	Feb-17
SPN	RCF	0	145	145	Feb-17
		0	500	500	

- Bank facility to be amended and extended
- In addition, UKPN has £50m of undrawn capacity allocated by EIB for DPCR5
- Debt repurchase
- Further EIB lending planned for the first half of ED1

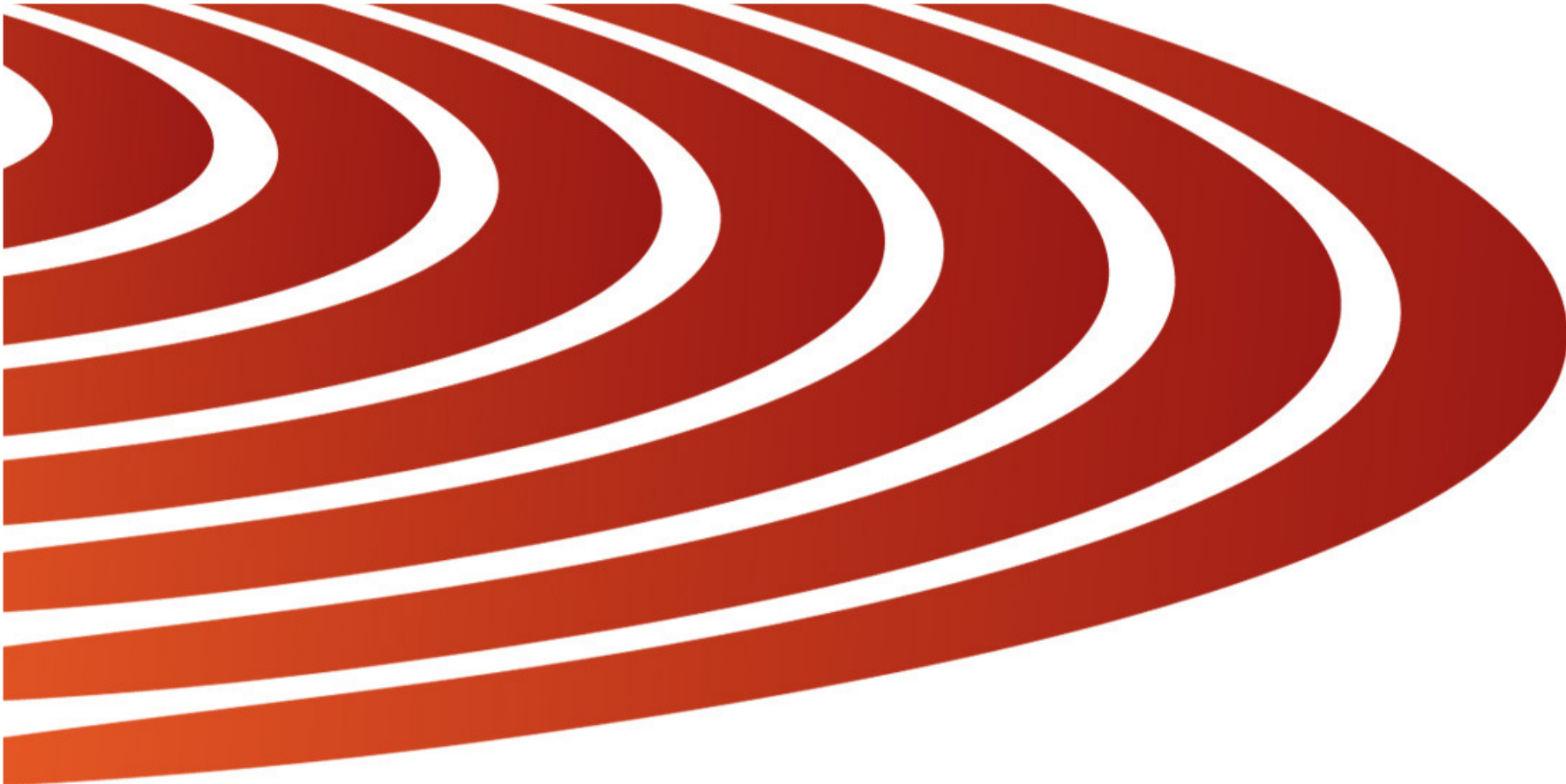
# UKPN's debt maturity profile

UK Power Networks Debt Maturity Profile by Entity



# Conclusions

- We have outperformed the DPCR5 costs and outputs, and have achieved top third performance in the industry overall
- Our new target is to achieve best industry performance by end 2018/19
- The ED1 Final Determinations involve a smaller upfront price cut for UKPN than for others
  - We are confident that we can outperform again on costs and incentives
- We are committed to maintaining BBB+ or equivalent credit ratings at our three DNOs



Thank you

