

2015-2023

Western Power Distribution
Regulatory Financial Performance Reporting
2018/19

Regulatory Financial Performance Reporting Contents

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Introduction

Executive Summary

We present the 2018/19 RFP 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 2018/19 performance highlights include:

- Being the top performing DNO group for customer satisfaction for the eighth consecutive year;
- Number one for stakeholder engagement for the eighth consecutive year;
- 99.994% network availability;
- Outperforming the Ofgem connections targets for time to quote and time to connect for the third year running;
- Meeting annual targets for Business Carbon Footprint reduction, achieving an 11% reduction from benchmark performance in 2012/13;
- Transitioning to Distribution System Operator under way;
- Supporting 17,764 fuel poor customers to save over £6.4m a year;
- Being on target to deliver all of our RIIO-ED1 outputs; and
- Earning a RoRE of 8.8% for RIIO-ED1 to date;

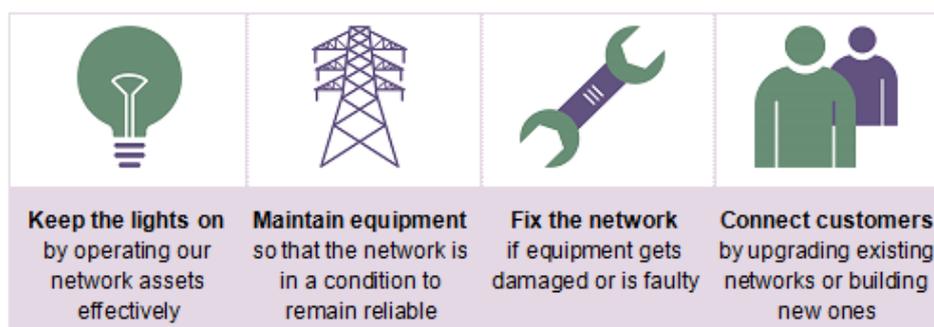
...all in costing **less than 27 pence per day** to the WPD average domestic customer.

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 2018/19 our expenditure is 1% 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 RIIO-ED2, we used our January 2019 stakeholder workshops to start the conversation about our RIIO-ED2 business plan. We also established our Customer Engagement Group during 2018/19 and look forward to seeing the results that emerge as we work together to develop the WPD business plan for RIIO-ED2.

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 2015-2023.
- 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.



Purpose of this report

- 1.5 Ofgem introduced Regulatory Financial Performance Reporting (RFPR) in October 2018 and published licensees' completed RFPR templates in March 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, historic values for regulatory years up to and including 2017/18 are those included in the RFPR templates published by Ofgem in March 2019; formats may vary where Ofgem has updated the template. Forecast values are likely to evolve over time and, similarly, 2018/19 values which were forecast in the templates published in March 2019 have now been replaced with actual values. Note that 2018/19 values are submitted to Ofgem for review on 31 July 2019 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

- 1.9 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**.¹

Regulated Revenue

- 1.10 WPD's Regulated Revenue for the regulatory year to 31 March 2019 was £1,576.1m. The table below shows how this revenue breaks down.

Table 1:

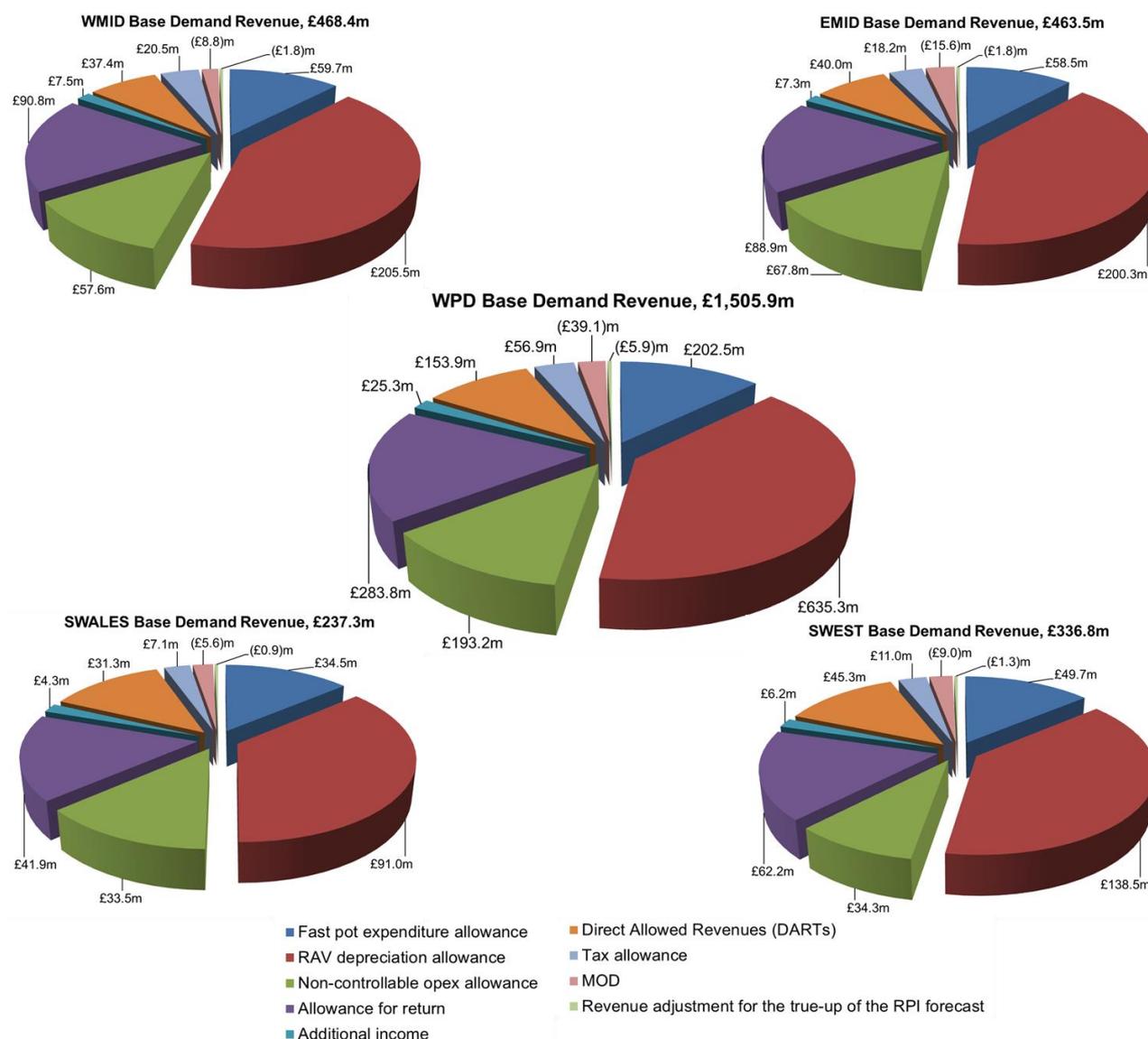
Regulated Revenue £m, Nominal prices	WMID	EMID	SWALES	SWEST	WPD TOTAL
Base Demand Revenue	468.4	463.5	237.3	336.8	1,505.9
Under/(Over) recovery and K factor	0.4	-7.6	-0.1	-0.1	-7.5
Performance incentives (2016/17 - 2 year lag), LCNF and NIA , and true up of pass through costs	29.3	27.4	11.8	9.2	77.8
Regulated Distribution Network Revenue	498.0	483.3	248.9	345.9	1,576.1

- 1.11 Base Demand Revenue is the largest element of WPD's Regulated Revenue, contributing over 95% of the total, and is calculated in Ofgem's published Price Control Financial Model (PCFM).
- 1.12 Performance incentives make up around 5% of WPD's 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).
- 1.13 Tariffs are set 15 months in advance, based on forecast volumes, 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.

¹ Based on an average domestic electricity bill of £577:
<https://www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits>

Base Demand Revenue

1.14 As stated above, this is the largest element of WPD's Regulated Revenue. WPD's 2018/19 Base Demand Revenue was £1,505.9m. The charts below show the breakdown of this:



1.15 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.

1.16 Non controllable opex allowances relate to costs recovered on a 'pass through' basis; these include licence fees, business rates and National Grid charges.

1.17 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.

1.18 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.

1.19 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.

- 1.20 The Tax Allowance allows network operators to recover the current tax charge, calculated by Ofgem's methodology.
- 1.21 MOD is an annual adjustment to Base Demand Revenue, to reflect updates to costs shared with customers and adjustments for uncertainty mechanisms.
- 1.22 RPI true up relates to an adjustment to previous years' revenues inflated using forecast RPI, now the actual RPI is known.

Return on Regulatory Equity (RoRE)

- 1.23 Ofgem assesses overall financial performance of network operators using a measure called Return on Regulatory Equity (RoRE).
- 1.24 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.
- 1.25 Table 2 presents cumulative RoRE for the RIIO ED1 Regulatory Years up to and including 2018/19, using 65% notional gearing. RIIO-ED1 total RoRE is shown under Regulatory Performance in Table 5 within the Overview of Regulatory Performance.

Table 2:

RoRE	CUMULATIVE TO 2018/19; NOTIONAL GEARING				
	WMID	EMID	SWALES	SWEST	WPD TOTAL
Allowed Equity Return	6.4%	6.4%	6.4%	6.4%	6.4%
Totex outperformance	-0.9%	-0.5%	1.3%	0.0%	-0.2%
IQI Reward	0.7%	0.8%	1.0%	0.9%	0.8%
Broad measure of customer service	0.6%	0.6%	0.7%	0.7%	0.7%
Interruptions-related quality of service	2.1%	1.9%	1.1%	0.5%	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%	0.1%	0.0%	0.0%
Penalties and fines	0.0%	0.0%	0.0%	0.0%	0.0%
RoRE - Operational performance	9.1%	9.5%	10.7%	8.7%	9.4%
Debt performance - at notional gearing	-1.1%	-0.3%	-2.0%	0.4%	-0.6%
Tax performance - at notional gearing	-0.2%	-0.2%	1.4%	0.1%	0.1%
RoRE - including financing and tax	7.8%	9.0%	10.1%	9.3%	8.8%
Regulatory Equity £m, 12/13 prices	701	696	307	454	2158
Weighting	32%	32%	14%	21%	100%

Source: Table R1 – RoRE in the Regulatory Financial Performance Report (RFPR)

- 1.26 At the close of 2018/19 WPD's Total expenditure is 1% 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. It is this approach which accounts for the -0.2% Totex outperformance shown above. For further details on Enduring Value adjustments, see Appendix 2.

Further information

- 1.27 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

1.28 During RIIO-ED1 WPD committed to delivering 76 outputs for its customers. During 2018/19, the fourth 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.

1.29 A detailed review of operational performance over the year will be published in October 2019 in WPD's Business Plan Commitments Report 2018/19.

Table 3:

Operational performance KPIs										
KPI	WMID		EMID		SWALES		SWEST		WPD TOTAL***	
	Actual 18/19	Target								
Customer interruptions per 100 customers (excluding exceptions)*	55.4	84.1	39.8	51.0	41.3	53.1	51.4	58.5	47.3	63.3
Customer minutes lost (excluding exceptions)*	32.3	52.8	22.9	38.0	24.8	33.4	40.2	43.8	29.7	43.2
Network Availability	99.994%	99.990%	99.996%	99.993%	99.995%	99.994%	99.992%	99.992%	99.994%	99.992%
Guaranteed Standards of Performance failures **	0	0	0	0	1	0	10	0	11	0
Guaranteed Standards of Performance failures (Connections)	1	0	0	0	0	0	1	0	2	0
Guaranteed Standards of Performance failures (Number of 12 hour failure payments made)**	0	4064	0	2694	0	218	26	1623	26	8599
Overall Broad measure of customer satisfaction (Scores out of 10)	9.03	8.20	8.99	8.20	9.13	8.20	8.98	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	8.35	n/a
Connections time to connect incentive days:										
Time to quote LVSSA	4.87	8.21	3.63	8.21	3.61	8.21	5.37	8.21	n/a	n/a
Time to quote LVSSB	5.71	11.73	5.29	11.73	6.37	11.73	5.61	11.73	n/a	n/a
Time to connect LVSSA	29.95	42.08	30.38	42.08	27.13	42.08	27.42	42.08	n/a	n/a
Time to connect LVSSB	37.61	52.70	35.40	52.70	34.06	52.70	33.39	52.70	n/a	n/a
Connections incentive on customer engagement	TBC	n/a								
Losses discretionary reward scheme £m	n/a	n/a								

* Data may vary to other published data for the regulatory year. The values shown are based on planned and unplanned events and are calculated before exceptional events are finalised by Ofgem in October 2019.

** 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.

Table 4:

Network asset indices performance					
	WMID	EMID	SWALES	SWEST	WPD
2018-19 percentage of target achieved	178%	125%	135%	117%	141%
Percentage of RIIO-ED1 target achieved to date	74%	73%	69%	62%	69%

Overview of regulatory performance

Return on Regulatory Equity (RoRE)

1.30 Ofgem uses RORE to assess overall financial performance of network operators against the price control settlement.

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.

1.32 Table 2 presents the cumulative RoRE for the RIIO ED1 Regulatory Years up to and including 2018/19. Table 5 below presents an estimate of our RoRE based on four years of actual data under RIIO-ED1 and our estimation of performance for the remaining four years of the control from Table R1 – RoRE in the Regulatory Financial Performance Report.

Table 5:

RoRE	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%	0.1%	0.8%	0.8%	0.2%
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%	0.4%	1.4%
Incentive on connections engagement	0.0%	0.0%	0.0%	0.0%	0.0%
Time to Connect Incentive	0.1%	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%	9.7%	9.9%	9.2%	9.6%
Debt performance - at notional gearing	-1.5%	-0.9%	-1.6%	0.0%	-1.0%
Tax performance - at notional gearing	-0.3%	-0.4%	0.5%	0.1%	-0.1%
RoRE - including financing and tax	7.7%	8.4%	8.7%	9.3%	8.4%
Regulatory Equity £m, 12/13 prices	725	720	327	490	2262
Weighting	32%	32%	14%	22%	100%

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 ED1 Total RoRE, including financing and tax, in the 2018/19 RFPR is 8.4%, as shown above. Differences from the WPD ED1 Total RoRE included in the 2017/18 RFPR (9.1%) largely comprise:

- A reduction in forecast Totex outperformance from 0.3% to 0.2%;
- A deterioration in debt underperformance from : -0.8% to -1%; and
- A shift from the 0.2% Tax outperformance in the 2017/18 RFPR, largely relating to the deadband amount retained due to the Corporation Tax rate reduction, to a -0.1% tax underperformance with the introduction of a new Special rate capital allowance pool in 2018/19. This has increased the tax charge, with increases up to the tax trigger threshold being borne by WPD.

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

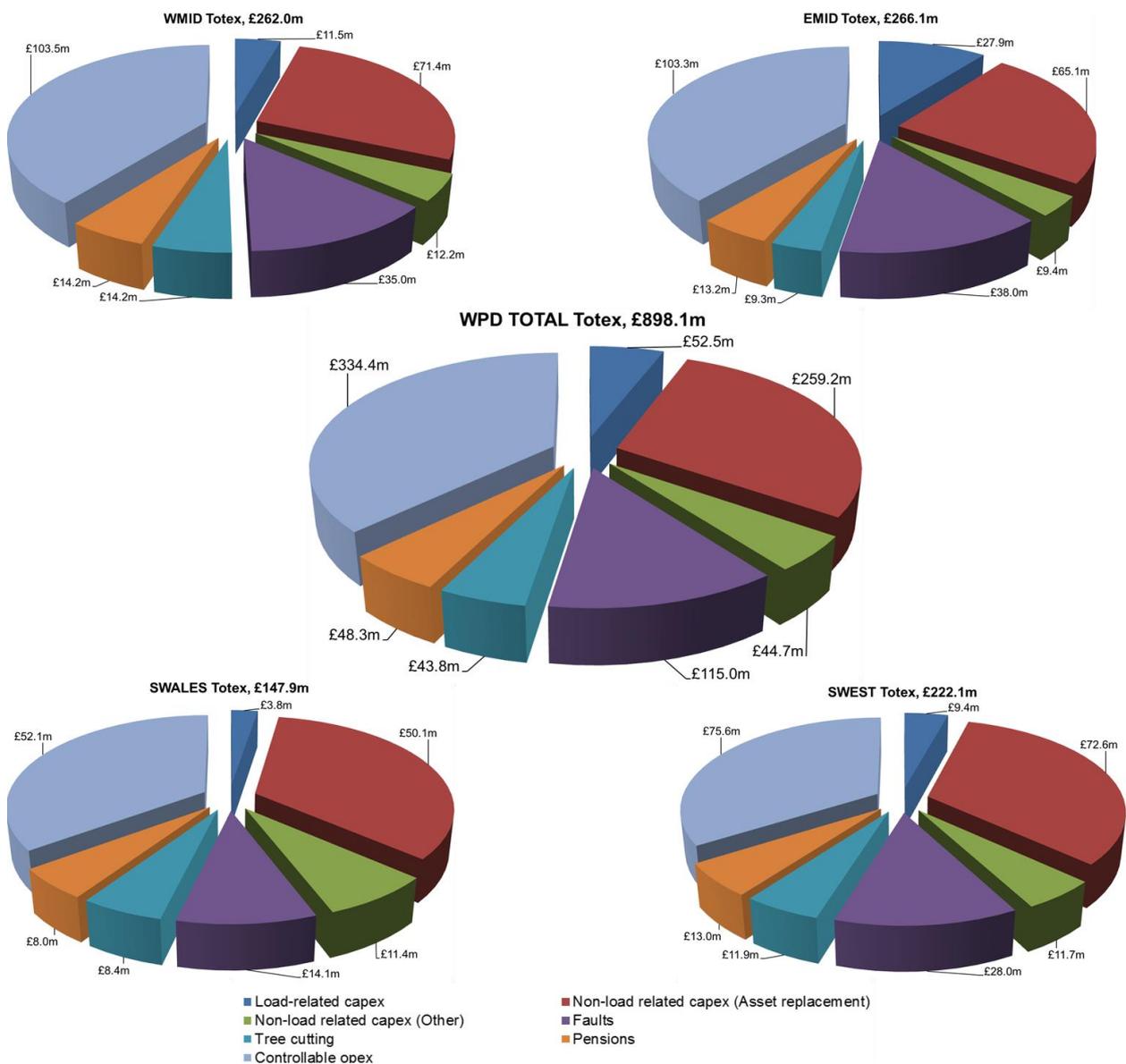
Revenue

1.36 A summary of Regulated Revenue for the year 2018/19 is presented under Financial Performance above.

1.37 The RFPR RIGs state that there is no requirement to forecast revenue in table R2 – Revenue. It should be noted that the RFPR tables have included an adjustment to future allowances under the Specified Street Works reopener, which would therefore flow through to forecast revenues. For further details on the Specified Street Works reopener, see Appendix 2 Enduring Value Adjustments.

Totex performance

- 1.38** 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.
- 1.39** 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.
- 1.40** 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.
- 1.41** During 2018/19 WPD's Totex spend was £898.1m, compared to an allowance of £1,011.3m.
- 1.42** The charts below represents WPD's 2018/19 actual costs broken down into the seven key reporting activities within Totex:



- 1.43** 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.

1.44 WPD Totex underspend was £113.2m for 2018/19. Of this, £79.2m (70%) will be retained by WPD and £34.0m (30%) will be returned to customers. Deducting the £34.0m returned to customers from the original allowance of £1,011.3m gives the 'post-TIM Totex' WPD allowance of £977.3m. Note that these values are before the application of Enduring Value adjustments.

Output incentive performance

1.45 The Key Operational Performance Measures discussed in paragraphs 1.28 – 1.29 above 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.

1.46 Table 6 below sets out the financial impact of the key output incentives, and the percentage of the maximum reward available.

Table 6:

Incentive	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)	20.5	100%	19.5	98%	5.6	59%	3.8	27%	49.4	77%
Broad Measure of Customer Service (BMCS) ¹	6.6	95%	6.5	94%	3.1	96%	4.5	93%	20.7	94%
Time to Connect Incentive (TTC)	1.9	100%	1.9	100%	0.9	98%	1.4	100%	6.0	100%
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	28.9		27.8		9.6		9.7		76.1	

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 During 2018/19 WPD introduced a number of new NIA projects. In total WPD had 31 innovation projects active during 2018/19.

1.52 The table below shows further outcomes that have been developed from our programme of NIA projects during RIIO-ED1.

Table 7:

Projects	Innovation rollout	Business as usual outcomes
Voltage Reduction Losses Investigation	Voltage reduction	Learning from NIA projects has led to a revision in our policies and the implementation of voltage reduction across our networks. Reducing network voltage in certain circumstances reduces the maximum demand. This supports reduced costs for customers due to avoided reinforcement.
Losses Investigation Statistical OHL rating	Losses policies	The project has allowed significant learning on losses on both the LV and HV network, which has been fed into our Losses Strategy. Work is ongoing to identify the worst performing networks for losses and to re-configure these networks to reduce the impact of losses.
Statistical OHL rating Electric Nation LV Connect and Manage FlexDGrid Carbon Portal	System modelling	Learning from these projects has led to policy changes for system modelling. For example assumptions about the impact of generators on fault levels have been amended and we have updated the values used to assess the maximum demand of overhead line conductor assets to inform loading and outage condition impacts for new connections.
Electric Nation LV Connect and Manage Smart Energy Isles FlexDGrid Carbon Portal	EV and Low Carbon Technology (LCT) integration	These projects provided a strong base for the development of our EV strategy, which will in turn support the expansion of EV charging infrastructure across our networks. Carbon Portal has enabled increased data and visibility of the carbon impact of utilising energy at specific times, this has allowed the optimisation of EV and LCT operation.

1.53 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.

1.54 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

1.55 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 at 65% in WPD's four licensed entities close to 65%.

1.56 All debt at WPD's DNOs is denominated in sterling and therefore there is no currency risk exposure. WPD South West 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 2019, the EMID had entered into forward starting interest swap agreements to minimise exposure to cash flow interest rate risk for future forecasted issuance of debt. The hedges were assessed to be highly effective. The forward starting interest swaps have a remaining term of 0.5 years to match the anticipated date of debt issuance.

1.57 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

- 1.58** 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 against the tax allowances published in the latest PCFM.
- 1.59** 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 other items upon which no tax allowance is received, timing differences, items relating to previous price controls and Enduring Value adjustments.
- 1.60** Given the complexity of tax computations for HMRC, the impact of costs borne by licensees under the TIM, divergences between notional and actual corporation tax 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.
- 1.61** Note that Ofgem has made certain changes to table R10 – Taxation since the version published in March 2019. The majority of these changes are presentational, with rows being re-ordered. In addition, a change has been made to automate the calculation of Tax on incentives and Tax on IQI (rows 22 and 23), which in the March 2019 version published were captured within the headings ‘Incentive revenue adjustment’ and ‘Remove tax charge on incentives’. As a result of the automation of this calculation within the spreadsheet, the historic values have been updated – see the ‘Change log’ worksheet in the RFPR templates for details.
- 1.62** A further change has been made by Ofgem to move ‘Tax on financing performance at actual gearing’ down to row 86 and remove the automation of this calculation. WPD has calculated this amount as:
- Pre-Tax Cost of Debt out(under)performance at actual gearing (row 85 of table R7 – Financing)*Corporation tax rate (from Data worksheet)*RPI uplift to nominal prices (from Data worksheet).
- 1.63** Similarly, a change has been made to move ‘Tax impact of financing performance (at notional gearing)’ down to row 88 and remove the automation of this calculation. WPD has calculated this amount as:
- Pre-Tax Cost of Debt out(under)performance at notional gearing (row 87 of table R7 – Financing)*Corporation tax rate (from Data worksheet)*RPI uplift to nominal prices (from Data worksheet).

RAV

- 1.64** 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.
- 1.65** The table below shows the adjusted closing RAV 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 show in table R9 - RAV in the RFPR:

Table 8:

Adjusted Closing RAV £m, 12/13 prices	2016	2017	2018	2019	2020	2021	2022	2023
WMID	2,008.2	2,049.7	2,073.5	2,092.5	2,122.7	2,160.5	2,210.7	2,266.2
EMID	1,991.1	2,044.8	2,061.2	2,079.9	2,105.6	2,143.5	2,203.1	2,258.5
SWALES	870.3	900.5	910.6	943.5	975.8	1,009.6	1,040.2	1,072.7
SWEST	1,265.5	1,328.1	1,373.5	1,422.0	1,472.4	1,522.5	1,582.5	1,646.7
WPD TOTAL	6,135.1	6,323.1	6,418.8	6,537.9	6,676.5	6,836.2	7,036.5	7,244.1

Dividends

1.66 The table below summarises the dividend payments for historic years, as presented in table R11 – Dividends in the RFPR:

Table 9:

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

1.67 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.

1.68 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.

1.69 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 to the PPL Corporation are shown in the annual report and accounts of the holding company Western Power Distribution plc.

1.70 Note that dividends included in this 2018/19 submission include the EMID dividend paid in 2016 of £52.4m which was omitted in error from WPD's 2017/18 RFPR submission published in March 2019.

Pensions

1.71 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 WPD South Wales and WPD South West are sponsoring companies; and
- The Central Networks Group of the Electricity Supply Pension Scheme (CN Group), for which WPD East Midlands and WPD West Midlands are sponsoring companies.

1.72 As at 31 March 2016, the most recent triennial valuation date, 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.

1.73 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 WPD South Wales and WPD South West, and similarly the

deficit for the CN Group of the ESPS has been reported in table R12 for both WPD East Midlands and WPD West Midlands.

Data assurance statement

1.74 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

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."²

2015/16 Enduring Value adjustments

Provision reversal

An Enduring Value adjustment of -£0.1m was made in WPD East Midlands to account for the effect on the Totex Incentive Mechanism of a provision reversal being included in the RRP.

2016/17 Enduring Value adjustments

Pensions prepayment

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.

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.

Without any Enduring Value adjustment, 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.

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. The value of the element relating to ongoing pensions contributions for the WPD DNOs and incremental deficit repair prepayment in 2016/17 was £54m 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 £50.4m, 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.

Table A1:

Pensions prepayment EV adjustment £m, nominal prices	2016/17	2017/18	2018/19	TOTAL
WMID	13.6	-13.3	-0.3	0.0
EMID	11.9	-11.6	-0.3	0.0
SWALES	9.6	-9.1	-0.5	0.0
SWEST	15.2	-14.6	-0.5	0.0
WPD TOTAL	50.4	-48.7	-1.6	0.0

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

² "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 A2:

Pensions prepayment EV adjustment £m, 12/13 prices	2016/17	2017/18	2018/19	TOTAL
WMID	8.8	-8.3	-0.2	0.3
EMID	7.7	-7.2	-0.2	0.3
SWALES	6.2	-5.7	-0.3	0.2
SWEST	9.8	-9.1	-0.3	0.4
WPD TOTAL	32.6	-30.4	-1.0	1.2

* 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.

Provision reversal

A second, additional, Enduring Value adjustment of -£0.7m was made in WPD East Midlands to account for the effect on the Totex Incentive Mechanism of a provision reversal being included in the RRP.

2017/18 Enduring Value adjustments

Pensions prepayment

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.

The adjustment above is calculated as the sum of:

- i) An adjustment to the 16/17 prepayment of incremental deficit repair costs made in 17/18 for admin costs for non-active members;
- ii) An adjustment to the 16/17 prepayment of ongoing pension costs within the price control made in 17/18 for admin costs for non-active members;
- iii) The reversal of the prepayment of incremental deficit repair costs in 17/18; and
- iv) The reversal of the prepayment of ongoing pension costs within the price control in 17/18.

Provision reversal

The additional Enduring Value adjustment of -£0.77m made in WPD East Midlands in 2015/16 and 2016/17 to account for the effect on the Totex Incentive Mechanism of a provision reversal being included in the RRP was also reversed as the correction of this error went through the 2017/18 RRP. Note these values have been grossed up by 100/70 for inclusion in row 24 of table R4 – Totex, as the 70% is then applied in row 31 of the same table.

Rail electrification

In April 2018, WPD agreed 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.

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.

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

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.

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

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

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 historic data in the RFPR, once submitted, should be static wherever possible.

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

Specified Street Works reopener

In May 2019, WPD 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. As a result, Enduring Value adjustments have been included to reflect additional Totex allowances applied for to cover these costs.

Licence Condition CRC 3F and the RIIO-ED1 Price Control Financial Handbook provide a mechanism for all Electricity Distribution (ED) licensees to propose revisions to the levels of allowed expenditure for Specified Street Works Costs in RIIO-ED1. Such costs include permit fee and lane rental fee costs, one-off set up costs, additional administrative costs and additional costs arising from the application of permit conditions, which were not known at the time of the RIIO-ED1 business plan submissions in June 2013.

The claim is made up of £28.9m in permit costs (fees, admin and set-up costs, and condition costs) and £27.3m in lane rental costs (fees only), with the licensee split shown in table A6 below.

Table A6:

Street Works Cost Summary £m, 12/13 prices	Actual				Forecast				TOTAL
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
WMD	0.4	0.8	0.9	0.7	1.1	2.0	7.0	11.5	24.5
EMD	0.9	1.3	1.5	1.5	1.7	2.1	4.2	7.6	20.7
SWALES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWEST	0.0	0.0	0.0	0.0	0.4	1.7	3.5	5.3	11.0
WPD TOTAL	1.2	2.0	2.4	2.2	3.3	5.9	14.7	24.4	56.2

Ofgem has not yet published its decision or updated allowances in relation to WPD's Specified Street Works reopener application. It is therefore the impact across RIIO-ED1 of the overspend relating to the Specified Street Works costs that should be adjusted for via Enduring Value.

Note that when the Totex allowance is adjusted as a result of Ofgem's decision on the Specified Street Works reopener, the Enduring Value adjustment will no longer be required. However, the current Totex allowance included in table R4 – Totex does not include this adjustment, therefore an EV adjustment is required to remove the current overspend due to the Street Works expenditure until Ofgem's revisions to allowances are reflected.

In order to avoid making Enduring Value adjustments to historic years, and to avoid distorting 2018/19 by including 'catch up' Enduring Value adjustment amounts which we know will no longer be required once allowances are adjusted for street works, WPD has included Enduring Value adjustments for Specified Street Works costs in 2020/21, the year in which any catch up allowances would be included in base revenue, 2021/22 and 2022/23. This will ensure that the ED1 Total RoRE will reflect the Specified Street Works adjustments applied for, without the need for historic Enduring Value adjustments at this stage, or the need to restate any historic Enduring Value adjustments once allowances are updated.

Table A7 shows the Enduring Value adjustments included in the RFPR for street works.

Table A7:

Street Works EV adjustment £m, 12/13 prices	Actual				Forecast				TOTAL
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
WMD						4.1	4.9	8.1	17.1
EMD						6.3	2.9	5.3	14.5
SWALES						0.0	0.0	0.0	0.0
SWEST						1.5	2.5	3.7	7.7
WPD TOTAL						12.0	10.3	17.1	39.3

* Note this is 70% of the overspend as the remaining 30% is adjusted via the TIM. These values have been grossed up by 100/70 for inclusion in row 24 (row 25 for EMID) of table R4 – Totex, as the 70% is then applied in row 31 of the same table.

For further details, see WPD's Specified Street Works Reopener application, which is published on Ofgem's website.

Pensions prepayment

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

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.

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.

Similarly, the Specified Street Works adjustment is also split 80% RAV, 20% Non-RAV, on the basis that currently 80% of the penalty from the Totex overspend impacts the RAV.

Summary of Enduring Value adjustments to Totex

Table A8 below summarises the Enduring Value adjustments included within table R4 – Totex. Note these are the values included in rows 22-25 of table R4, rather than 70% of these amounts included in the tables above and which flow through to the RoRE calculation.

Table A8:

Enduring Value 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	12.6	-11.9	-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
Specified street works	0.0	0.0	0.0	0.0	0.0	5.9	7.0	11.5	24.5
WMID TOTAL	0.0	12.6	-12.4	-0.4	-1.3	6.6	7.7	12.1	24.9
Pensions prepayment	0.0	11.0	-10.4	-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
Provision reversal	-0.1	-0.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	9.0	4.2	7.6	20.7
EMID TOTAL	-0.1	10.1	-22.7	-1.6	4.6	12.4	7.6	11.0	21.1
Pensions prepayment	0.0	8.9	-8.1	-0.4	0.0	0.0	0.0	0.0	0.3
Rail electrification	0.0	0.0	-32.5	-5.7	0.0	12.7	12.7	12.7	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWALES TOTAL	0.0	8.9	-40.6	-6.1	0.0	12.7	12.7	12.7	0.3
Pensions prepayment	0.0	14.0	-13.0	-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
Specified street works	0.0	0.0	0.0	0.0	0.0	2.2	3.5	5.3	11.0
SWEST TOTAL	0.0	14.0	-21.8	2.8	3.2	5.3	5.8	2.2	11.5
Pensions prepayment	0.0	46.5	-43.4	-1.4	0.0	0.0	0.0	0.0	1.7
Rail electrification	0.0	0.0	-55.2	-3.9	6.5	19.9	19.1	13.6	0.0
Provision reversal	-0.1	-0.9	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	17.1	14.7	24.4	56.2
WPD TOTAL	-0.1	45.6	-97.6	-5.3	6.5	37.0	33.8	38.0	57.9

RAV only adjustment to RAV additions for 2018/19 for Totex under/overspend

The RFPR RIGs require 2018/19 Totex entered in row 12 of table R4 – Totex to be that per the latest submitted RRP. WPD understands this to mean the 2018/19 RRP which will be submitted in July 2019, at the same time as the RFPR tables. This therefore ensures that the impact of any Totex under/overspend in 2018/19 is captured in the Totex table. However, the RFPR RIGs require RAV additions in row 19 of table R9 - RAV for actual years, i.e. including 2018/19, to be taken from the latest published PCFM. These RAV additions values will therefore be based on Totex allowances for 2018/19, and will not reflect the RAV impact of any Totex under/overspend in 2018/19.

Without an Enduring Value adjustment to RAV additions for the RAV element of any Totex under/overspend in 2018/19, the closing 2018/19 RAV will not align with Totex reported in the RFPR for 2018/19. An Enduring Value adjustment is therefore required to RAV additions for 2018/19, for the difference between 2018/19 RAV additions per the latest published PCFM and the RAV additions resulting from the actual Totex expenditure in the 2018/19 RRP. The calculation of this is shown in table A9 below.

Depreciation on this and the RAV element of other Enduring Value adjustments has been calculated by running these adjustments through a version of the PCFM which includes these adjustments, and checking this to a stand-alone depreciation calculation which applies asset lives for RIIO ED1 additions to the RAV additions Enduring Value amounts. Note that there is nil impact on depreciation

of the Totex under/overspend RAV additions adjustment as depreciation commences the year after RAV additions, and 2019/20 depreciation is taken from WPD's forecast calculations which already include 2018/19 actual Totex.

Table A9:

2018/19 TOTEX AND RAV ADDITIONS £M, 12/13 PRICES	WMID	EMID	SWALES	SWEST	WPD TOTAL
Per November 2018 PCFM (latest published)					
POST-TIM TOTEX (EQUAL TO ALLOWED TOTEX)	257.6	252.3	149.0	214.4	873.4
RAV additions (80% thereof)	206.1	201.9	119.2	171.5	698.7
Per 2018/19 RRP submission					
Actual TOTEX	226.3	229.8	127.7	191.8	775.6
Allowed TOTEX	257.6	252.2	149.4	214.3	873.4
Resulting in the following anticipated values:					-
POST-TIM TOTEX	248.2	245.5	142.9	207.5	844.1
RAV additions (80% thereof)	198.6	196.4	114.3	166.0	675.3
ENDURING VALUE ADJUSTMENT = DIFFERENCE IN RAV ADDITIONS	-7.6	-5.5	-4.9	-5.5	-23.4

Summary of Enduring Value adjustments to RAV additions

Table A10 below sets out the breakdown of the Enduring Value adjustments to RAV additions, as shown in row 20 of RFPR table R9- RAV.

Table A10:

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
Totex under/overspend	0.0	0.0	0.0	-7.6	0.0	0.0	0.0	0.0	-7.6
Rail electrification	0.0	0.0	-0.3	-0.1	-0.7	0.4	0.4	0.3	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	3.3	3.9	6.4	13.7
WMID TOTAL	0.0	0.0	-0.3	-7.6	-0.7	3.7	4.3	6.8	6.1
Totex under/overspend	0.0	0.0	0.0	-5.5	0.0	0.0	0.0	0.0	-5.5
Rail electrification	0.0	0.0	-7.5	-0.7	2.5	1.9	1.9	1.9	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	5.0	2.3	4.2	11.6
EMID TOTAL	0.0	0.0	-7.5	-6.2	2.5	6.9	4.2	6.1	6.1
Totex under/overspend	0.0	0.0	0.0	-4.9	0.0	0.0	0.0	0.0	-4.9
Rail electrification	0.0	0.0	-18.2	-3.2	0.0	7.1	7.1	7.1	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SWALES TOTAL	0.0	0.0	-18.2	-8.1	0.0	7.1	7.1	7.1	-4.9
Totex under/overspend	0.0	0.0	0.0	-5.5	0.0	0.0	0.0	0.0	-5.5
Rail electrification	0.0	0.0	-4.9	1.8	1.8	1.7	1.3	-1.7	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	1.2	2.0	3.0	6.2
SWEST TOTAL	0.0	0.0	-4.9	-3.7	1.8	2.9	3.3	1.2	0.6
Totex under/overspend	0.0	0.0	0.0	-23.4	0.0	0.0	0.0	0.0	-23.4
Rail electrification	0.0	0.0	-30.9	-2.2	3.7	11.1	10.7	7.6	0.0
Specified street works	0.0	0.0	0.0	0.0	0.0	9.6	8.2	13.6	31.5
WPD TOTAL	0.0	0.0	-30.9	-25.6	3.7	20.7	18.9	21.3	8.0

Table A11 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 A11:

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
Totex under/overspend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail electrification	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.3
WMID TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2
Totex under/overspend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail electrification	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.1	1.0
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.3
EMID TOTAL	0.0	0.0	0.0	0.3	0.3	0.2	0.0	-0.1	0.7
Totex under/overspend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail electrification	0.0	0.0	0.0	0.6	0.7	0.7	0.5	0.4	3.0
Specified street works	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	0.4	3.0
Totex under/overspend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail electrification	0.0	0.0	0.0	0.2	0.1	0.1	0.0	0.0	0.3
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
SWEST TOTAL	0.0	0.0	0.0	0.2	0.1	0.1	0.0	-0.1	0.2
Totex under/overspend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail electrification	0.0	0.0	0.0	1.1	1.1	1.0	0.7	0.5	4.4
Specified street works	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.4	-0.7
WPD TOTAL	0.0	0.0	0.0	1.1	1.1	1.0	0.5	0.0	3.7

3. Basis of any estimates and allocations

Use of RRP data

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 2019. WPD has not had confirmation from Ofgem that no changes are required to this data.

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 2019.

Allocation processes and estimation methodologies

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

1. Allocation of dividends

The RFPR requires an adjustment to remove the element of dividends not related to the Regulatory business.

Ofgem has not prescribed a method of calculating this, therefore WPD's apportionment methodology uses RRP data in table C1 and takes:

Total Net Costs after Non Price Control allocation outside the price control

(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.

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

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 Legacy metering, Directly Remunerated Services activity and De Minimis activity 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.

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), MOD, RPI True up and Adjustments for Allowed Pass-Through items using data from RPFPR table R2 – Revenue for 2015/16 and 2016/17. 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. Table inputs – Financing Cash Flow

In order to reconcile the 'Analysis of financing costs as per cash flow statement' analysis section of the 'R7a – Financing Input' tab, a cell validation rule in the free entry row above 'Total Interest Paid as per cash flow statement', which only allows for +ve positive value entry, was required to be circumvented to allow negative value entry to ensure reconciliation to cash flow statements.

4. Pensions reporting

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 WPD East Midlands and WPD West Midlands, and the WPD Scheme is reported in table R12 for WPD South Wales and WPD South West. 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 2018/19 is as follows:

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 last 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.

The same approach is followed for the apportionment of the deficit repair payments into the WPD Scheme between SWALES and SWEST.

Note that the approach set out above for 2018/19 is further complicated by the reversal of the remaining 2016/17 deficit repair prepayment amount in WMID and EMID. As the prepayment was apportioned in 2016/17 based on regulatory proportions from the 2014 PDAM submission, the reversal had to be done in the same way. The 2014 PDAM regulatory proportions were therefore used to apportion the element of the deficit repair prepayment reversal between WMID and EMID.

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>

For the 2017/18 versions of the RFPR published by Ofgem in March 2019 as an annex to the RIIO-1 annual report for 2017/18, see the link below:
<https://www.ofgem.gov.uk/publications-and-updates/regulatory-financial-performance-annex-riio-1-annual-reports-2017-18>

Further information on WPD's Operational Performance can be found in WPD's Business Plan Commitments Report – note that this 2018/19 report will be published in October 2019:
<https://www.westernpower.co.uk/customers-and-community/performance-reporting-riio-ed1>

Further details on WPD's Specified Streetworks Reopener application can be found in WPD's application, which is published on Ofgem's website:
<https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-riio-ed1-price-control-reopeners-may-2019>

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

WPD's RIIO accounts for 2016/17 and 2017/18 can be found here:
<https://www.westernpower.co.uk/riio-accounts>