



2019/20

Regulatory Financial Performance Reporting

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DISTRIBUTION

Serving the Midlands, South West and Wales

Regulatory Financial Performance Reporting Contents

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Executive summary

We present the 2019/20 RFR templates and commentary for Western Power Distribution (WPD). This document contains information for the four Distribution Network Operators (DNOs) owned by WPD; WPD West Midlands (WMID), WPD East Midlands (EMID), WPD South Wales (SWALES) and WPD South West (SWEST).

WPD continues to promote transparency of performance and returns as a way of demonstrating the legitimacy of energy network returns. We hope this report provides clear and transparent reporting on WPD's financial and operational performance, including WPD's performance against incentives under the RIIO price control arrangements.

As a business that distributes energy, we face exciting challenges as the UK works towards a net zero carbon future. We deliver an essential public service and our focus on customer service has ensured that we have continued to drive great results for customers whilst adapting to the changing environment within which we operate.

Our 2019/20 performance highlights include:

- Industry leading customer satisfaction results;
- An expanded stakeholder engagement programme;
- 99.995% network availability;
- All Ofgem targets for Time to quote and Time to connect beaten for the third year running, including the revised tougher targets set for the second half of RIIO-ED1;
- Reduction in Business Carbon Footprint for the fifth year running, achieving a 23% reduction from the start of the price control in 2015/16;
- Continuing to implement our transition to Distribution System Operator;
- Supporting 18,652 fuel poor customers to make £10.7m of annual savings; and
- Earning a RoRE of 9.0% for RIIO-ED1 to date;

...all in costing less than 27 pence per day to the WPD average domestic customer.

The close of the 2019/20 regulatory year was overshadowed by the Covid-19 crisis. The crisis presented unprecedented challenging times and the role that WPD plays in keeping the lights on for customers has never been more crucial. At this time of uncertainty, we have continued to work 24/7 to keep power flowing to our 7.9 million customers across our region, ensuring vital energy reaches homes, hospitals, factories, supermarkets and other essential services.

WPD has had to change the way we work in response to the outbreak but as always, our top priority remains the safety of our colleagues and the communities we serve. Our ability to adapt and respond has ensured our customers can continue to rely on us to provide a safe and secure electricity supply.

We recognise the importance of delivering on the promises we made within our RIIO-ED1 business plan and going beyond this by looking ahead to the next price control, delivering future network solutions in line with emerging customer demand. Whilst we evolve to deal with new challenges, we also recognise our obligation to look after the existing network and provide an efficient and reliable service for our customers. We therefore continue to deliver against our RIIO-ED1 investment plans. At the close of 2019/20 our expenditure is 2% below our Totex allowances for RIIO-ED1 to date, before taking account of Enduring Value adjustments. We forecast that Totex will remain slightly under the costs we included in our RIIO-ED1 business plan.

Looking ahead to our RIIO-ED2 Business Plan covering the period 2022/23-2027/28, our focus is currently 'co-creation' of our ED2 plan with our stakeholders. Our January 2020 stakeholder workshops identified a number of common themes, including how WPD will contribute to the Government's target of net zero by 2050 and how we will adapt to the sometimes more ambitious climate targets of local authorities, which resulted in the development of over 800 potential commitments for our RIIO-ED2 business plan. This engagement work is now forming the basis of our RIIO-ED2 business plan which is due to be submitted to Ofgem in summer 2021.

Who we are and what we do

- 1.1 WPD is a Distribution Network Operator (DNO) and distributes electricity to 7.9 million customers across the Midlands, South Wales and the South West. We operate four of the fourteen DNO licence areas within the UK.
- 1.2 WPD's network is the largest in the UK, operating from the Lincolnshire coast, across the Midlands, South Wales and the South West to the Isles of Scilly.
- 1.3 WPD is regulated by Ofgem which sets our revenues through a process known as a price control. The current price control is known as RIIO-ED1 and covers the period 2014/15-2022/23.
- 1.4 Our role is to:
 - operate our network assets to 'keep the lights on';
 - maintain our assets so that they are in a condition to remain reliable;
 - fix our assets if they get damaged or if they are faulty; and
 - upgrade the existing networks or build new ones to provide additional electricity supplies or capacity to existing and new customers.



Keep the lights on by operating our network assets efficiently



Maintain equipment so that the network is in a condition to remain reliable



Fix the network if equipment gets damaged or is faulty



Connect customers by upgrading existing networks or building new ones

Purpose of this report

- 1.5** Ofgem introduced Regulatory Financial Performance Reporting (RFPR) in October 2018 and published licensees' completed 2017/18 RFPR templates for the first time in March 2019. WPD then published the completed 2018/19 RFPR templates in July 2019. The purpose of the RFPR is to provide a framework to allow Ofgem to collect accurate and consistent information from licensed network operators.
- 1.6** The RFPR has now been incorporated within Ofgem's Regulatory Reporting Pack (RRP) with data being submitted, and the RFPR being published, by 31 July each regulatory year. Unless otherwise stated, historical values for regulatory years up to and including 2018/19 are those included in the RFPR templates published in July 2019; formats may vary where Ofgem has updated the template. Forecast values are likely to evolve over time and, similarly, 2019/20 values which were forecast in the templates published in July 2019 have now been replaced with actual values. Note that 2019/20 values are submitted to Ofgem on 31 July 2020 and are therefore still subject to review by Ofgem.
- 1.7** The values in this document are in nominal prices and in £millions unless otherwise stated. There may be minor differences in summary tables and charts between totals and the sum of components. Historical values reconcile to the audited statutory accounts for WMID, EMID, SWALES and SWEST.

Key Financial Performance Measures

Bill impact

- 1.8 WPD's costs account for around 17% of an average customer's yearly domestic electricity bill, charged by suppliers. This is the equivalent of less than 27 pence per day.

Revenue

Regulated Revenue

- 1.9 WPD's Regulated Revenue for the regulatory year to 31 March 2020 was £1,607.3m. The table below shows how this revenue breaks down.

Table 1:

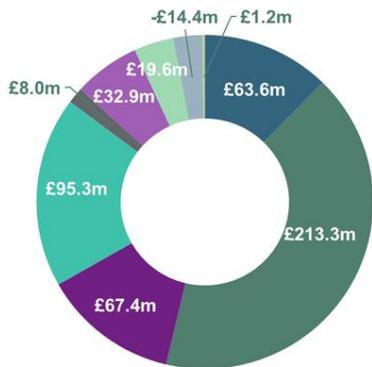
Regulated Revenue £m, Nominal prices	WMID	EMID	SWALES	SWEST	WPD TOTAL
Base Demand Revenue	486.9	490.1	249.0	355.1	1581.1
Under/(Over) recovery and K factor	-10.7	-8.0	4.5	-12.5	-26.6
Performance incentives (2016/17 - 2 year lag), LCNF and NIA , and true up of pass through costs	26.7	19.9	0.4	5.8	52.8
Regulated Distribution Network Revenue	502.9	502.0	253.9	348.4	1607.3

- 1.10 Base Demand Revenue is the largest element of WPD's Regulated Revenue, contributing over 98% of the total in 2019/20, and is calculated in Ofgem's published Price Control Financial Model (PCFM).
- 1.11 Performance incentives make up around 3% of WPD's 2019/20 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), Connections incentives, and the Interruptions Incentive Scheme (IIS).
- 1.12 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 Demand Revenue

1.13 This is the largest element of WPD's Regulated Revenue. WPD's 2019/20 Base Demand Revenue was £1,581.1m. The charts below show the breakdown of this:

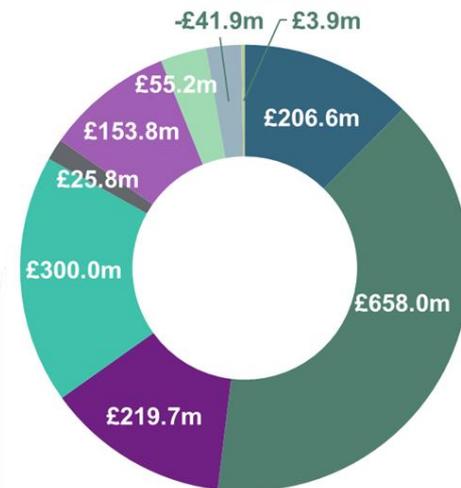
WMID Base Demand Revenue, £486.9m



EMID Base Demand Revenue, £490.1m



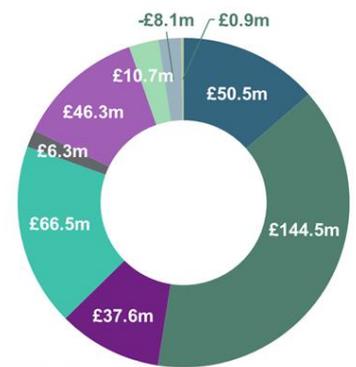
WPD TOTAL Base Demand Revenue, £1,581.1m



SWALES Base Demand Revenue, £249.0m



SWEST Base Demand Revenue, £355.1m



- 1.14 Under the RIIO framework, WPD 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 through the RAV depreciation allowance.
- 1.15 Non controllable opex allowances relate to costs recovered on a 'pass through' basis; these include licence fees, business rates and National Grid charges.
- 1.16 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.
- 1.17 Additional income is WPD's Fast Track reward. This equates to 2.5% of Totex over the price control, and accounts for 2% of WPD's Base Demand Revenue.
- 1.18 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.
- 1.19 The Tax Allowance allows network operators to recover the current regulated tax charge, calculated by Ofgem's methodology.

- 1.20** MOD is an annual adjustment to Base Demand Revenue, to reflect updates to costs shared with customers and adjustments for uncertainty mechanisms.
- 1.21** RPI true up relates to an adjustment to previous years' revenues inflated using forecast RPI, once the actual RPI is known.

Further information

- 1.22** Further information on WPD's Financial Performance can be found in WPD's Statutory Accounts: <https://www.westernpower.co.uk/about-us/financial-information>

Key Operational Performance Measures

1.23 During RIIO-ED1 WPD committed to delivering 76 outputs for its customers. During 2019/20, the fifth year of the price control period, WPD has maintained high levels of service in all key areas. The performance summary below demonstrates where outputs are directly related to financial outturn. These are outputs where a reward or penalty can be applied by the regulator as a result of over or under delivery.

1.24 A detailed review of operational performance over the year will be published in October 2020 in WPD's Business Plan Commitments Report 2019/20.

Table 2:

Operational performance KPIs										
KPI	WMID		EMID		SWALES		SWEST		WPD TOTAL***	
	Actual 19/20	Target								
Customer interruptions per 100 customers (excluding exceptions)*	48.5	82.4	37.9	50.8	43.4	52.7	46.1	58.4	43.7	62.7
Customer minutes lost (excluding exceptions)*	29.0	37.2	22.6	33.2	23.4	43.9	38.2	43.9	27.9	38.2
Network Availability	99.994%	99.993%	99.996%	99.994%	99.996%	99.992%	99.993%	99.992%	99.995%	99.993%
Guaranteed Standards of Performance failures **	79	0	170	0	1	0	59	0	309	0
Guaranteed Standards of Performance failures (Connections)	2	0	2	0	0	0	7	0	11	0
Guaranteed Standards of Performance failures (Number of 12 hour failure payments made)**	76	4064	164	2694	0	218	39	1623	279	8599
Overall Broad measure of customer satisfaction (Scores out of 10)	9.11	8.20	9.13	8.20	9.16	8.20	9.08	8.20	n/a	n/a
Stakeholder Engagement & Customer Vulnerability (Scores out of 10) ⁺	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	TBC	n/a
Connections time to connect incentive days:										
Time to quote LVSSA	2.27	4.84	2.20	4.84	1.98	4.84	3.12	4.84	n/a	n/a
Time to quote LVSSB	2.81	7.84	3.46	7.84	3.66	7.84	3.66	7.84	n/a	n/a
Time to connect LVSSA	28.68	39.28	27.55	39.28	24.58	39.28	26.91	39.28	n/a	n/a
Time to connect LVSSB	34.81	47.94	33.98	47.94	30.35	47.94	32.45	47.94	n/a	n/a
Connections incentive on customer engagement ⁺	TBC	n/a								
Losses discretionary reward scheme £m	n/a	n/a								

* The values shown are based on planned and unplanned events and are calculated before exceptional events are finalised by Ofgem in October 2020.

** WPD Internal target

*** Ofgem does not specify an overall WPD target for CIs and CMLs; WPD has derived overall target values by weighting the individual targets by the customer numbers in each licence area

⁺ The ICE incentive outcome has not yet been confirmed and Ofgem has delayed assessment of WPD's 2019/20 SECV Incentive this year. SECV amounts included within the 2019/20 BMCS reward in table R5 - Output Incentives have been forecast based on the average of the prior 3 years.

KEY: Green = Better than target / Red = Worse than target

1.25 For RIIO-ED1, Ofgem placed an obligation upon all DNOs to work together to produce a common methodology for the way in which asset health, criticality and risk are assessed. This is referred to as the Common Network Asset Indices Methodology (CNAIM). The targets are overall RIIO-ED1 targets and have been established by considering the risk reduction that will be delivered by specific RIIO-ED1 asset replacement and refurbishment programmes.

1.26 Table 3 shows our delivery during 2019/20 and our performance towards the overall targets for RIIO-ED1.

Table 3:

Network asset indices performance					
	WMID	EMID	SWALES	SWEST	WPD
2019-20 percentage of target achieved	109%	84%	92%	101%	98%
Percentage of RIIO-ED1 target achieved to date	87%	84%	81%	75%	82%

Overview of Regulatory Performance

Return on Regulatory Equity (RoRE)

- 1.27** Ofgem assesses overall financial performance of network operators against the price control settlement using a measure called Return on Regulatory Equity (RoRE).
- 1.28** RoRE performance is compared to the cost of equity allowed at the start of the price control. It is a key financial and regulatory performance measure.
- 1.29** Table 4 presents cumulative RoRE for the RIIO ED1 regulatory years up to and including 2019/20, using 65% notional gearing. RIIO-ED1 total RoRE is shown under Regulatory Performance in Table 5 within the Overview of Regulatory Performance.

Table 4:

	CUMULATIVE TO 2019/20; NOTIONAL GEARING				
	WMID	EMID	SWALES	SWEST	WPD TOTAL
Allowed Equity Return	6.4%	6.4%	6.4%	6.4%	6.4%
Totex outperformance	0.0%	-0.2%	1.8%	0.3%	0.3%
IQI Reward	0.7%	0.8%	0.9%	0.9%	0.8%
Broad measure of customer service	0.6%	0.6%	0.7%	0.7%	0.7%
Interruptions-related quality of service	2.0%	1.9%	1.1%	0.6%	1.5%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.2%	0.2%	0.2%	0.2%	0.2%
Losses discretionary reward scheme	0.0%	0.0%	0.0%	0.0%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%	0.0%
Penalties and fines	0.0%	0.0%	0.0%	0.0%	0.0%
RoRE - Operational performance	10.0%	9.8%	11.1%	9.0%	9.9%
Debt performance - at notional gearing	-1.3%	-0.4%	-2.1%	0.3%	-0.8%
Tax performance - at notional gearing	-0.4%	-0.4%	1.2%	0.0%	-0.1%
RoRE - including financing and tax	8.4%	9.0%	10.2%	9.3%	9.0%
Regulatory Equity £m, 12/13 prices	706	701	312	463	2181
Weighting	32.4%	32.2%	14.3%	21.2%	100.0%

- 1.30** At the close of 2019/20 WPD's Total expenditure is approximately 2% below our Totex allowances for RIIO-ED1 to date, before taking account of Enduring Value adjustments. The RoRE analysis above shows Totex outperformance after Enduring Value adjustments and WPD Total values have been calculated using weightings based on each WPD DNO's average Regulatory Equity for the period. For further details on Enduring Value adjustments, see Appendix 2.
- 1.31** WPD was allowed a 6.4% cost of equity as part of its fast-track settlement. Drivers of RoRE include performance under the Totex Incentive Mechanism and performance against output incentives. Totex underspends and incentive rewards increase network operators' returns, while overspends and incentive penalties decrease returns. RoRE is further impacted by the difference between DNOs' actual cost of debt and to the cost of debt included in allowances, and DNOs' regulated tax liabilities compared to regulatory tax allowances.
- 1.32** Table 4 presents the cumulative RoRE for the RIIO ED1 regulatory years up to and including 2019/20. Table 5 below presents an estimate of RoRE for the total RIIO-ED1 period, based on five years of actual data under RIIO-ED1 and our estimation of performance for the remaining three years of the control, from Table R1 – RoRE in the Regulatory Financial Performance Report.

Table 5:

	RIIO-ED1 PERIOD; NOTIONAL GEARING				
	WMID	EMID	SWALES	SWEST	WPD TOTAL
Allowed Equity Return	6.4%	6.4%	6.4%	6.4%	6.4%
Totex outperformance	-0.4%	0.4%	0.9%	0.7%	0.3%
IQI Reward	0.7%	0.7%	0.9%	0.9%	0.8%
Broad measure of customer service	0.6%	0.6%	0.7%	0.6%	0.6%
Interruptions-related quality of service	2.0%	1.7%	1.0%	0.5%	1.4%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.2%	0.2%	0.2%	0.2%	0.2%
Losses discretionary reward scheme	0.0%	0.0%	0.0%	0.0%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%	0.0%
Penalties and fines	0.0%	0.0%	0.0%	0.0%	0.0%
RoRE - Operational performance	9.5%	10.1%	10.0%	9.3%	9.7%
Debt performance - at notional gearing	-2.0%	-1.2%	-2.3%	-0.6%	-1.5%
Tax performance - at notional gearing	-0.6%	-0.6%	0.1%	-0.5%	-0.5%
RoRE - including financing and tax	6.8%	8.2%	7.7%	8.2%	7.7%
Regulatory Equity £m, 12/13 prices	723	719	327	490	2258
Weighting	32.0%	31.8%	14.5%	21.7%	100.0%

- 1.33** Note that the WPD Total values have been calculated using weightings based on each WPD DNO's average Regulatory Equity for the period, as shown above.
- 1.34** WPD's ED1 Total RoRE, including financing and tax, in the 2019/20 RFPR is 7.7%, as shown above. Differences from the WPD ED1 Total RoRE included in the 2018/19 RFPR (8.4%) largely comprise:
- A 0.1% increase in the forecast Totex outperformance over the RIIO-ED1 period, from 0.2% in the 2018/19 submission, to 0.3% in the 2019/20 submission;
 - A deterioration in debt underperformance from -1% to -1.5%. Inflation for 2019/20 and forecast inflation for the remaining three years of RIIO-ED1, as specified by Ofgem, has decreased in the 2019/20 RFPR submission compared to the 2018/19 submission. Ofgem's Cost of Debt % for 2019/20 and forecast % for the remaining three years has also decreased from that included in the 2018/19 submission, resulting in a reduction of approximately £24m in Cost of Debt allowances for WPD over the RIIO-ED1 period. WPD's forecast cost of debt for the RIIO-ED1 period also decreased between the 2018/19 and 2019/20 by approximately £50m. However, owing to the decrease in inflation, the inflation element of interest charge, calculated in the RFPR and deducted from the actual cost of debt in the RFPR, also decreased, by approximately £143m over the ED1 period. The result of the above, after adjusting for debt issuance expenses, notional to actual gearing, and the related tax impact, is a net increase in WPD's Cost of Debt underperformance in WPD's RoRE calculation of approximately £111m over the ED1 period; and
 - A shift from the -0.1% Tax underperformance in the 2018/19 RFPR, to a -0.5% Tax underperformance. This is partially due to forecast tax liability calculations in the 2018/19 RFPR submission being based on a corporation tax reduction from 19% to 17% from 2020/21. This anticipated reduction largely offset the impact of the reduction in the writing down allowance on the Special Rate pool from 8% to 6% from 2019/20 onwards. At the March 2020 budget, the government announced that the Corporation Tax rate would remain at 19%. The impact of this is that the Corporation tax charge has increased from the 2018/19 submission, and this increase is largely borne by the WPD DNOs within the tax trigger deadband. The impact of this on the Tax allowance retained within deadband shown in table R10 – Tax has been a shift of approximately £20m, from approximately £7m being forecast to be retained over the RIIO-ED1 period in the 2018/19 submission to WPD bearing a forecast £13m of additional tax costs within the tax trigger deadband over the RIIO-ED1 period in the 2019/20 submission.

- The Tax underperformance has also been impacted by the Cost of Debt underperformance in the RFPR. Rather than the tax effect of debt performance being shown under Tax performance, this is shown within Debt performance by removing an amount from the Tax performance calculated in tax table R10, and adding it into the Debt performance in the RoRE calculation. Given the increase in debt underperformance set out above, the amount removed from Tax performance in relation to this has increased by approximately £29m in 2019/20, compared to 2018/19.

1.35 Note that the RoRE values in the RFPR include Enduring Value adjustments – see appendix 2 for further details.

Revenue

1.36 A summary of Regulated Revenue for the year 2019/20 is presented under Financial Performance above.

Totex performance

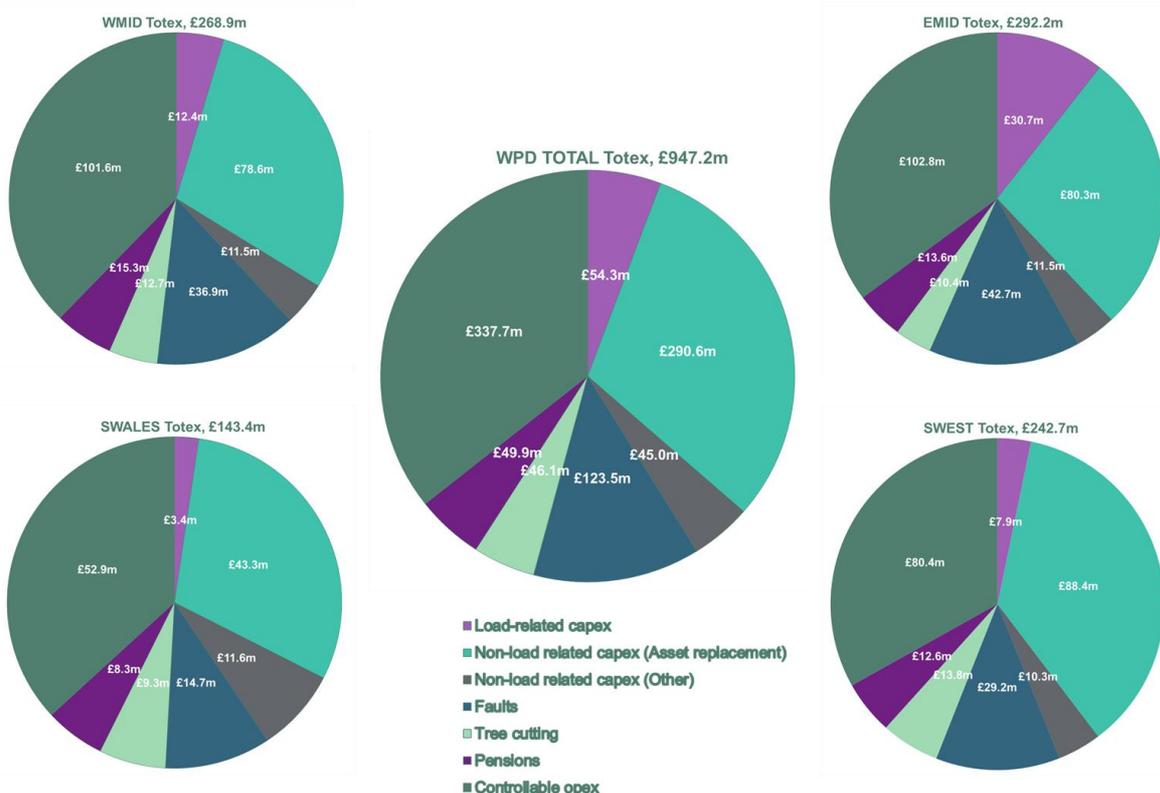
1.37 Under RIIO-ED1, WPD’s costs are assessed on a Total Expenditure (Totex) basis for its regulated business activities which includes both capital and operating expenditure.

1.38 Totex is a key feature in the business plan submission to Ofgem, as part of the price control review process, as it underpins the Regulated Revenue set by Ofgem.

1.39 20% of WPD licensees’ Totex allowance 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 through the RAV depreciation allowance.

1.40 During 2019/20 WPD’s Totex spend was £947.2m, compared to an allowance of £1,025.4m.

1.41 The charts below represent WPD’s 2019/20 actual costs broken down into the seven key reporting activities within Totex:



- 1.42 In RIIO-ED1, network operators are incentivised to spend efficiently through the Totex Incentive Mechanism (TIM). Under the TIM, WPD retains/(bears) 70% of any under/(over) spend on Totex, whilst the remaining 30% is returned/(funded) through adjusted allowances.
- 1.43 WPD Totex underspend was £78.2m for 2019/20. Of this, £54.8m (70%) will be retained by WPD and £23.5m (30%) will be returned to customers. Deducting the £23.5m returned to customers from the original allowance of £1,025.4m gives the 'post-TIM Totex' WPD allowance of £1,001.9m. Note that these values are before the application of Enduring Value adjustments.

Output incentive performance

- 1.44 The Key Operational Performance Measures discussed in paragraphs 1.23 – 1.26 demonstrate where outputs are directly related to financial outturn. These are outputs where a reward or penalty can be applied by the regulator as a result of over or under delivery.
- 1.45 Table 6 below sets out the financial impact of the key output incentives, and the percentage of the maximum reward available.

Table 6:

	WMID		EMID		SWALES		SWEST		WPD TOTAL	
	£m	% of maximum reward	£m	% of maximum reward	£m	% of maximum reward	£m	% of maximum reward	£m	% of maximum reward
Interruptions Incentive Scheme (IIS)	21.0	100%	20.2	99%	5.5	57%	6.4	44%	53.2	81%
Broad Measure of Customer Service (BMCS)	6.9	97%	6.9	97%	3.2	97%	4.8	97%	21.9	97%
Time to Connect Incentive (TTC)	1.8	96%	1.9	99%	1.0	100%	1.4	100%	6.1	98%
Incentive on Connections Engagement (ICE)	0.0	N/A	0.0	N/A	0.0	N/A	0.0	N/A	0.0	N/A
Losses Discretionary Reward scheme (LDR)	0.0	N/A	0.0	N/A	0.0	N/A	0.0	N/A	0.0	N/A
Total incentive payments	29.8		29.0		9.7		12.7		81.1	

- 1.46 In relation to the Broad Measure of Customer Service (BMCS), Ofgem decided to delay assessment of WPD's 2019/20 Stakeholder Engagement and Consumer Vulnerability Incentive (SECV) and therefore the SECV amounts included within the 2019/20 BMCS reward above have been forecast based on the average of the prior 3 years.

Innovation

- 1.47 There are two regulatory sources of funding for innovation projects under RIIO-ED1: the Network Innovation Allowance (NIA) provides funding for smaller projects and the Network Innovation Competition (NIC) is a competitive tendering process where selected projects win funding.
- 1.48 Under the Low Carbon Network Fund, Network Innovation Competition and Network Innovation Allowance, 90% of project costs are funded through these mechanisms and the remaining 10% of costs incurred on these projects is funded by the licensee (known as the Compulsory Contribution).
- 1.49 For projects that were approved up to and including 2016/17, the additional 10% of LCNF and NIC costs may be returned to the licensee via a Successful Delivery Reward. For projects approved from 2017/18 onwards, there is no Successful Delivery Reward.
- 1.50 The RoRE analysis in the RFPR tables includes the 10% compulsory contribution for NIC and NIA costs and any NIA expenditure deemed unrecoverable, offset by any Successful Delivery Rewards.
- 1.51 In total WPD had 31 innovation projects active during 2019/20. The table below shows further outcomes that have been developed from our programme of NIA projects during RIIO-ED1.

Table 7:

NIA Projects	Innovation rollout	Business as usual outcomes
OpenLV Presumed Open Data	DSO Data Access and Sharing	These projects have provided useful knowledge on the data external parties (including community groups) are interested in and the systems that could be used to share this data. The technology that will be used has been selected and work is ongoing to plan the roll-out of the OpenLV substation data platforms.
Primary Networks Power Quality Analysis OHL Power Pointer Network Equilibrium Virtual Statcom	Network monitoring	These projects have allowed significant learning on the monitoring of power quality in the network. A new BAU policy has been drafted on power quality installations.
	DSO System Operation and Modelling	Learning from these projects has led to changes in the real-time operation of the network and the modelling of new technologies. The Network Equilibrium project has provided new policies on the operation and control of System Voltage Optimisation which is currently being rolled-out. Key DSO system functionalities, including state estimation and distribution power flow which have been trialed in Network Equilibrium, are also being integrated in the BAU control system. The modelling of optimisation in both the Virtual Statcom and Network Equilibrium projects has provided learning and tools on the planning of such technologies.
Electric Nation	EV and Low Carbon Technology (LCT) integration	The Electric Nation project has provided in-depth knowledge on the impact of Electric Vehicles on distribution networks and has shaped our EV strategy. The Network Assessment Tool which was developed as part of Electric Nation, assesses the future impact of EVs and is currently being rolled out within the business for use by planning and design staff.

- 1.52** WPD also continues to work on, and receive funding for, Low Carbon Network Fund (LCNF) projects. The LCNF was a DPCR5 mechanism to encourage preparation for the UK's move to a low carbon economy, which preceded the NIA and NIC.
- 1.53** The RoRE analysis in the RFPR tables includes the 10% WPD compulsory contribution for NIC costs and any NIA expenditure deemed unrecoverable. Note that there may be further RoRE downside where WPD's 10% compulsory contribution for LCNF is not recovered via a successful delivery reward. Note also that, from 2018/19, NIC Bid preparation costs are not included in row 9 of RFPR table R6 as these are included within Totex from 1 April 2018.

Financing and Net Debt position

- 1.54** WPD's Well Justified Business Plan (WJBP) for RIIO-ED1 set out expenditure requirements which required WPD to raise £1.74bn of new debt as well as re-financing £850m debt as it falls due for repayment over RIIO-ED1. In addition, the WJBP stated that shareholders would re-invest £874m to maintain gearing in WPD's four licensed entities close to 65%.
- 1.55** All debt at WPD's DNOs is denominated in sterling and therefore there is no currency risk exposure. SWEST holds a \$53.0m investment of US dollar denominated debt issued by another WPD Group company. WPD does not undertake transactions in financial derivative instruments for speculative purposes. At 31 March 2020, SWALES had entered into forward starting interest rate swap agreements to minimise the exposure to cash flow interest rate risk for a future forecasted issuance of debt. The hedges were assessed to be highly effective. The forward starting interest rate swaps have a remaining term of 0.5 years to match the anticipated date of the debt issuance. The forward starting interest rate swaps entered into by EMID in 2019 were cashed out in the year when the Company issued a £250m loan note.
- 1.56** The RFPR requires RoRE debt performance to be presented against 'Notional' and 'Actual' Equity RAV. As debt is reported on an actual/forecast basis in the RFPR an adjustment is calculated within the RFPR to present debt performance on a notional level.

Taxation

- 1.57** The RFPR RIGs state that the purpose of RFPR table R10 – Tax is to reconcile CT600 actual corporation tax liability with the adjusted/forecast regulated tax liability. The adjusted/forecast regulated tax liability with timing differences is then compared to the forecast regulatory tax allowances and differences flow into RoRE.
- 1.58** Calculations for non-regulated tax liability have been based on non-distribution segments calculated using the same approach taken to prepare the segmental analysis in the WPD licensees' Regulatory Accounts in previous years. An adjustment is then made to remove the tax charge relating to incentive revenue, as the post-tax incentive revenues are shown for each incentive in the RoRE analysis. Adjustments have then been made for timing differences, items relating to previous price controls and Enduring Value adjustments.
- 1.59** Given the complexity of tax computations for HMRC, the impact of costs borne by licensees under the TIM, divergences between notional and actual capital allowance pools and also considering the operation of the tax trigger deadband, the tax allowance would not be expected to be exactly equal to the Adjusted/forecast regulated tax liability with timing differences calculated in table R10.
- 1.60** It is unclear how any pensions adjustments in rows 25 and 26 should be calculated and the RFPR RIGs do not contain guidance on this.
- 1.61** It should be noted that a pensions spreading adjustment was included in the WPD DNOs' tax computations to smooth the impact of the 2016/17 pensions prepayment on the Corporation Tax charge over 4 years. However, given that we have already included an Enduring Value adjustment in the RFPR for the ongoing and incremental deficit elements of the pensions prepayment, which has the effect of smoothing the impact over approximately two years, and the tax impact of this Enduring Value adjustment is included on row 34 of table R10 Tax, these two adjustments will overlap and inclusion of both adjustments does not seem appropriate. Further, it is unclear whether, how or where any adjustment should be included for the non-regulated element of pension deficit repair costs, which would be a reconciling item between the statutory tax charge and the tax allowance.
- 1.62** Similarly, the RFPR RIGs do not contain guidance on how to calculate timing differences for the other items listed. For the Collected revenue adjustment ('k'), the RPI true-up adjustment and Adjustments for Allowed Pass-Through items, we have removed the amount included in Allowed Revenues in the reporting year which relates to 2 years prior, and included the adjustment in-year (inclusive of time value of money adjustments), which will be received on a 2 year lag basis.
- 1.63** We will seek to clarify the RFPR RIGs guidance on these adjustments with Ofgem before the 2020/21 RFPR publication and may revise the approach above in light of this in future submissions. In relation to Ofgem's proposed requirement for a tax reconciliation in RIIO-2, WPD has provided Ofgem with a detailed reconciliation of the different adjustments to derive the actual tax charge, as shown in the RFPR, and the Regulatory tax allowance, using WMID as an example, which highlights additional considerations.
- 1.64** The RFPR RIGs commentary also requires us to detail our methodology for calculating the 'Tax on financing performance at actual gearing' in row 86. WPD has calculated this amount as:
- Pre-Tax Cost of Debt out(under)performance at actual gearing (row 86 of table R7 – Financing)*Corporation tax rate (from Data worksheet)*RPI uplift to nominal prices (row 40 of table R10 - Tax).
- 1.65** Similarly, WPD has calculated the 'Tax impact of financing performance (at notional gearing)' in row 88 as:
- Pre-Tax Cost of Debt out(under)performance at notional gearing (row 88 of table R7 – Financing)*Corporation tax rate (from Data worksheet)*RPI uplift to nominal prices (row 40 of table R10).

- 1.66 Note that Ofgem formula changes in the R7 – Financing table, and the updating of Enduring Value adjustments as set out in Appendix 2, have had an impact on some values in R10. As a result, the historical values have updated slightly – see the ‘Change log’ worksheet in the RFPR templates for details.

RAV

- 1.67 Under the RIIO framework, WPD 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 through the RAV depreciation allowance.
- 1.68 The table below shows the adjusted closing RAV uplifted to year-end prices, for each WPD DNO, plus WPD total. This view of RAV includes the impact of Enduring Value adjustments on RAV additions. Note that values from 2019/20 onwards are based on forecast Totex expenditure. More detail is shown in table R9 - RAV in the RFPR:

Table 8:

Adjusted Closing RAV £m, Nominal prices	2016	2017	2018	2019	2020	2021	2022	2023
WMID	2144.3	2261.6	2364.4	2451.5	2528.7	2604.5	2726.4	2868.2
EMID	2126.2	2256.9	2351.5	2438.6	2518.1	2591.5	2720.4	2859.1
SWALES	929.2	993.6	1038.3	1105.3	1162.6	1222.2	1291.2	1369.8
SWEST	1351.2	1465.5	1566.2	1666.0	1758.2	1842.4	1958.0	2090.3
WPD TOTAL	6550.9	6977.7	7320.4	7661.5	7967.5	8260.7	8696.0	9187.4

Dividend paid and current policy

- 1.69 The table below summarises the dividend payments for historical years, as presented in table R11 – Dividends in the RFPR:

Table 9:

Dividend paid per Statutory Accounts £m, Nominal prices	2016	2017	2018	2019	2020
WMID	0.0	90.8	165.0	10.0	90.0
EMID	52.4	130.0	113.4	30.0	64.7
SWALES	43.4	0.0	46.9	19.4	9.3
SWEST	125.2	24.4	94.9	38.6	25.0
WPD TOTAL	221.0	245.2	420.2	98.0	189.0

- 1.70 The RFPR requires an adjustment to remove the element of dividends not related to the Regulatory business. WPD’s apportionment methodology is set out in Appendix 3.
- 1.71 The WPD Group is structured such that a proportion of the WPD Group's debt is issued by group companies other than WMID, EMID, SWALES and SWEST. Interest payments on this debt, together with other items, are funded primarily through dividend payments from WMID, EMID, SWALES and SWEST.
- 1.72 The dividends shown in the table above reconcile to the individual WPD licensee company statutory accounts. These dividends comprise movements to other WPD group entities. Dividends paid up to the PPL Corporation are shown in the annual report and accounts of the holding company Western Power Distribution plc.

Pensions

- 1.73** WPD operates two defined benefit schemes which fall within Ofgem's price control pension principles:
- The Western Power Distribution Group of the Electricity Supply Pension Scheme (WPD Group), for which SWALES and SWEST are sponsoring companies; and
 - The Central Networks Group of the Electricity Supply Pension Scheme (CN Group), for which WMID and EMID are sponsoring companies.
- 1.74** As at 31 March 2016, the deficit on the WPD Group of the ESPS was £507.0m, and the deficit on the CN Group of the ESPS was £602.9m. The 2019 valuation process has been concluded and WPD is in the process of preparing the triennial submission under the Pensions Deficit Allocation Methodology (PDAM), which informs Ofgem's Reasonableness Review of pension costs. Data from the 2016 valuation has been reported in rows 24:39 of table R12 Pensions, to ensure that the results of the valuation in rows 24:39 align with the Pensions Deficit repair allowances reported in rows 17:19. Ofgem will conclude its Reasonableness Review later this year, and determine Pensions Allowance values for the three years following the Reasonableness Review, and information from the 2019 valuation will then start being reported in the 2020/21 RFPR.
- 1.75** Table R12 – Pensions shows a summarised position of the pension deficit for the defined benefit schemes attributable to WPD's DNOs. The deficit for the WPD Group of the ESPS has been reported in table R12 for both SWALES and SWEST, and similarly the deficit for the CN Group of the ESPS has been reported in table R12 for both WMID and EMID.
- 1.76** Note that there have been some small adjustments to pensions values reported in table R12 for 2016/17, 2017/18 and 2018/19, as described below. These changes have also been reflected in the Enduring Value adjustments described in Appendix 2.

Prior year changes

- 1.77** Following the pension prepayment in 2016/17, a small correction to 2016/17 entries was originally entered in 2017/18. The values in 2016/17 and 2017/18 have been updated in the 2019//20 submission so this correction is included in 2016/17, rather than 2017/18, which we consider better reflects the true cash position. Note that the adjustment values have also been updated slightly.
- 1.78** A small amount of the prepayment in WMID and EMID was carried over into 2018/19, to which the 2016/17 regulatory fraction was applied. This has now been updated so the 2018/19 regulatory fraction is applied to these amounts which unwound in 2018/19.
- 1.79** The table below shows the impact of the changes to the values included in table R12 Pensions:

Table 10:

Pensions table R12 - Impact of prior year changes £m, Nominal prices		2016/17	2017/18	2018/19	TOTAL
WMID	Licensee share of total pension deficit repair payment made for defined benefit scheme	-1.0	1.1	0.0	0.0
	Established deficit element funded via specific allowances	-0.8	1.0	-0.3	0.0
	Incremental deficit funded via totex	0.0	0.0	0.0	0.0
EMID	Licensee share of total pension deficit repair payment made for defined benefit scheme	-1.0	0.9	0.0	0.0
	Established deficit element funded via specific allowances	-0.8	0.9	-0.2	-0.1
	Incremental deficit funded via totex	0.0	0.0	0.0	0.0
SWALES	Licensee share of total pension deficit repair payment made for defined benefit scheme	-0.6	0.9	0.0	0.3
	Established deficit element funded via specific allowances	-0.4	0.5	0.0	0.1
	Incremental deficit funded via totex	0.0	0.0	0.0	0.0
SWEST	Licensee share of total pension deficit repair payment made for defined benefit scheme	-0.8	0.5	0.0	-0.3
	Established deficit element funded via specific allowances	-0.7	0.8	0.0	0.2
	Incremental deficit funded via totex	0.0	0.0	0.0	0.0
WPD TOTAL	Licensee share of total pension deficit repair payment made for defined benefit scheme	-3.4	3.4	0.0	0.0
	Established deficit element funded via specific allowances	-2.7	3.3	-0.4	0.2
	Incremental deficit funded via totex	-0.1	0.1	0.1	0.1

Data assurance statement

1.80 The data in this report has been reviewed under WPD's internal Data Assurance process.



Appendices

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

This section is not applicable as WPD's DNOs have a 31 March year end.

2. Enduring Value Adjustments

Concept

- 1.82** Ofgem's RFPR Regulatory Instructions and Guidance define Enduring Value as: "The true value of the regulated business over the course of the price control. The enduring value of the business factors in the financial impact of any decisions or future events, which have yet to be reflected in Revenue and RAV but are known at the time of estimation. The enduring value represents the establishment of sustained long term value to the regulatory network or to its operation."¹

2015/16 Enduring Value adjustments

- 1.83** No Enduring Value adjustments have been included for the regulatory year 2015/16 in WPD's 2019/20 RFPR submissions.

2016/17 Enduring Value adjustments

Pensions prepayment

- 1.84** In March 2017, WPD made a £230m prepayment into its ESPS pension schemes. This prepayment was expected to unwind over the next two years and comprised both deficit repair payments and ongoing pension contributions.
- 1.85** In accordance with the RIGs, the prepayment was reported on a cash basis in the RRP in 2016/17 and the regulated element of the amount relating to ongoing pensions contributions and incremental deficit repair was included within Totex. The established deficit element of this prepayment has been reported on a cash basis in the RRP, outside of Totex. Note that there have been some small adjustments to pensions values reported in 2016/17, 2017/18 and 2018/19 – see the Pensions section above for more details on this. These changes have also been reflected in the Enduring Value adjustments described below.
- 1.86** Without any Enduring Value adjustment, the amount of the prepayment included within Totex would be calculated as an overspend and the Totex adjustment would result in a penalty of 70% of this overspend being included in RoRE for the year. An Enduring Value adjustment is therefore required.
- 1.87** The Enduring Value adjustment has been calculated by taking the incremental deficit repair included within Totex, plus the element of ongoing pensions costs included within Totex, as the Totex overspend.
- 1.88** The value of the element relating to ongoing pensions contributions for the WPD DNOs and incremental deficit repair prepayment in 2016/17 was £57m across the 4 WPD licensees. The amount of the WPD DNOs' ongoing pensions costs outside of Totex has been excluded, resulting in an adjustment of £53.4m, as shown below, for the element of the prepayment included within Totex in 2016/17. These amounts are then reversed in 2017/18 and 2018/19 – see Table A1 for further details.

¹ "RIIO Regulatory Financial Performance Reporting – Regulatory Instructions and Guidance", 30 April 2019, p.30
<https://www.ofgem.gov.uk/publications-and-updates/direction-introduce-regulatory-financial-performance-reporting-rfpr>

Table A1:

Pensions prepayment EV adjustment £m, Nominal prices	2016/17	2017/18	2018/19	TOTAL
WMID	14.6	-14.3	-0.3	0.0
EMID	12.8	-12.5	-0.3	0.0
SWALES	10.1	-9.6	-0.5	0.0
SWEST	15.9	-15.4	-0.5	0.0
WPD TOTAL	53.4	-51.8	-1.6	0.0

1.89 Table A2 shows these values restated in 12/13 prices, as included in the RFPR:

Table A2:

Pensions prepayment EV adjustment £m, 12/13 prices*	2016/17	2017/18	2018/19	TOTAL
WMID	9.4	-8.9	-0.2	0.3
EMID	8.3	-7.8	-0.2	0.3
SWALES	6.5	-6.0	-0.3	0.2
SWEST	10.3	-9.6	-0.3	0.4
WPD TOTAL	34.5	-32.3	-1.0	1.3

* Note this is 70% of the overspend relating to the prepayment as the remaining 30% is adjusted via the TIM. These values have been grossed up by 100/70 for inclusion in row 22 of table R4 – Totex, as the 70% is then applied in row 31 of the same table.

2017/18 Enduring Value adjustments

Pensions prepayment

1.90 As the pensions prepayment made in 2016/17 was expected to unwind over the next two years, there should therefore be a reversal of the Enduring Value adjustment in 2017/18 equivalent to the 2017/18 amount of ongoing and incremental pensions cost.

1.91 The adjustment above is calculated as the sum of:

- The reversal of the prepayment of incremental deficit repair costs in 17/18; and
- The reversal of the prepayment of ongoing pension costs within the price control in 17/18.

Rail electrification

1.92 In April 2018, WPD agreed to make a voluntary return of £77m (12/13 prices) of unspent forecast regulatory Totex allowances associated with curtailed rail electrification projects. These allowances will be returned equally in the years 2020/21, 2021/22 and 2022/23 via the PCFM, and therefore Base Revenue.

1.93 An Enduring Value adjustment is therefore required to remove the benefit under the Totex Incentive Mechanism recognised to date due to unspent rail electrification allowances, as this benefit will not “endure”, given that the unspent amounts will be handed back in future years.

1.94 Table A3 below shows the profile of the “hand back”.

Table A3:

Rail electrification Hand back £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
WMID	0.0	0.0	0.0	0.0	0.0	-6.5	-6.5	-6.5	-19.4
EMID	0.0	0.0	0.0	0.0	0.0	-3.4	-3.4	-3.4	-10.2
SWALES	0.0	0.0	0.0	0.0	0.0	-12.7	-12.7	-12.7	-38.2
SWEST	0.0	0.0	0.0	0.0	0.0	-3.1	-3.1	-3.1	-9.2
TOTAL	0.0	0.0	0.0	0.0	0.0	-25.7	-25.7	-25.7	-77.0

Table A4 shows the profile of the underspend “handed back”.

Table A4:

Rail electrification Underspend £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
WMID	0.5	-0.1	0.1	0.1	1.3	5.8	5.8	5.9	19.4
EMID	4.5	4.5	4.4	1.3	-4.6	0.0	0.0	0.0	10.2
SWALES	12.7	14.1	5.7	5.7	0.0	0.0	0.0	0.0	38.2
SWEST	3.7	5.9	-0.9	-3.2	-3.2	0.0	0.8	6.2	9.2
WPD TOTAL	21.4	24.5	9.3	3.9	-6.5	5.8	6.6	12.1	77.0

1.95 It is therefore the benefit of the underspend from the beginning of the price control up to, and including, regulatory year 2017/18 that should be adjusted for via Enduring Value.

1.96 Additional Enduring Value adjustments are required in years 18/19 onwards, to:

- further increase the Enduring Value balance adjustment accrual by removing any further benefit from unspent rail electrification allowances; and then
- to unwind the Enduring Value balance in years 20/21, 21/22 and 22/23 as the adjustments are made to Base Revenue.

1.97 As the Rail Electrification hand back was agreed in April 2018, WPD has entered the first adjustment in 2017/18 for the three years’ underspends to date, on the basis that historical data in the RFPR, once submitted, should be static wherever possible.

1.98 Table A5 shows the Enduring Value adjustments included in the RFPR for Rail Electrification.

Table A5:

Rail electrification Enduring value adjustment* £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL	
	ACCRUING					UNWINDING				
WMID			-0.4	-0.1	-0.9	0.5	0.5	0.4	0.0	
EMID			-9.4	-0.9	3.2	2.4	2.4	2.4	0.0	
SWALES			-22.7	-4.0	0.0	8.9	8.9	8.9	0.0	
SWEST			-6.1	2.3	2.3	2.2	1.6	-2.2	0.0	
WPD TOTAL	0.0	0.0	-38.6	-2.7	4.6	13.9	13.4	9.5	0.0	

* Note this is 70% of the underspend as the remaining 30% is returned to customers via the TIM. These values have been grossed up by 100/70 for inclusion in row 23 of table R4 – Totex, as the 70% is then applied in row 31 of the same table.

2018/19 Enduring Value adjustments

Pensions prepayment

- 1.99** As the pensions prepayment made in 2016/17 was expected to unwind over the next two years, there should therefore be a reversal of the remaining amount of Enduring Value adjustment in 2018/19 to ensure the prepayment has a nil effect over the total ED1 period. These amounts are shown in table A2 above.

RAV/Non-RAV split of Enduring Value adjustments

- 1.100** The pensions prepayment Enduring Value adjustment is all included as a Non-RAV Enduring Value adjustment, on the basis that there had been no overstatement of the RAV; the pensions cash payment occurred and 80% of the cash pensions costs reported in the RRP was added to the RAV and would not be clawed back.
- 1.101** The Rail Electrification Enduring Value adjustment is, however, split 80% RAV, 20% Non-RAV, on the basis that there is currently 80% of the benefit from the Totex underspend included in the RAV which will be handed back in the future.

2019/20 Enduring Value adjustments

TIM neutral and Smart Meter allowances

- 1.102** The RIIO-ED1 price control includes two 'TIM neutral' mechanisms for Visual Amenity and Worst Served Customer Projects. These operate on a 'use it or lose it' basis, whereby opening allowances were set at zero and are then subject to revision on a 2 year lag based on actual expenditure up to a total allowed amount. Similarly, opening levels of allowed Totex expenditure for Smart Meter Roll-out Costs were set on a provisional basis and are revised on a 2 year lag basis based on the actual number of Smart Meter Interventions.
- 1.103** As row 13 of the R4-Totex worksheet takes the Totex allowance from latest published PCFM, this does not include adjustments for the above items for 2019/20 onwards, yet the corresponding costs would be included in actual 2019/20 and forecast Totex. An Enduring Value adjustment is therefore required for these years for the amount of Totex allowance anticipated, which has been reported in table M17 of WPD's Regulatory Reporting Pack. The adjustments included are set out below.
- 1.104** Note that these Enduring Value adjustments have also been split out of RAV additions in row 19 and RAV depreciation in row 22 and presented within RAV additions Enduring Value adjustments in row 20 and RAV depreciation Enduring Value adjustments in row 23 of table R9 – RAV; RAV additions for 2019/20 onwards have been based on forecast values of post-TIM Totex, which will already reflect the forecast updates to allowances so this is simply a presentational change.

Table A9:

TIM neutral and Smart meter adjustments £m, 12/13 prices	2019/20	2020/21	2021/22	2022/23	TOTAL
WMID	-0.6	-0.5	3.4	2.6	4.9
EMID	-0.7	-0.6	3.1	2.3	4.1
SWALES	-0.1	0.4	2.4	1.5	4.2
SWEST	-0.5	0.2	2.6	1.9	4.1
WPD TOTAL	-2.0	-0.5	11.4	8.4	17.2

Summary of Enduring Value adjustments to Totex

1.105 Table A6 below summarises the Enduring Value adjustments included within table R4 – Totex. Note these are the values included in rows 22-24 of table R4, rather than 70% of these amounts included in the tables above and which flow through to the RoRE calculation.

Table A6:

Enduring Value Totex Summary £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Pensions prepayment	0.0	13.5	-12.7	-0.2	0.0	0.0	0.0	0.0	0.5
Rail electrification	0.0	0.0	-0.5	-0.1	-1.3	0.7	0.7	0.6	0.0
TIM neutral and Smart meter adjustments	0.0	0.0	0.0	0.0	-0.6	-0.5	3.4	2.6	4.9
WMID TOTAL	0.0	13.5	-13.3	-0.4	-1.9	0.2	4.1	3.2	5.4
Pensions prepayment	0.0	11.8	-11.1	-0.3	0.0	0.0	0.0	0.0	0.4
Rail electrification	0.0	0.0	-13.4	-1.3	4.6	3.4	3.4	3.4	0.0
TIM neutral and Smart meter adjustments	0.0	0.0	0.0	0.0	-0.7	-0.6	3.1	2.3	4.1
EMID TOTAL	0.0	11.8	-24.5	-1.6	3.8	2.8	6.4	5.7	4.5
Pensions prepayment	0.0	9.3	-8.6	-0.4	0.0	0.0	0.0	0.0	0.4
Rail electrification	0.0	0.0	-32.5	-5.7	0.0	12.7	12.7	12.7	0.0
TIM neutral and Smart meter adjustments	0.0	0.0	0.0	0.0	-0.1	0.4	2.4	1.5	4.2
SWALES TOTAL	0.0	9.3	-41.0	-6.1	-0.1	13.1	15.1	14.3	4.5
Pensions prepayment	0.0	14.7	-13.7	-0.5	0.0	0.0	0.0	0.0	0.5
Rail electrification	0.0	0.0	-8.8	3.2	3.2	3.1	2.3	-3.1	0.0
TIM neutral and Smart meter adjustments	0.0	0.0	0.0	0.0	-0.5	0.2	2.6	1.9	4.1
SWEST TOTAL	0.0	14.7	-22.5	2.8	2.7	3.3	4.9	-1.2	4.7
Pensions prepayment	0.0	49.3	-46.1	-1.4	0.0	0.0	0.0	0.0	1.8
Rail electrification	0.0	0.0	-55.2	-3.9	6.5	19.9	19.1	13.6	0.0
TIM neutral and Smart meter adjustments	0.0	0.0	0.0	0.0	-2.0	-0.5	11.4	8.4	17.2
WPD TOTAL	0.0	49.3	-101.3	-5.3	4.5	19.4	30.5	22.0	19.1

Summary of Enduring Value adjustments to RAV additions

1.106 Table A7 below sets out the breakdown of the Enduring Value adjustments to RAV additions, as shown in row 20 of RFPR table R9- RAV.

Table A7:

Enduring Value Summary RAV additions adjustments £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Rail electrification	0.0	0.0	-0.3	-0.1	-0.7	0.4	0.4	0.3	0.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	-0.4	-0.3	1.9	1.5	2.7
WMID TOTAL	0.0	0.0	-0.3	-0.1	-1.1	0.1	2.3	1.8	2.7
Rail electrification	0.0	0.0	-7.5	-0.7	2.5	1.9	1.9	1.9	0.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	-0.4	-0.3	1.7	1.3	2.3
EMID TOTAL	0.0	0.0	-7.5	-0.7	2.1	1.6	3.6	3.2	2.3
Rail electrification	0.0	0.0	-18.2	-3.2	0.0	7.1	7.1	7.1	0.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	-0.1	0.2	1.3	0.9	2.3
SWALES TOTAL	0.0	0.0	-18.2	-3.2	-0.1	7.3	8.4	8.0	2.3
Rail electrification	0.0	0.0	-4.9	1.8	1.8	1.7	1.3	-1.7	0.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	-0.3	0.1	1.4	1.1	2.3
SWEST TOTAL	0.0	0.0	-4.9	1.8	1.5	1.8	2.7	-0.7	2.3
Rail electrification	0.0	0.0	-30.9	-2.2	3.7	11.1	10.7	7.6	0.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	-1.1	-0.3	6.4	4.7	9.6
WPD TOTAL	0.0	0.0	-30.9	-2.2	2.5	10.9	17.1	12.3	9.6

1.107 Table A8 below sets out the breakdown of the depreciation impact of Enduring Value adjustments to RAV additions, as shown in row 23 of RFPR table R9- RAV.

Table A8:

Enduring Value Summary RAV depreciation adjustments £m, 12/13 prices	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Rail electrification	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WMID TOTAL	0.0	0.1							
Rail electrification	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.1	1.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EMID TOTAL	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.1	1.0
Rail electrification	0.0	0.0	0.0	0.6	0.7	0.7	0.5	0.4	3.0
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWALES TOTAL	0.0	0.0	0.0	0.6	0.7	0.7	0.5	0.3	2.9
Rail electrification	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.3
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWEST TOTAL	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.3
Rail electrification	0.0	0.0	0.0	1.1	1.1	1.0	0.7	0.5	4.4
TIM neutral and Smart meter adjustments to Totex allowance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
WPD TOTAL	0.0	0.0	0.0	1.1	1.1	1.0	0.8	0.4	4.4

Previous Enduring Value adjustments

- 1.108** In WPD's 2018/19 RFPR submission, an Enduring Value adjustment was included for the Specified Street Works reopener, as WPD had made an application for an additional £56.2m (2012/13 prices) of allowed Totex for Specified Street Works Costs in RIIO-ED1 for WMID, EMID and SWEST in May 2019, and the outcome of this was not yet known. Ofgem has now made a decision on the Specified Street Works Reopener, and awarded additional allowance to EMID only. These amounts are now reflected in Totex allowances for EMID, and an Enduring Value adjustment is therefore no longer required in any of the WPD DNOs for this.
- 1.109** Enduring value adjustments were also included in the RPFR for EMID in 2015/16, 2016/17 and 2017/18 for the effect on the Totex Incentive Mechanism of a provision reversal being included in the RRP. This has now been corrected in the RRP so the Enduring Value adjustment is no longer required.
- 1.110** In the 2018/19 RFPR submission, a further RAV-only Enduring Value adjustment to RAV additions for 2018/19 for Totex under/overspend was required as the RFPR RIGs required 2018/19 Totex entered in table R4 – Totex to be that per the latest submitted RRP whilst requiring actual RAV additions table R9 to be taken from the latest published PCFM. The RFPR RIGs have now been updated to require actual RAV additions to be taken from latest RRP submissions, which overcomes this issue.

3. Basis of any estimates and allocations

Use of RRP data

- 1.112 Note that much of the data in the RFPR tables has been taken from the RRP tables which are also submitted to Ofgem in July 2020. WPD has not had confirmation from Ofgem that no changes are required to this data.
- 1.113 Details of areas of allocation processes and estimation methodologies used to derive RRP data are reported in the Strategic Performance Overview accompanying the RRP data submitted to Ofgem in July 2020.

Allocation processes and estimation methodologies

- 1.114 Guidance has not been provided by Ofgem for the following areas, therefore WPD sets out its methodologies below.

1. Allocation of dividends

- 1.115 The RFPR requires an adjustment to remove the element of dividends not related to the Regulatory business.
- 1.116 Ofgem has not prescribed a method of calculating this, therefore WPD's apportionment methodology uses RRP data in table C1 and takes:

$$\frac{\text{Total Net Costs after Non Price Control allocation outside the price control}}{\text{(Total Net Costs after Non Price Control allocation outside the price control, PLUS Total Net Costs after Non Price Control allocation inside the price control)}}$$

Calculated as a percentage for each regulatory year.

- 1.117 The dividend paid per the statutory accounts is then multiplied by this percentage to calculate the element paid not related to the Regulated business.

2. Tax

- 1.118 The RFPR requires an adjustment to remove the element of the tax charge per the CT600 not related to the Regulatory business. Notional values for the taxation charge for Metering equipment and services, Directly Remunerated Services (excluding metering) and De Minimis Business of the licensee have been calculated using the same approach taken to prepare the segmental analysis in the WPD licensees' Regulatory Accounts in previous years. This uses revenue and costs reported in the RRP tables for these categories, plus customer contributions for connections outside of RAV.
- 1.119 Automated adjustments are then made to reflect tax on output incentives and IQI additional income. Further adjustments for timing differences have then been input for the impact of Correction factor (K) and under/over recovery, MOD, RPI True up and Adjustments for Allowed Pass-Through items using data from RFPR table R2 – Revenue and forecast data. The impact on the tax charge of the DPCR4 losses incentive and DPCR5 legacy revenue adjustments has been removed as this does not relate to RIIO-ED1. A further adjustment has been made for Revenue profiling adjustments. Adjustments for Enduring Value are then included using data from table R4.

3. Pensions reporting

- 1.120 As set out above in relation to table R12 – Pensions, information for the Central Networks Group of the ESPS is reported in table R12 for WMID and EMID, and the WPD Scheme is reported in table R12 for SWALES and SWEST. As the RIGs for table R12 require that the total pension deficit repair payment

made by the licensee for its share of any defined benefit schemes is reported, the non-regulated amount of any deficit repair payments into these schemes has been apportioned to arrive at the licensee share. The basis of this allocation for 2019/20 is as follows.

- 1.121** Total deficit repair payment for the CN scheme has been split between pre cut-off deficit repair and post cut-off deficit repair amounts based on the pre cut-off and post cut-off proportions in the last Pensions Deficit Allocation Methodology (PDAM) submission to Ofgem. These amounts are then multiplied by the respective pre cut-off and post cut-off Regulatory Fractions for WMID and EMID from the 2017 PDAM submission to derive the Established and Incremental deficit repair amounts for WMID and EMID. This then leaves a non-regulated element of both the pre and post cut-off payments to be apportioned between WMID and EMID. This is calculated by pro-rating the pre cut-off non-regulated amount between WMID and EMID depending on their relative shares of the Established deficit repair payment for the scheme, and the post cut-off non-regulated amount based on relative shares of the Incremental deficit repair repayment for the scheme.
- 1.122** The same approach is followed for the apportionment of the deficit repair payments into the WPD Scheme between SWALES and SWEST.

4. Other relevant information

Useful links and further information

Further information on WPD's Financial Performance can be found in WPD's Statutory Accounts:

<https://www.westernpower.co.uk/about-us/financial-information>

Further information on WPD's Operational Performance can be found in WPD's Business Plan Commitments Report – note that the 2019/20 report will be published in October 2020:

<https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1>

WPD's RIIO-ED1 Business Plan can be found at the link below:

www.westernpower.co.uk/About-us/Stakeholder-information/Our-Future-Business-Plan.aspx

Ofgem's Guide to the RIIO-ED1 Electricity Distribution Price control is intended to give stakeholders a better understanding of how RIIO-ED1 works in practice:

https://www.ofgem.gov.uk/system/files/docs/2017/01/guide_to_riioed1.pdf

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