



Appendix SA09-A01 Ofgem base case Financeability assessment

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Appendix A01

Ofgem base case financeability assessment

Introduction

This appendix sets out the credit ratios under Ofgem's base case, generated by Ofgem's Business Plan Financial Model (BPFM), and how these credit ratios vary under a range of stress-test scenarios, as required by Ofgem.

The scenarios Ofgem requires us to run are:

- Ofgem base case, as per Ofgem's March 2021 Sector Specific Methodology Decision (SSMD) working assumptions¹:

Parameter	Ofgem working assumption, CPIH real
Gearing	60%
Cost of debt	2.087% average for 2023/24 - 2027/28 period
Cost of equity	4.400% average for 2023/24 - 2027/28 period (after a 0.25% deduction for expected outperformance)
Cost of capital	3.012% average for 2023/24 - 2027/28 period

- Ofgem's base case scenario assumptions include:
 - Allowed Totex is equal to actual Totex.
 - 0.25% RoRE outperformance.
 - 25% CPIH index-linked debt.
 - Natural capitalisation rate used for regulatory capitalisation.
- Ofgem stress test scenarios use Ofgem's working assumptions as set out above, with the following changes:
 - High interest rate scenario – assumes a 1% increase in interest rates.
 - Low interest rate scenario – assumes a 1% decrease in interest rates.
 - High inflation scenario – assumes a 1% increase in both RPI and CPIH inflation rates.
 - Low inflation scenario – assumes a 1% decrease in both RPI and CPIH inflation rates.
 - High CPIH inflation divergence scenario – assumes a 0.5% increase in the differential between RPI and CPIH inflation rates, corresponding to a 0.5% increase in CPIH inflation rate. Note that we do not consider Ofgem's modelling of this scenario to be correct as the effect of this additional 50bps is not feeding through into ratios.
 - Low CPIH inflation divergence scenario – assumes a 0.5% decrease in the differential between RPI and CPIH inflation rates, corresponding to a 0.5% decrease in CPIH inflation rate. See comment above re: issues with the modelling of this.
 - High RPI inflation divergence scenario – assumes a 0.5% increase in the differential between RPI and CPIH inflation rates, corresponding to a 0.5% increase in RPI inflation rate. See comment above re: issues with the modelling of this.
 - Low RPI inflation divergence scenario - assumed 0.5% increase in the differential between RPI and CPIH inflation rates, corresponding to a 0.5% decrease in RPI inflation rate. See comment above re: issues with the modelling of this.
 - Totex outperformance scenario - assumes a 10% Totex underspend in each year.
 - Totex underperformance scenario - assumes a 10% Totex overspend in each year.

¹ RIIO-ED2 Sector Specific Methodology Decision: Annex 3 Finance, 11 March 2021.
https://www.ofgem.gov.uk/system/files/docs/2021/03/riio_ed2_ssmd_annex_3_finance.pdf

- No RORE outperformance scenario - removes the 0.25% RoRE outperformance assumed in Ofgem's base case scenario.
- High RoRE scenario – assumes an increase in outperformance revenue equal to 2% RoRE (i.e. a total 2.25% RoRE outperformance).
- Low RoRE scenario – assumes a decrease in outperformance revenue equal to 2% RoRE (i.e. a total 1.75% RoRE underperformance, or penalty).
- High index-linked debt scenario – assumes a 5% increase in the proportion of inflation index linked debt (i.e. 30% CPIH ILD).
- Low index-linked debt scenario – assumes a 5% decrease in the proportion of inflation index linked debt (i.e. 20% CPIH ILD).

We set out the notional ratios under the above scenarios in the following pages. We also present the actual ratios for the Ofgem base case on page 6.

In addition to the considerations set out in this Appendix, we also asked NERA to stress-tested Ofgem's proposals (see Appendix A03 to Annex 9; RIIO-ED2 Financeability Assessment: Stochastic Risk Modelling, prepared for WPD, a report by NERA). We note that there remain a number of issues with the calculation of credit ratios in Ofgem's model, as highlighted in the NERA report included in Appendix SA09-A03.

Conclusions from financeability assessment of Ofgem's base case

It can be seen that in the notional scenarios, as modelled by Ofgem in the BPFM, gearing is allowed to increase up to 65% before an equity injection is modelled. The impact of such modelled equity issuances in South Wales and South West in 2026/27 can be seen in the Ofgem base case ratios on page 5, in both cases to bring gearing back down to 60% where it would otherwise exceed 65%. We note that NERA has turned off Ofgem's modelling of automatic equity injections when gearing increases 5% above notional levels, otherwise the full financeability downside is not represented.

Ofgem base case scenarios

Looking at the AICR ratio for each of the WPD DNOs, under the Ofgem base case scenario on page 5, it is 1.39 or below for each WPD licensee on average over RIIO-ED2. According to the Moody's ratios we set out in figure SA-09.7 of Chapter 9 of our Business Plan, this would place all four WPD DNOs in the mid-range of the Baa2-Baa1 category (1.6x–1.2x).

The FFO/Net debt ratio for each of the WPD DNOs, under the Ofgem base case scenario on page 5, ranges from 10.19% to 11.81% for WPD licensees on average over RIIO-ED2. Again, according to the Moody's ratios, this would place all four WPD DNOs towards the bottom, or even below the bottom, of the range of the Baa2-Baa1 category (11% – 18%).

Ofgem stress test scenarios

The most stretched financial ratios are under the Ofgem Low RoRE scenario. This scenario reflects a wide range of risks for WPD, as RoRE encompasses risks on cost of debt, Totex expenditure, and penalties under incentives.

Looking at the AICR ratio for each of the WPD DNOs, under the Ofgem Low RoRE scenario on page 19, it is 1.02 or below for each WPD licensee on average over RIIO-ED2. According to the Moody's ratios we set out in figure SA-09.7 of Chapter 9 of our Business Plan, this would place all four WPD DNOs below the range of the Baa2-Baa1 category (1.6x–1.2x).

The FFO/Net debt ratio for each of the WPD DNOs, under the Ofgem Low RoRE scenario on page 19, ranges from 8.74% to 10.31% for WPD licensees on average over RIIO-ED2. Again, according to the Moody's ratios, this would place all four WPD DNOs below the range of the Baa2-Baa1 category (11% – 18%).

The outcome of the financeability metrics above is significantly below WPD's stated ratio target of the higher end of the range of the Baa values shown in the table of Moody's ratios. We note that the majority of the ratios demonstrate deterioration over the period; this position may indicate further financial problems for future price controls. It should also be noted that AICR is one of Moody's two primary ratios.

From the above, it is clear that the outcome of the financeability metrics is significantly below WPD's stated ratio target and that there is a substantial downside risk on credit ratings. NERA's report also identified that, under Ofgem's base case financing parameters, there is substantial downside risk on credit rating during RIIO-ED2, including the risk of sub-investment grade rating, for all of the WPD DNOs.

To address the financeability issues under Ofgem's working assumptions, we have evaluated whether it is appropriate to adjust capitalisation rates, asset lives, dividends and gearing, or to refinance debt; the measures identified by Ofgem to resolve financeability issues. The issues below are expanded upon in Chapter 9 of our Business Plan.

Capitalisation rates

WPD considers that a change to capitalisation rates is required to improve financeability. However, changing capitalisation rates alone does not provide the required improvement to ratios, noting that Moody's make an adjustment for excess fast money when calculating AICR.

Asset lives

We believe that the detailed review of asset lives Ofgem conducted in 2011 was intended as a long term policy decision and should not be reopened to solve financeability issues; this could have the unintended consequence of increasing returns over the longer period by undermining Ofgem's reputation for predictability.

Dividends

We note that Ofgem has set a working assumption of a 3% dividend yield, which is already a reduction from the RIIO-ED1 assumption of a 5% dividend yield, and does not align with investor expectations of stable dividend growth.

A consistent dividend policy provides confidence to investors of the regulatory commitment to allow equity investors to recover their initial investment and earn a stable return over the long term. Any significant change in the level of yield may lead to a 'flight from equity' such as that experienced after the PR19 regulatory agreement in the water sector and we therefore do not consider further limitations of dividends is a realistic option.

Gearing

We note that the gearing ratio in the scenarios set out in this appendix is not stretched in the same way as the AICR or FFO/net debt ratios, given that Ofgem's notional modelling approach resets gearing to 60% if gearing exceeds 65%. This reset is applied to opening gearing, hence closing gearing reported for the credit ratios is greater than 65% at times. We also note that under this approach, in addition to the equity injection required to reduce gearing from 65% to 60% at the start of RIIO-ED2, equity injections are also already assumed in South Wales and South West in 2026/27 under the Ofgem base case.

We note that NERA has turned off the modelling of automatic equity injections when gearing increases 5% above notional levels, otherwise the full financeability downside is not represented.

Debt refinancing

As set out in Chapter 9 of our Business Plan, we already have a direct and significant incentive to refinance higher cost debt, and have done so where this is efficient.

Our conclusion is that the measures above do not provide adequate resolution to the financeability issues and a small uplift to the cost of equity and cost of debt is also appropriate. We therefore propose an alternative financing package which reflects these adjustments to ensure we are financeable. Full details of the outcome of our assessment of our alternative financing package are set out in Appendix A02 to our Finance Annex.

Ofgem base case credit ratios – Ofgem working assumptions

Ofgem Base case, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.39%	61.20%	62.05%	62.52%	63.31%	61.89%
Adjusted interest cover ratio (AICR)	1.37	1.37	1.38	1.39	1.41	1.39
FFO to Interest (including accretions)	3.86	3.82	3.80	3.78	3.76	3.80
FFO/Net debt	13.11%	12.40%	11.80%	11.23%	10.54%	11.81%
Retained cash flow (RCF)/Net debt	10.61%	9.95%	9.39%	8.83%	8.17%	9.39%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.73%	61.74%	62.84%	63.73%	64.32%	62.67%
Adjusted interest cover ratio (AICR)	1.37	1.36	1.36	1.37	1.39	1.37
FFO to Interest (including accretions)	3.78	3.73	3.70	3.67	3.67	3.71
FFO/Net debt	12.68%	12.00%	11.33%	10.72%	10.25%	11.39%
Retained cash flow (RCF)/Net debt	10.19%	9.56%	8.95%	8.36%	7.91%	8.99%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.54%	63.15%	65.18%	61.54%	62.88%	62.86%
Adjusted interest cover ratio (AICR)	1.36	1.34	1.32	1.43	1.43	1.38
FFO to Interest (including accretions)	3.66	3.52	3.40	3.60	3.53	3.54
FFO/Net debt	11.94%	10.99%	9.94%	10.33%	9.61%	10.56%
Retained cash flow (RCF)/Net debt	9.49%	8.61%	7.64%	7.91%	7.23%	8.18%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.62%	63.42%	65.51%	61.71%	63.09%	63.07%
Adjusted interest cover ratio (AICR)	1.38	1.36	1.34	1.44	1.44	1.39
FFO to Interest (including accretions)	3.58	3.44	3.31	3.51	3.43	3.45
FFO/Net debt	11.58%	10.61%	9.56%	9.93%	9.24%	10.19%
Retained cash flow (RCF)/Net debt	9.13%	8.24%	7.27%	7.52%	6.87%	7.81%

Ofgem base case credit ratios – Ofgem working assumptions

Ofgem Base case, actual

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.14%	60.01%	59.78%	59.65%	59.41%	59.80%
Adjusted interest cover ratio (AICR)	1.09	1.21	1.30	1.31	1.30	1.24
FFO to Interest (including accretions)	3.59	3.72	4.05	4.02	3.95	3.87
FFO/Net debt	12.04%	12.08%	11.95%	11.46%	10.87%	11.68%
Retained cash flow (RCF)/Net debt	8.80%	8.85%	8.72%	8.22%	7.65%	8.45%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.46%	60.22%	60.01%	59.71%	59.54%	59.99%
Adjusted interest cover ratio (AICR)	1.62	1.71	1.95	1.81	1.79	1.78
FFO to Interest (including accretions)	4.63	4.83	4.88	4.54	4.45	4.67
FFO/Net debt	12.78%	12.53%	12.78%	12.16%	11.70%	12.39%
Retained cash flow (RCF)/Net debt	8.85%	8.67%	8.97%	8.35%	7.90%	8.55%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.16%	60.15%	59.78%	59.49%	59.26%	59.77%
Adjusted interest cover ratio (AICR)	1.17	1.49	1.55	1.71	1.51	1.49
FFO to Interest (including accretions)	4.26	4.36	4.26	4.37	4.04	4.26
FFO/Net debt	11.26%	11.67%	11.24%	11.30%	10.29%	11.15%
Retained cash flow (RCF)/Net debt	7.78%	8.24%	7.85%	7.89%	6.89%	7.73%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.22%	59.86%	59.42%	59.35%	59.06%	59.58%
Adjusted interest cover ratio (AICR)	1.37	1.69	1.72	1.85	1.86	1.70
FFO to Interest (including accretions)	3.71	4.05	3.96	3.99	4.15	3.97
FFO/Net debt	11.42%	11.78%	11.23%	11.17%	10.49%	11.22%
Retained cash flow (RCF)/Net debt	7.45%	7.90%	7.42%	7.39%	6.72%	7.38%

Ofgem stress test credit ratios – Ofgem working assumptions

High interest case, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.29%	61.01%	61.77%	62.16%	62.86%	61.62%
Adjusted interest cover ratio (AICR)	1.41	1.40	1.40	1.41	1.42	1.41
FFO to Interest (including accretions)	3.85	3.78	3.73	3.66	3.60	3.73
FFO/Net debt	13.29%	12.60%	12.01%	11.45%	10.77%	12.02%
Retained cash flow (RCF)/Net debt	10.78%	10.14%	9.59%	9.04%	8.38%	9.59%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.63%	61.55%	62.56%	63.38%	63.89%	62.40%
Adjusted interest cover ratio (AICR)	1.40	1.39	1.39	1.39	1.40	1.39
FFO to Interest (including accretions)	3.78	3.69	3.63	3.56	3.52	3.63
FFO/Net debt	12.86%	12.19%	11.53%	10.93%	10.47%	11.59%
Retained cash flow (RCF)/Net debt	10.36%	9.75%	9.14%	8.56%	8.11%	9.19%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.45%	62.97%	64.92%	66.22%	61.30%	63.37%
Adjusted interest cover ratio (AICR)	1.39	1.37	1.35	1.33	1.46	1.38
FFO to Interest (including accretions)	3.65	3.49	3.34	3.23	3.46	3.43
FFO/Net debt	12.11%	11.17%	10.12%	9.48%	10.09%	10.60%
Retained cash flow (RCF)/Net debt	9.66%	8.79%	7.81%	7.20%	7.66%	8.22%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.53%	63.24%	65.26%	61.62%	62.91%	62.91%
Adjusted interest cover ratio (AICR)	1.42	1.39	1.36	1.45	1.44	1.41
FFO to Interest (including accretions)	3.57	3.41	3.25	3.39	3.29	3.38
FFO/Net debt	11.75%	10.79%	9.74%	10.09%	9.41%	10.36%
Retained cash flow (RCF)/Net debt	9.30%	8.42%	7.44%	7.68%	7.03%	7.97%

Ofgem stress test credit ratios – Ofgem working assumptions

Low interest case, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.48%	61.39%	62.33%	62.89%	63.75%	62.17%
Adjusted interest cover ratio (AICR)	1.34	1.34	1.35	1.37	1.40	1.36
FFO to Interest (including accretions)	3.87	3.86	3.89	3.91	3.94	3.89
FFO/Net debt	12.93%	12.21%	11.59%	11.01%	10.31%	11.61%
Retained cash flow (RCF)/Net debt	10.43%	9.76%	9.19%	8.62%	7.96%	9.19%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.82%	61.93%	63.11%	64.08%	64.75%	62.94%
Adjusted interest cover ratio (AICR)	1.34	1.33	1.34	1.35	1.38	1.35
FFO to Interest (including accretions)	3.79	3.77	3.78	3.79	3.84	3.80
FFO/Net debt	12.51%	11.80%	11.13%	10.51%	10.04%	11.20%
Retained cash flow (RCF)/Net debt	10.02%	9.38%	8.76%	8.17%	7.71%	8.81%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.63%	63.33%	65.44%	61.63%	63.06%	63.02%
Adjusted interest cover ratio (AICR)	1.33	1.31	1.30	1.41	1.42	1.36
FFO to Interest (including accretions)	3.66	3.56	3.47	3.73	3.71	3.63
FFO/Net debt	11.78%	10.81%	9.76%	10.17%	9.44%	10.39%
Retained cash flow (RCF)/Net debt	9.32%	8.44%	7.47%	7.75%	7.07%	8.01%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.72%	63.60%	65.77%	61.80%	63.26%	63.23%
Adjusted interest cover ratio (AICR)	1.35	1.33	1.31	1.43	1.44	1.37
FFO to Interest (including accretions)	3.58	3.48	3.37	3.63	3.60	3.53
FFO/Net debt	11.41%	10.44%	9.39%	9.77%	9.08%	10.02%
Retained cash flow (RCF)/Net debt	8.97%	8.07%	7.10%	7.36%	6.71%	7.64%

Ofgem stress test credit ratios – Ofgem working assumptions

High inflation case, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	59.96%	60.35%	60.79%	60.83%	61.22%	60.63%
Adjusted interest cover ratio (AICR)	1.38	1.39	1.41	1.43	1.46	1.42
FFO to Interest (including accretions)	3.68	3.66	3.66	3.65	3.64	3.66
FFO/Net debt	13.23%	12.63%	12.12%	11.63%	11.01%	12.12%
Retained cash flow (RCF)/Net debt	10.48%	9.92%	9.44%	8.95%	8.34%	9.42%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.31%	60.90%	61.59%	62.07%	62.24%	61.42%
Adjusted interest cover ratio (AICR)	1.38	1.38	1.39	1.41	1.43	1.40
FFO to Interest (including accretions)	3.61	3.58	3.56	3.55	3.55	3.57
FFO/Net debt	12.80%	12.21%	11.63%	11.10%	10.70%	11.69%
Retained cash flow (RCF)/Net debt	10.06%	9.52%	8.98%	8.46%	8.06%	9.02%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.13%	62.34%	63.98%	64.94%	65.72%	63.62%
Adjusted interest cover ratio (AICR)	1.37	1.36	1.35	1.35	1.36	1.36
FFO to Interest (including accretions)	3.49	3.38	3.27	3.20	3.16	3.30
FFO/Net debt	12.05%	11.19%	10.20%	9.62%	9.07%	10.43%
Retained cash flow (RCF)/Net debt	9.36%	8.55%	7.63%	7.07%	6.54%	7.83%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.22%	62.61%	64.31%	65.41%	61.01%	62.91%
Adjusted interest cover ratio (AICR)	1.39	1.38	1.36	1.36	1.49	1.40
FFO to Interest (including accretions)	3.41	3.30	3.18	3.10	3.33	3.27
FFO/Net debt	11.69%	10.80%	9.81%	9.19%	9.67%	10.23%
Retained cash flow (RCF)/Net debt	8.99%	8.18%	7.25%	6.65%	7.00%	7.62%

Ofgem stress test credit ratios – Ofgem working assumptions

Low inflation case, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.82%	62.07%	63.36%	64.28%	65.50%	63.20%
Adjusted interest cover ratio (AICR)	1.37	1.36	1.35	1.36	1.36	1.36
FFO to Interest (including accretions)	4.06	4.00	3.96	3.92	3.89	3.97
FFO/Net debt	12.99%	12.17%	11.48%	10.82%	10.07%	11.51%
Retained cash flow (RCF)/Net debt	10.73%	9.99%	9.35%	8.72%	8.00%	9.36%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.15%	62.60%	64.13%	65.46%	61.08%	62.88%
Adjusted interest cover ratio (AICR)	1.36	1.35	1.34	1.33	1.46	1.37
FFO to Interest (including accretions)	3.98	3.91	3.86	3.81	4.14	3.94
FFO/Net debt	12.56%	11.78%	11.03%	10.34%	10.95%	11.33%
Retained cash flow (RCF)/Net debt	10.32%	9.61%	8.92%	8.27%	8.75%	9.17%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.95%	63.99%	66.43%	61.96%	63.73%	63.62%
Adjusted interest cover ratio (AICR)	1.35	1.32	1.30	1.42	1.41	1.36
FFO to Interest (including accretions)	3.85	3.69	3.55	3.82	3.73	3.73
FFO/Net debt	11.84%	10.80%	9.69%	10.23%	9.44%	10.40%
Retained cash flow (RCF)/Net debt	9.62%	8.67%	7.65%	8.06%	7.32%	8.27%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	62.04%	64.25%	66.75%	62.14%	63.94%	63.82%
Adjusted interest cover ratio (AICR)	1.38	1.34	1.31	1.43	1.42	1.38
FFO to Interest (including accretions)	3.76	3.61	3.45	3.72	3.63	3.63
FFO/Net debt	11.48%	10.43%	9.32%	9.84%	9.07%	10.03%
Retained cash flow (RCF)/Net debt	9.27%	8.31%	7.29%	7.67%	6.96%	7.90%

Ofgem stress test credit ratios – Ofgem working assumptions

High CPIH inflation divergence, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.46%	61.49%	62.56%	63.25%	64.25%	62.40%
Adjusted interest cover ratio (AICR)	1.37	1.37	1.37	1.38	1.39	1.38
FFO to Interest (including accretions)	3.97	3.91	3.89	3.86	3.83	3.89
FFO/Net debt	13.09%	12.33%	11.67%	11.06%	10.33%	11.69%
Retained cash flow (RCF)/Net debt	10.70%	10.00%	9.40%	8.80%	8.11%	9.40%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.80%	62.03%	63.34%	64.45%	65.27%	63.18%
Adjusted interest cover ratio (AICR)	1.37	1.36	1.35	1.36	1.37	1.36
FFO to Interest (including accretions)	3.89	3.83	3.78	3.75	3.74	3.80
FFO/Net debt	12.66%	11.92%	11.21%	10.56%	10.05%	11.28%
Retained cash flow (RCF)/Net debt	10.29%	9.62%	8.96%	8.34%	7.86%	9.01%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.61%	63.44%	65.67%	61.75%	63.30%	63.15%
Adjusted interest cover ratio (AICR)	1.36	1.33	1.31	1.42	1.42	1.37
FFO to Interest (including accretions)	3.76	3.61	3.48	3.71	3.63	3.64
FFO/Net debt	11.92%	10.93%	9.84%	10.28%	9.53%	10.50%
Retained cash flow (RCF)/Net debt	9.59%	8.67%	7.67%	7.99%	7.28%	8.24%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.69%	63.70%	66.00%	61.92%	63.51%	63.36%
Adjusted interest cover ratio (AICR)	1.38	1.35	1.33	1.44	1.43	1.39
FFO to Interest (including accretions)	3.68	3.53	3.39	3.61	3.52	3.54
FFO/Net debt	11.56%	10.55%	9.46%	9.89%	9.16%	10.12%
Retained cash flow (RCF)/Net debt	9.23%	8.30%	7.30%	7.60%	6.92%	7.87%

Ofgem stress test credit ratios – Ofgem working assumptions

Low CPIH inflation divergence, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.31%	60.91%	61.55%	61.80%	62.38%	61.39%
Adjusted interest cover ratio (AICR)	1.38	1.38	1.39	1.41	1.43	1.40
FFO to Interest (including accretions)	3.76	3.73	3.72	3.70	3.69	3.72
FFO/Net debt	13.13%	12.48%	11.93%	11.40%	10.74%	11.93%
Retained cash flow (RCF)/Net debt	10.51%	9.90%	9.38%	8.86%	8.22%	9.38%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.66%	61.46%	62.34%	63.02%	63.39%	62.17%
Adjusted interest cover ratio (AICR)	1.37	1.37	1.37	1.39	1.41	1.38
FFO to Interest (including accretions)	3.69	3.65	3.62	3.60	3.60	3.63
FFO/Net debt	12.70%	12.07%	11.45%	10.88%	10.44%	11.51%
Retained cash flow (RCF)/Net debt	10.09%	9.51%	8.94%	8.38%	7.96%	8.98%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.47%	62.87%	64.70%	65.85%	61.18%	63.22%
Adjusted interest cover ratio (AICR)	1.36	1.35	1.33	1.33	1.47	1.37
FFO to Interest (including accretions)	3.56	3.44	3.33	3.26	3.51	3.42
FFO/Net debt	11.96%	11.06%	10.05%	9.44%	9.97%	10.49%
Retained cash flow (RCF)/Net debt	9.39%	8.55%	7.61%	7.03%	7.42%	8.00%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.56%	63.14%	65.03%	61.50%	62.67%	62.78%
Adjusted interest cover ratio (AICR)	1.39	1.36	1.35	1.45	1.45	1.40
FFO to Interest (including accretions)	3.49	3.36	3.24	3.41	3.34	3.37
FFO/Net debt	11.60%	10.68%	9.66%	9.98%	9.33%	10.25%
Retained cash flow (RCF)/Net debt	9.03%	8.18%	7.24%	7.45%	6.83%	7.75%

Ofgem stress test credit ratios – Ofgem working assumptions

High RPI inflation divergence, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.24%	61.06%	61.91%	62.39%	63.18%	61.76%
Adjusted interest cover ratio (AICR)	1.38	1.38	1.38	1.40	1.41	1.39
FFO to Interest (including accretions)	3.87	3.83	3.81	3.79	3.76	3.81
FFO/Net debt	13.15%	12.44%	11.83%	11.26%	10.56%	11.85%
Retained cash flow (RCF)/Net debt	10.64%	9.98%	9.42%	8.86%	8.19%	9.42%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.59%	61.60%	62.70%	63.60%	64.19%	62.54%
Adjusted interest cover ratio (AICR)	1.37	1.37	1.37	1.37	1.39	1.37
FFO to Interest (including accretions)	3.79	3.74	3.71	3.68	3.67	3.72
FFO/Net debt	12.72%	12.03%	11.36%	10.75%	10.27%	11.43%
Retained cash flow (RCF)/Net debt	10.23%	9.59%	8.98%	8.39%	7.93%	9.02%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.40%	63.02%	65.06%	61.54%	62.88%	62.78%
Adjusted interest cover ratio (AICR)	1.36	1.34	1.33	1.43	1.43	1.38
FFO to Interest (including accretions)	3.67	3.53	3.41	3.60	3.53	3.55
FFO/Net debt	11.98%	11.02%	9.97%	10.33%	9.61%	10.58%
Retained cash flow (RCF)/Net debt	9.52%	8.64%	7.66%	7.91%	7.23%	8.19%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.49%	63.29%	65.39%	61.71%	63.09%	62.99%
Adjusted interest cover ratio (AICR)	1.39	1.36	1.34	1.44	1.44	1.39
FFO to Interest (including accretions)	3.59	3.45	3.32	3.51	3.43	3.46
FFO/Net debt	11.62%	10.64%	9.59%	9.93%	9.24%	10.20%
Retained cash flow (RCF)/Net debt	9.16%	8.27%	7.29%	7.52%	6.87%	7.82%

Ofgem stress test credit ratios – Ofgem working assumptions

Low RPI inflation divergence, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.53%	61.34%	62.19%	62.66%	63.44%	62.03%
Adjusted interest cover ratio (AICR)	1.37	1.37	1.38	1.39	1.41	1.38
FFO to Interest (including accretions)	3.85	3.81	3.80	3.77	3.75	3.80
FFO/Net debt	13.07%	12.37%	11.77%	11.19%	10.51%	11.78%
Retained cash flow (RCF)/Net debt	10.57%	9.92%	9.36%	8.80%	8.14%	9.36%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.87%	61.88%	62.97%	63.86%	64.45%	62.81%
Adjusted interest cover ratio (AICR)	1.37	1.36	1.36	1.37	1.38	1.37
FFO to Interest (including accretions)	3.77	3.72	3.69	3.66	3.66	3.70
FFO/Net debt	12.64%	11.96%	11.30%	10.69%	10.22%	11.36%
Retained cash flow (RCF)/Net debt	10.16%	9.53%	8.92%	8.34%	7.88%	8.97%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.68%	63.29%	65.31%	61.54%	62.88%	62.94%
Adjusted interest cover ratio (AICR)	1.36	1.34	1.32	1.43	1.43	1.37
FFO to Interest (including accretions)	3.65	3.52	3.39	3.60	3.53	3.54
FFO/Net debt	11.91%	10.96%	9.92%	10.33%	9.61%	10.55%
Retained cash flow (RCF)/Net debt	9.46%	8.58%	7.62%	7.91%	7.23%	8.16%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.76%	63.55%	65.64%	61.71%	63.09%	63.15%
Adjusted interest cover ratio (AICR)	1.38	1.35	1.33	1.44	1.44	1.39
FFO to Interest (including accretions)	3.57	3.44	3.30	3.51	3.43	3.45
FFO/Net debt	11.55%	10.59%	9.54%	9.93%	9.24%	10.17%
Retained cash flow (RCF)/Net debt	9.10%	8.22%	7.25%	7.52%	6.87%	7.79%

Ofgem stress test credit ratios – Ofgem working assumptions

Totex outperformance, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	59.48%	59.44%	59.48%	59.22%	59.30%	59.38%
Adjusted interest cover ratio (AICR)	1.45	1.47	1.49	1.53	1.57	1.50
FFO to Interest (including accretions)	3.95	3.98	4.02	4.05	4.08	4.02
FFO/Net debt	13.64%	13.18%	12.79%	12.38%	11.81%	12.76%
Retained cash flow (RCF)/Net debt	11.10%	10.67%	10.29%	9.87%	9.30%	10.25%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	59.78%	59.92%	60.19%	60.33%	60.23%	60.09%
Adjusted interest cover ratio (AICR)	1.45	1.46	1.48	1.50	1.54	1.49
FFO to Interest (including accretions)	3.88	3.89	3.92	3.94	3.99	3.92
FFO/Net debt	13.22%	12.78%	12.31%	11.85%	11.50%	12.33%
Retained cash flow (RCF)/Net debt	10.70%	10.28%	9.84%	9.38%	9.03%	9.84%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.46%	61.13%	62.25%	62.85%	63.35%	62.01%
Adjusted interest cover ratio (AICR)	1.45	1.45	1.45	1.46	1.48	1.46
FFO to Interest (including accretions)	3.77	3.70	3.63	3.59	3.57	3.65
FFO/Net debt	12.55%	11.82%	10.92%	10.38%	9.85%	11.10%
Retained cash flow (RCF)/Net debt	10.05%	9.37%	8.53%	8.00%	7.48%	8.69%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.54%	61.38%	62.58%	63.33%	63.86%	62.34%
Adjusted interest cover ratio (AICR)	1.47	1.46	1.46	1.46	1.48	1.47
FFO to Interest (including accretions)	3.68	3.61	3.52	3.48	3.45	3.55
FFO/Net debt	12.17%	11.41%	10.50%	9.92%	9.40%	10.68%
Retained cash flow (RCF)/Net debt	9.68%	8.98%	8.12%	7.55%	7.05%	8.27%

Ofgem stress test credit ratios – Ofgem working assumptions

Totex underperformance, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.28%	62.92%	64.55%	65.71%	61.57%	63.21%
Adjusted interest cover ratio (AICR)	1.30	1.29	1.27	1.27	1.40	1.31
FFO to Interest (including accretions)	3.77	3.67	3.60	3.54	3.80	3.68
FFO/Net debt	12.60%	11.68%	10.91%	10.23%	10.60%	11.20%
Retained cash flow (RCF)/Net debt	10.13%	9.29%	8.58%	7.92%	8.18%	8.82%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.66%	63.52%	65.41%	61.73%	63.04%	63.07%
Adjusted interest cover ratio (AICR)	1.30	1.28	1.26	1.36	1.36	1.31
FFO to Interest (including accretions)	3.69	3.58	3.50	3.73	3.68	3.64
FFO/Net debt	12.16%	11.27%	10.46%	10.86%	10.21%	10.99%
Retained cash flow (RCF)/Net debt	9.71%	8.90%	8.16%	8.45%	7.83%	8.61%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	62.61%	65.13%	63.16%	65.41%	62.16%	63.69%
Adjusted interest cover ratio (AICR)	1.28	1.24	1.31	1.28	1.38	1.30
FFO to Interest (including accretions)	3.55	3.36	3.46	3.32	3.50	3.44
FFO/Net debt	11.37%	10.24%	10.05%	9.21%	9.44%	10.06%
Retained cash flow (RCF)/Net debt	8.95%	7.92%	7.69%	6.91%	7.04%	7.70%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	62.69%	65.41%	63.23%	65.65%	62.19%	63.83%
Adjusted interest cover ratio (AICR)	1.30	1.26	1.33	1.30	1.40	1.32
FFO to Interest (including accretions)	3.47	3.29	3.38	3.23	3.42	3.36
FFO/Net debt	11.02%	9.88%	9.72%	8.84%	9.11%	9.72%
Retained cash flow (RCF)/Net debt	8.61%	7.57%	7.37%	6.55%	6.72%	7.36%

Ofgem stress test credit ratios – Ofgem working assumptions

No RoRE outperformance, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.48%	61.39%	62.34%	62.91%	63.79%	62.18%
Adjusted interest cover ratio (AICR)	1.33	1.33	1.33	1.34	1.35	1.34
FFO to Interest (including accretions)	3.82	3.77	3.75	3.72	3.69	3.75
FFO/Net debt	12.92%	12.20%	11.57%	10.98%	10.28%	11.59%
Retained cash flow (RCF)/Net debt	10.43%	9.75%	9.18%	8.60%	7.93%	9.18%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.83%	61.94%	63.13%	64.11%	64.80%	62.96%
Adjusted interest cover ratio (AICR)	1.33	1.32	1.32	1.32	1.33	1.32
FFO to Interest (including accretions)	3.74	3.69	3.65	3.61	3.60	3.66
FFO/Net debt	12.50%	11.79%	11.11%	10.49%	10.00%	11.18%
Retained cash flow (RCF)/Net debt	10.01%	9.37%	8.74%	8.14%	7.67%	8.79%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.64%	63.35%	65.46%	61.64%	63.07%	63.03%
Adjusted interest cover ratio (AICR)	1.32	1.30	1.28	1.38	1.37	1.33
FFO to Interest (including accretions)	3.62	3.48	3.35	3.56	3.48	3.50
FFO/Net debt	11.77%	10.80%	9.74%	10.16%	9.42%	10.38%
Retained cash flow (RCF)/Net debt	9.32%	8.42%	7.45%	7.74%	7.05%	8.00%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.72%	63.61%	65.79%	61.81%	63.28%	63.24%
Adjusted interest cover ratio (AICR)	1.34	1.31	1.29	1.40	1.39	1.35
FFO to Interest (including accretions)	3.54	3.40	3.26	3.46	3.38	3.41
FFO/Net debt	11.41%	10.42%	9.36%	9.76%	9.05%	10.00%
Retained cash flow (RCF)/Net debt	8.96%	8.06%	7.08%	7.35%	6.69%	7.63%

Ofgem stress test credit ratios – Ofgem working assumptions

High RoRE outperformance, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	59.59%	59.63%	59.71%	59.41%	59.47%	59.56%
Adjusted interest cover ratio (AICR)	1.72	1.75	1.79	1.85	1.91	1.80
FFO to Interest (including accretions)	4.18	4.20	4.25	4.29	4.33	4.25
FFO/Net debt	14.61%	14.10%	13.67%	13.28%	12.70%	13.67%
Retained cash flow (RCF)/Net debt	12.07%	11.59%	11.19%	10.78%	10.21%	11.17%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	59.94%	60.18%	60.52%	60.67%	60.51%	60.36%
Adjusted interest cover ratio (AICR)	1.71	1.74	1.77	1.81	1.87	1.78
FFO to Interest (including accretions)	4.10	4.11	4.14	4.17	4.23	4.15
FFO/Net debt	14.16%	13.66%	13.15%	12.68%	12.35%	13.20%
Retained cash flow (RCF)/Net debt	11.64%	11.18%	10.69%	10.23%	9.89%	10.73%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.76%	61.62%	62.94%	63.60%	64.09%	62.60%
Adjusted interest cover ratio (AICR)	1.70	1.71	1.71	1.74	1.77	1.73
FFO to Interest (including accretions)	3.97	3.89	3.81	3.78	3.77	3.85
FFO/Net debt	13.38%	12.58%	11.61%	11.08%	10.55%	11.84%
Retained cash flow (RCF)/Net debt	10.90%	10.15%	9.24%	8.72%	8.21%	9.44%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.84%	61.89%	63.28%	64.09%	64.60%	62.94%
Adjusted interest cover ratio (AICR)	1.73	1.72	1.73	1.74	1.78	1.74
FFO to Interest (including accretions)	3.89	3.81	3.71	3.67	3.66	3.75
FFO/Net debt	13.01%	12.18%	11.20%	10.62%	10.12%	11.43%
Retained cash flow (RCF)/Net debt	10.53%	9.76%	8.84%	8.27%	7.79%	9.04%

Ofgem stress test credit ratios – Ofgem working assumptions

Low RoRE outperformance, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.18%	62.77%	64.39%	65.63%	61.62%	63.12%
Adjusted interest cover ratio (AICR)	1.03	1.01	0.99	0.98	1.06	1.02
FFO to Interest (including accretions)	3.54	3.45	3.38	3.31	3.54	3.44
FFO/Net debt	11.65%	10.79%	10.06%	9.37%	9.67%	10.31%
Retained cash flow (RCF)/Net debt	9.18%	8.39%	7.73%	7.07%	7.25%	7.92%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.52%	63.30%	65.15%	61.74%	63.15%	62.97%
Adjusted interest cover ratio (AICR)	1.03	1.01	0.98	1.05	1.03	1.02
FFO to Interest (including accretions)	3.47	3.37	3.29	3.48	3.42	3.41
FFO/Net debt	11.24%	10.41%	9.64%	9.94%	9.29%	10.10%
Retained cash flow (RCF)/Net debt	8.78%	8.03%	7.33%	7.53%	6.91%	7.72%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	62.32%	64.69%	67.42%	62.32%	64.42%	64.24%
Adjusted interest cover ratio (AICR)	1.02	0.99	0.96	1.04	1.01	1.00
FFO to Interest (including accretions)	3.34	3.17	3.01	3.25	3.13	3.18
FFO/Net debt	10.55%	9.48%	8.39%	8.95%	8.13%	9.10%
Retained cash flow (RCF)/Net debt	8.12%	7.15%	6.15%	6.56%	5.80%	6.75%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	62.40%	64.95%	67.74%	62.49%	64.62%	64.44%
Adjusted interest cover ratio (AICR)	1.05	1.01	0.97	1.06	1.03	1.02
FFO to Interest (including accretions)	3.27	3.09	2.93	3.15	3.03	3.09
FFO/Net debt	10.19%	9.12%	8.03%	8.56%	7.78%	8.74%
Retained cash flow (RCF)/Net debt	7.77%	6.80%	5.80%	6.18%	5.45%	6.40%

Ofgem stress test credit ratios – Ofgem working assumptions

High index-linked debt, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.39%	61.21%	62.06%	62.53%	63.32%	61.90%
Adjusted interest cover ratio (AICR)	1.41	1.41	1.42	1.43	1.46	1.43
FFO to Interest (including accretions)	3.85	3.82	3.80	3.78	3.76	3.80
FFO/Net debt	13.20%	12.50%	11.89%	11.32%	10.63%	11.91%
Retained cash flow (RCF)/Net debt	10.60%	9.95%	9.39%	8.83%	8.16%	9.39%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.73%	61.75%	62.84%	63.74%	64.33%	62.68%
Adjusted interest cover ratio (AICR)	1.41	1.40	1.40	1.41	1.43	1.41
FFO to Interest (including accretions)	3.78	3.73	3.70	3.67	3.67	3.71
FFO/Net debt	12.77%	12.09%	11.42%	10.81%	10.34%	11.49%
Retained cash flow (RCF)/Net debt	10.18%	9.56%	8.95%	8.36%	7.90%	8.99%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.54%	63.16%	65.19%	61.54%	62.88%	62.86%
Adjusted interest cover ratio (AICR)	1.40	1.38	1.36	1.47	1.47	1.42
FFO to Interest (including accretions)	3.65	3.52	3.40	3.60	3.53	3.54
FFO/Net debt	12.04%	11.08%	10.03%	10.42%	9.71%	10.66%
Retained cash flow (RCF)/Net debt	9.48%	8.61%	7.64%	7.91%	7.23%	8.17%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.63%	63.43%	65.52%	61.71%	63.09%	63.07%
Adjusted interest cover ratio (AICR)	1.42	1.39	1.37	1.49	1.49	1.43
FFO to Interest (including accretions)	3.57	3.44	3.31	3.51	3.43	3.45
FFO/Net debt	11.67%	10.71%	9.65%	10.02%	9.34%	10.28%
Retained cash flow (RCF)/Net debt	9.12%	8.24%	7.27%	7.52%	6.87%	7.80%

Ofgem stress test credit ratios – Ofgem working assumptions

Low index-linked debt, notional

Financial ratios under Ofgem assumptions West Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.38%	61.19%	62.04%	62.52%	63.30%	61.89%
Adjusted interest cover ratio (AICR)	1.34	1.34	1.34	1.35	1.37	1.35
FFO to Interest (including accretions)	3.87	3.82	3.80	3.78	3.76	3.81
FFO/Net debt	13.02%	12.31%	11.71%	11.13%	10.44%	11.72%
Retained cash flow (RCF)/Net debt	10.62%	9.96%	9.39%	8.83%	8.17%	9.39%

Financial ratios under Ofgem assumptions East Midlands	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	60.72%	61.73%	62.83%	63.72%	64.31%	62.66%
Adjusted interest cover ratio (AICR)	1.34	1.33	1.33	1.33	1.35	1.33
FFO to Interest (including accretions)	3.79	3.74	3.70	3.67	3.67	3.71
FFO/Net debt	12.59%	11.90%	11.24%	10.63%	10.15%	11.30%
Retained cash flow (RCF)/Net debt	10.20%	9.57%	8.95%	8.36%	7.91%	9.00%

Financial ratios under Ofgem assumptions South Wales	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.53%	63.15%	65.18%	61.54%	62.88%	62.86%
Adjusted interest cover ratio (AICR)	1.33	1.31	1.29	1.39	1.38	1.34
FFO to Interest (including accretions)	3.66	3.53	3.40	3.60	3.53	3.55
FFO/Net debt	11.85%	10.90%	9.85%	10.24%	9.52%	10.47%
Retained cash flow (RCF)/Net debt	9.50%	8.62%	7.64%	7.91%	7.23%	8.18%

Financial ratios under Ofgem assumptions South West	2023/24	2024/25	2025/26	2026/27	2027/28	RIIO-ED2 AVERAGE
Net debt/Regulated asset value (RAV)	61.62%	63.41%	65.50%	61.71%	63.09%	63.07%
Adjusted interest cover ratio (AICR)	1.35	1.32	1.30	1.40	1.40	1.36
FFO to Interest (including accretions)	3.59	3.45	3.31	3.51	3.43	3.46
FFO/Net debt	11.49%	10.52%	9.47%	9.84%	9.15%	10.09%
Retained cash flow (RCF)/Net debt	9.14%	8.25%	7.27%	7.52%	6.87%	7.81%

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