

Bond investor questionnaire

8th 22nd 31st May 2013

1. What specifics do you take into account when investing in the UK Electricity Distribution sector?

<p>Regulatory Framework Regulated Asset Values Leverage Returns Management Stable Credit Metrics Comparisons to UK water and GDNs Dividend Policy</p>
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2. How do you rate the UK Electricity Distribution sector against those in the following jurisdictions?

	≤ risky	Similar	≥ risky
US			
Australia			
Northern Europe			
Southern Europe			

The majority of investors consider that the UK Electricity Distribution sector is similar to or less risky than those in other jurisdictions.

3. Please rate your perception of the risk of the UK Electricity Distribution sector relative to the sectors listed below:

	≤ risky	Similar	≥ risky
Electricity Transmission			
Generation			
Gas Transmission			
Gas Distribution			
Rail Infrastructure			
Airports			
Communication networks			


All investors consider that the UK Electricity Distribution sector is similar to or less risky than those in other UK regulated sectors. The majority consider that Electricity Distribution is less risky than the others. None consider the sector to be more risky.

4. Please set out your view of the 3 largest risks facing the UK Electricity Distribution sector

1.	Regulation/Change in approach to price setting
2.	Reduction in WACC leading to reduced investment Re-leveraging Ratings agency ratings methodologies Impact of renewable technologies in terms of financial operational and capital expenditure

The order of is reflective of the responses received. All respondents state regulation as their perceived main risk. The other risks ranked more evenly.

5. Please rank the following factors in order of perceived risk for the UK Electricity Distribution sector going forward:

		Please rank starting at 1. being the lowest risk
a.	OFGEM Regulation	Highest Risk
b.	Management	
c.	Weather	
d.	Other Regulation e.g. H&S, Environmental, Legal, etc.	
e.	Smart networks	
f.	Distributed Generation	Lowest Risk
g.	Other (please specify)	

6. Moody's and Standard & Poor's rate the four Western Power Distribution companies at Baa1 and BBB respectively.

Please comment on how an upgrade from the ratings agencies would impact:

i.	Your existing holdings	Could buy more (if sustainable)/no impact
ii.	Your ability to buy further bonds	Could buy more/ could add to other portfolios where bonds are currently excluded on rating
iii.	Your thoughts about the UK Electricity Distribution sector	Depends upon reason and stability – if idiosyncratic and not stable then unlikely to change view

Please comment on how a downgrade from the ratings agencies would impact:

i.	Your existing holdings	<ul style="list-style-type: none"> • Would sell more. • Would depend – downgrade by S&P would be much more negative than a downgrade by Moody’s. • Likely to remain unchanged due to lack of similar quality alternatives.
ii.	Your ability to buy further bonds	<ul style="list-style-type: none"> • Would sell more. • Would depend – downgrade by S&P would be much more negative than a downgrade by Moody’s. • Likely to remain unchanged due to lack of similar quality alternatives,
iii.	Your thoughts about the UK Electricity Distribution sector	Depends on justification – if sector based downgrade then would reduce overall attractiveness versus GDNs/UK Water

7. What are your expectations about the outcome of RIIO-ED1? E.g. provide a longer period of certainty, enhance the profile of UK Electricity Distribution sector, etc.?

**RIIO-ED1 will moderately contribute to deterioration in credit quality of the sector.
Will be neutral for good management teams.
Will provide greater divergence in outcomes for companies.
Opportunities for some to benefit from longer regulatory periods and increased stability.
There will be clear winners and losers.**

8. Do you have any comments not covered above that would impact your desire to invest further in the UK Electricity Distribution sector?