



RIIO-ED1 Risk Modelling

Modelling Scenarios – WPD new model

Richard Hern
Director

Richard Druce
Senior Consultant

London

26 April 2013



Model Outputs

Simulations under different regulatory parameter assumptions



NERA
ECONOMIC CONSULTING

Scenarios

Regulatory Parameter	1	2	3	4	5	6	7	8
Uncertainty around costs	On	On	On	On	On	On	On	On
Incentive schemes	On	On	On	On	On	On	On	On
Notional gearing - maintained fixed over period	65%	65%	65%	65%	65%	65%	60%	70%
Allowed Cost of Equity	6.70%	6.70%	6.70%	6.70%	6.70%	7%	6.70%	6.70%
Capitalisation	85%	80%	85%	80%	80%	80%	80%	80%
Depreciation years	45	45	45 phase-in	45 phase-in	35	45 phase-in	45 phase-in	45 phase-in



Model Outputs

Scenario 1 (Baseline)

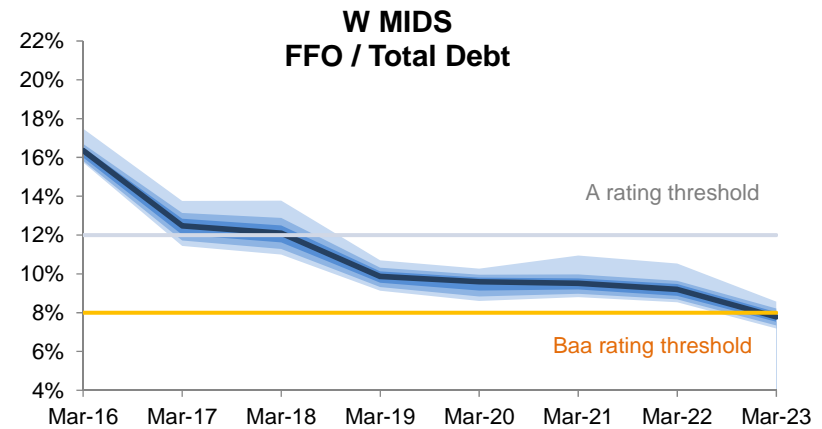
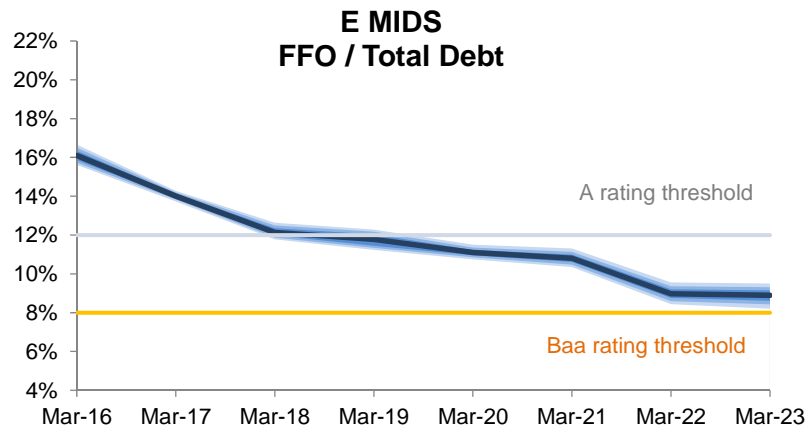
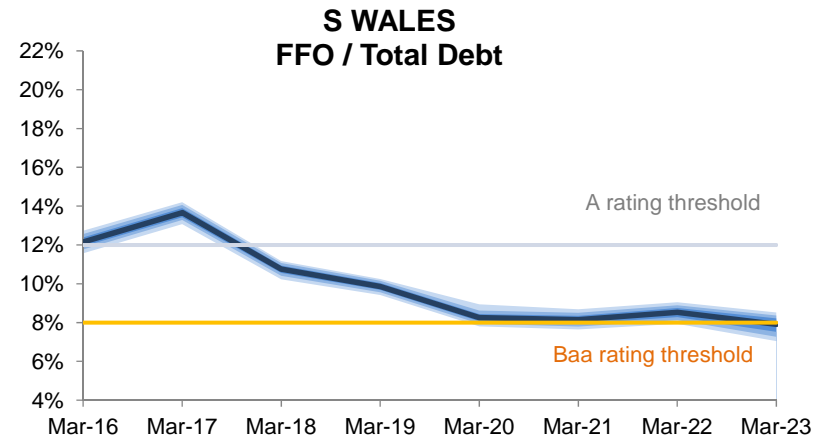
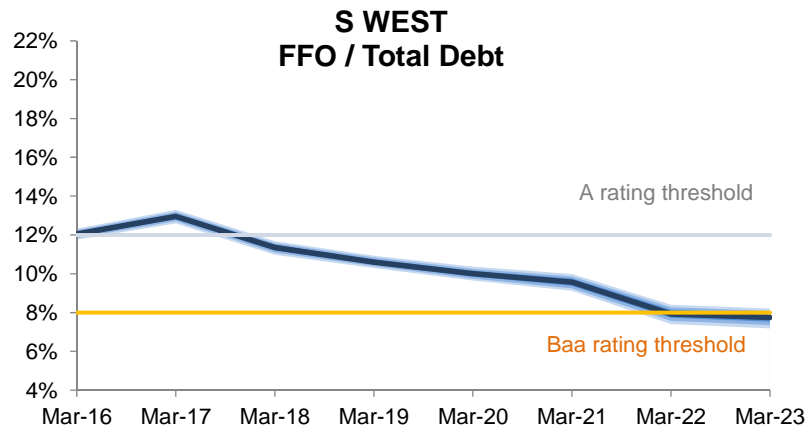
Notional gearing at 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

A capitalisation rate of 85% combined with 45 years depreciation results in credit metrics possibly breaching the “Baa” rating threshold, in particular S WALES by as early as 2019.

FFO / Average Total Debt



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

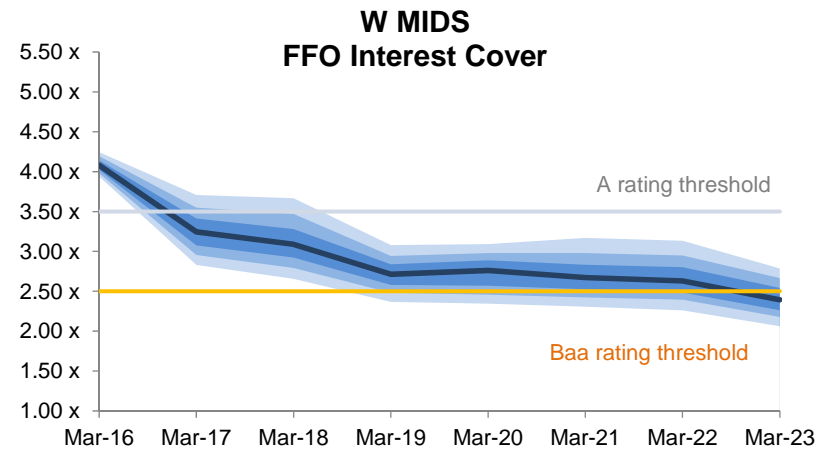
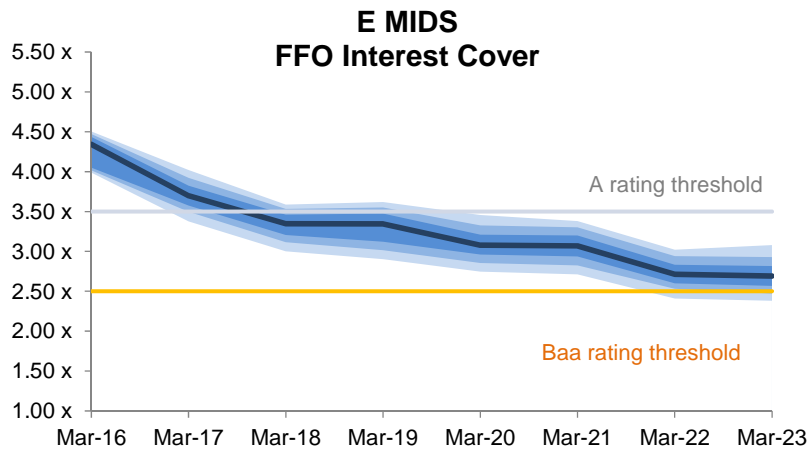
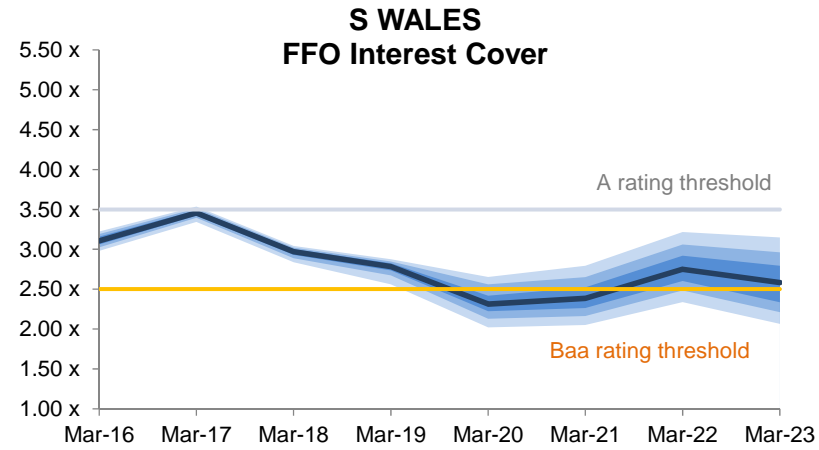
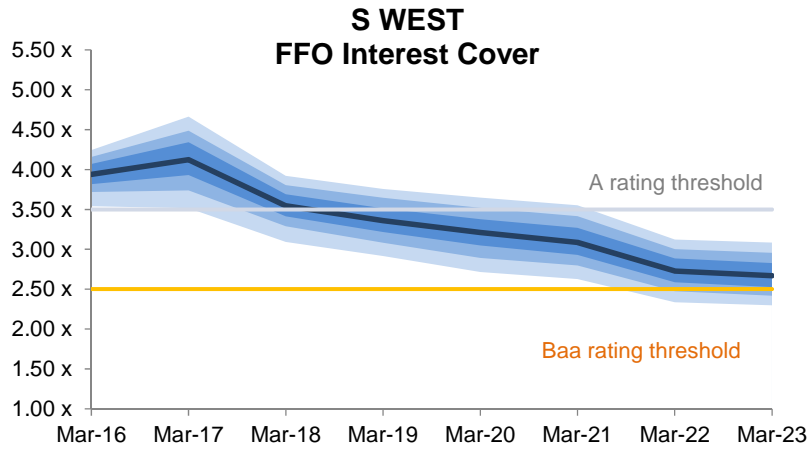


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn



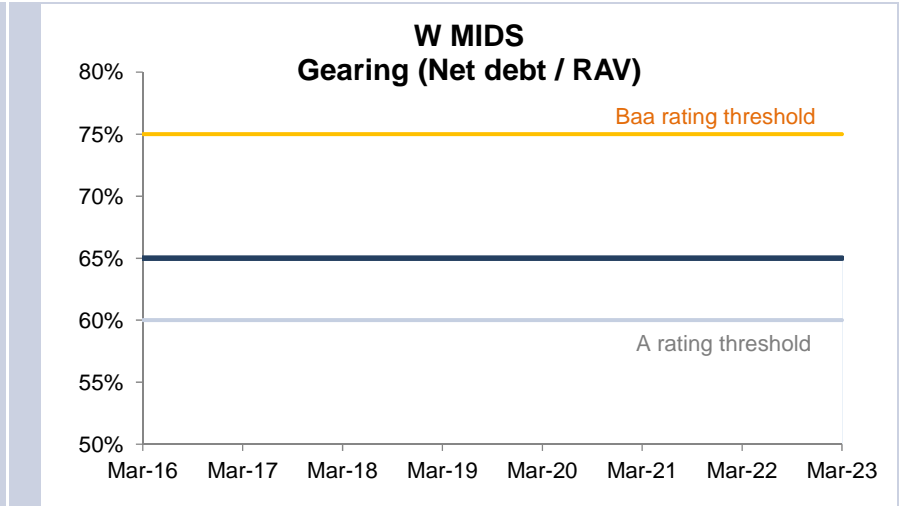
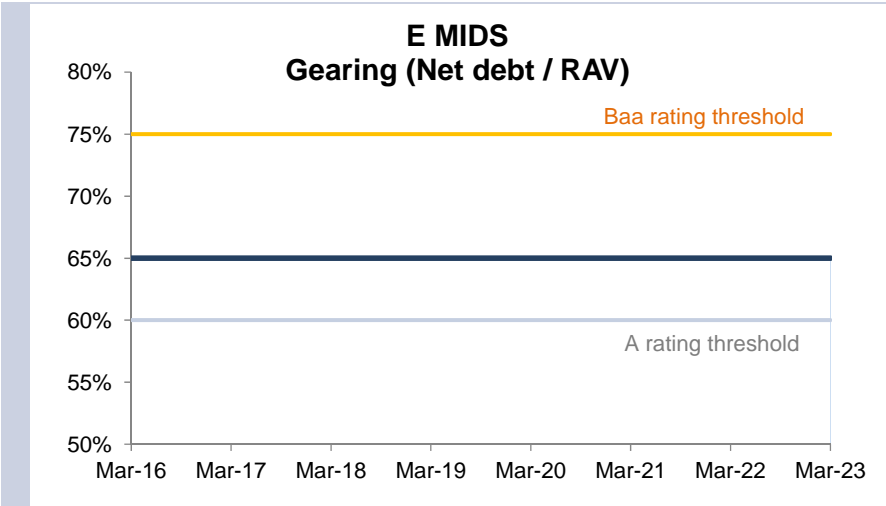
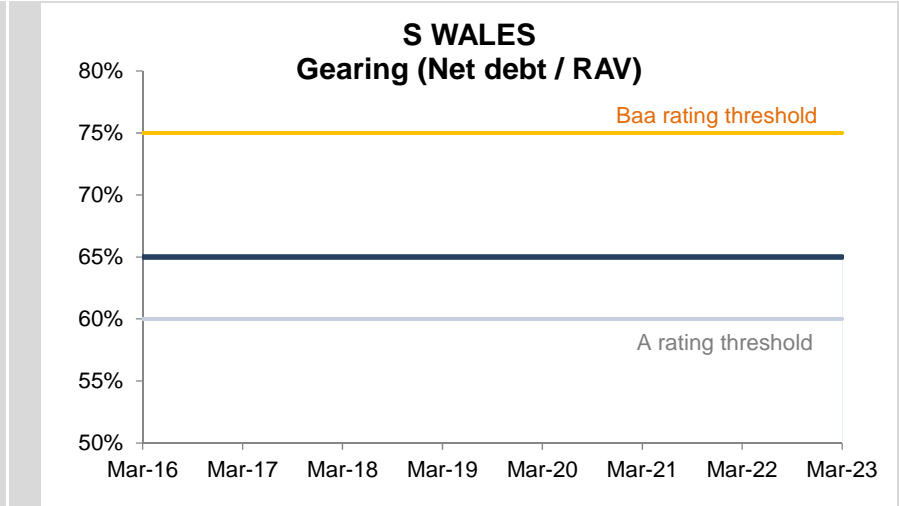
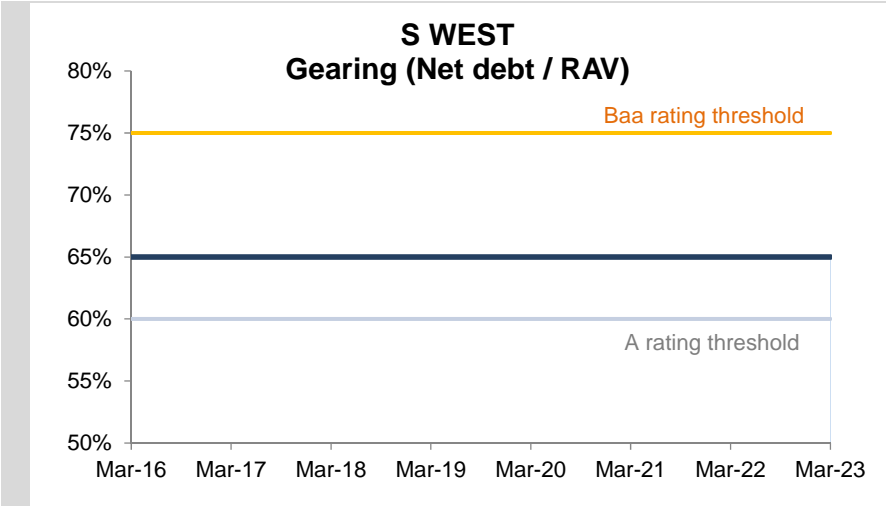
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)



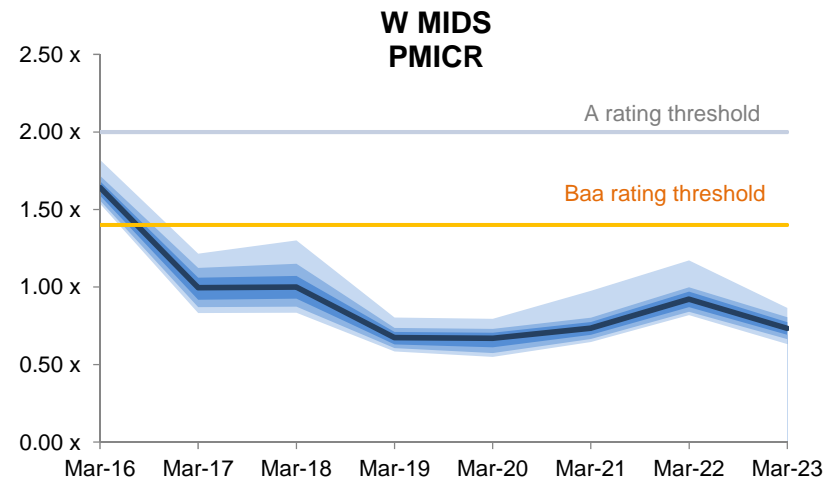
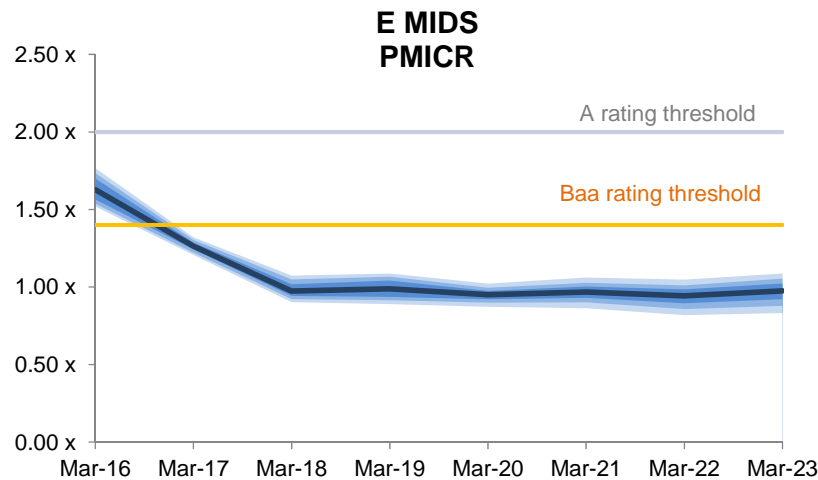
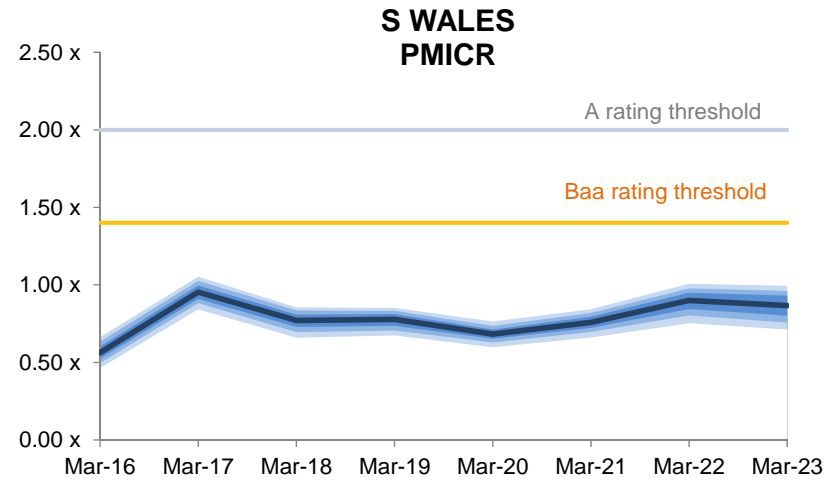
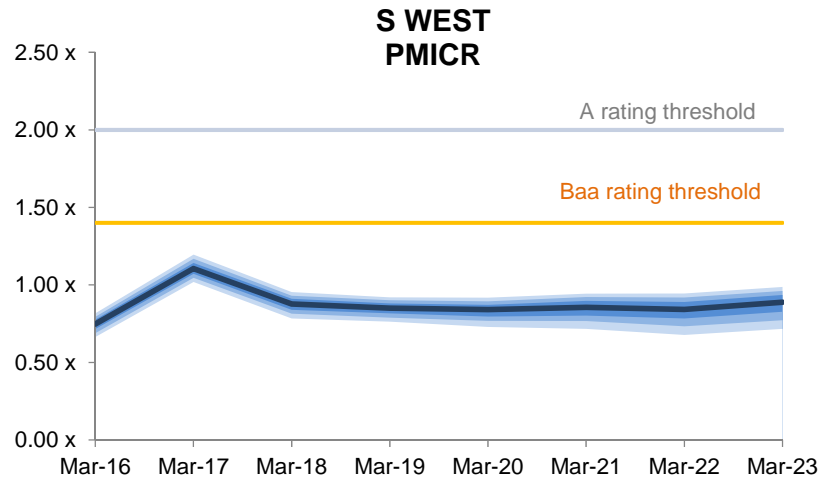
NERA
ECONOMIC CONSULTING

Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn



Confidence Levels: 50% - 75% - 95%

Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

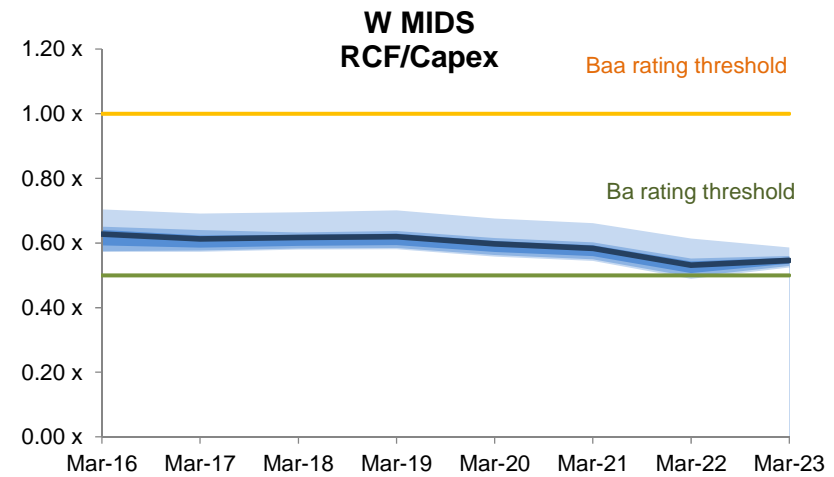
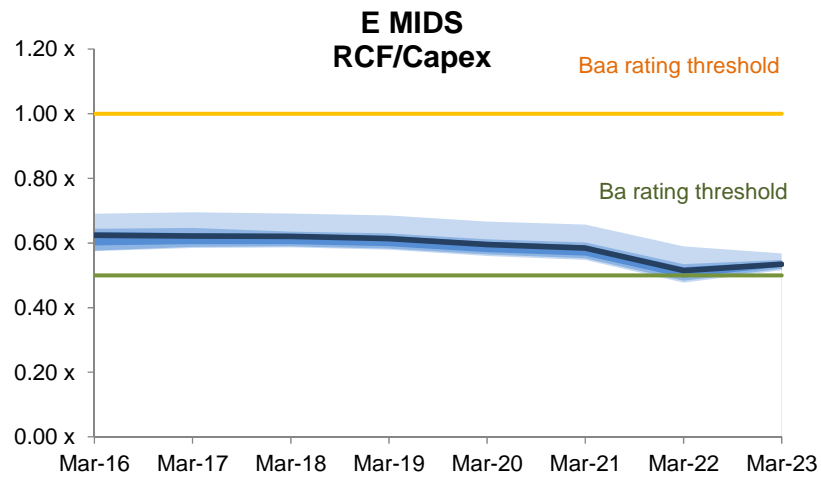
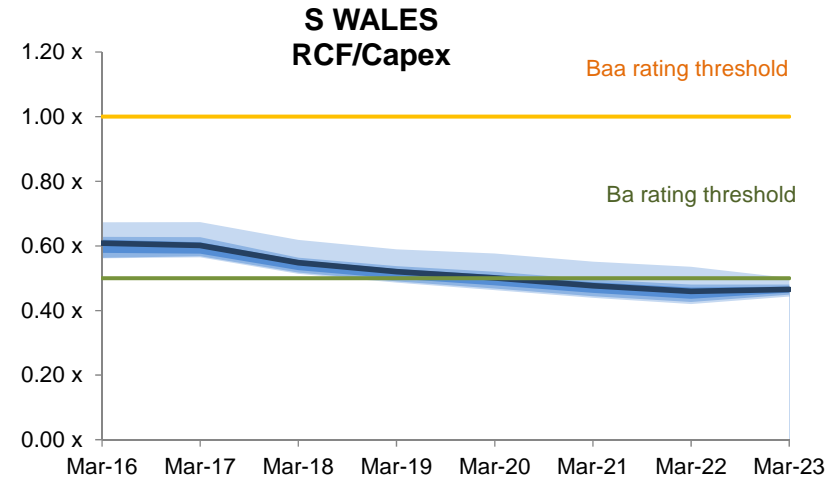
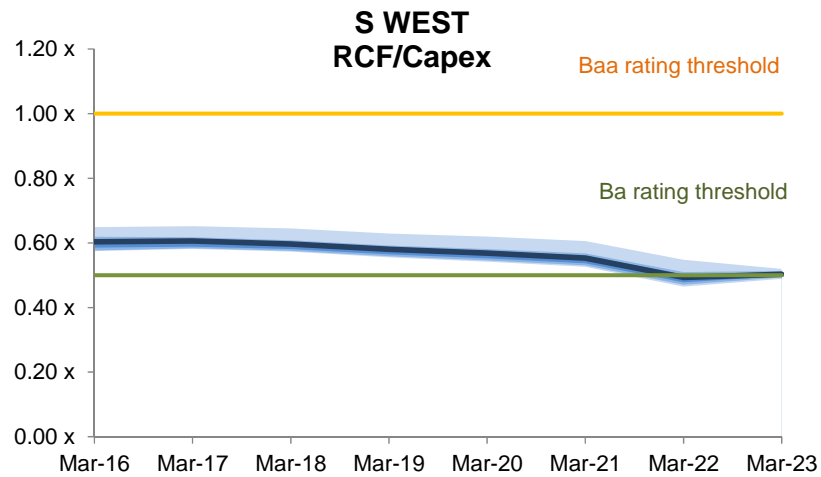


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

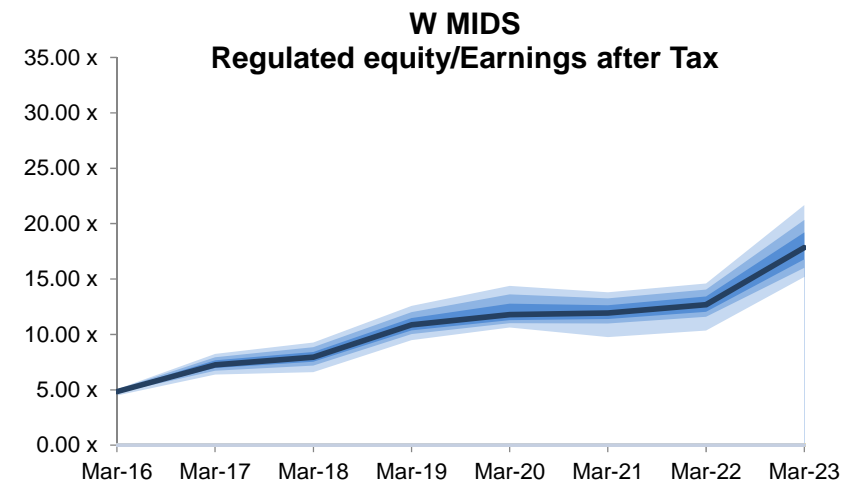
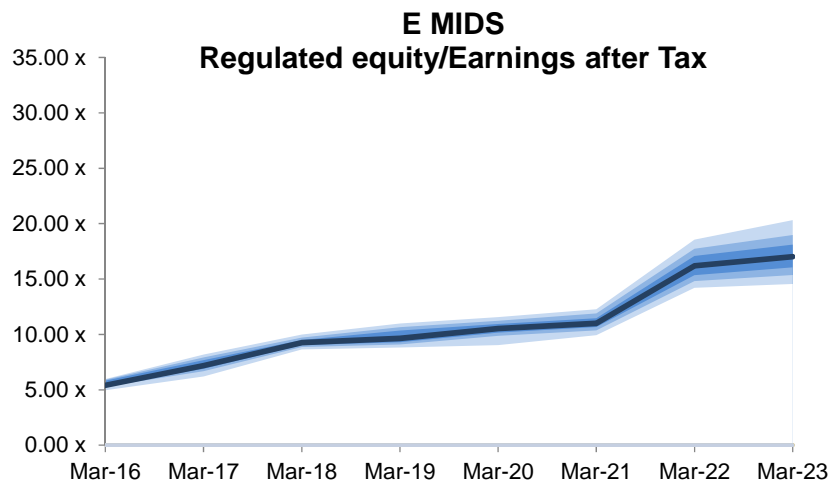
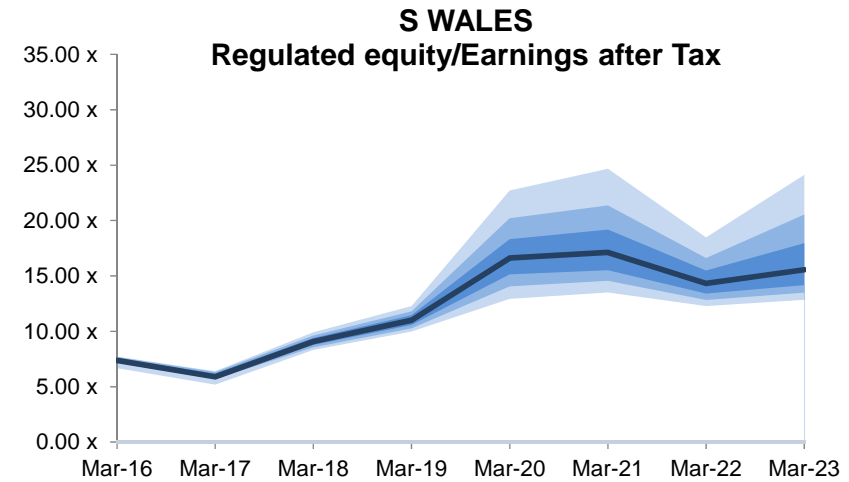
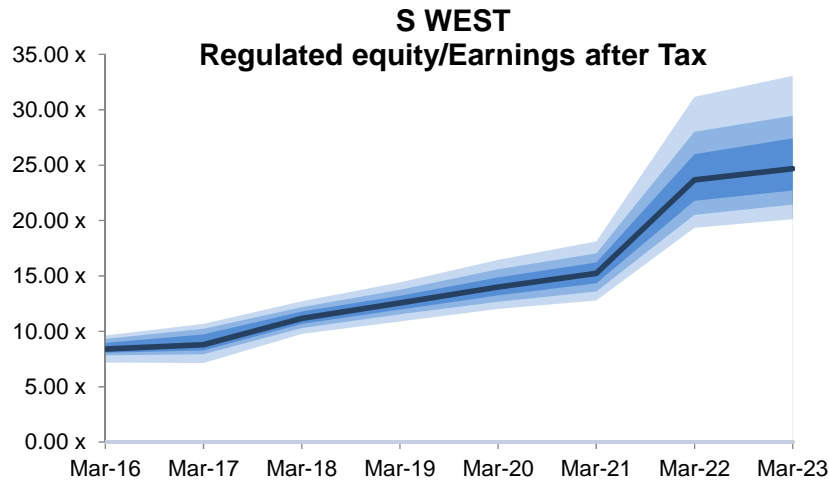


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

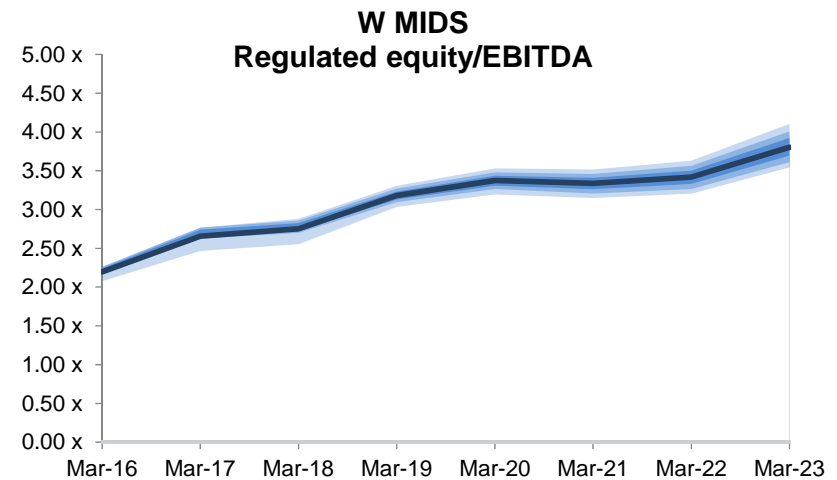
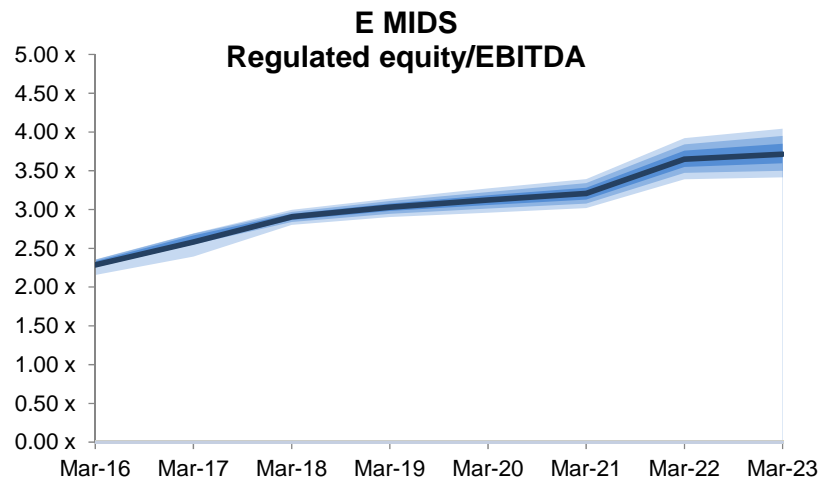
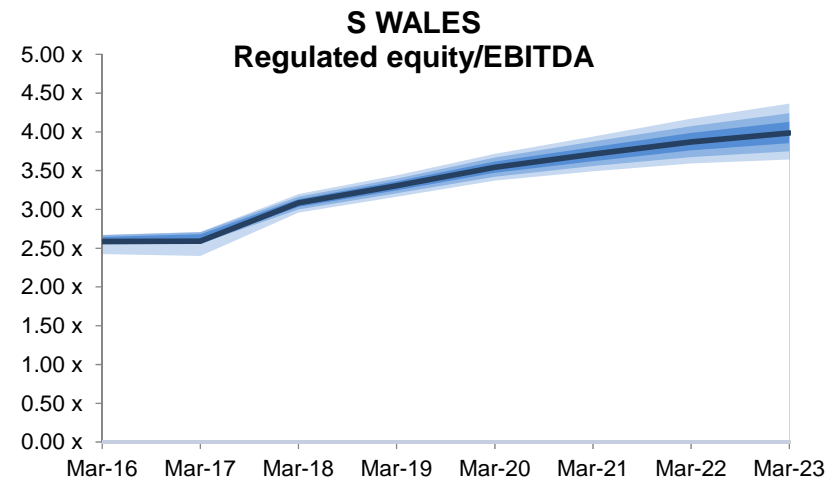
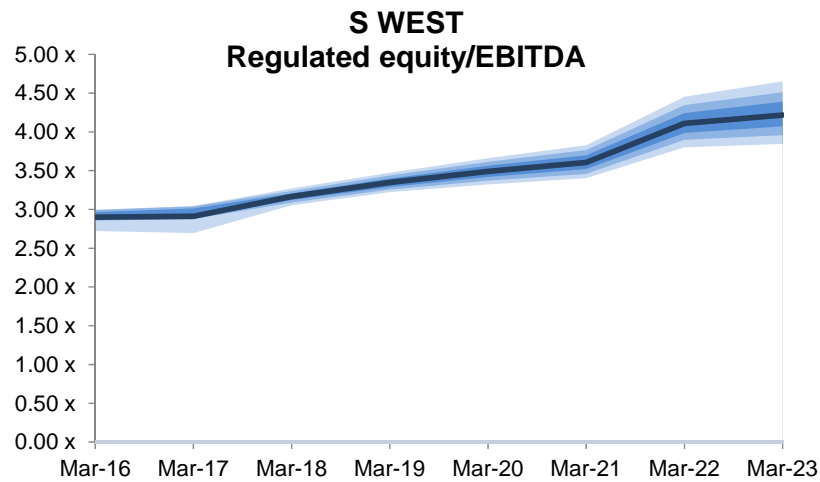


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

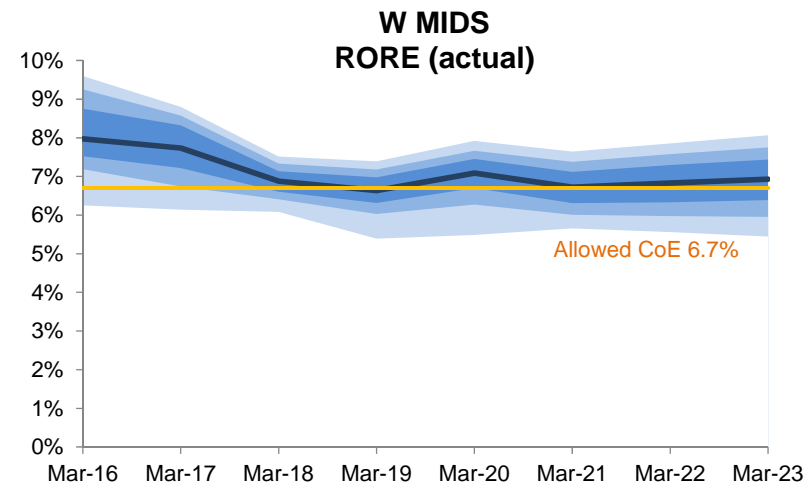
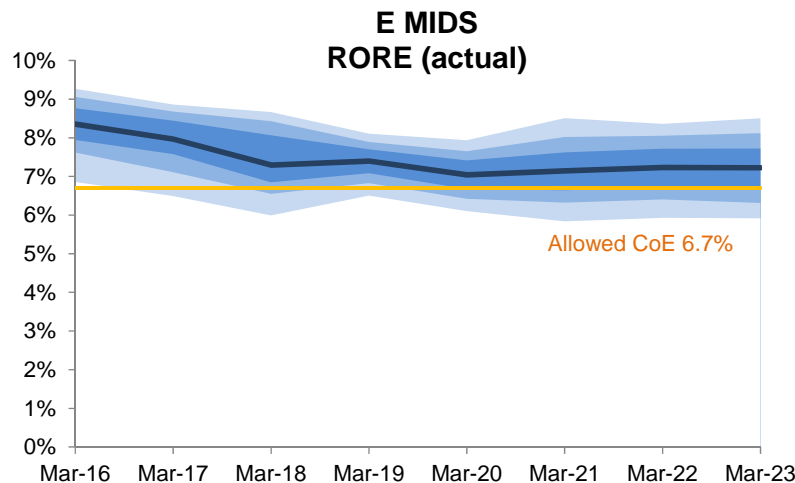
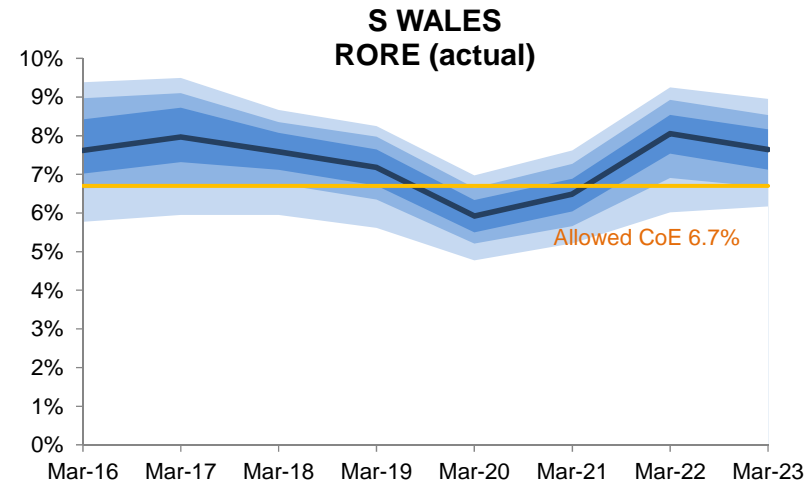
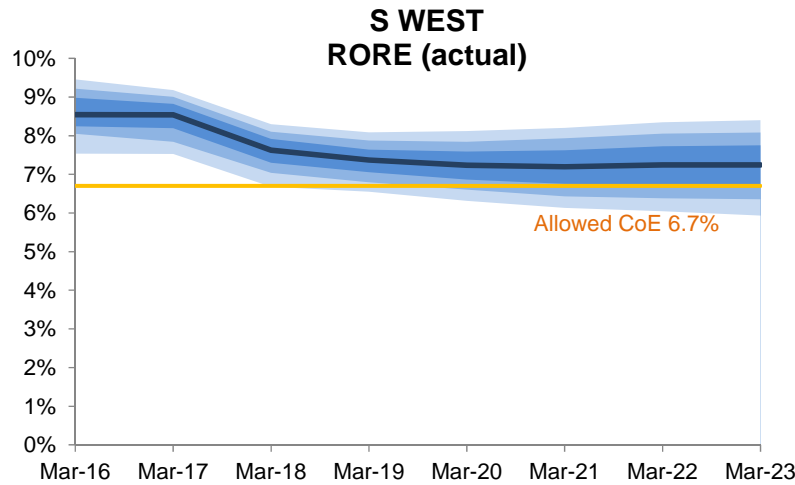


Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn

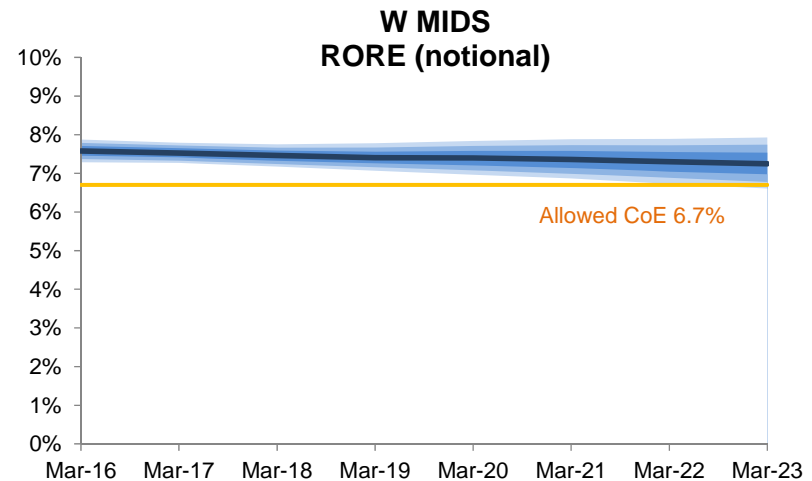
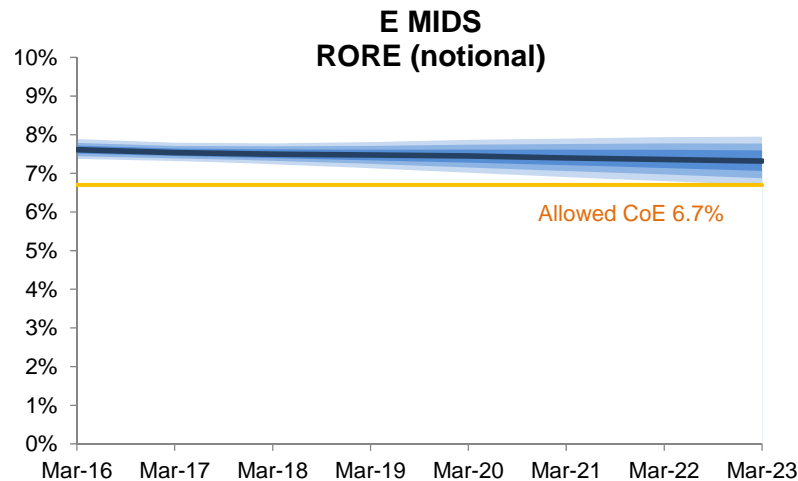
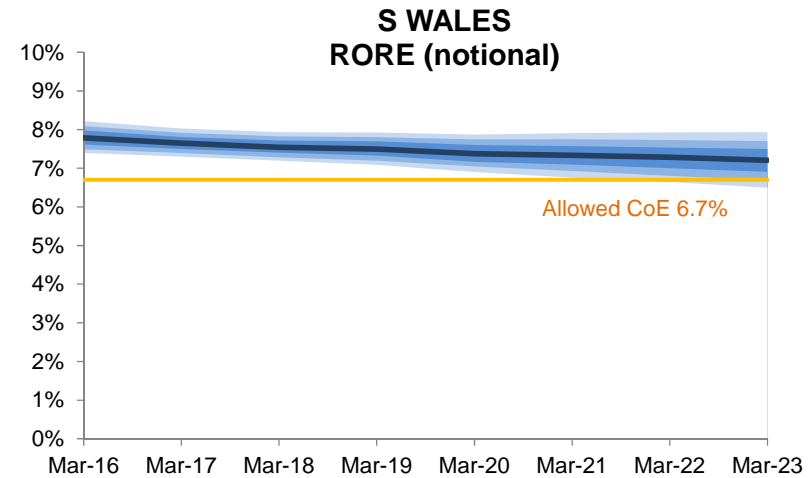
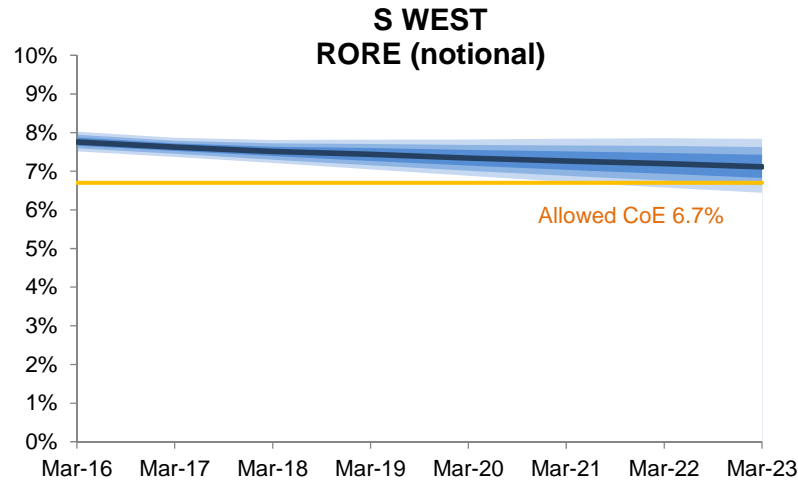


Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



Scenario 1: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn





Model Outputs

Scenario 2

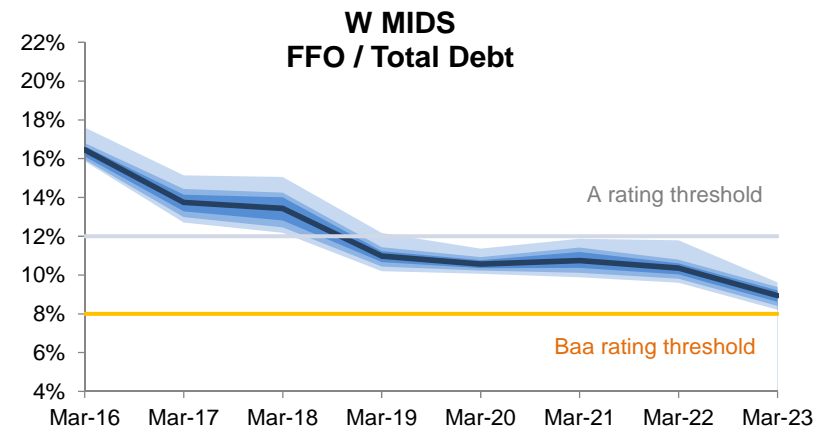
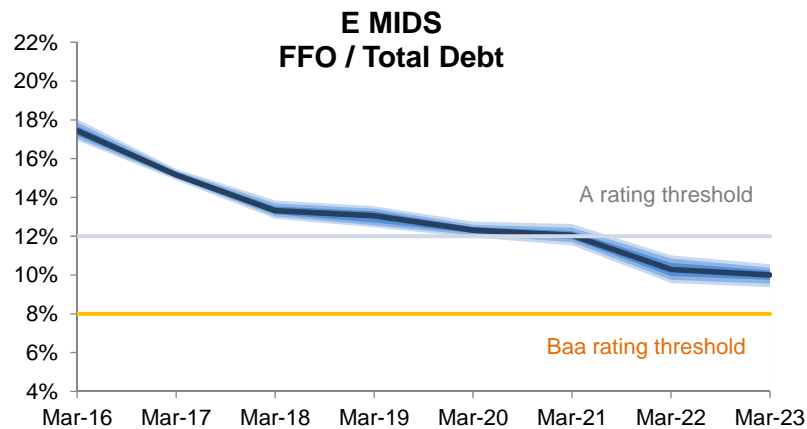
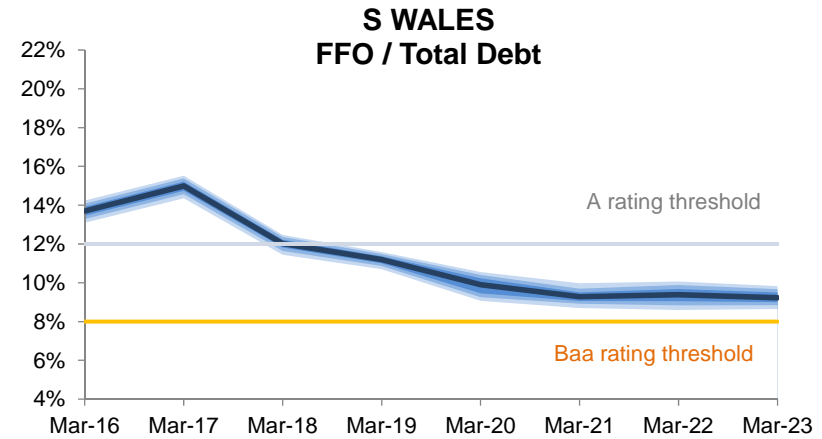
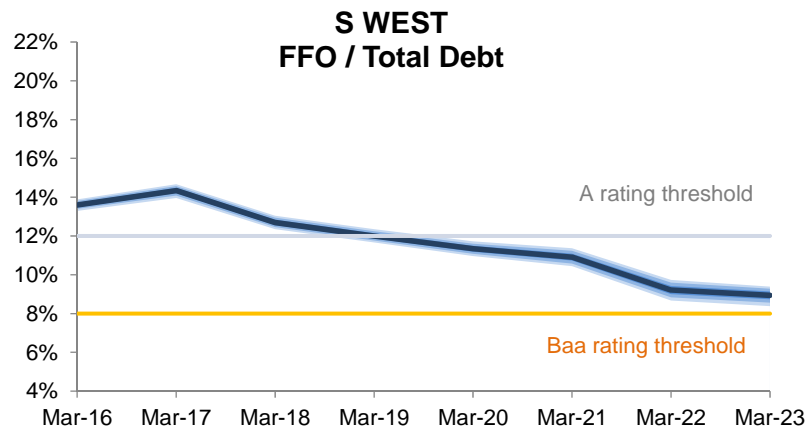
Notional gearing at 65 % - CoE 6.7% - Capitalisation **80%** - 45 yr Depn

A lower capitalisation rate at 80% would improve the financial ratios compared to the baseline scenario. Credit metrics are likely to remain in the range for an “A”/“Baa” rating during the regulatory period. Although FFO interest coverage for S.Wales still looks weak.

FFO / Average Total Debt



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

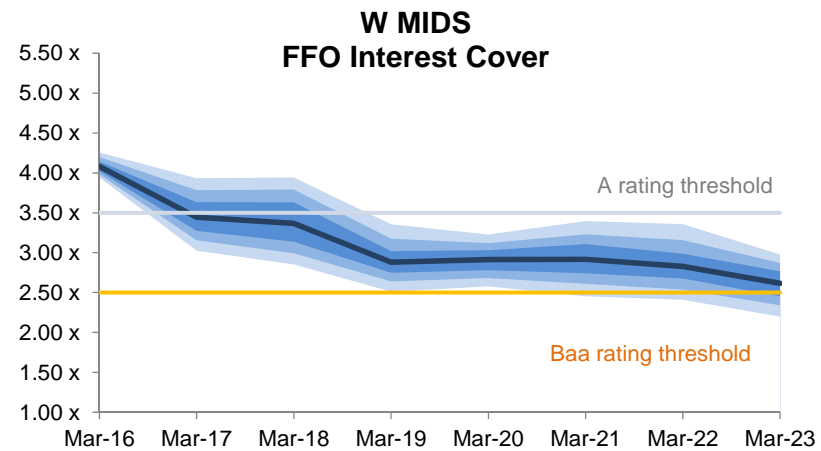
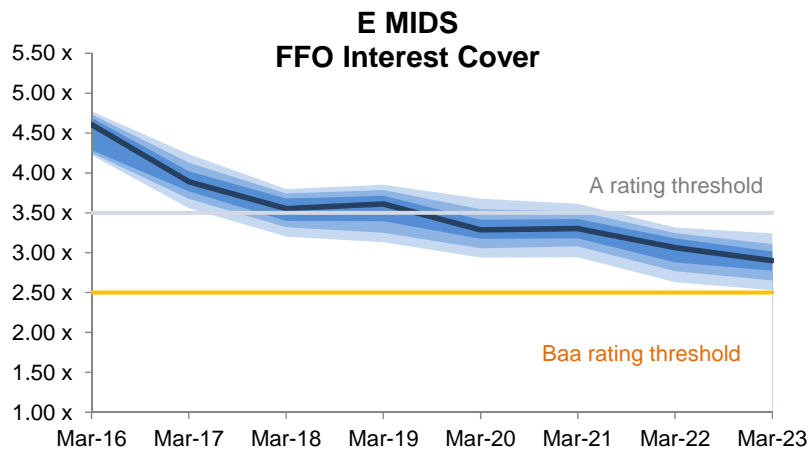
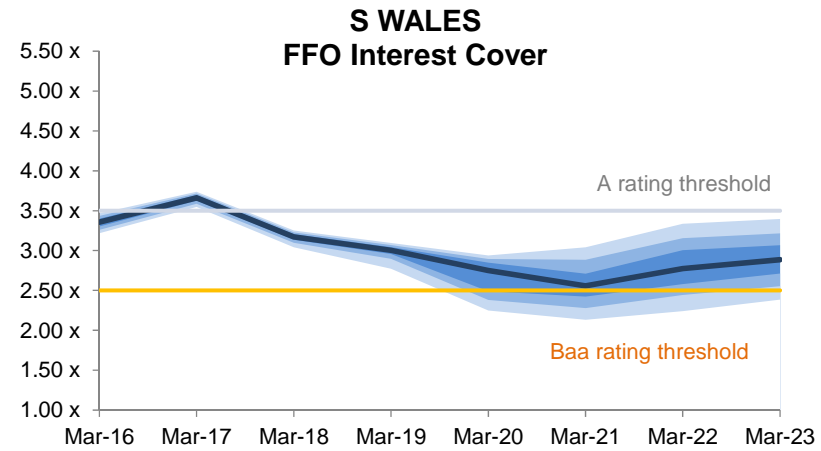
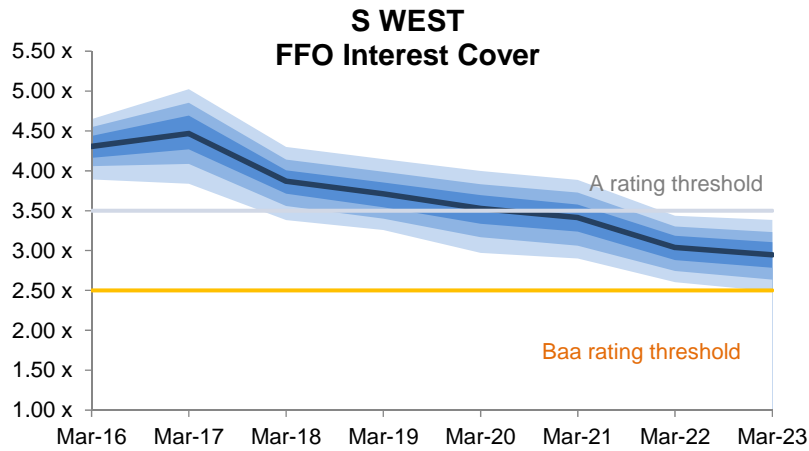


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn



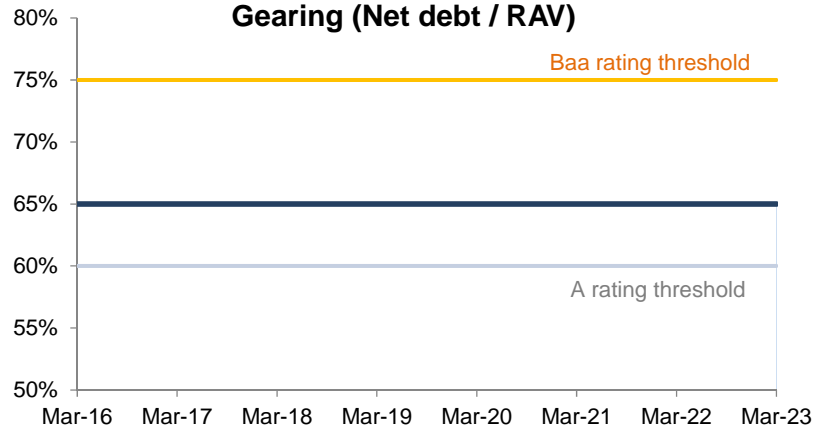
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)

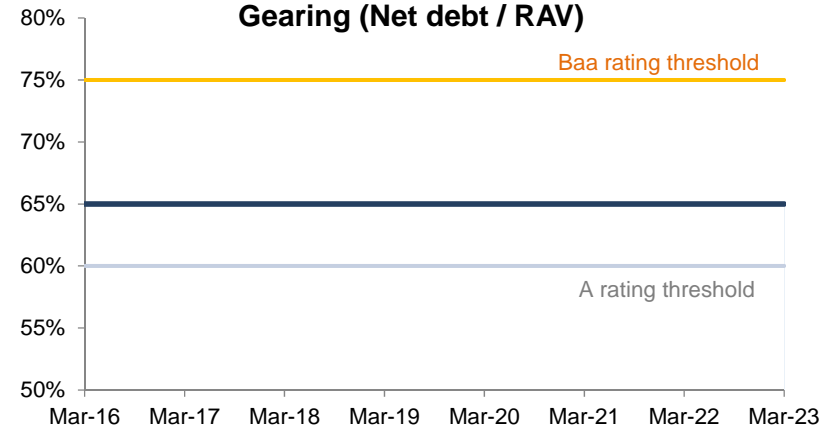


Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

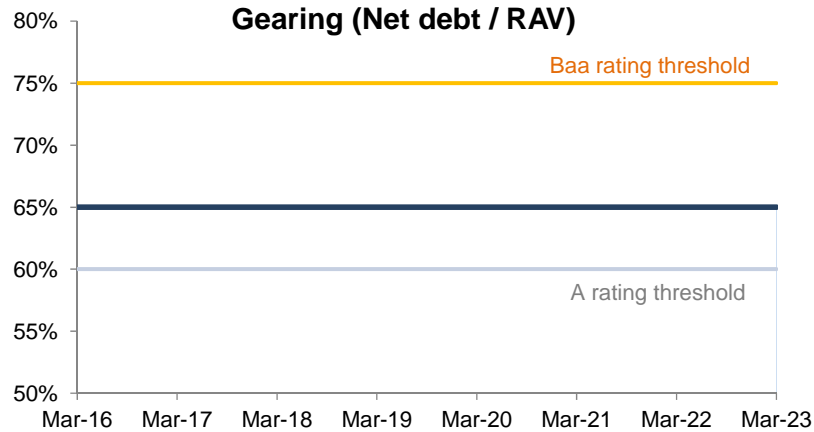
S WEST
Gearing (Net debt / RAV)



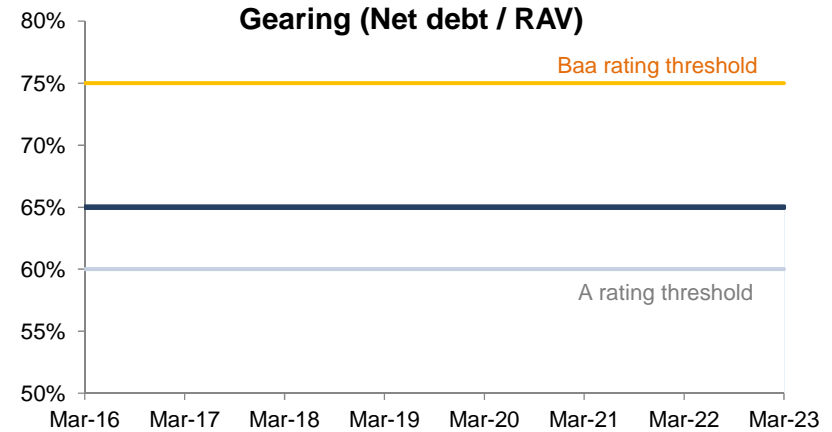
S WALES
Gearing (Net debt / RAV)



E MIDS
Gearing (Net debt / RAV)

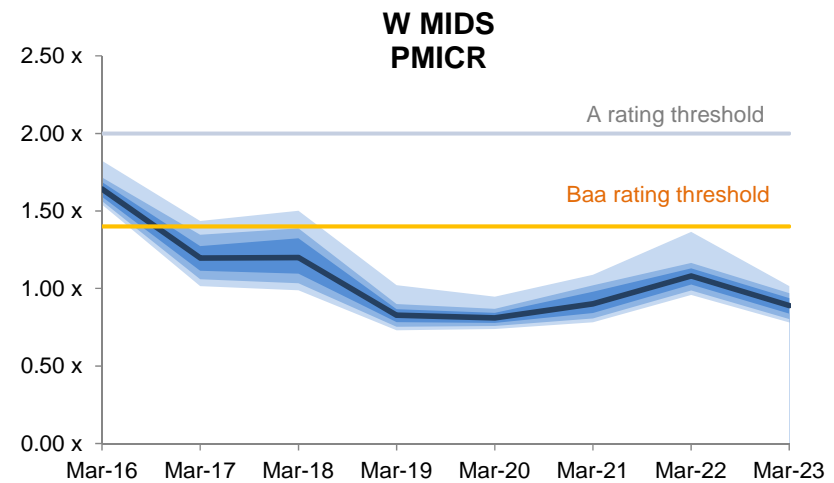
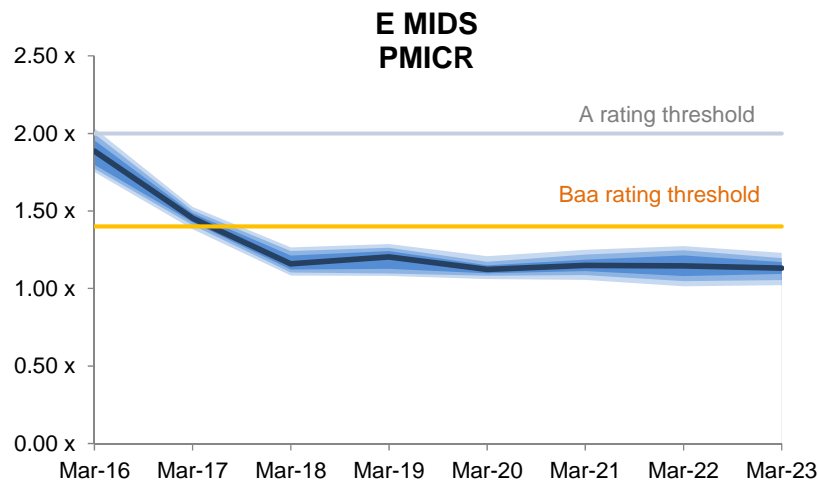
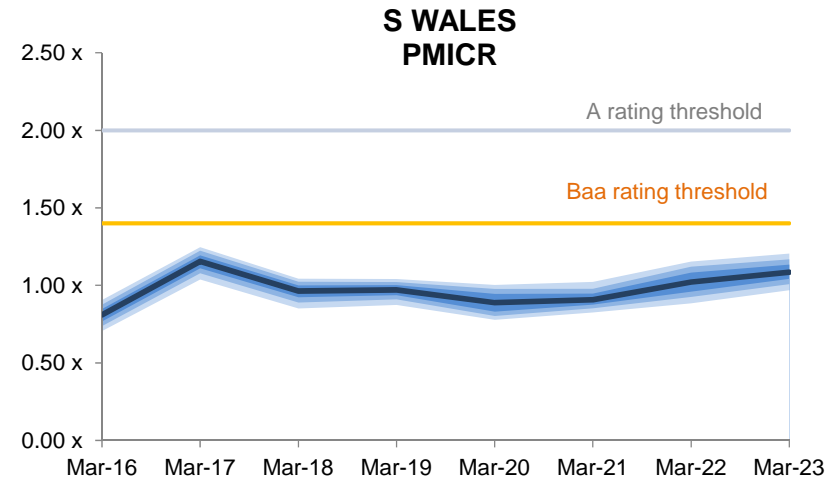
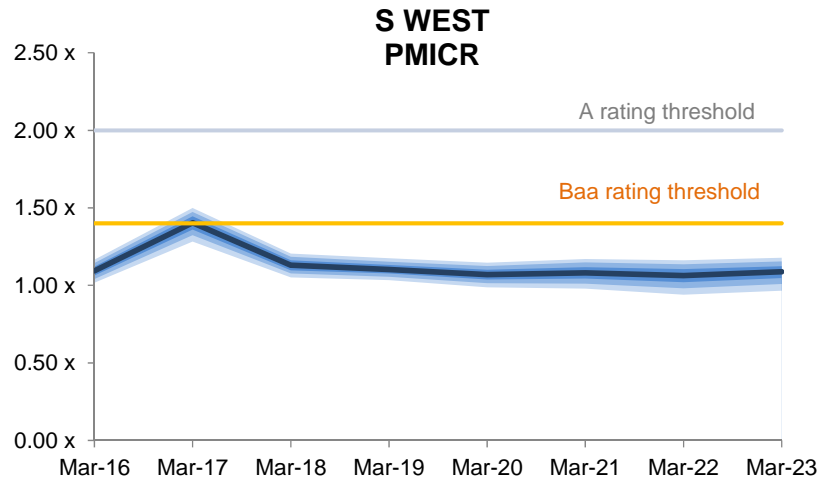


W MIDS
Gearing (Net debt / RAV)



Confidence Levels: 50% - 75% - 95%

Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

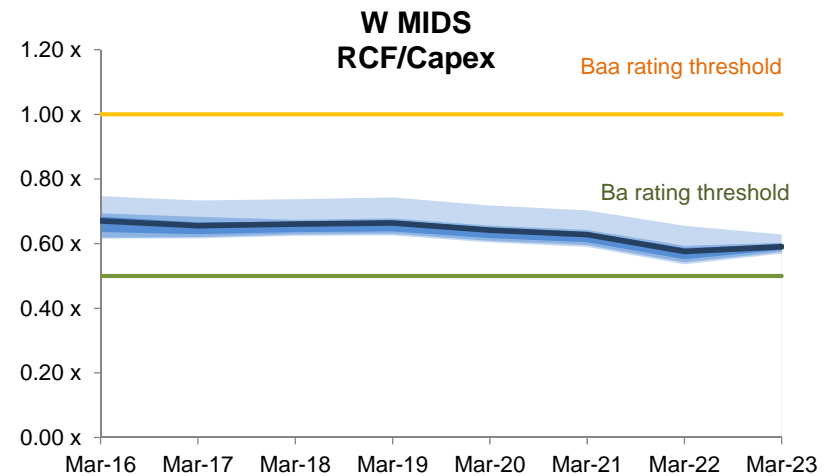
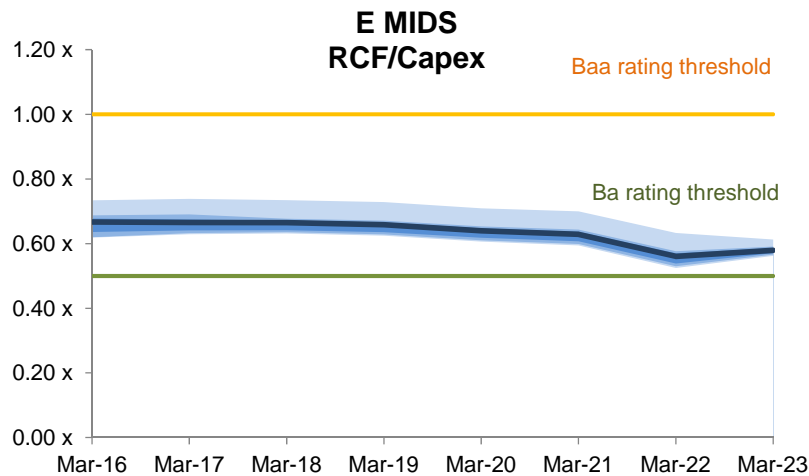
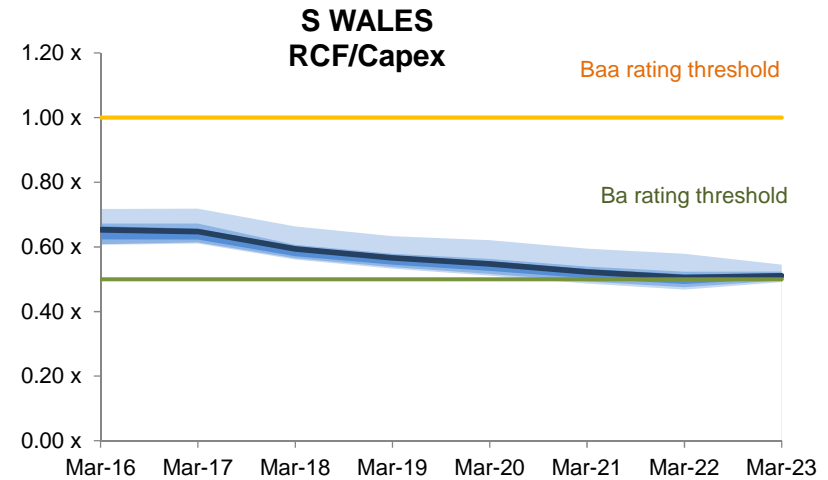
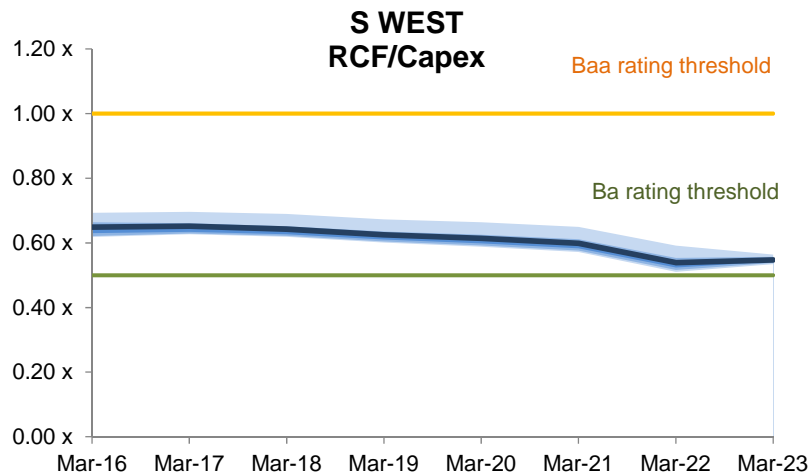


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

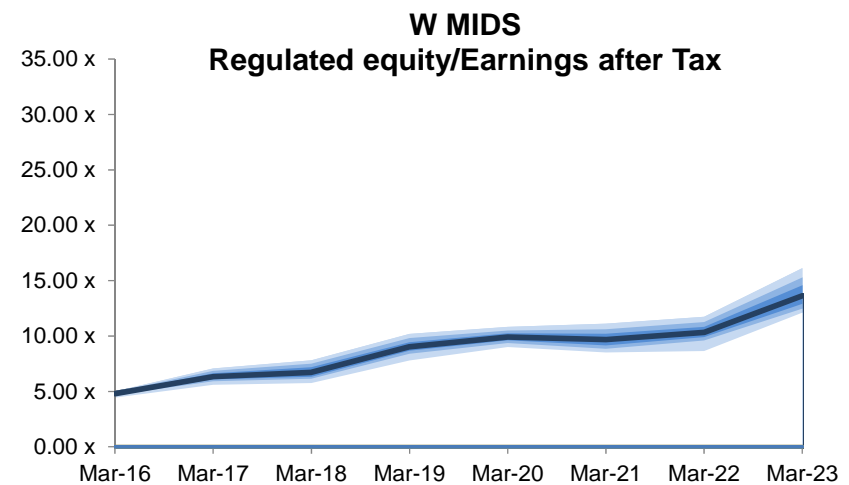
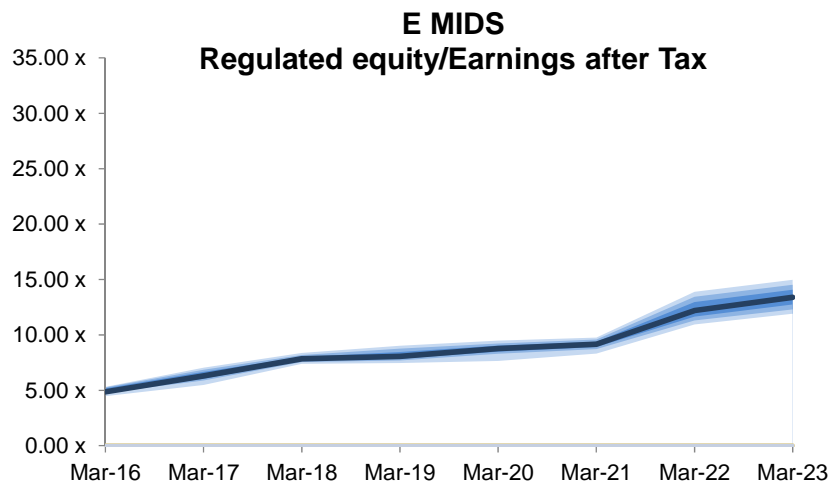
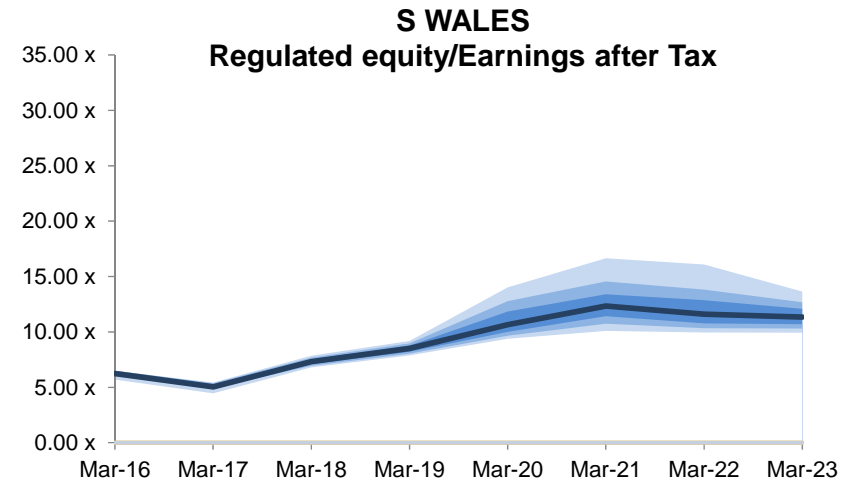
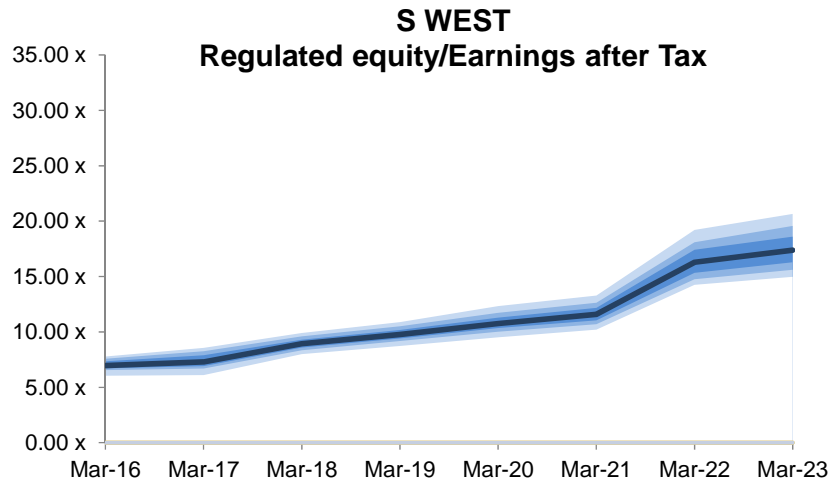


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

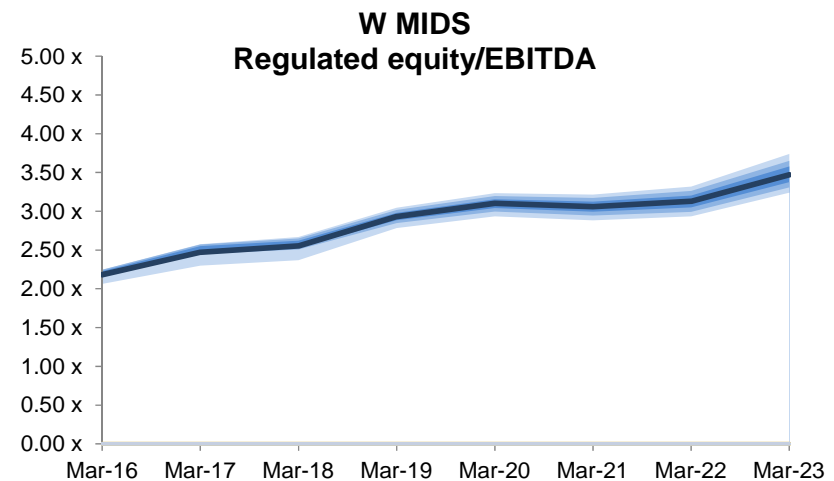
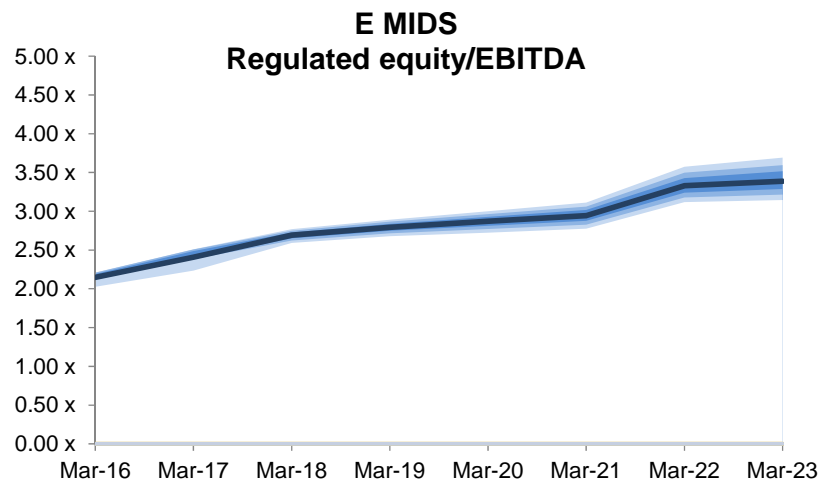
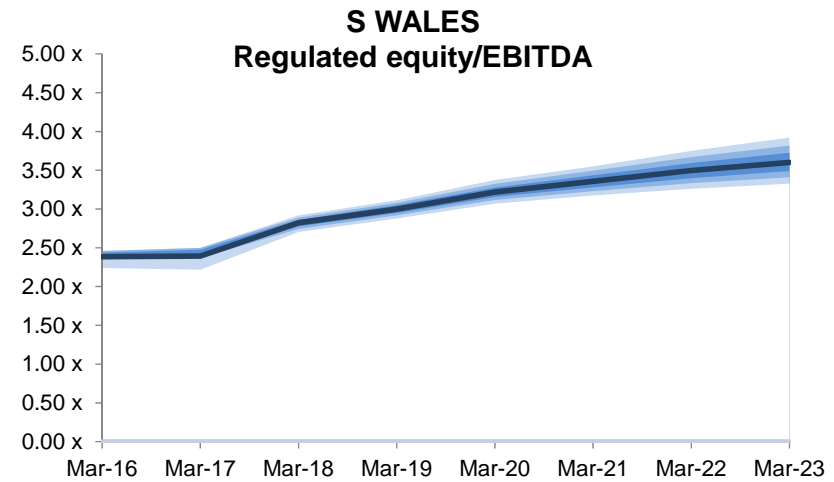
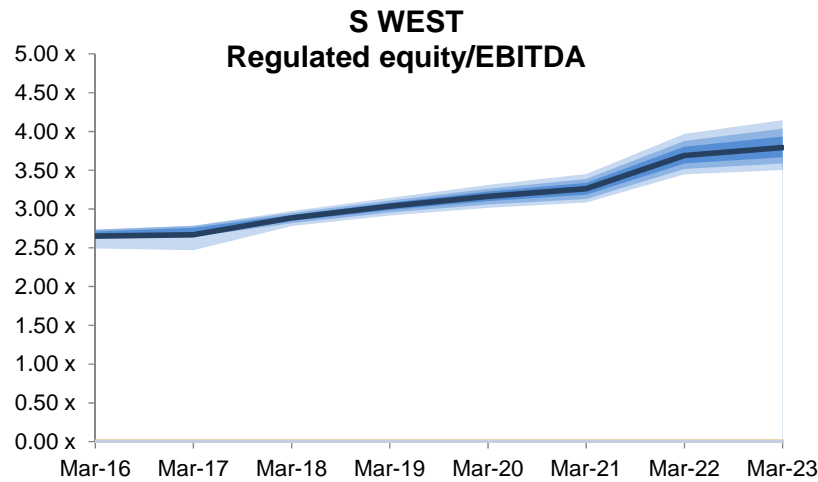


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn



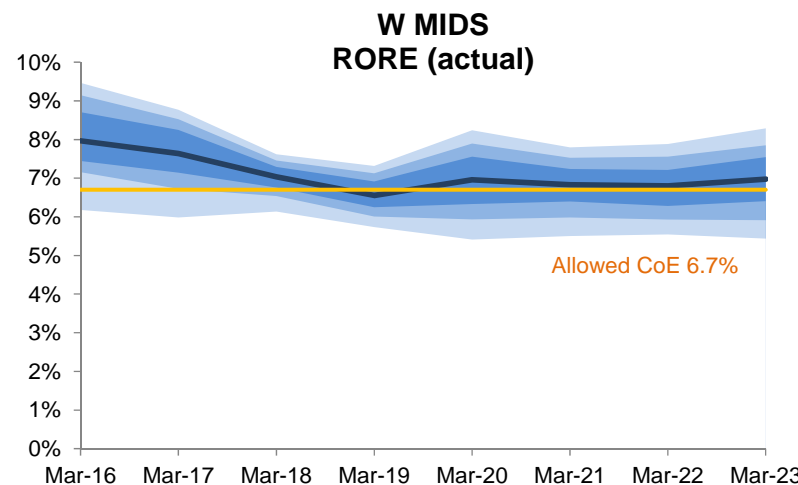
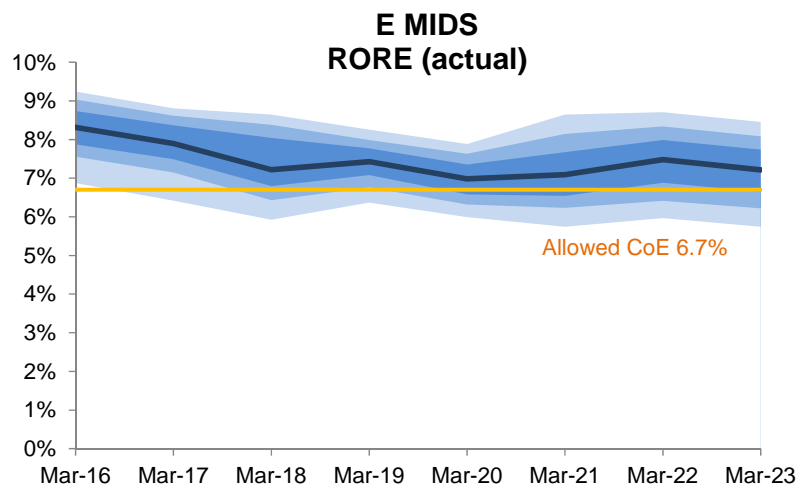
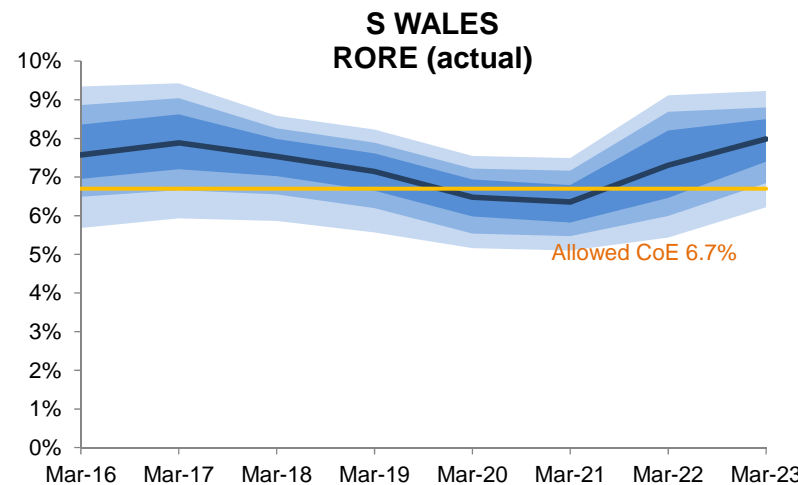
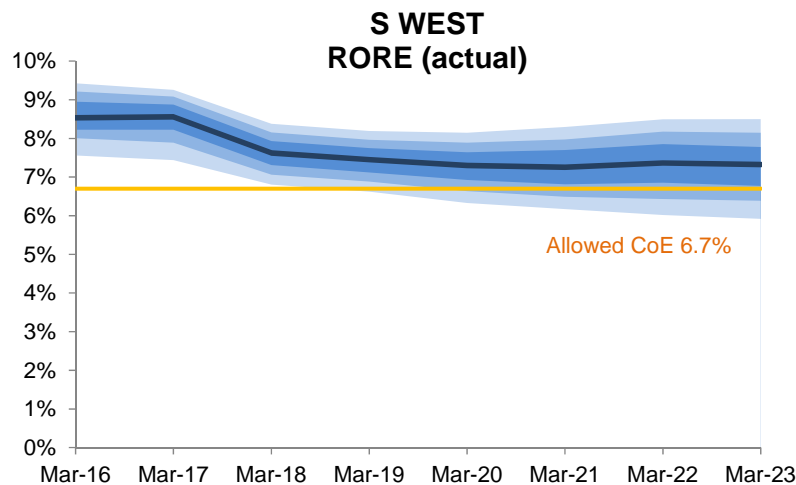
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn

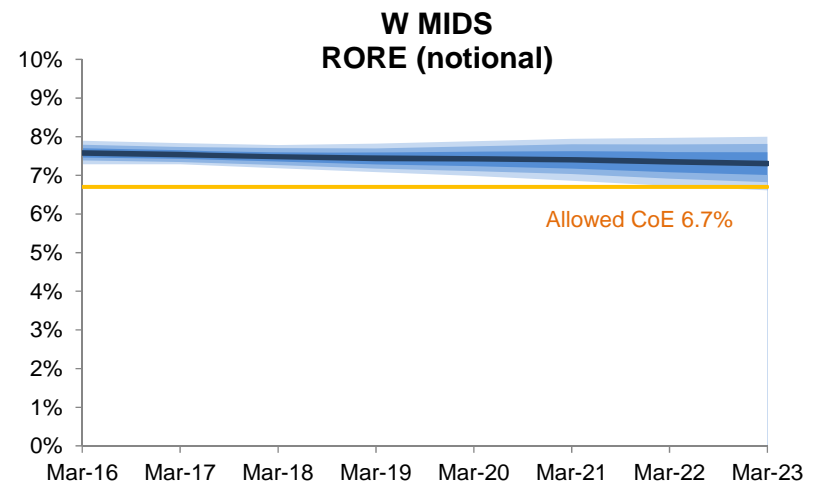
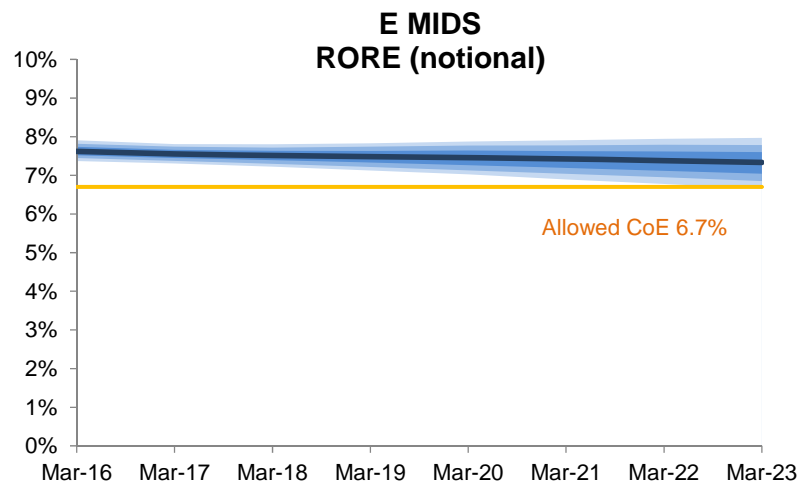
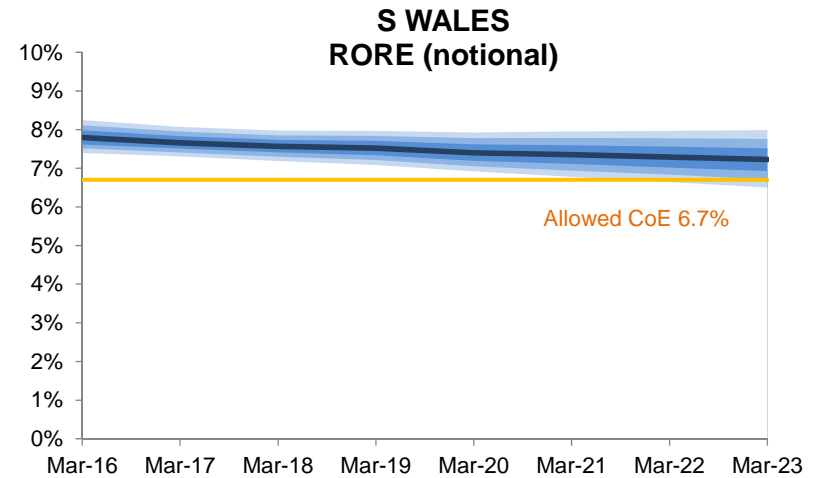
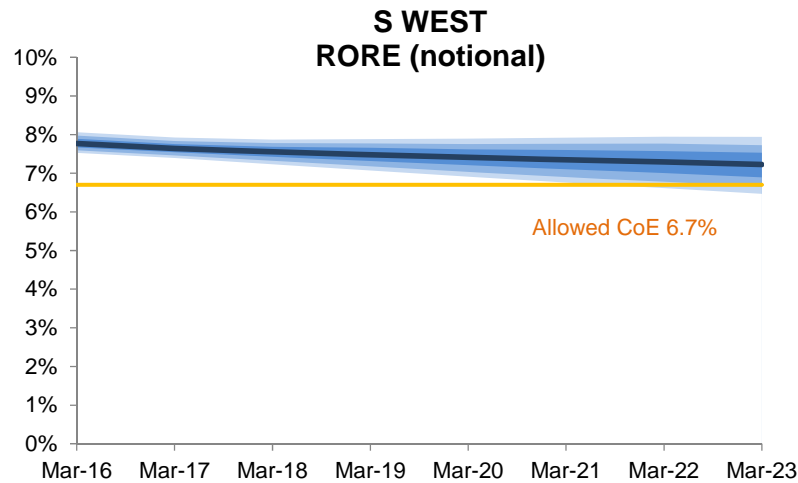


Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



Scenario 2: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn



Confidence Levels: 50% - 75% - 95%



Model Outputs

Scenario 3

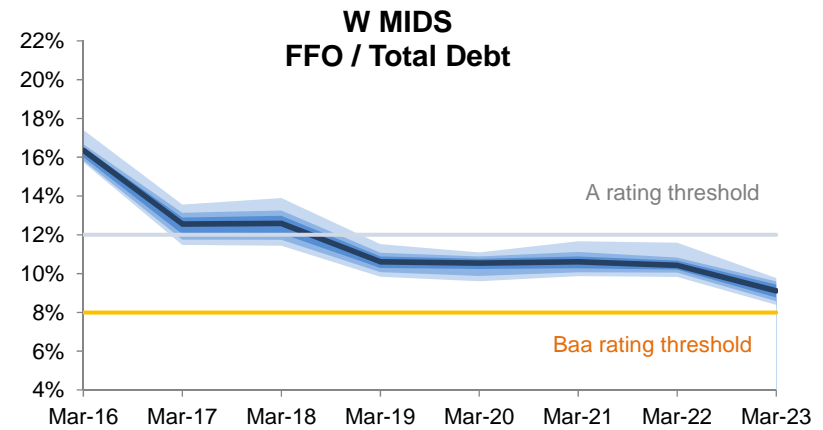
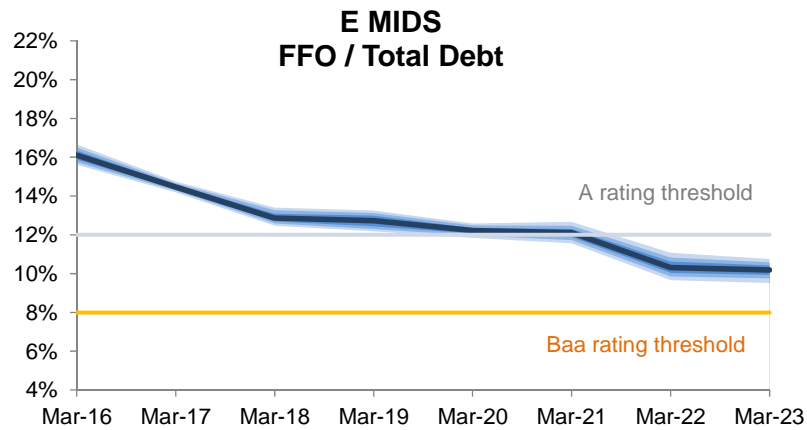
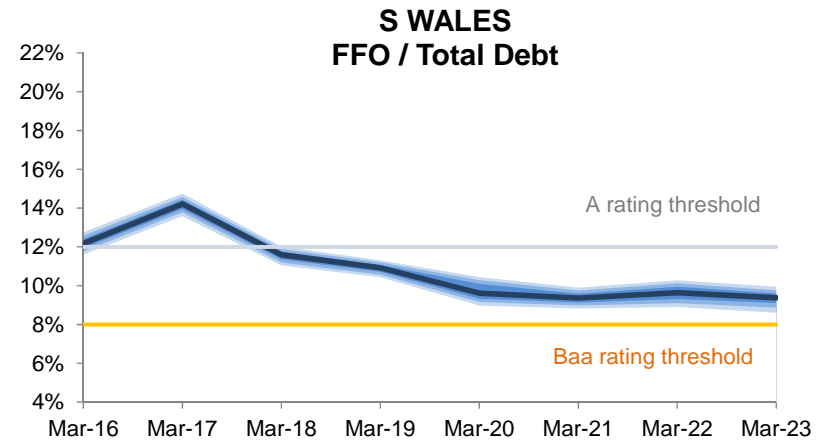
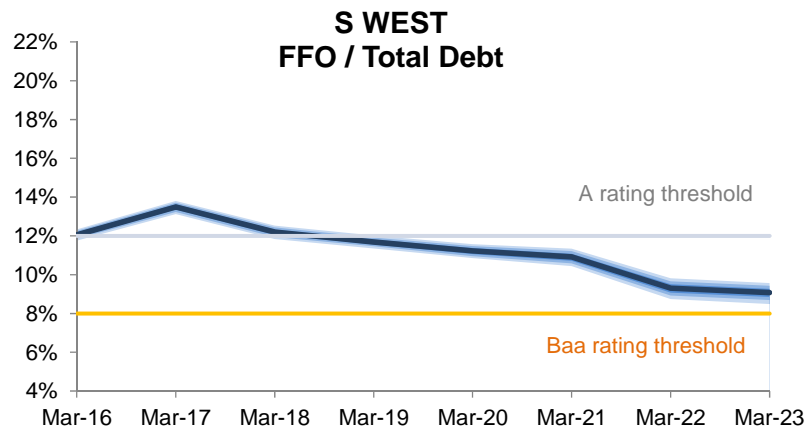
Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn **(phase-in)**

A transitional phase-in from 20 to 45 years for asset depreciation, would improve WPD's financial ratios compared to the baseline case. But also here, the FFO interest cover for S. Wales looks weak.

FFO / Average Total Debt



Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)

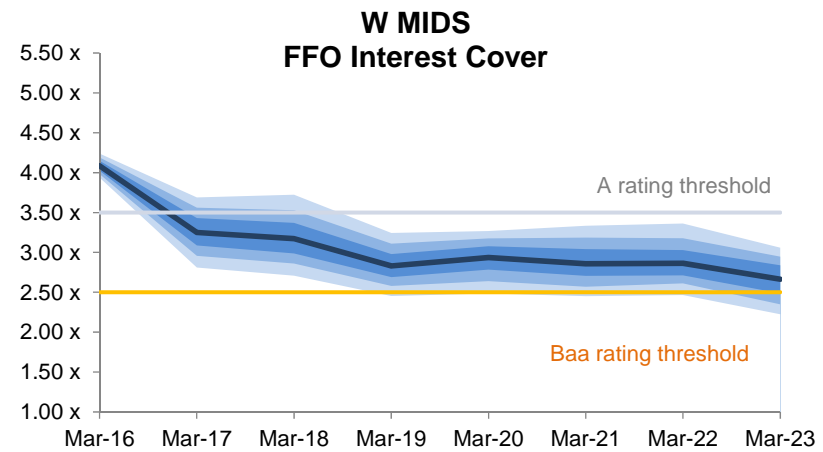
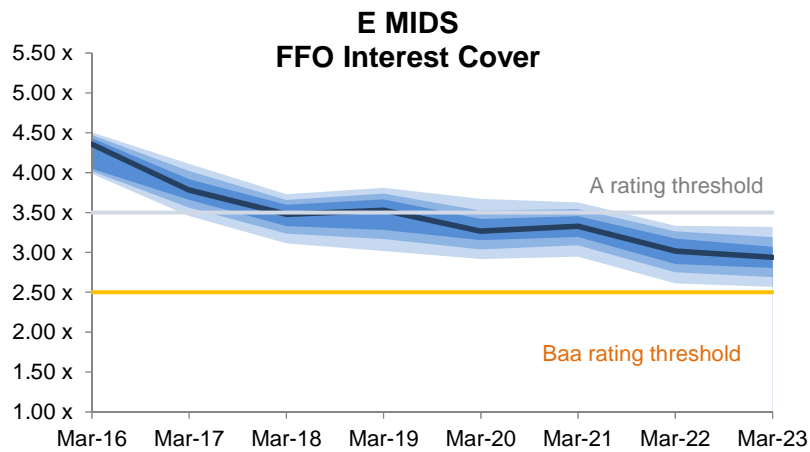
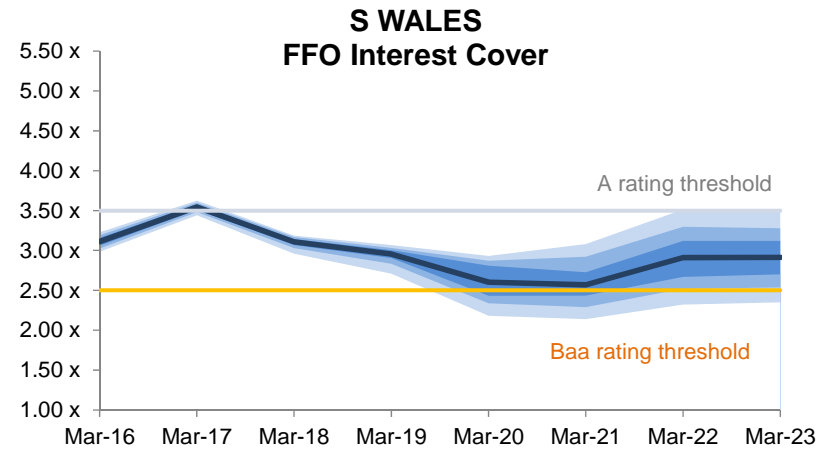
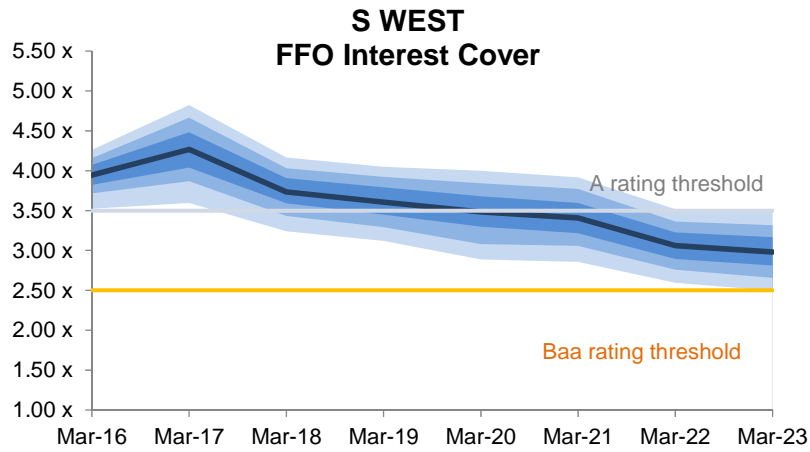


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



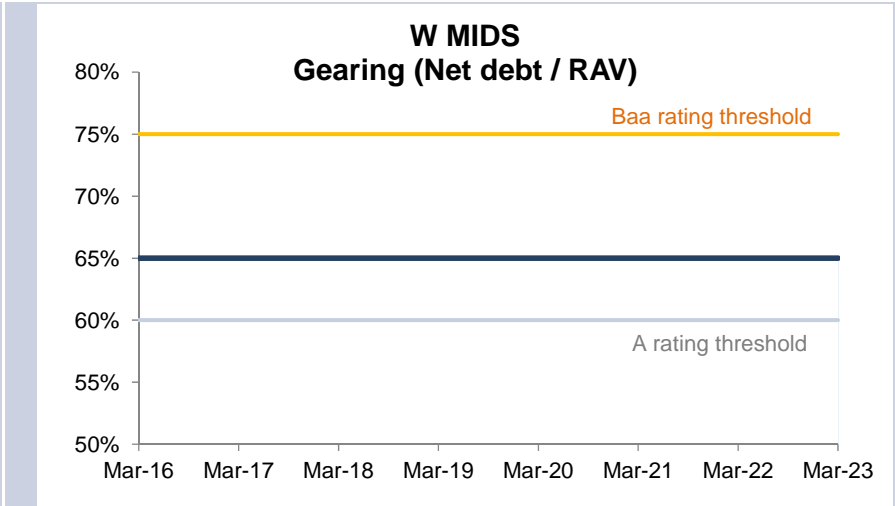
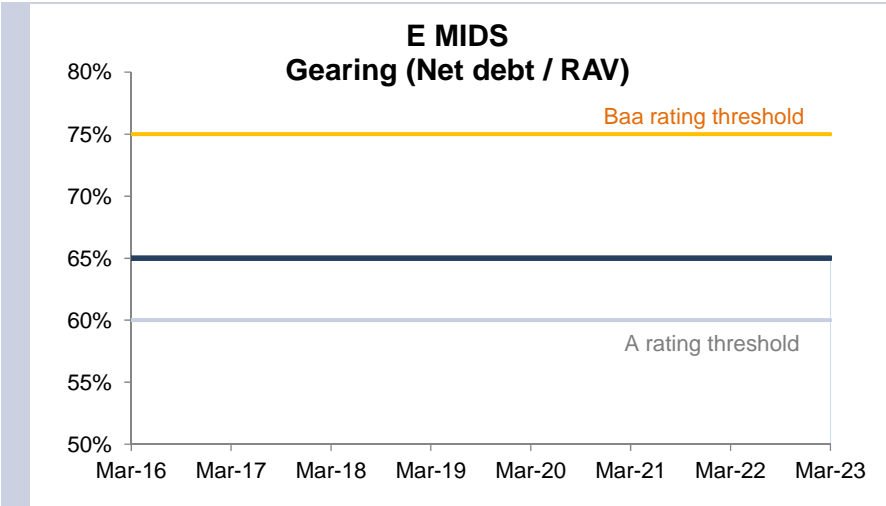
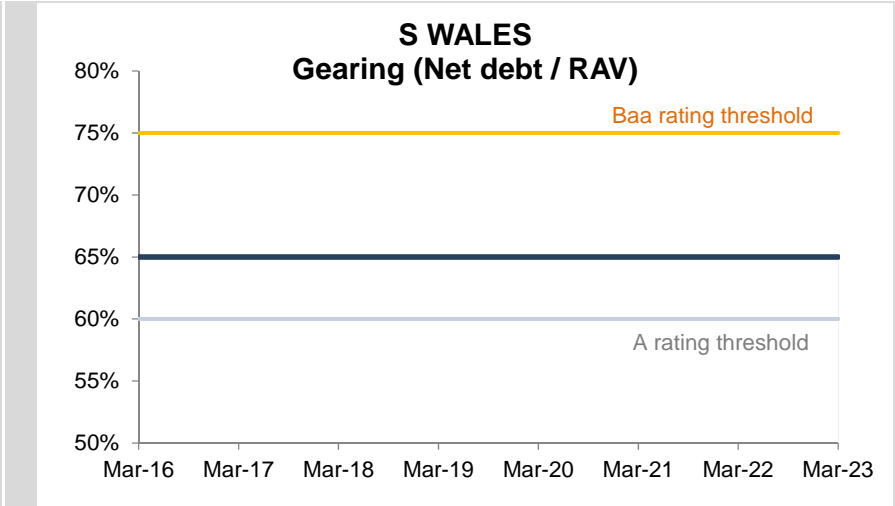
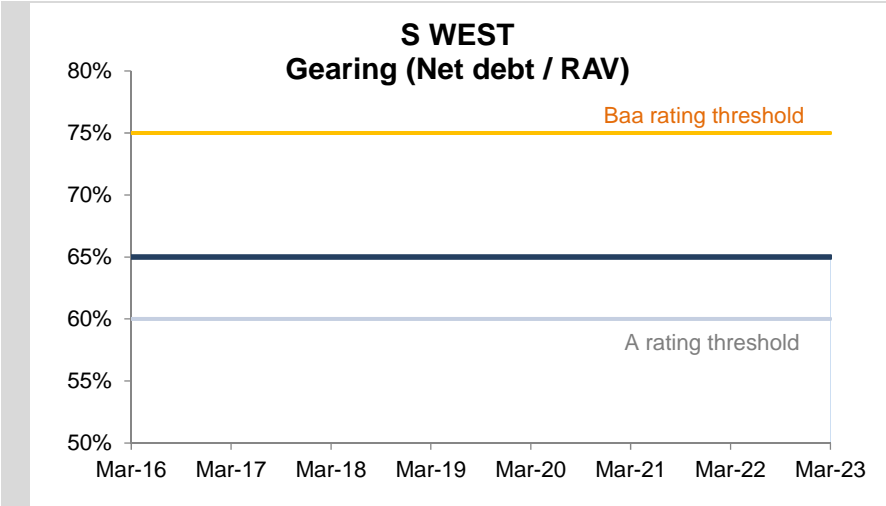
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)



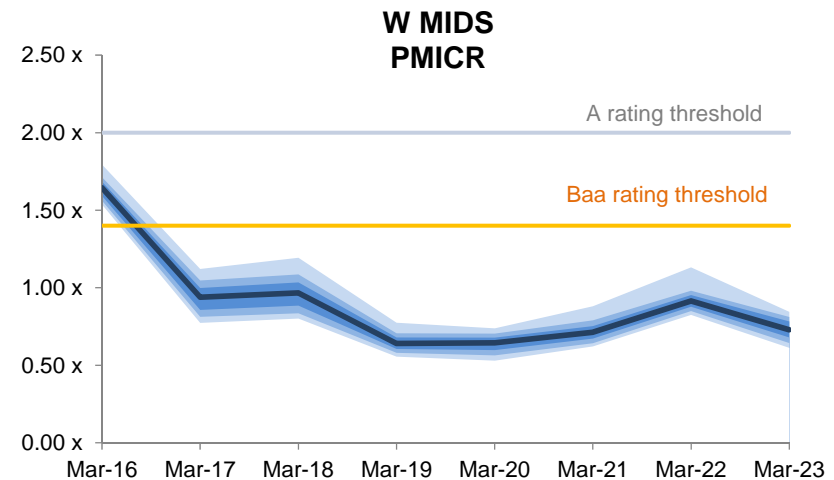
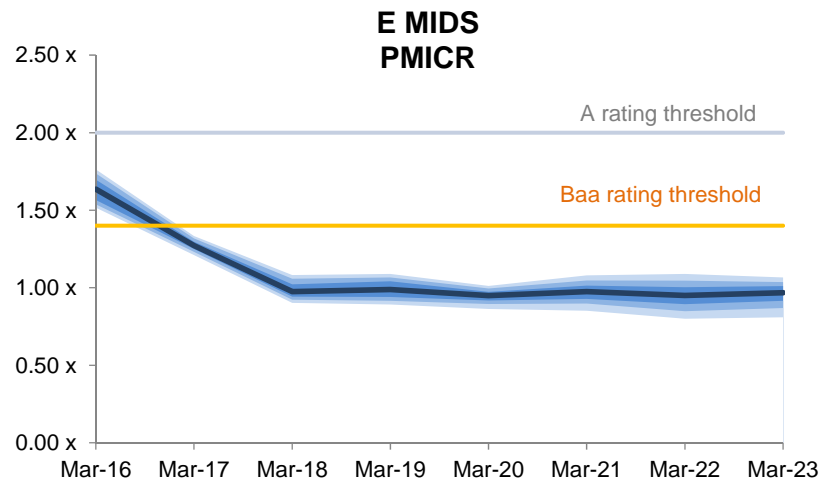
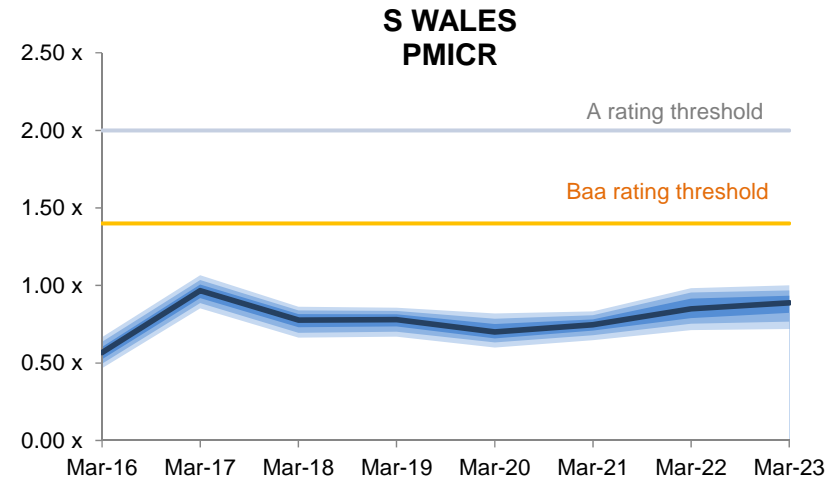
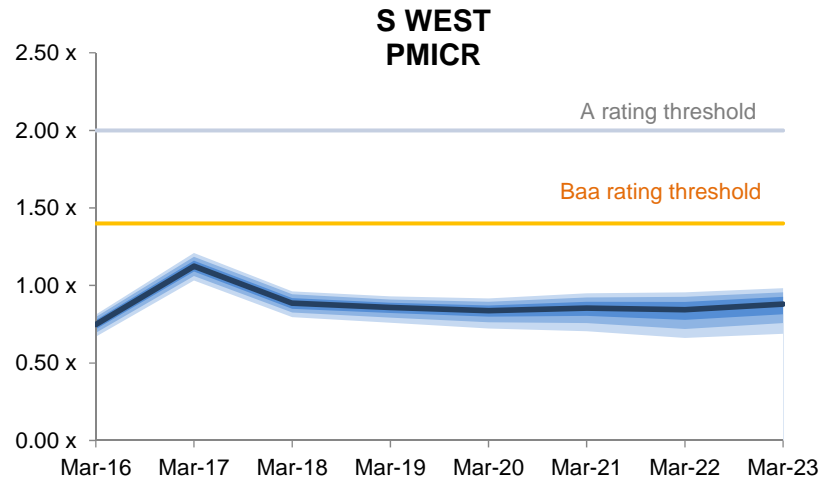
NERA
ECONOMIC CONSULTING

Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)

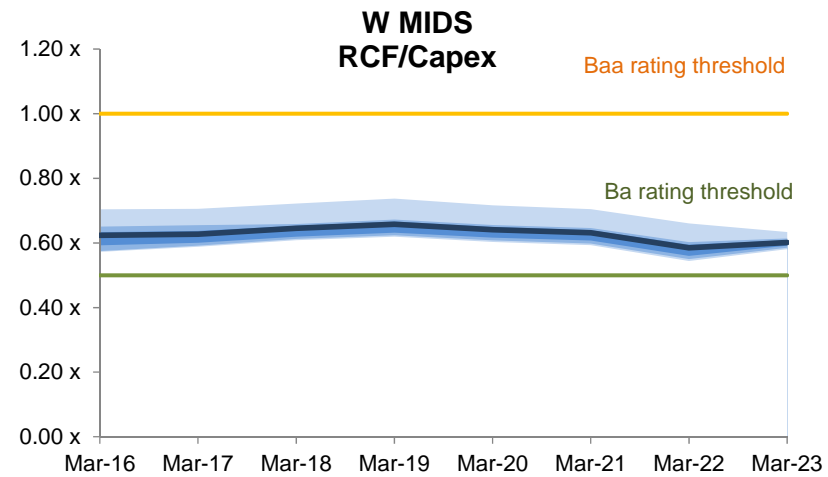
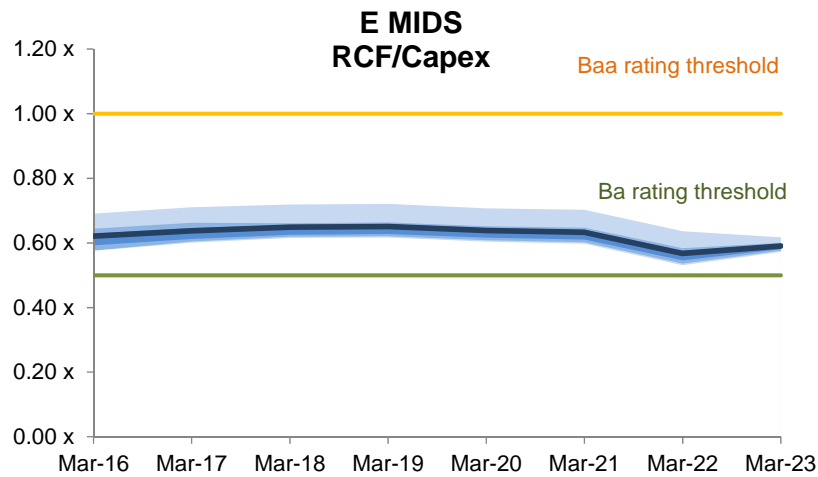
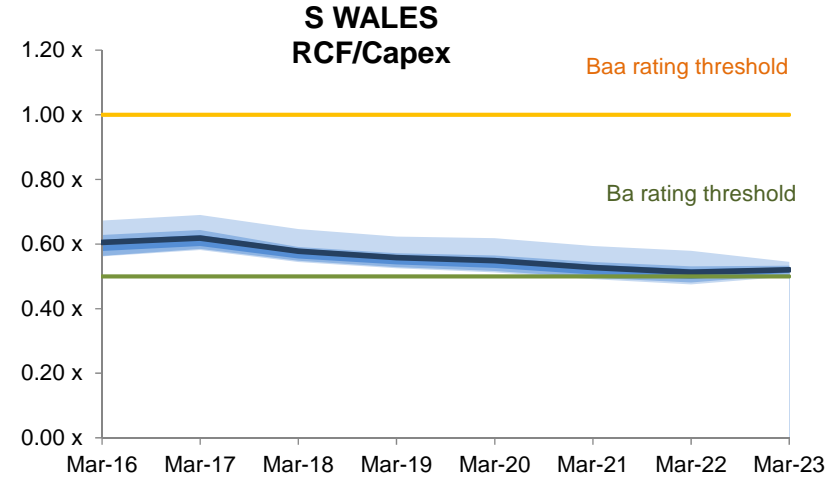
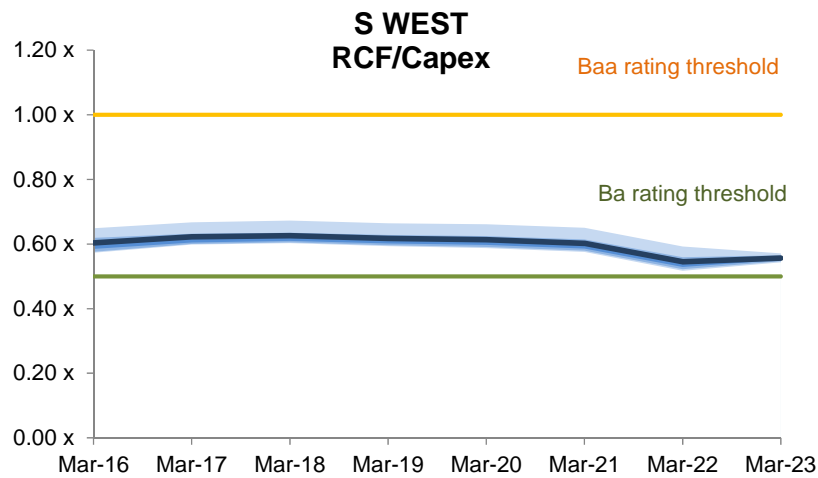


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



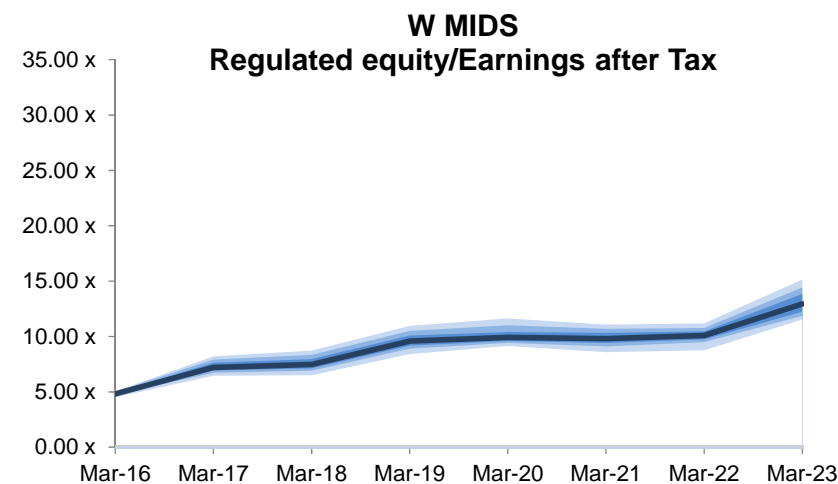
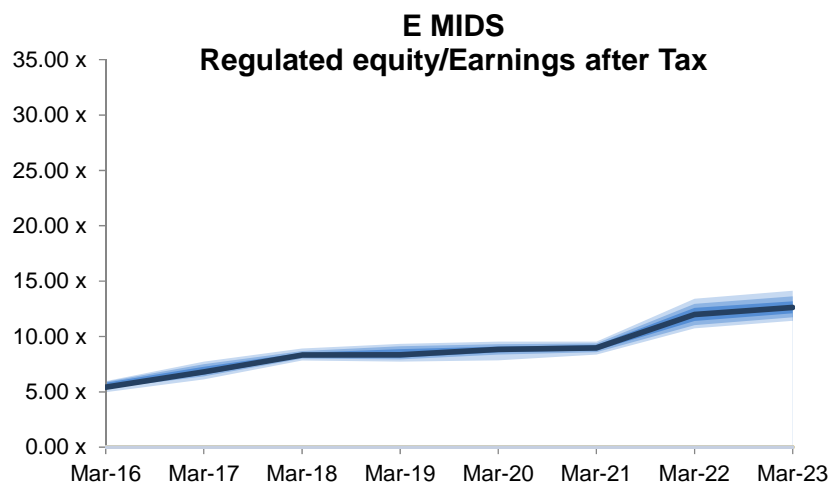
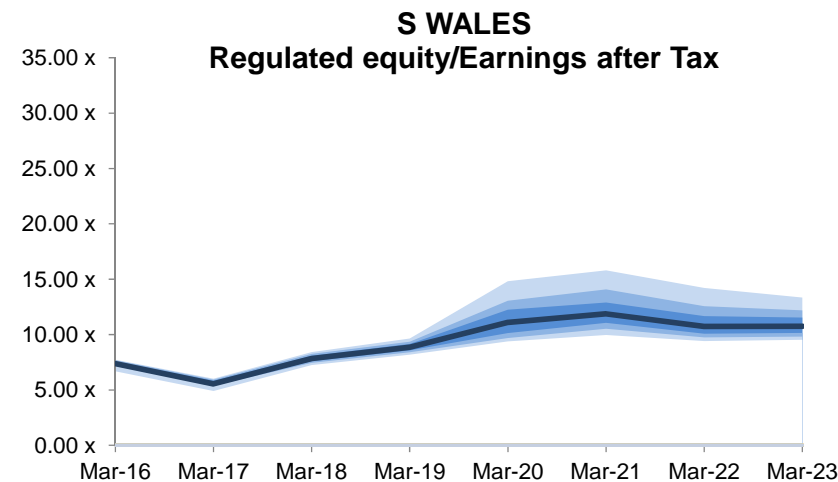
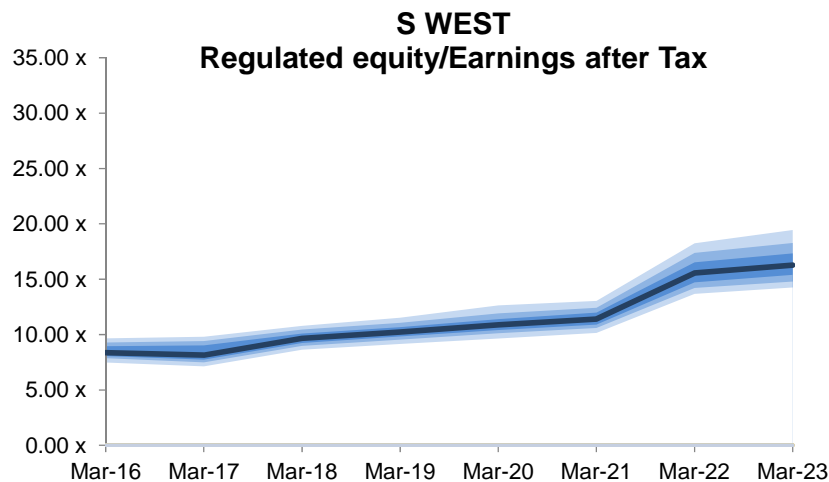
Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



NERA
ECONOMIC CONSULTING

Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)

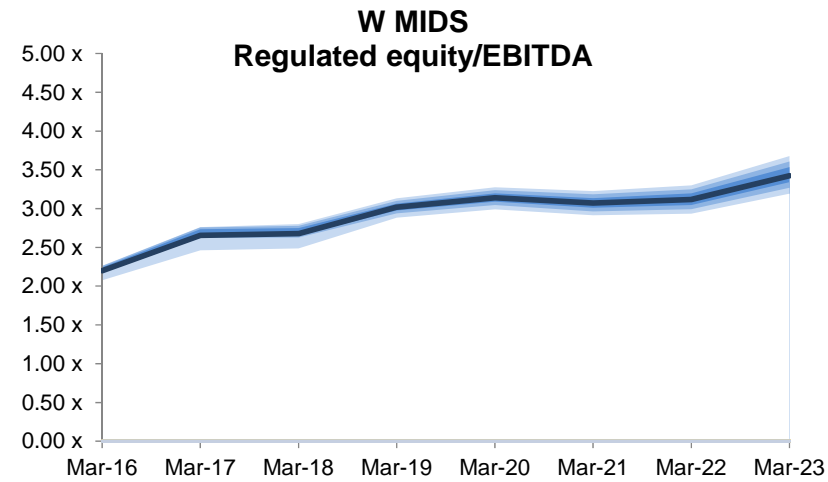
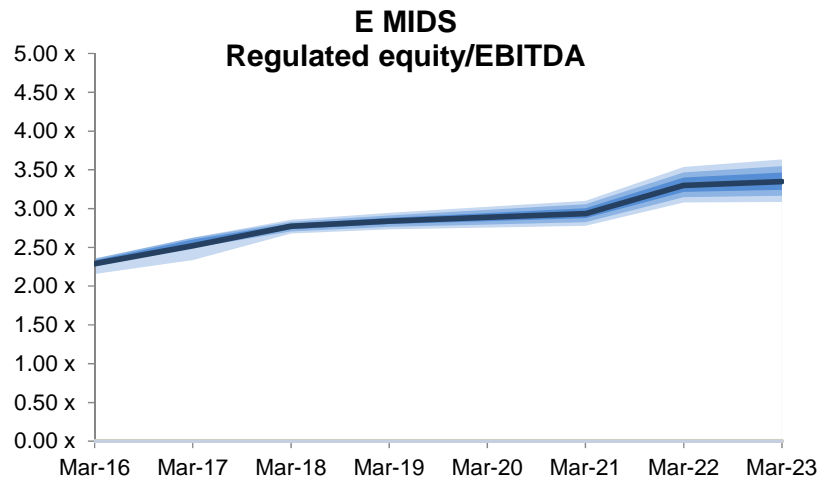
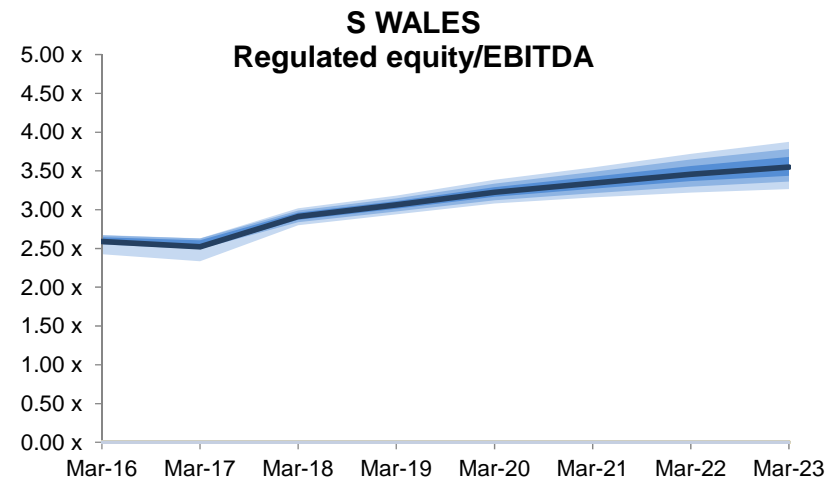
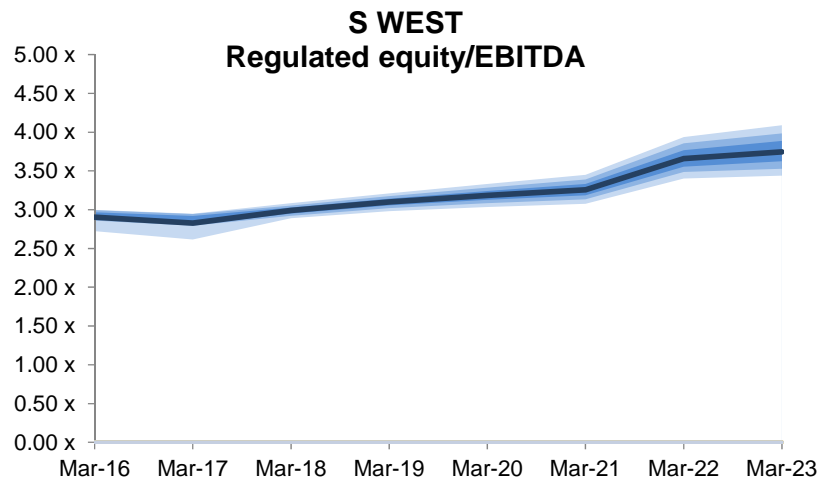


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



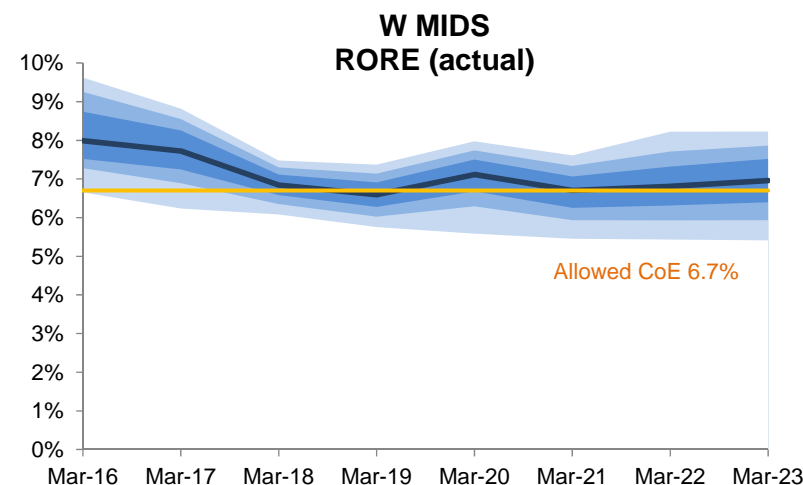
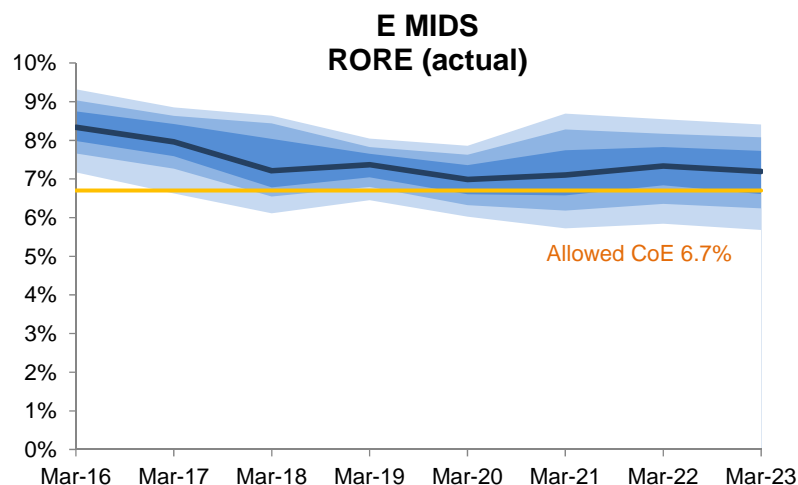
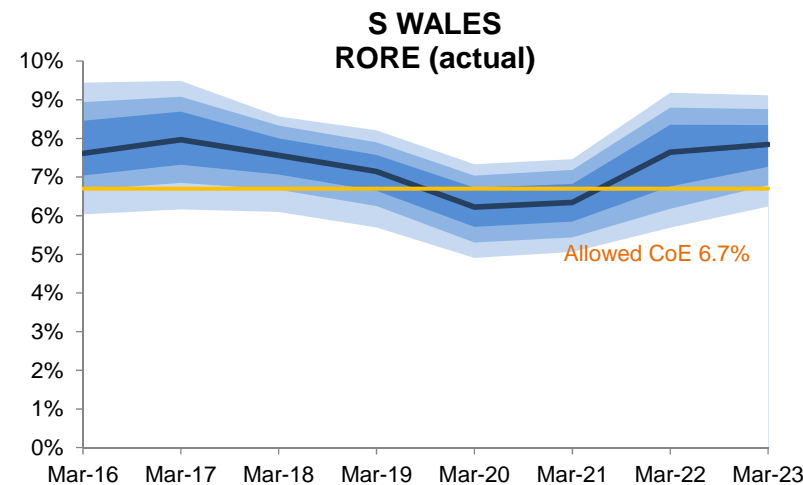
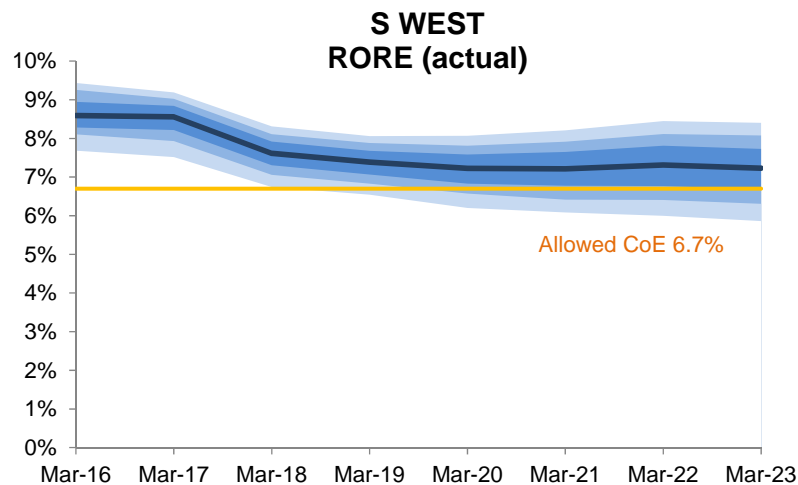
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



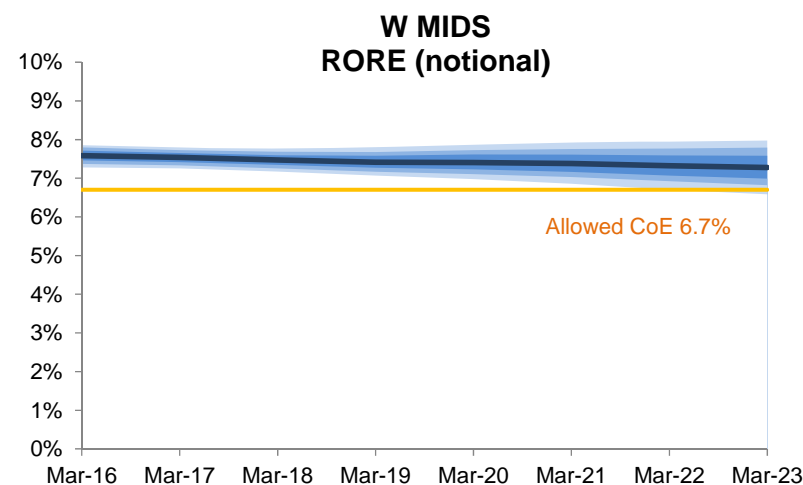
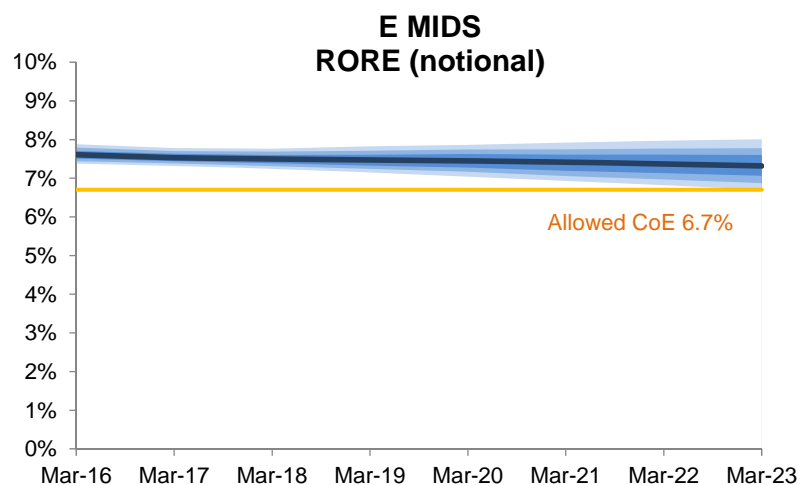
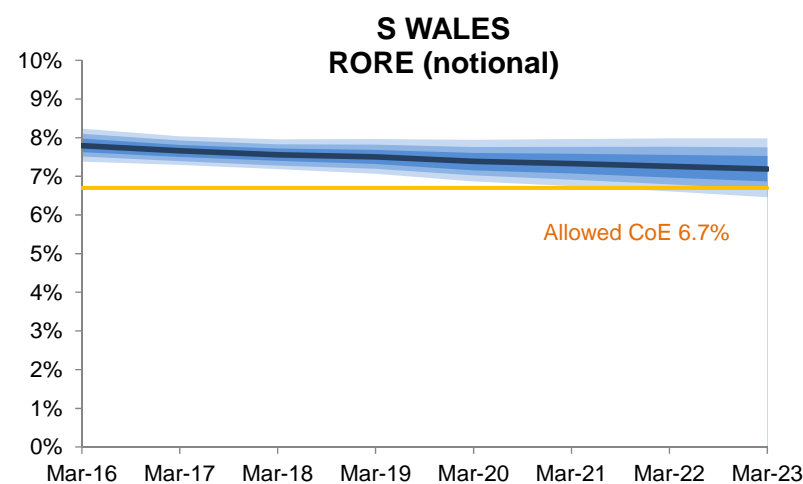
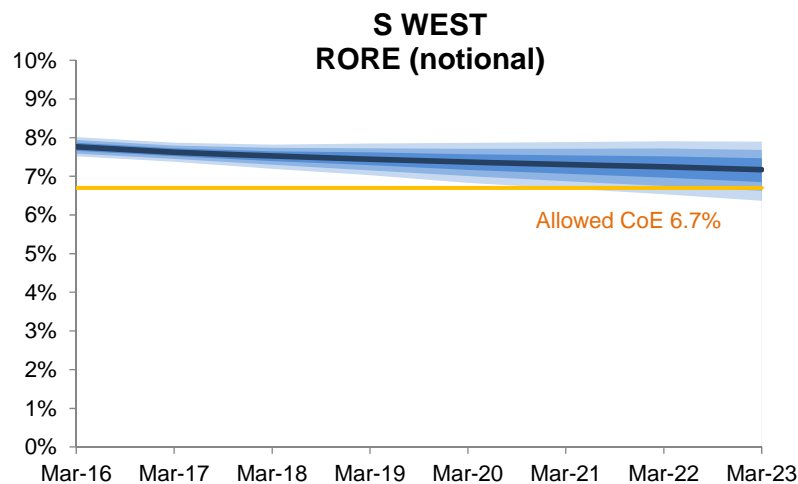
Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



NERA
ECONOMIC CONSULTING

Scenario 3: Notional gearing 65 % - CoE 6.7% - Capitalisation 85% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%



Model Outputs

Scenario 4

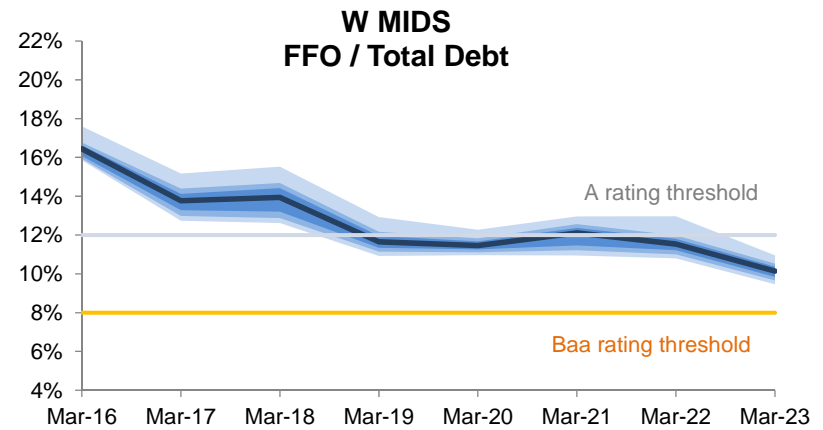
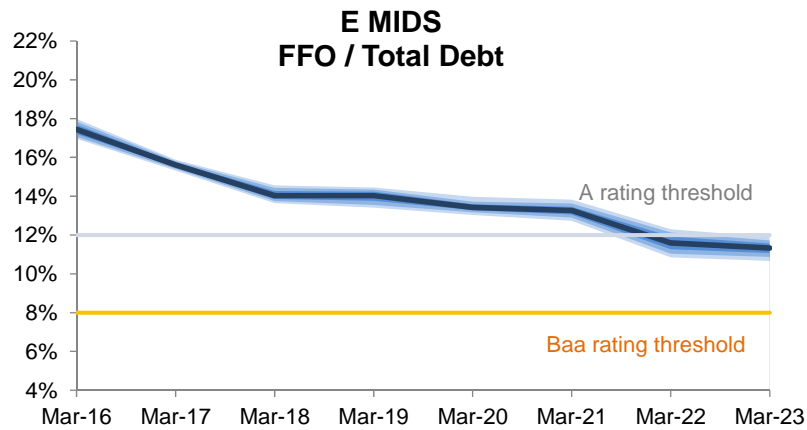
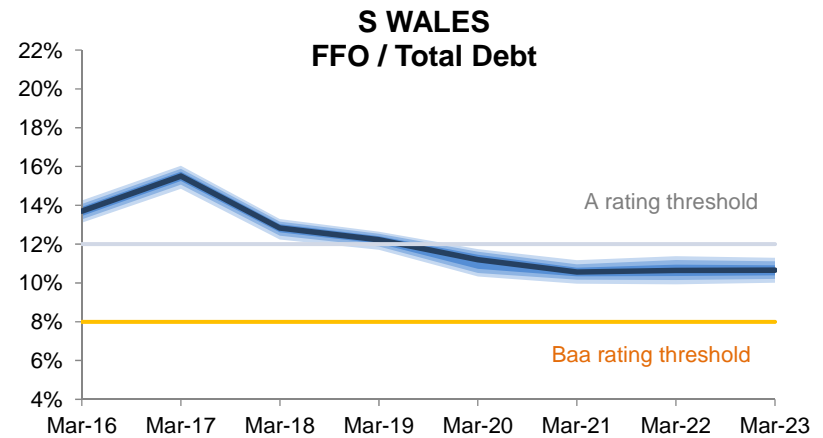
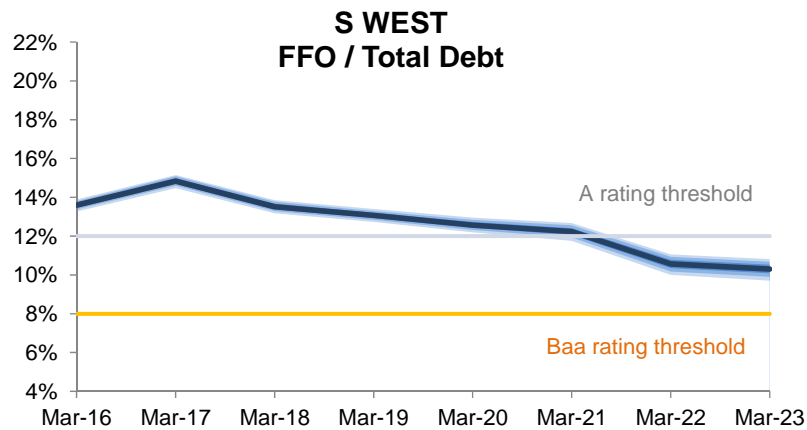
Notional gearing 65 % - CoE 6.7% - Capitalisation **80%** - 45 yr Depn (**phase-in**)

Only the scenario of a transitional phase-in from 20 to 45 years for asset depreciation, combined with a 80% capitalisation rate, gives us confidence that ratios would be consistent with a “solid investment grade rating”.

FFO / Average Total Debt



Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

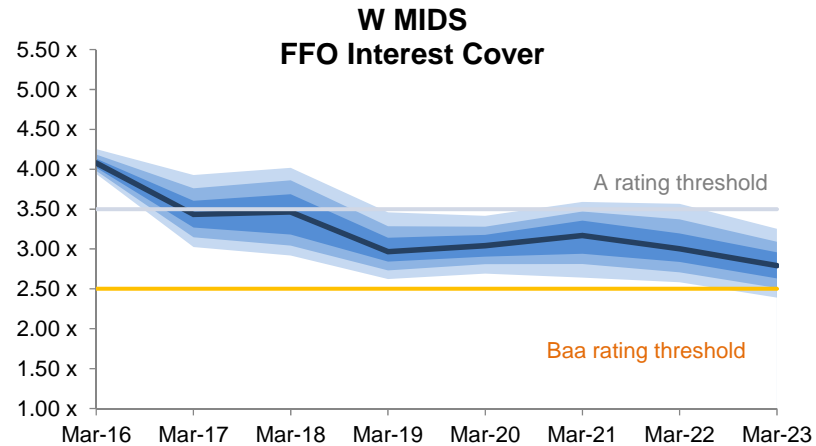
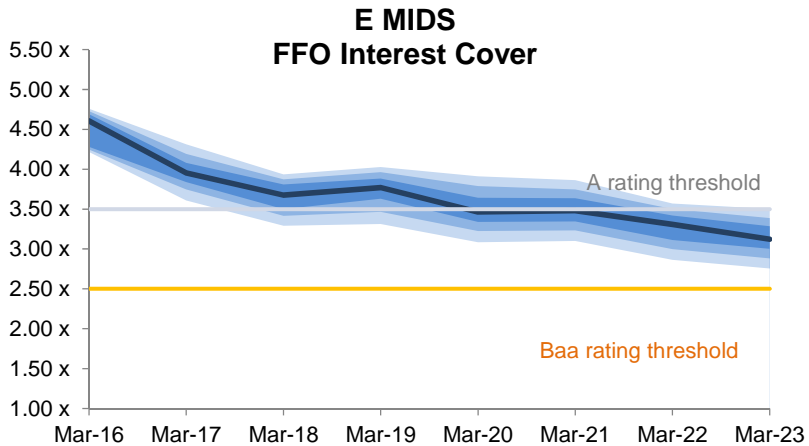
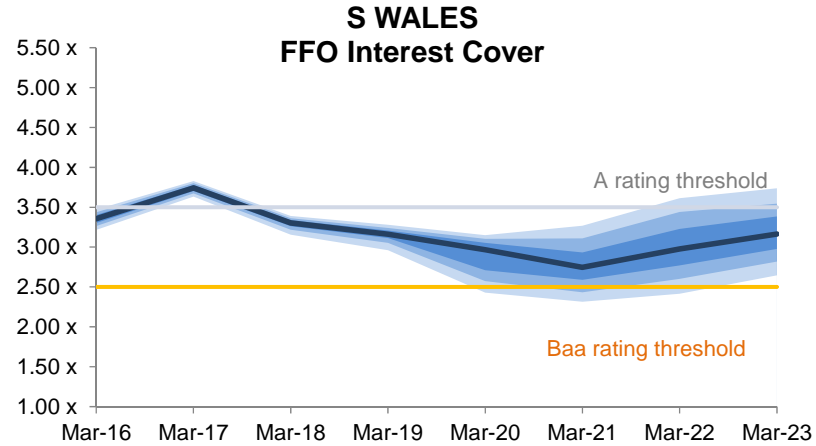
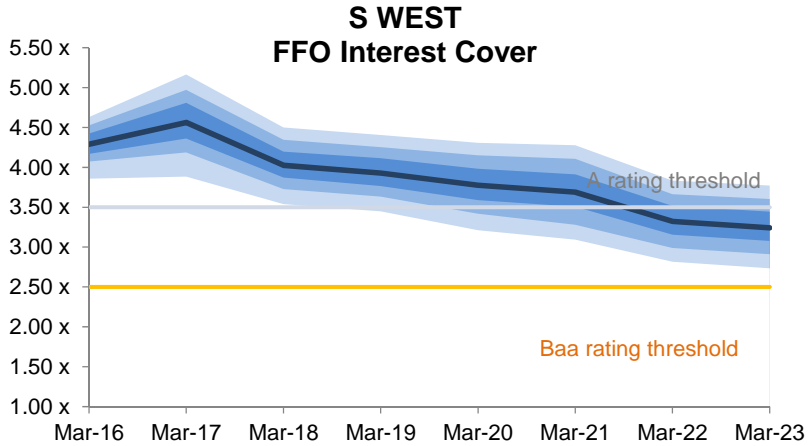


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



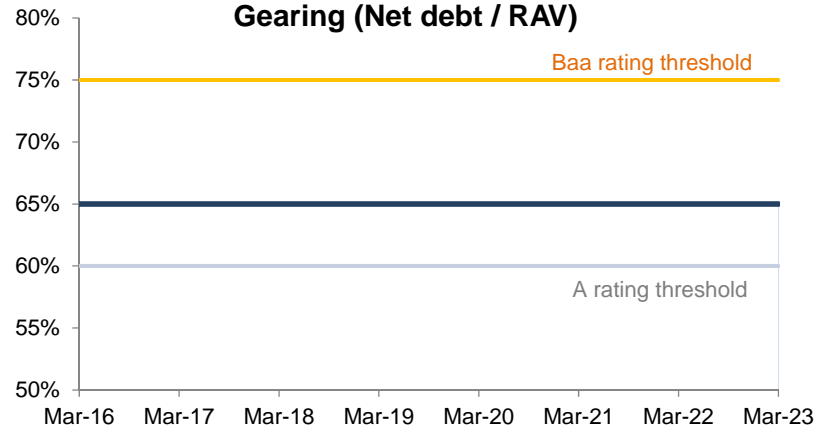
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)

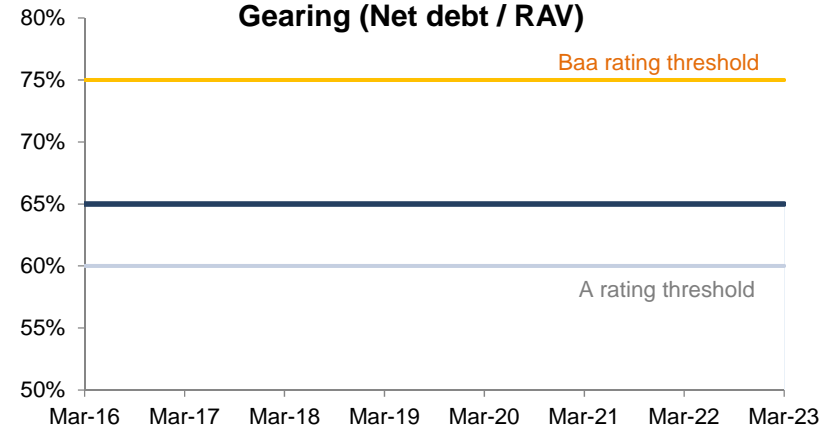


Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

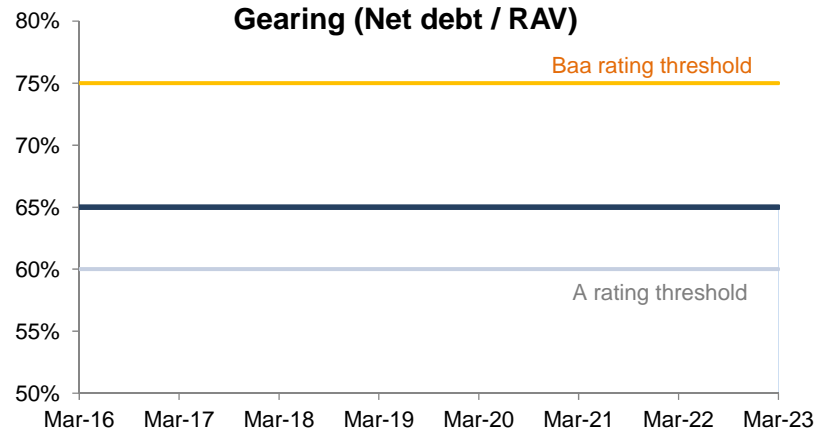
S WEST
Gearing (Net debt / RAV)



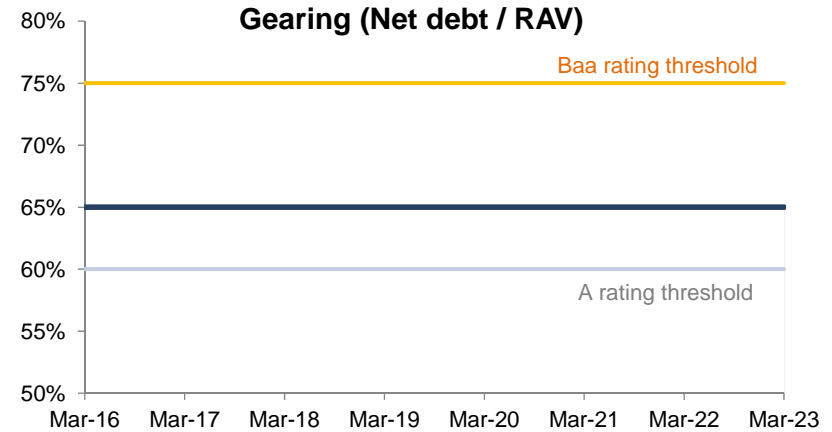
S WALES
Gearing (Net debt / RAV)



E MIDS
Gearing (Net debt / RAV)

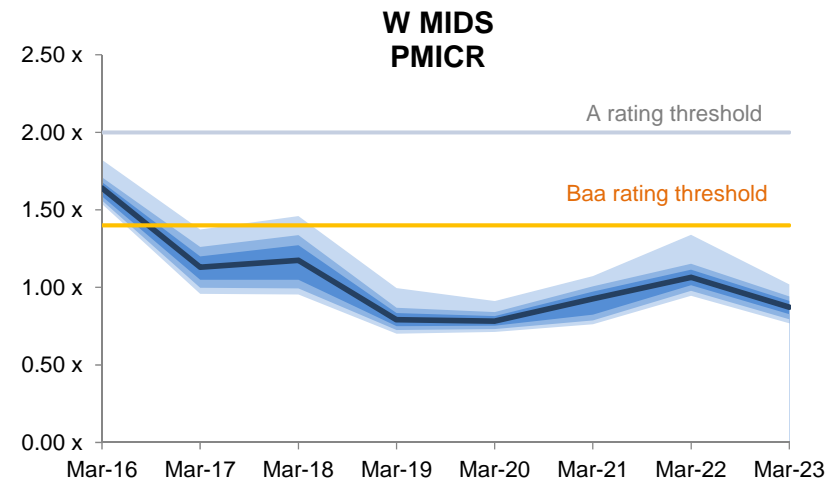
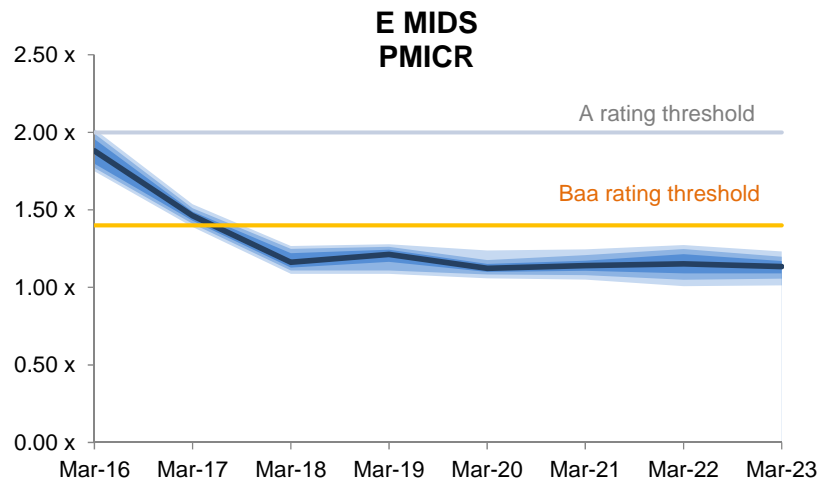
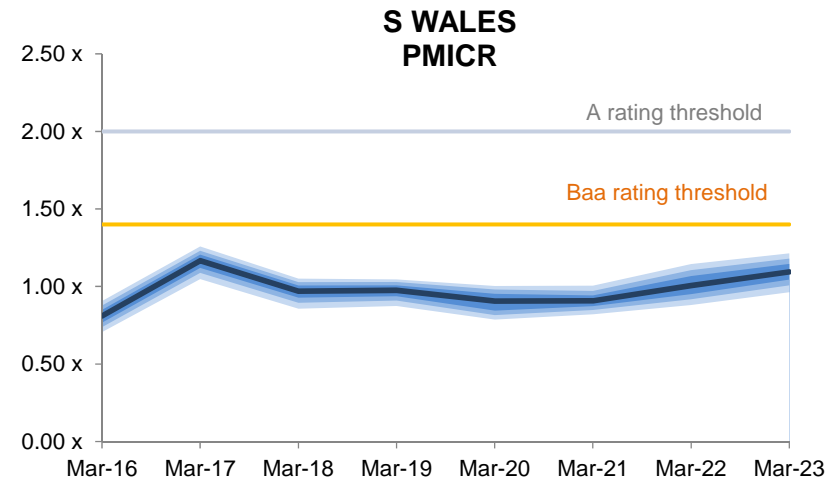
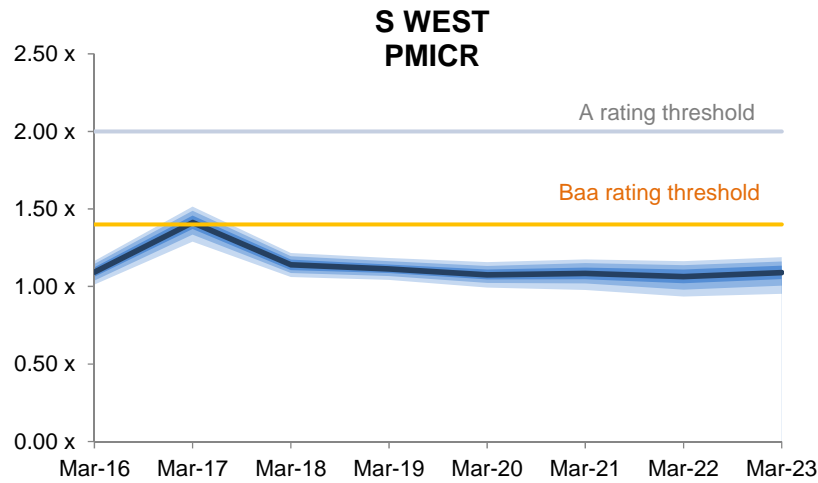


W MIDS
Gearing (Net debt / RAV)



Confidence Levels: 50% - 75% - 95%

Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

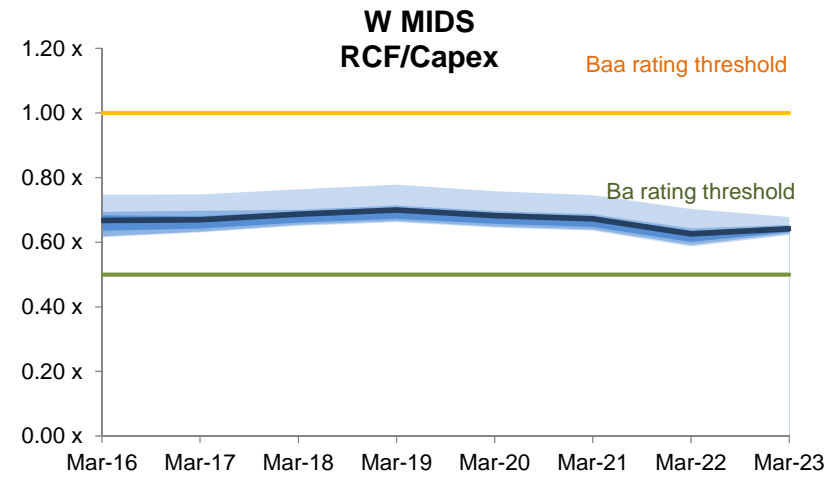
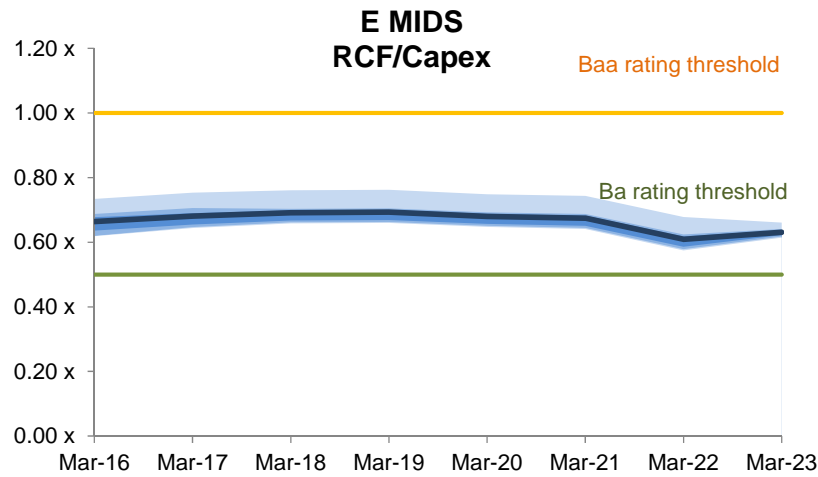
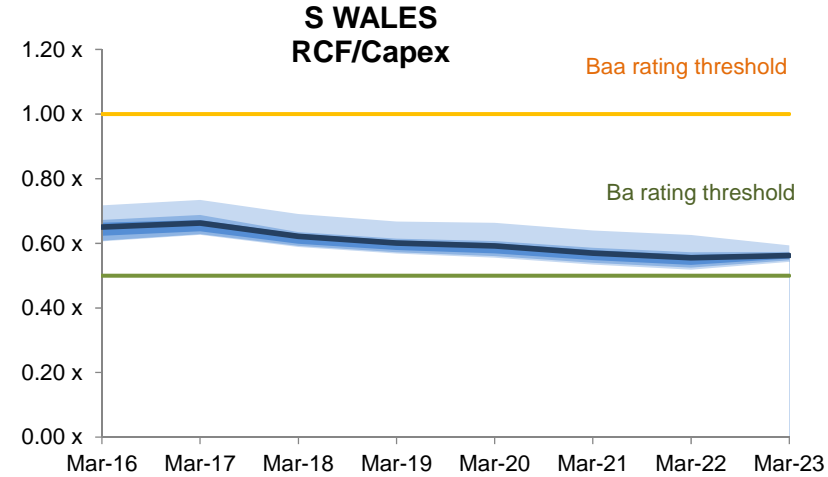
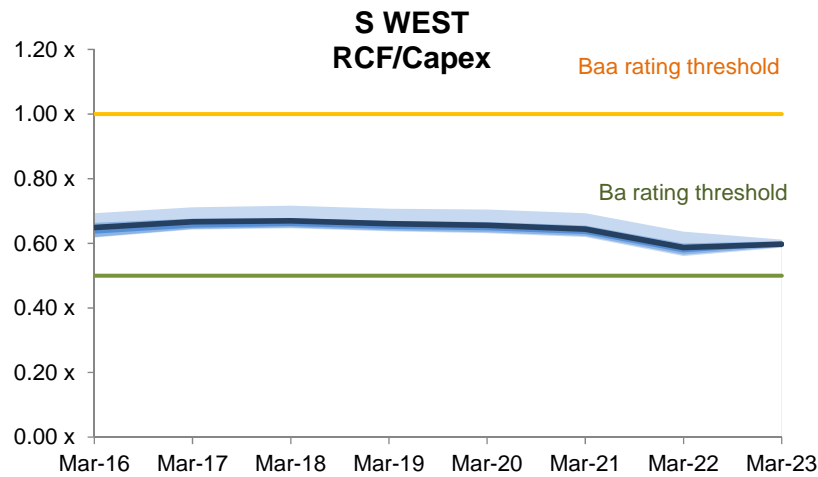


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

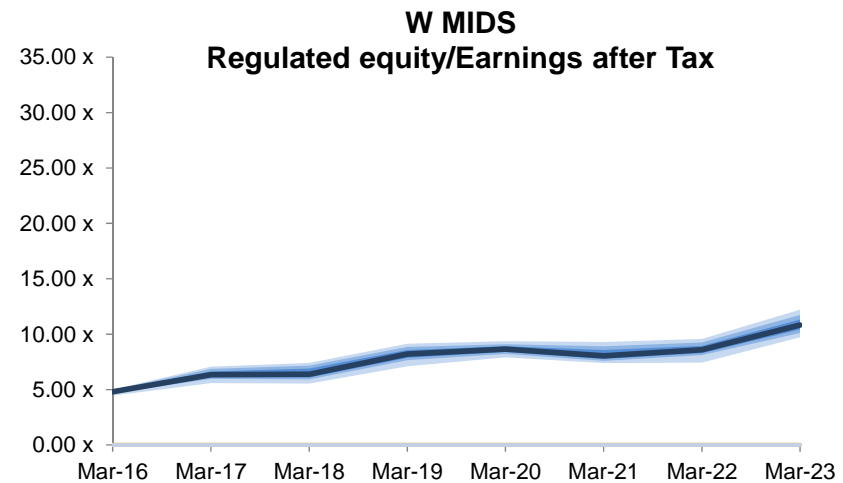
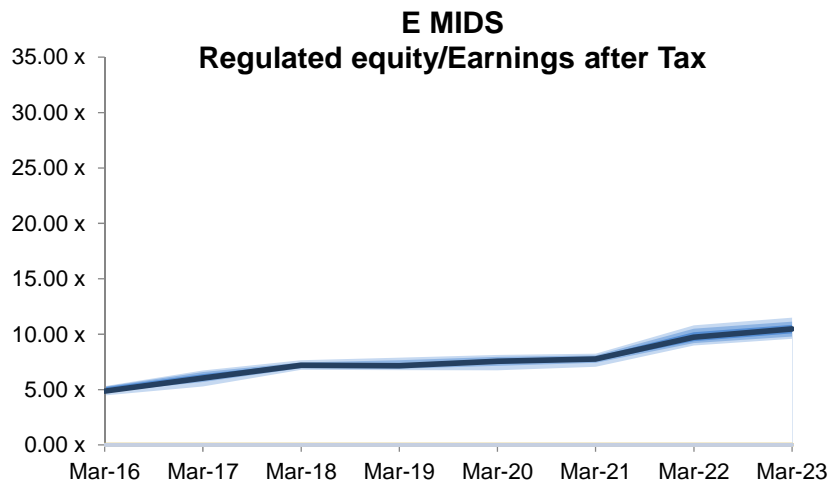
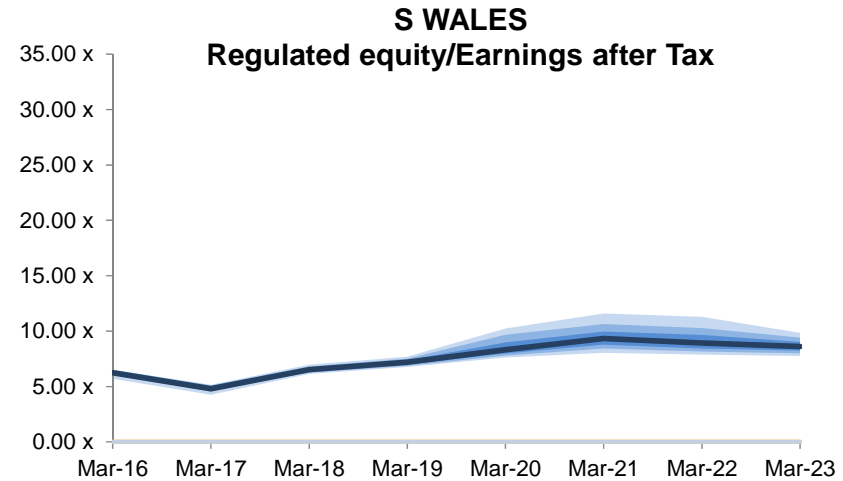
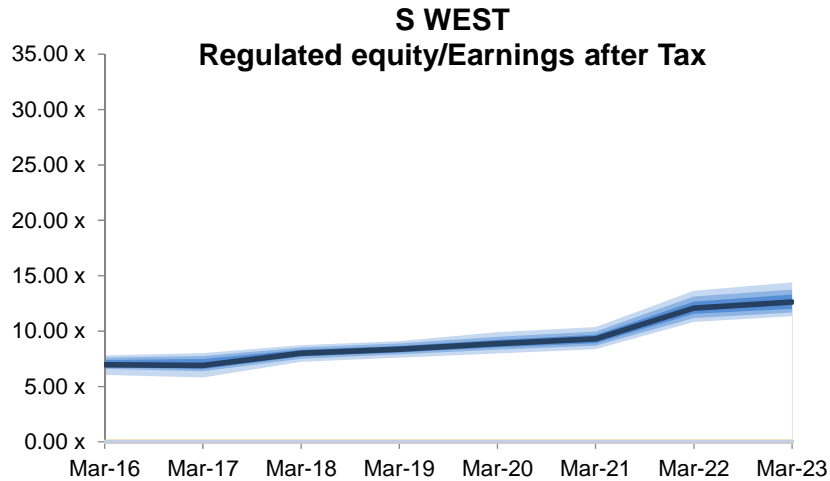


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

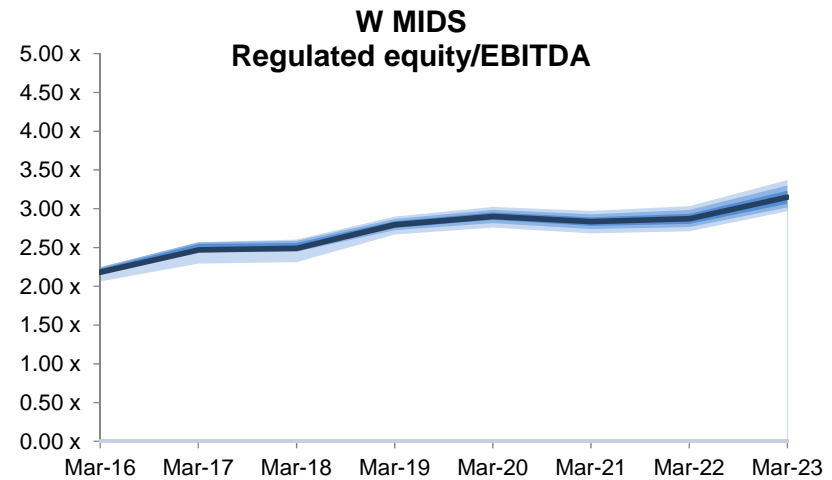
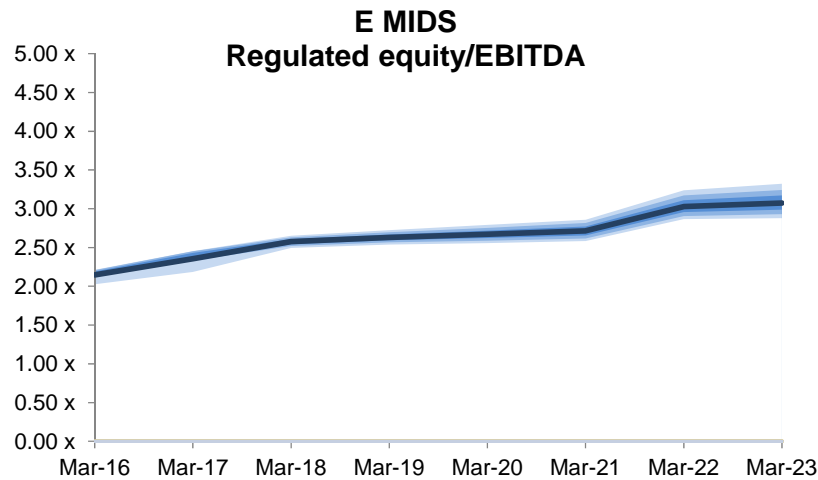
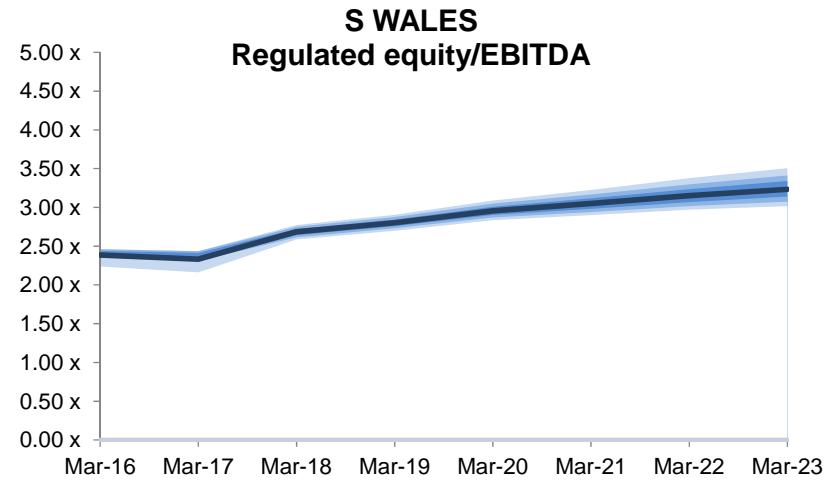
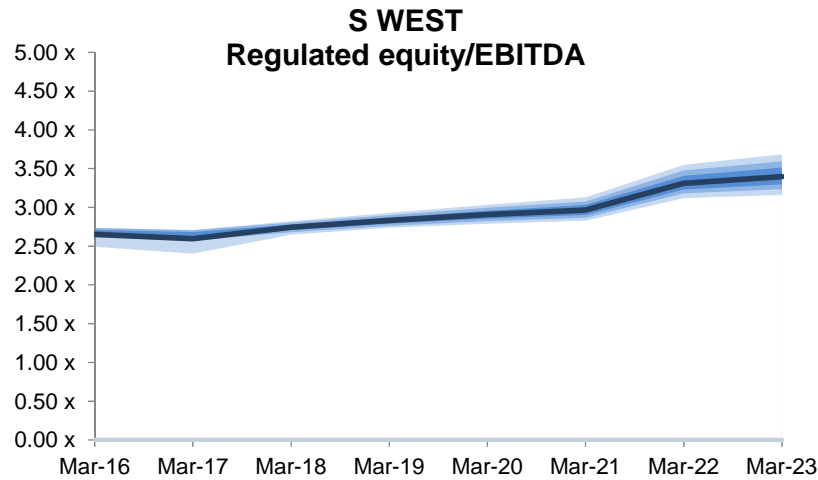


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



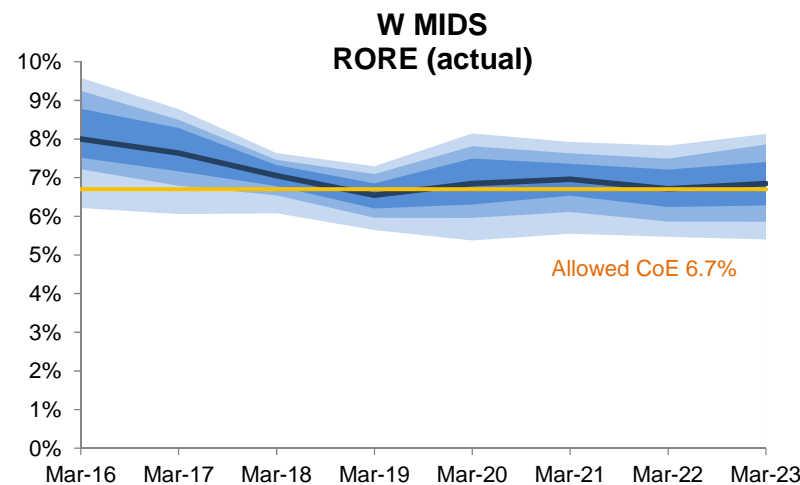
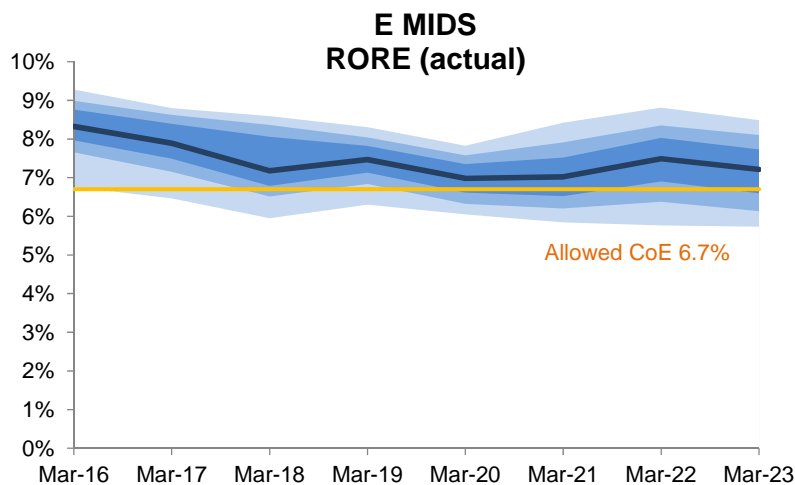
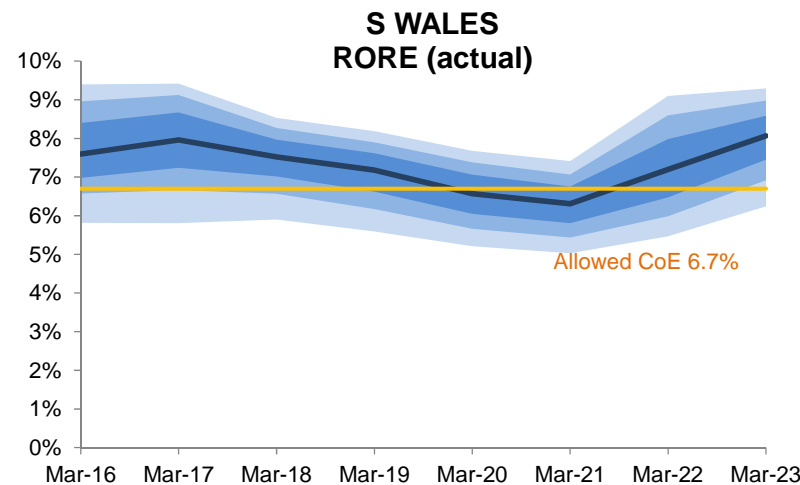
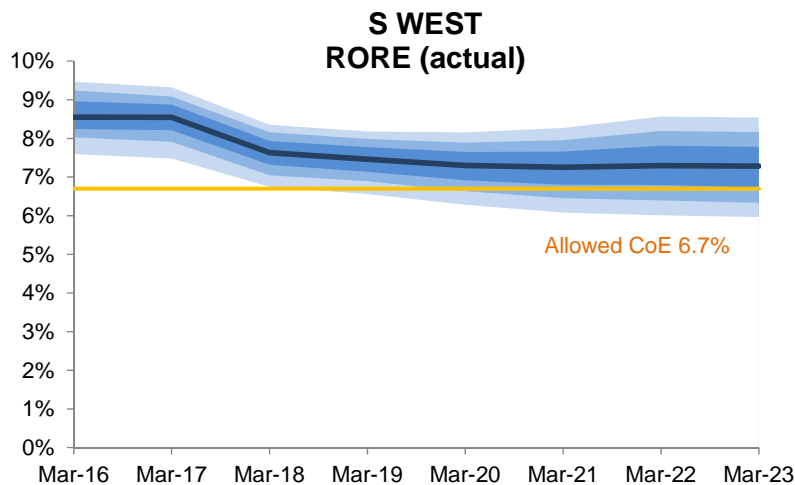
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

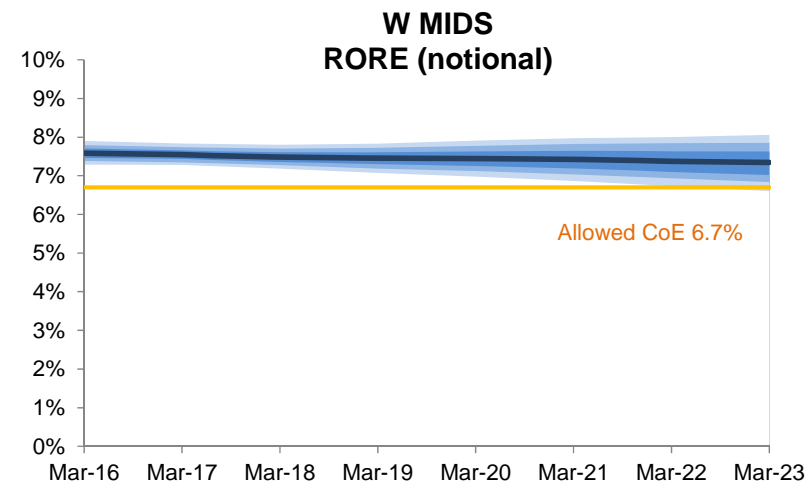
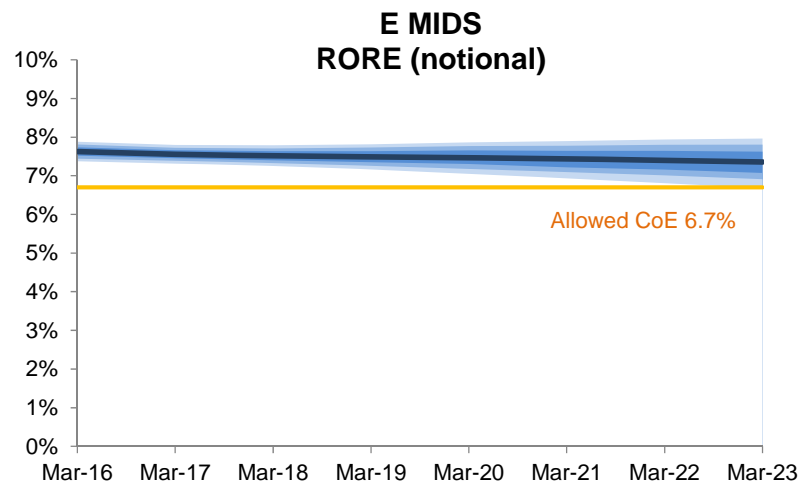
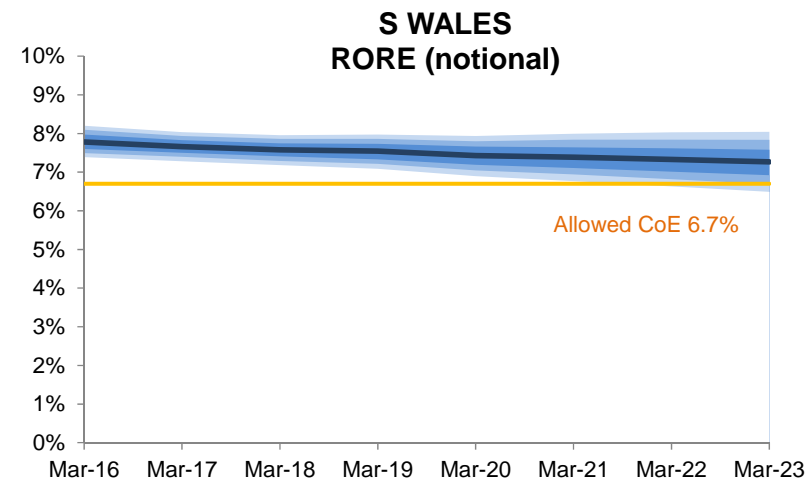
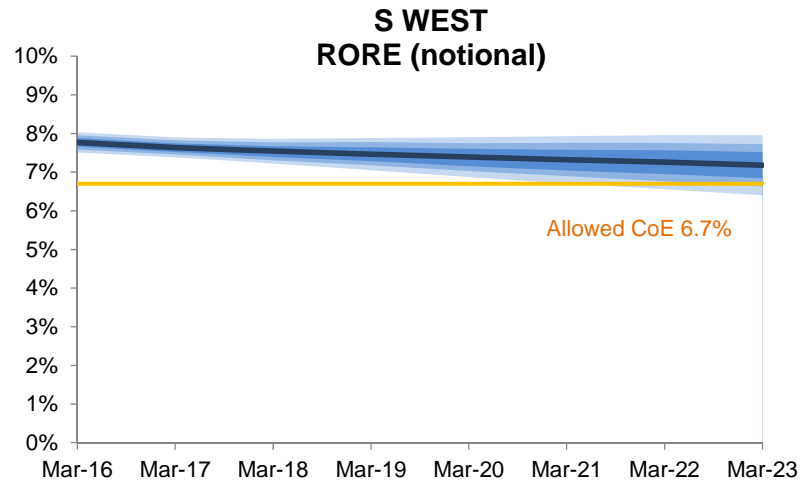
Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances

Scenario 4: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%



Model Outputs

Scenario 5

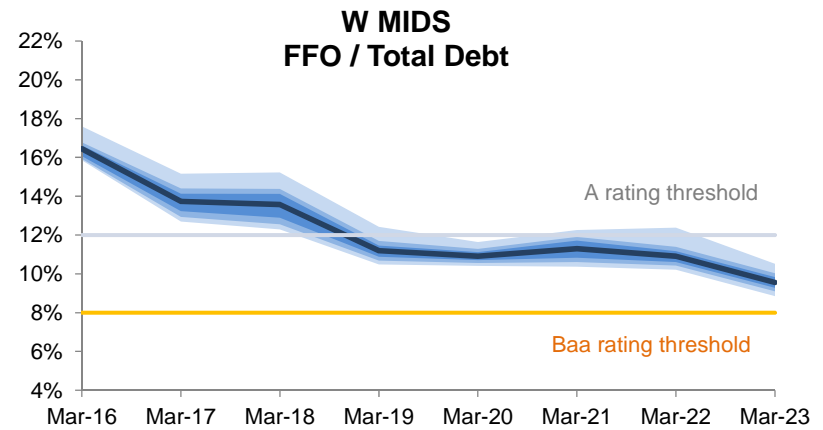
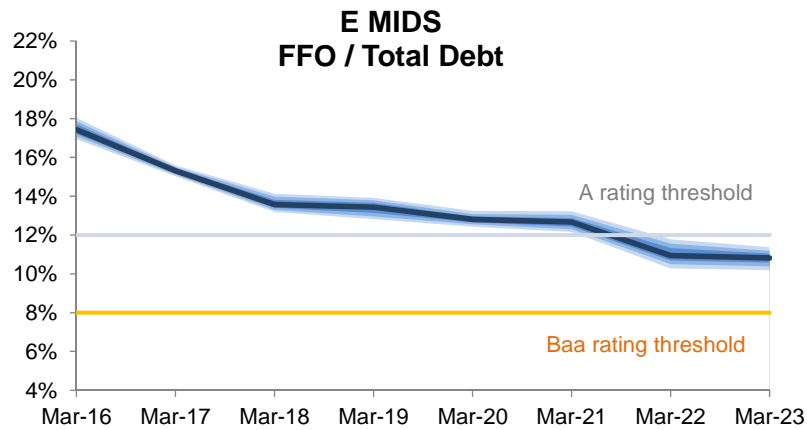
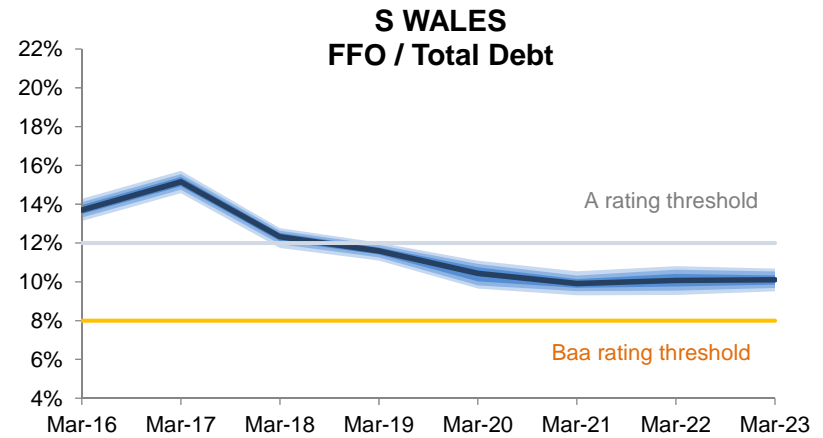
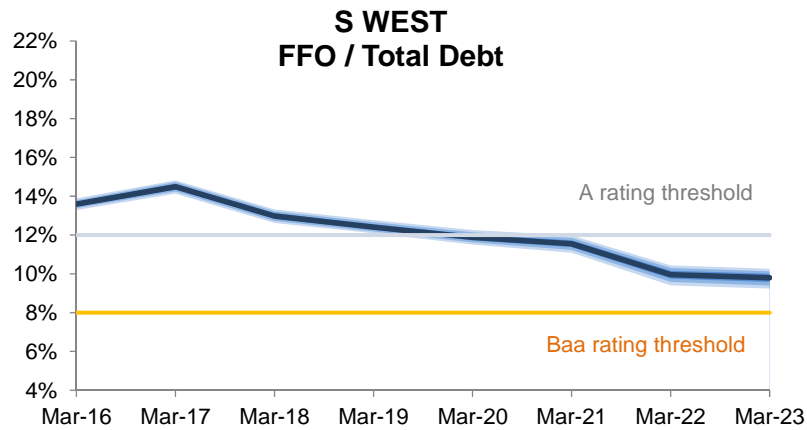
Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn

A constant shorter asset life of 35 years for depreciation, as alternative to a phase-in, would similarly improve WPD's financial ratios in comparison to the baseline scenario. However, a phase-in of longer asset lives (scenario 4) would allow for slightly better credit metrics.

FFO / Average Total Debt



Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn

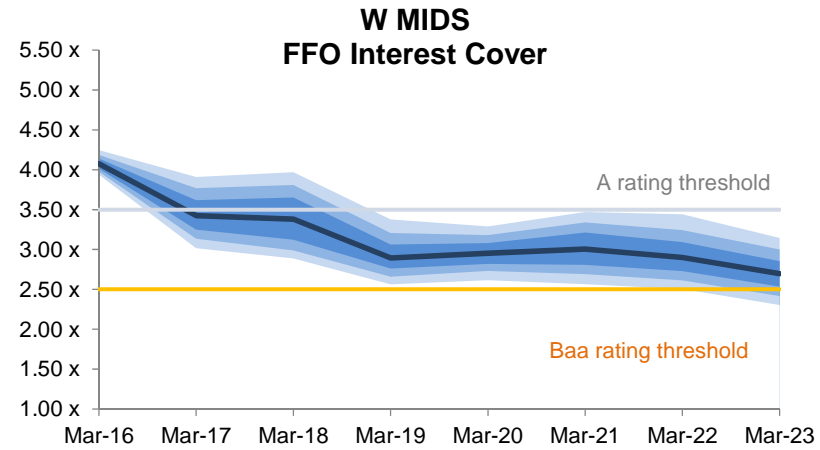
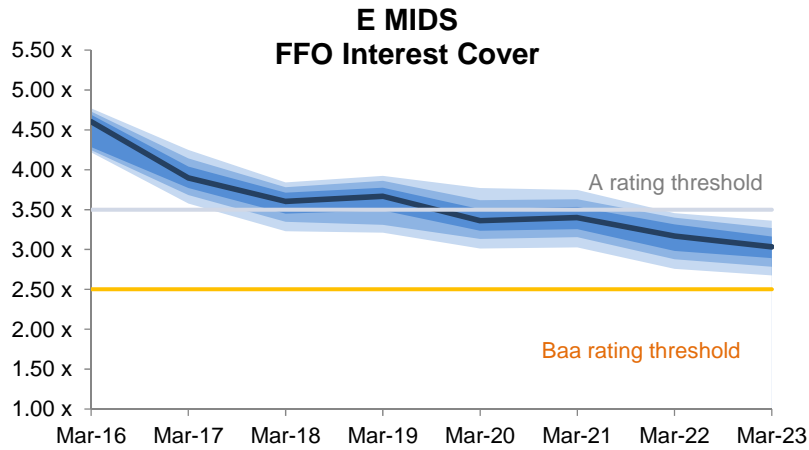
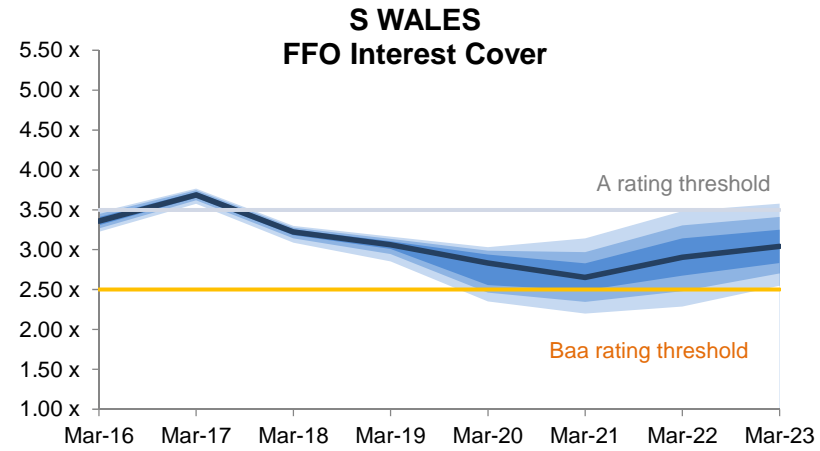
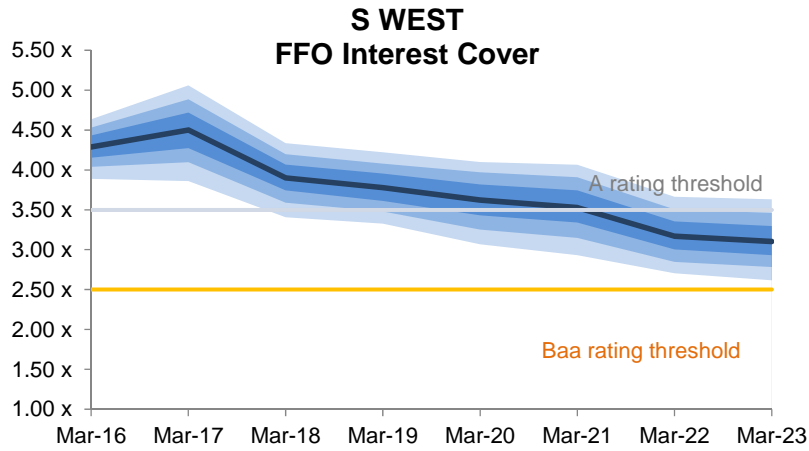


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn



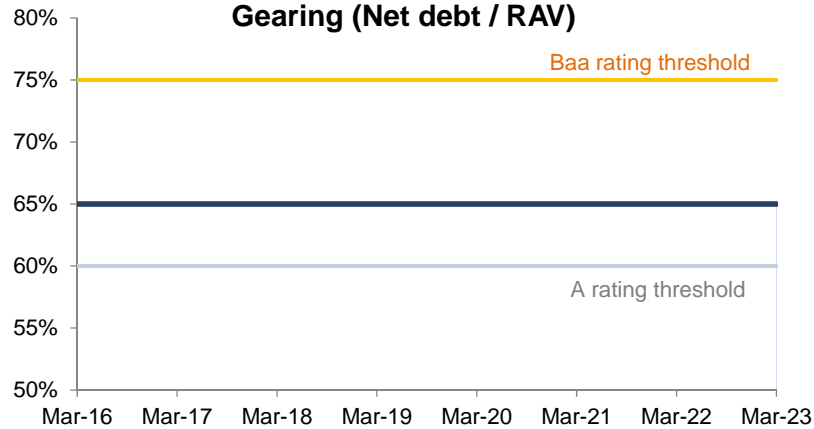
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)

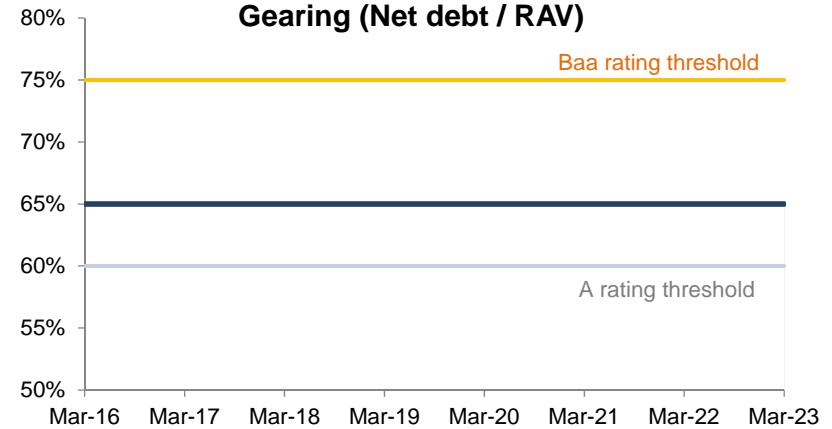


Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn

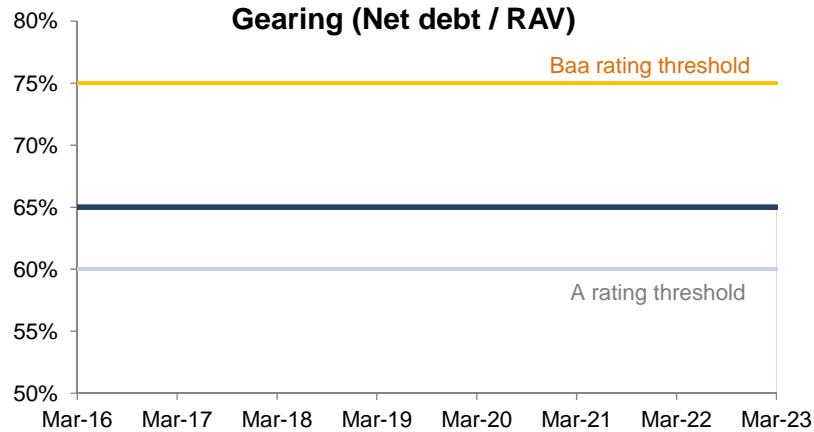
S WEST
Gearing (Net debt / RAV)



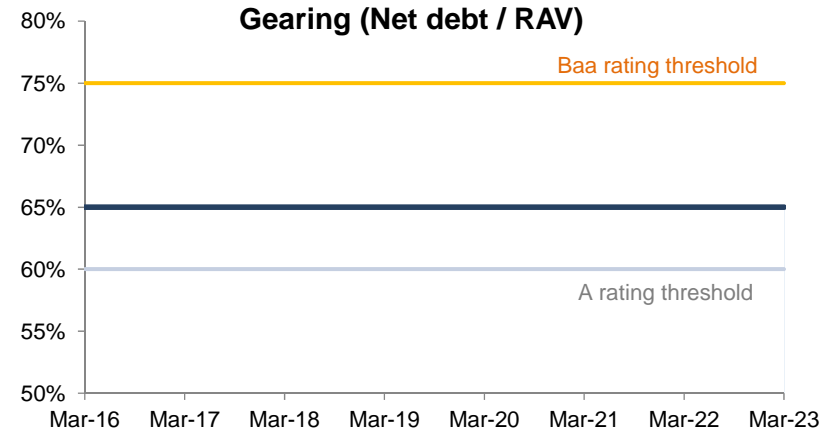
S WALES
Gearing (Net debt / RAV)



E MIDS
Gearing (Net debt / RAV)

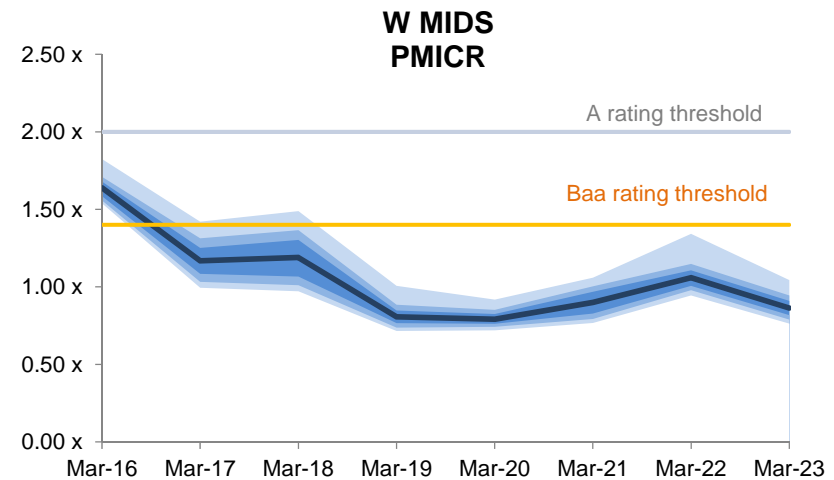
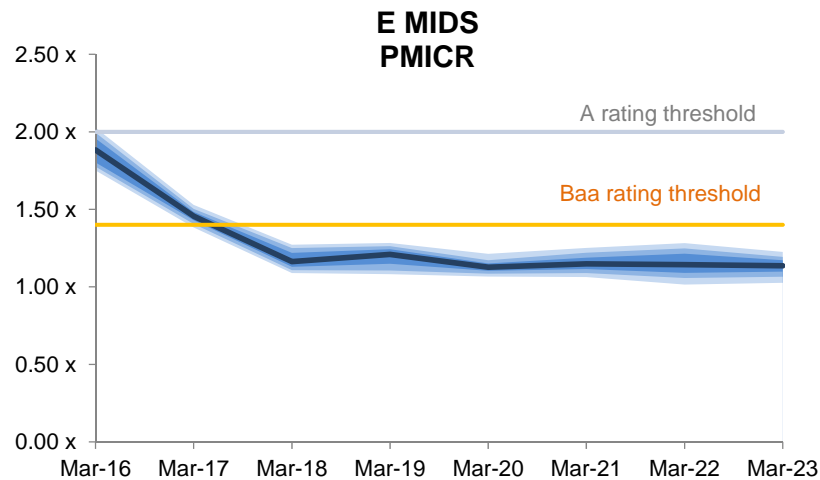
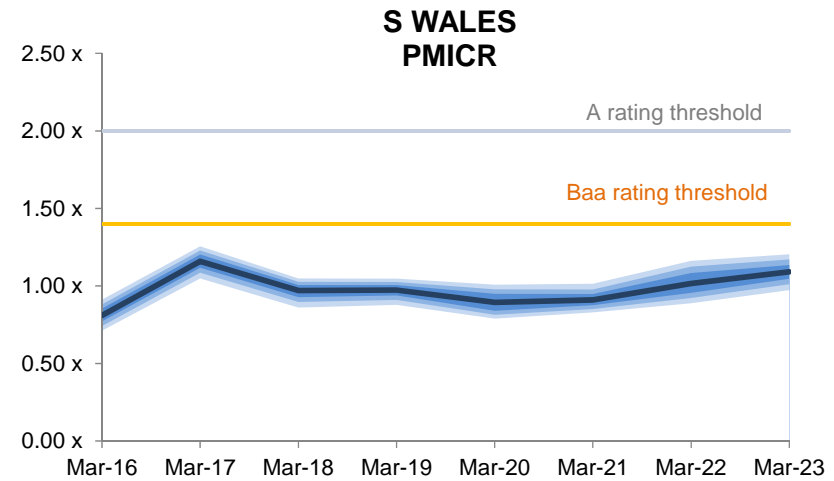
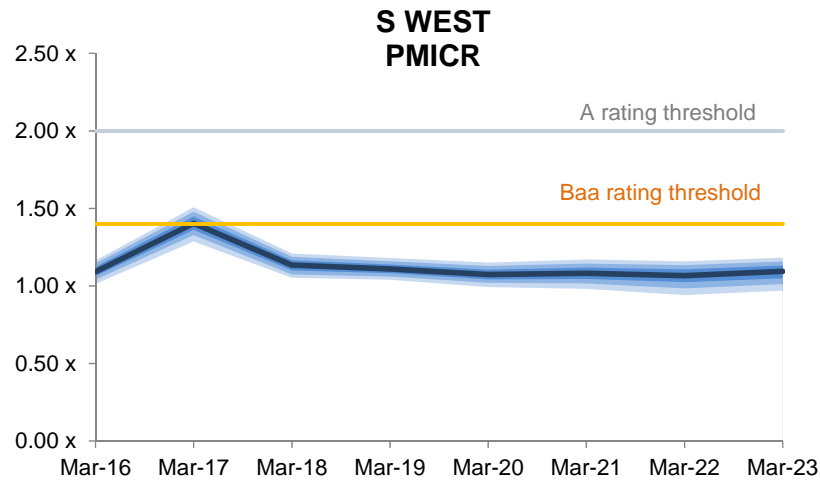


W MIDS
Gearing (Net debt / RAV)



Confidence Levels: 50% - 75% - 95%

Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn

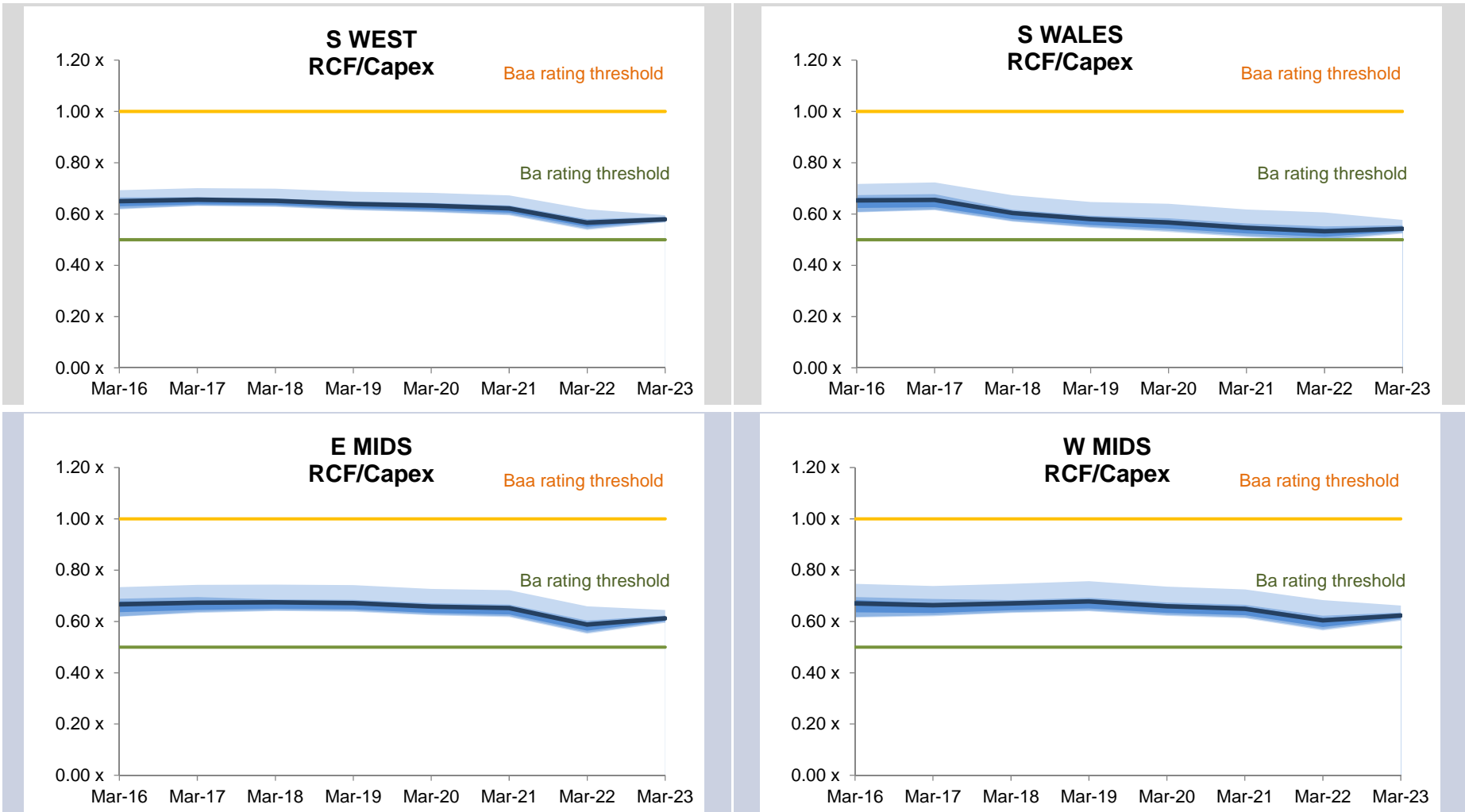


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn

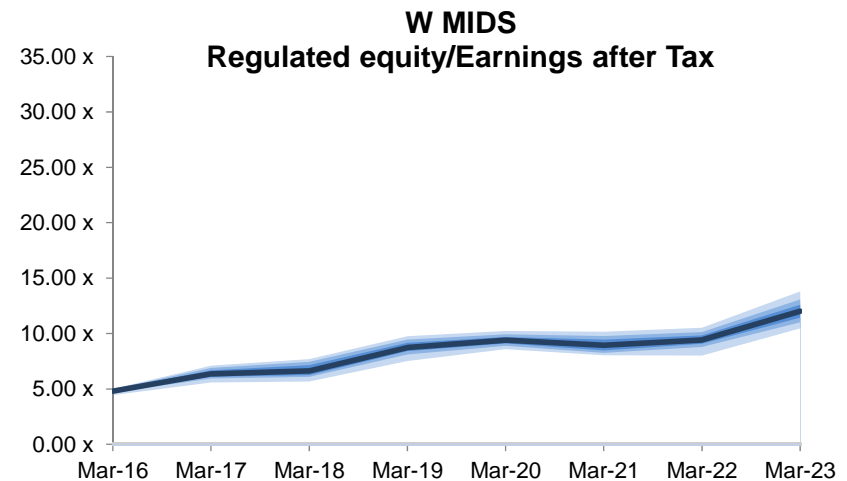
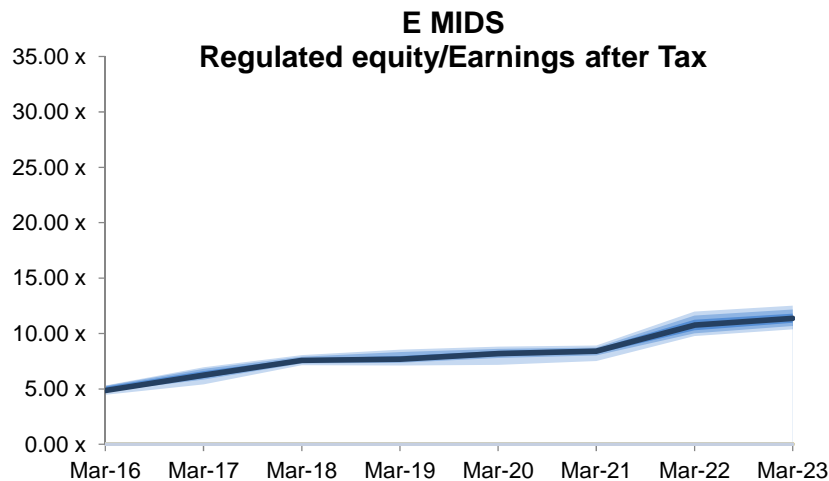
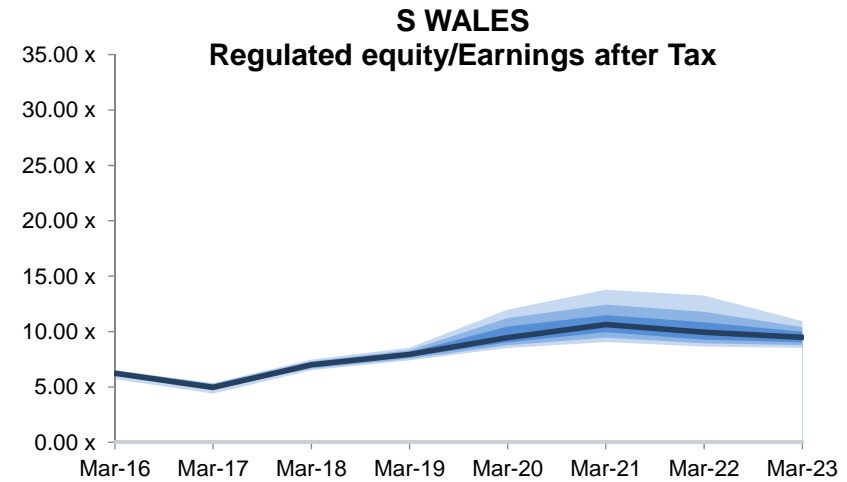
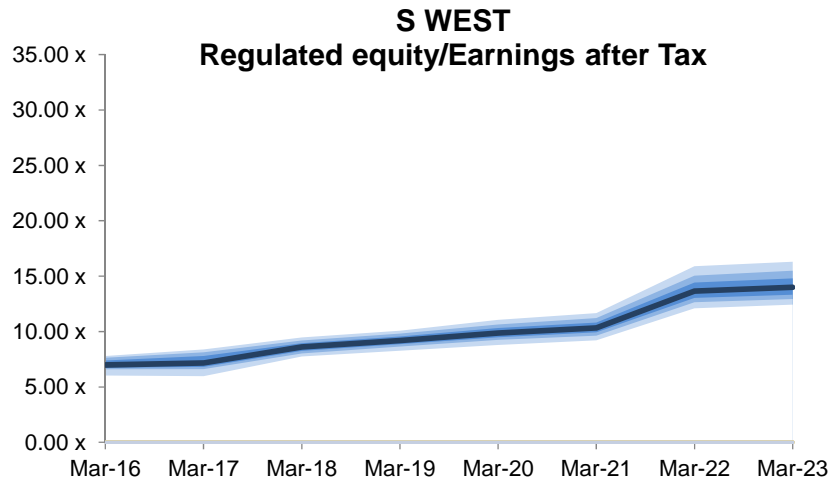


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



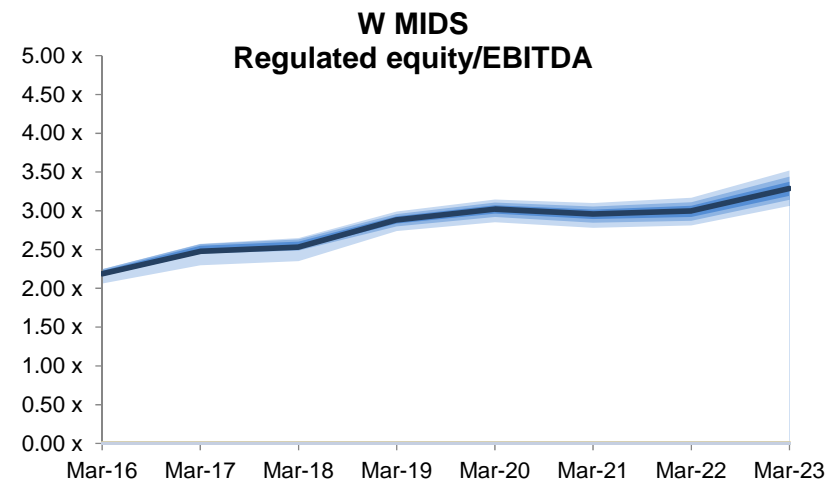
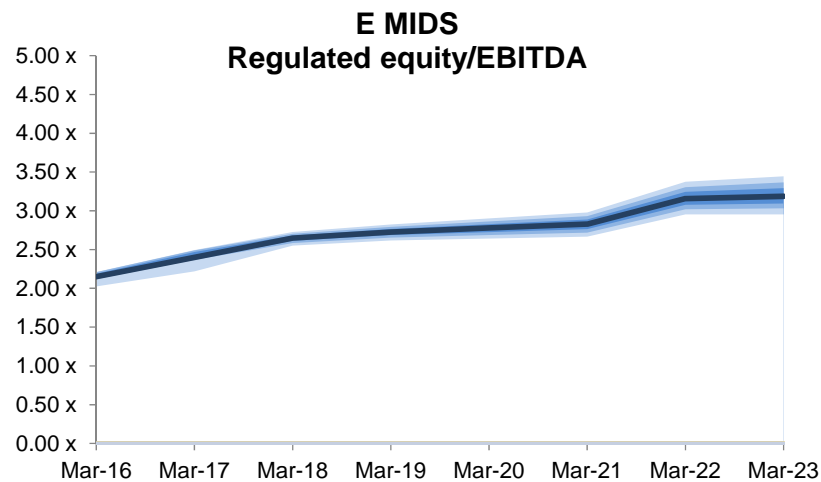
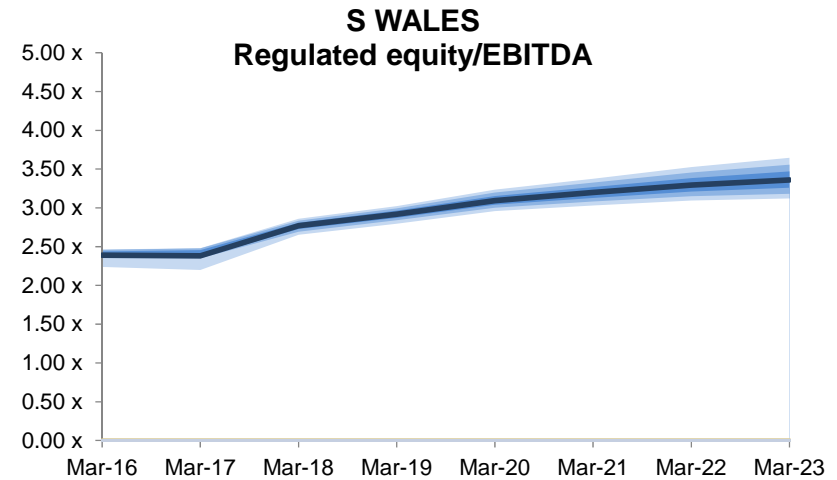
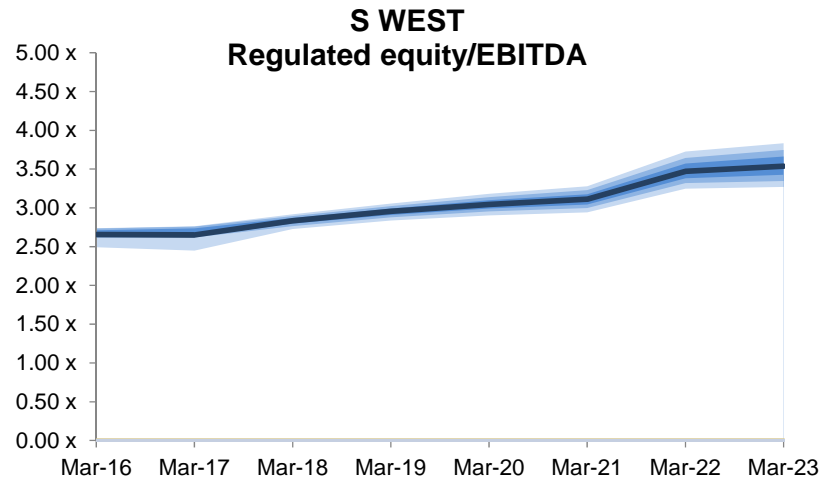
Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn



Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA

Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn



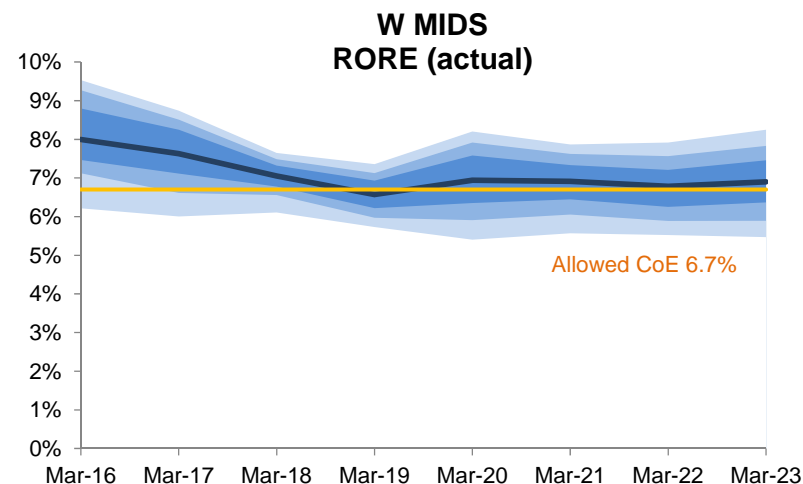
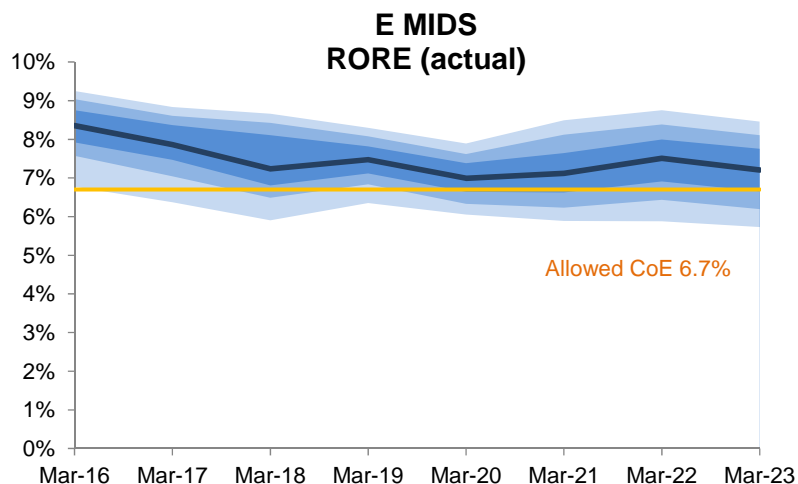
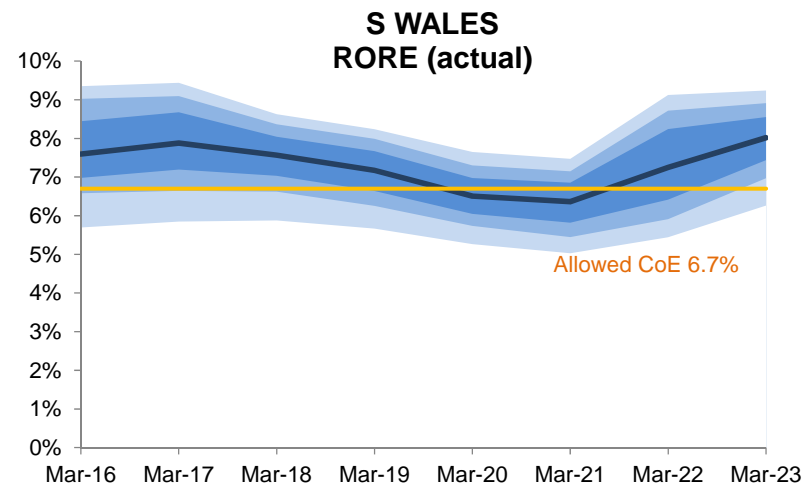
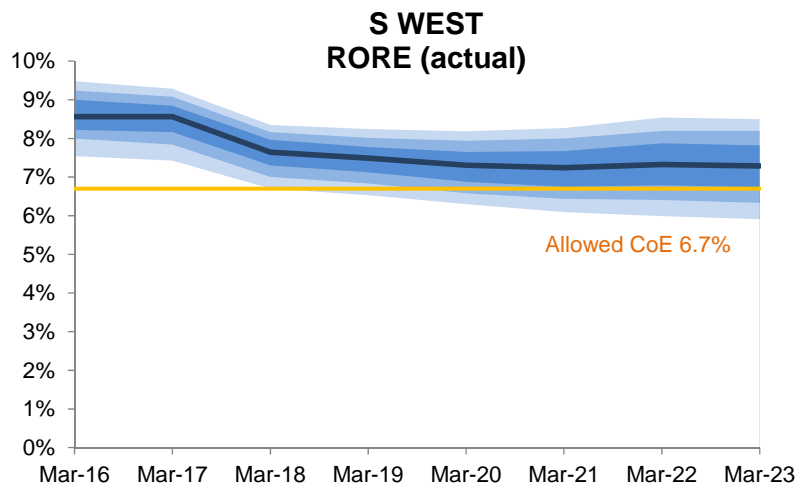
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn



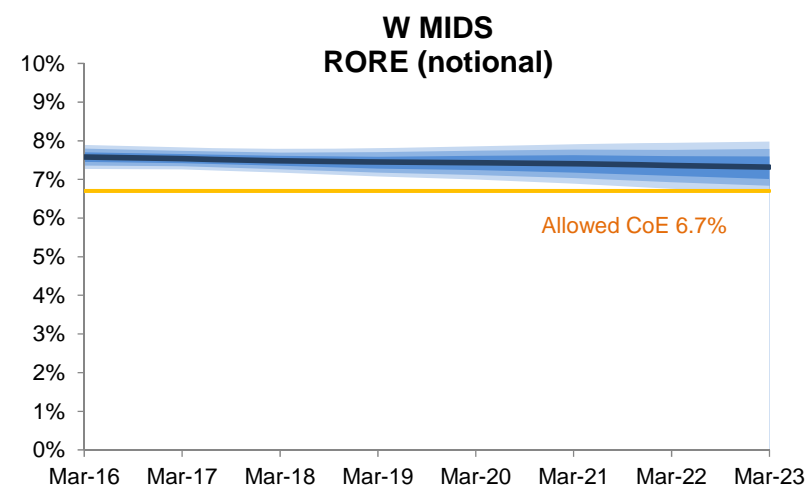
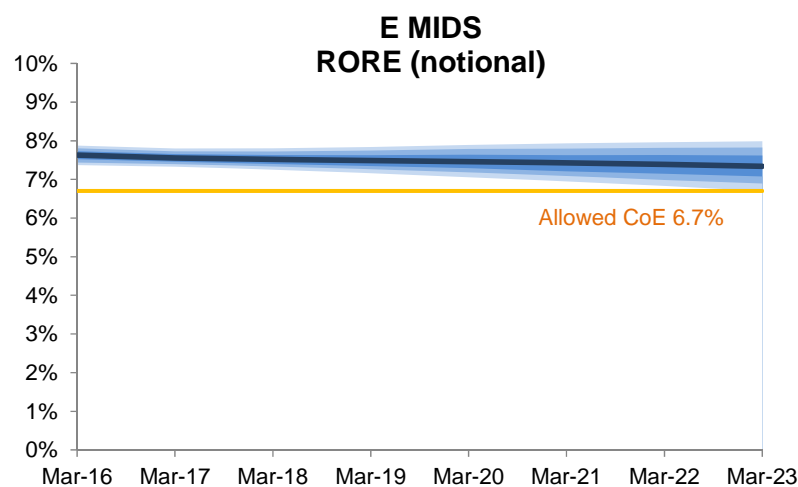
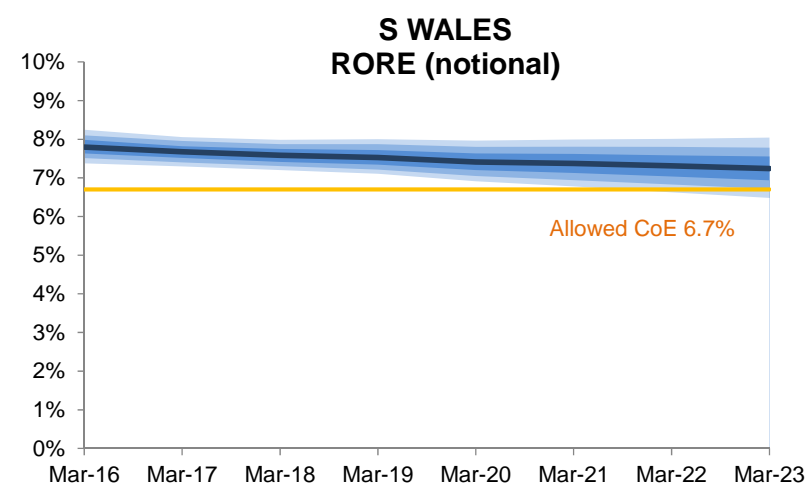
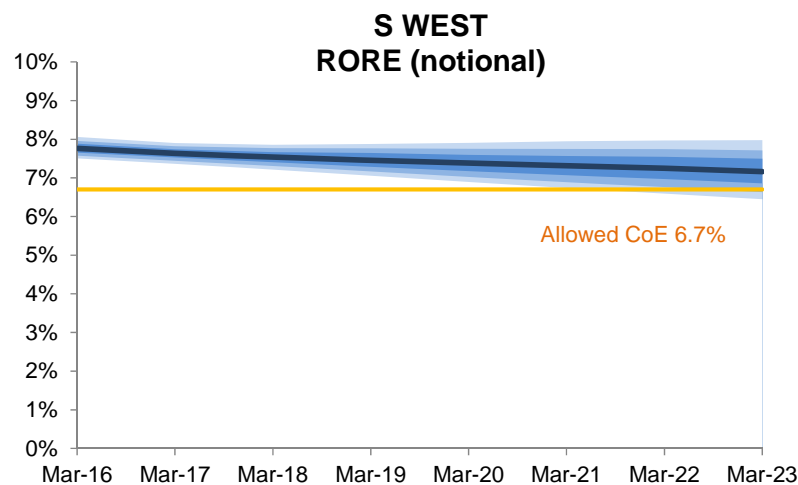
Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



NERA
ECONOMIC CONSULTING

Scenario 5: Notional gearing 65 % - CoE 6.7% - Capitalisation 80% - 35 yr Depn



Confidence Levels: 50% - 75% - 95%



Model Outputs

Scenario 6

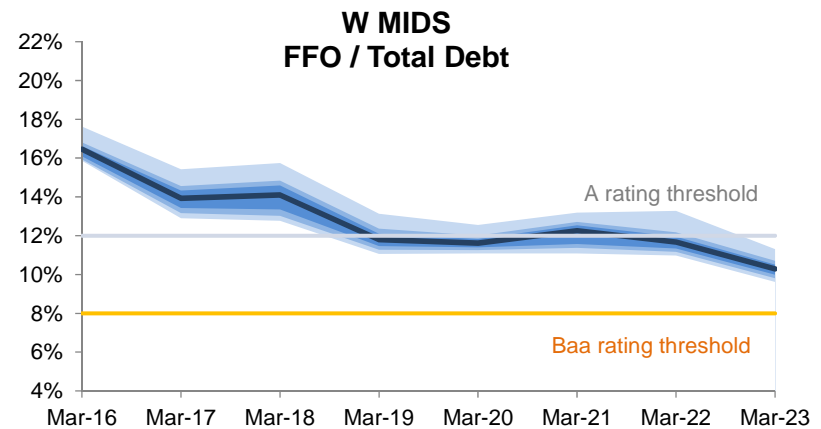
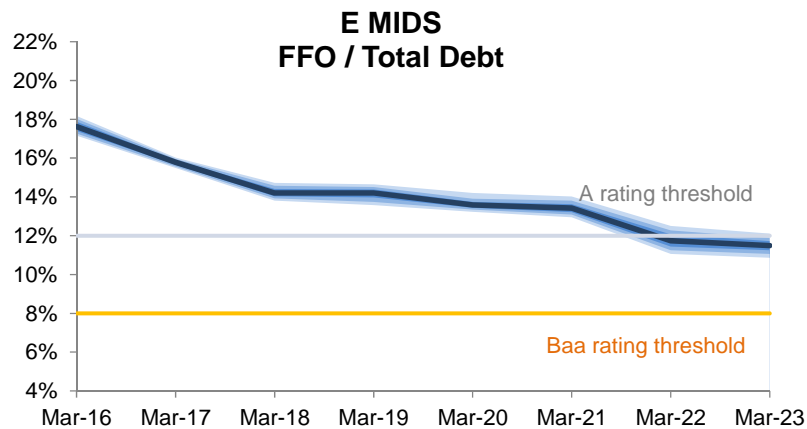
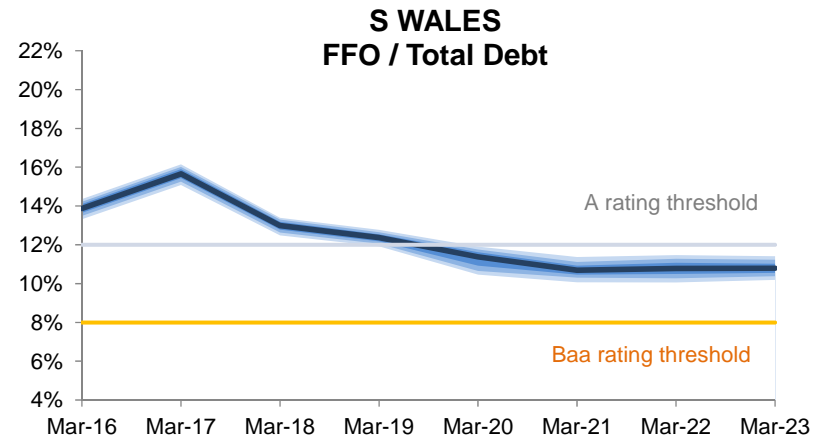
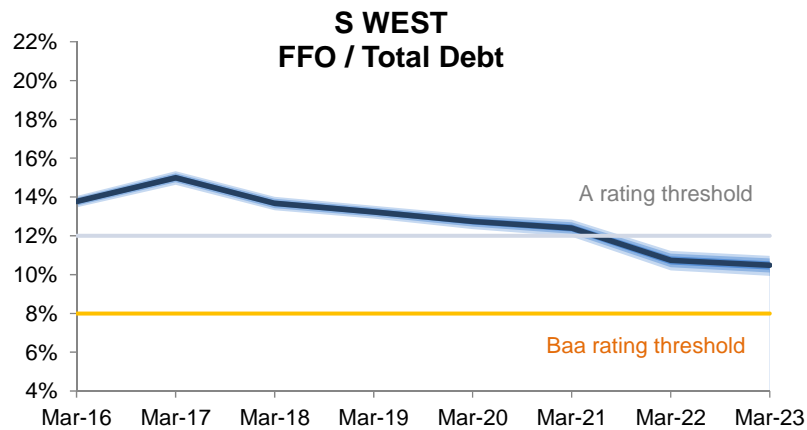
Notional gearing 65 % - CoE **7%** - Capitalisation **80%** - 45 yr Depn (**phase-in**)

Increasing the cost of equity allowance from 6.7% to 7% has little impact on the credit metrics relative to scenario 4. RORE improves in the median case, due to a higher CoE allowance.

FFO / Average Total Debt



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

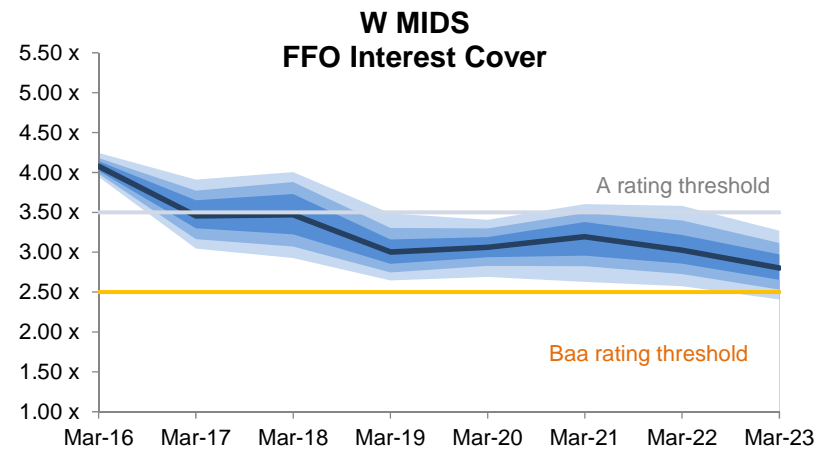
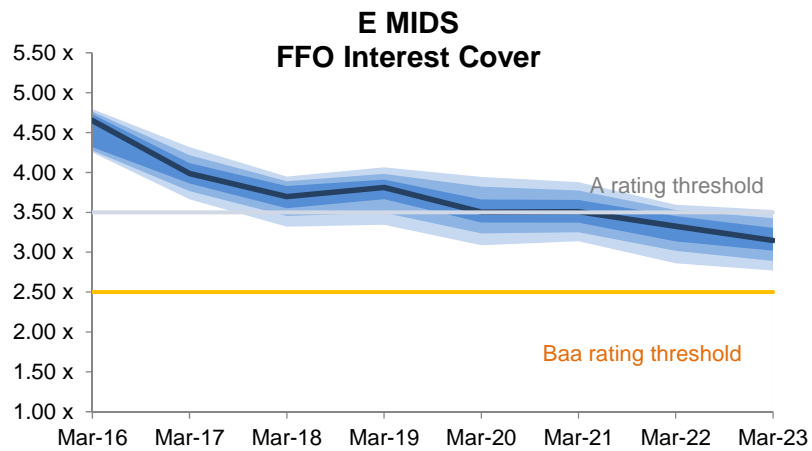
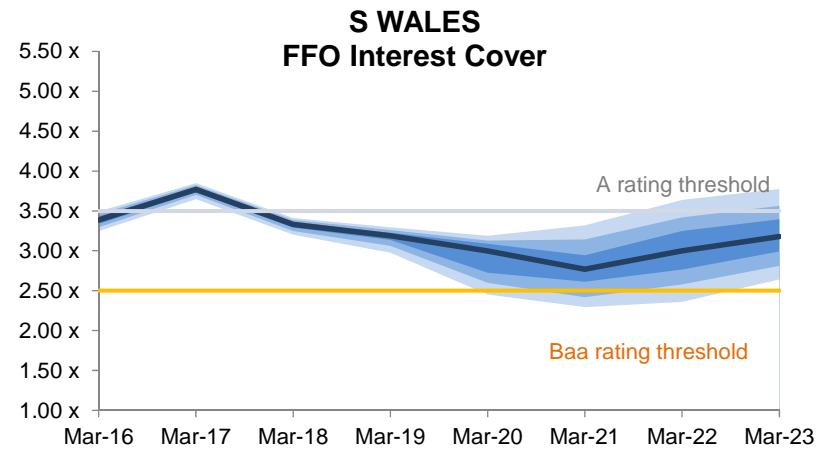
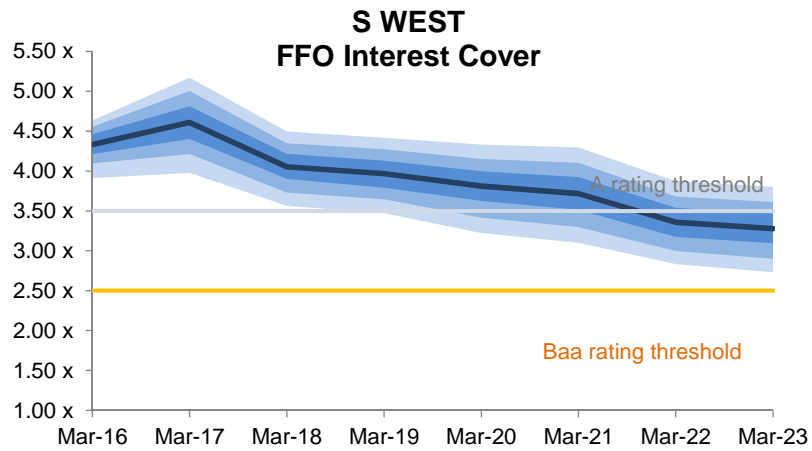


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

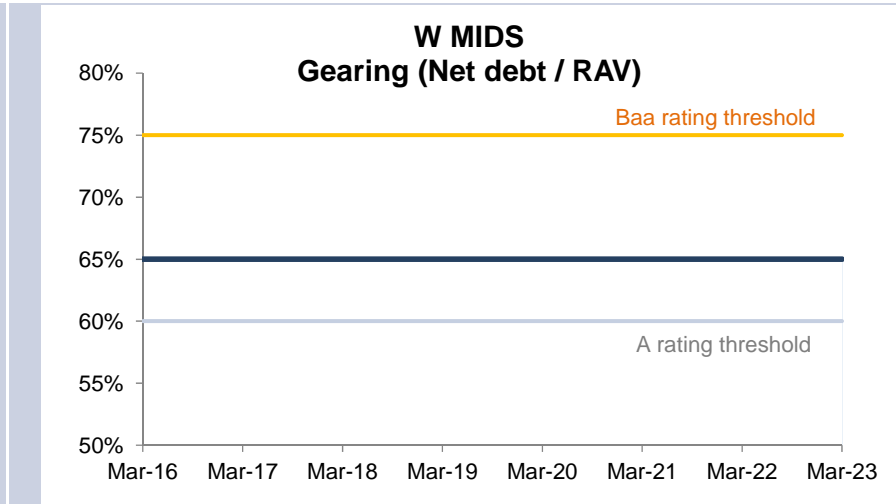
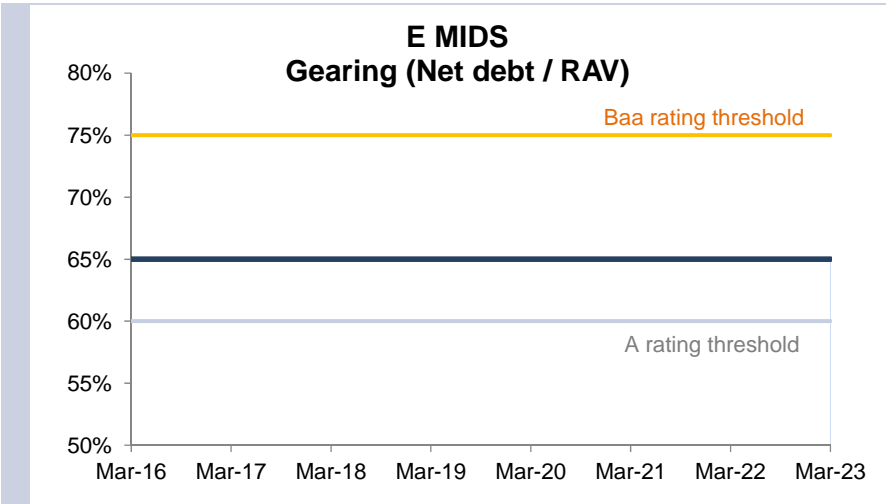
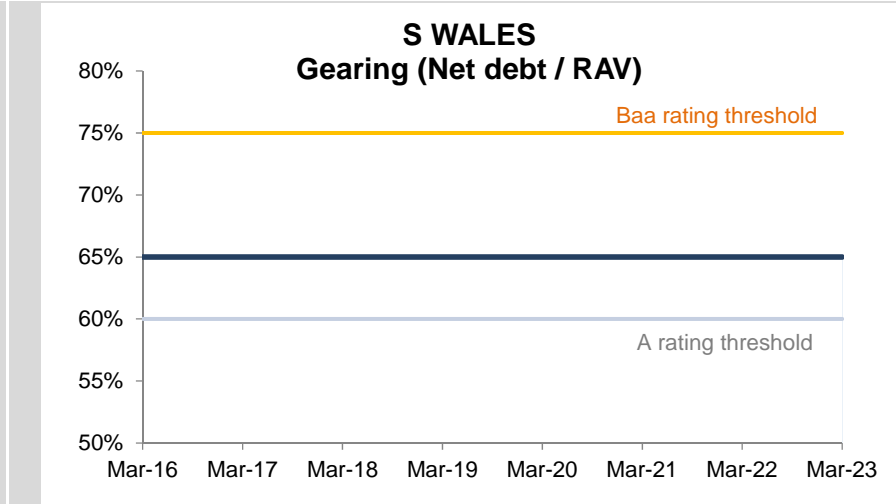
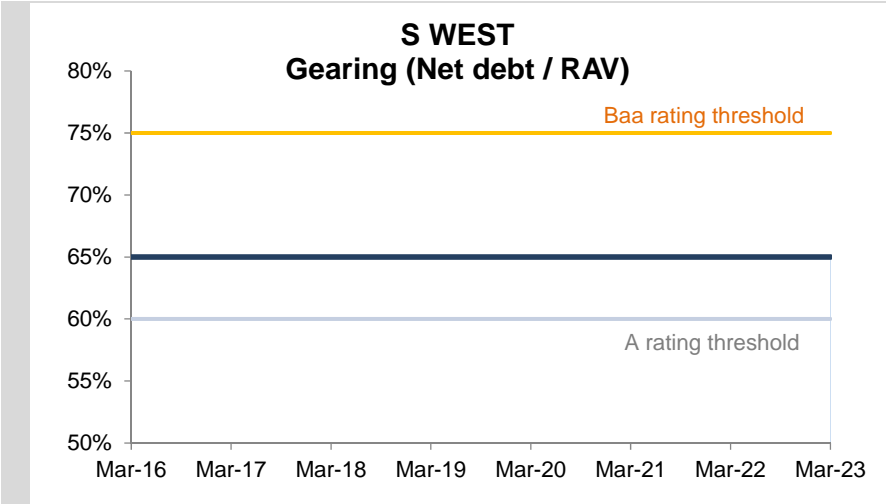


Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)

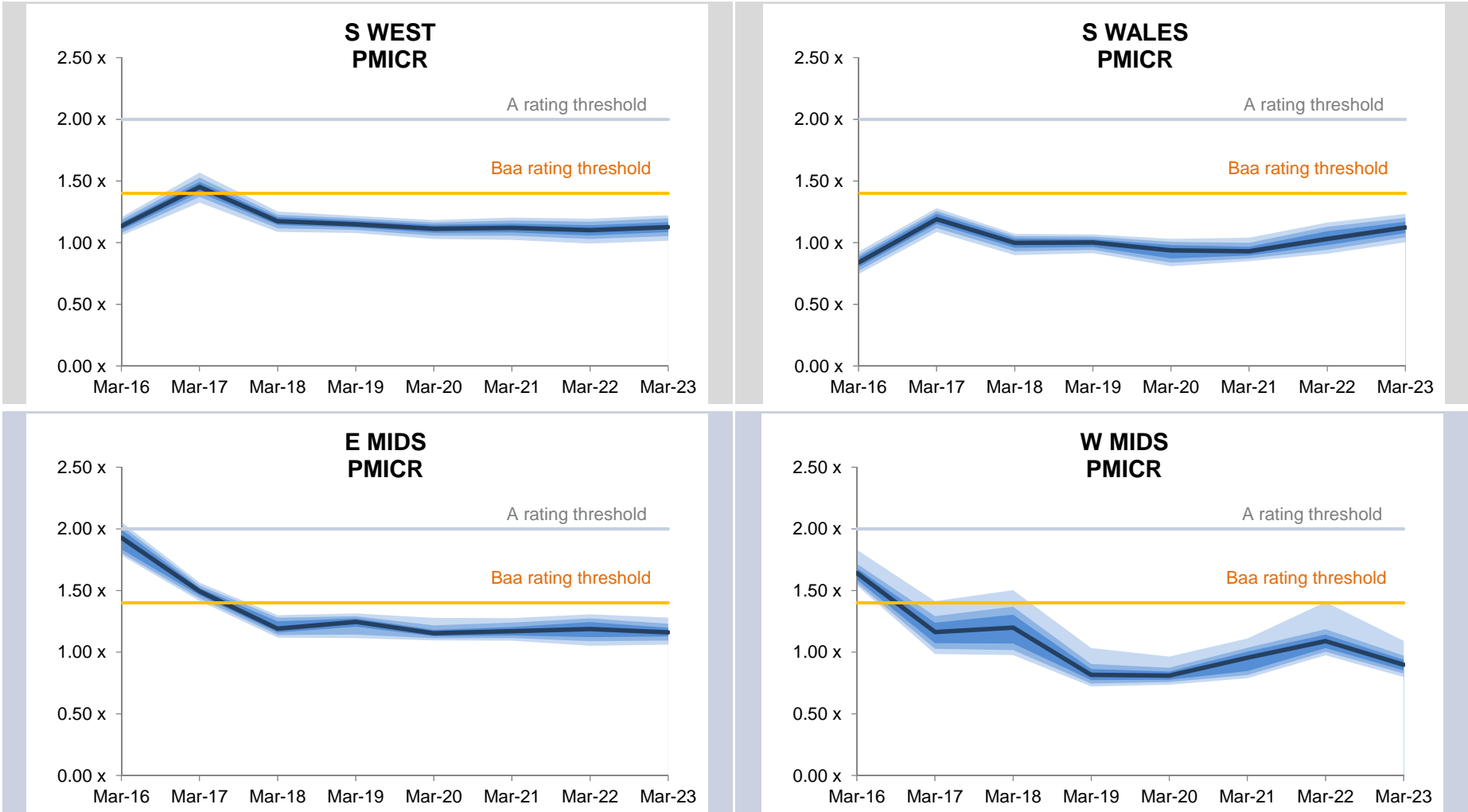


Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

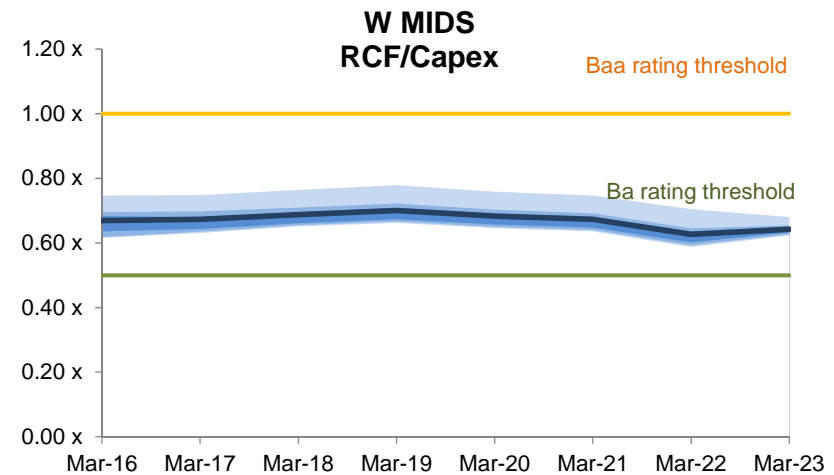
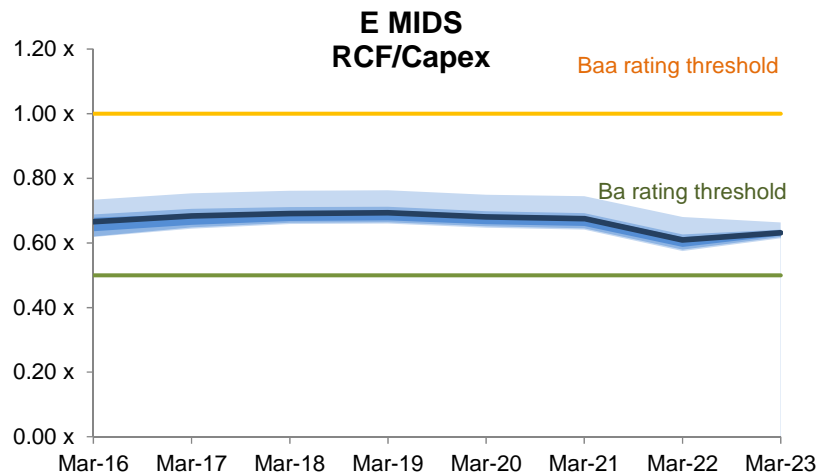
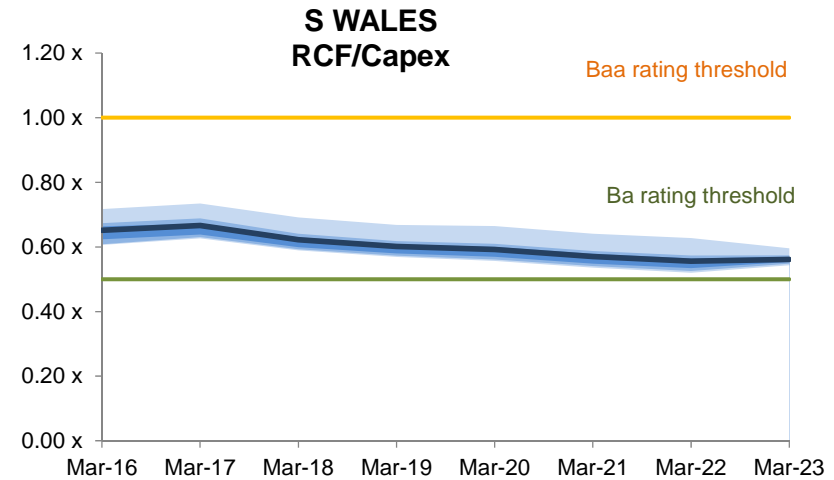
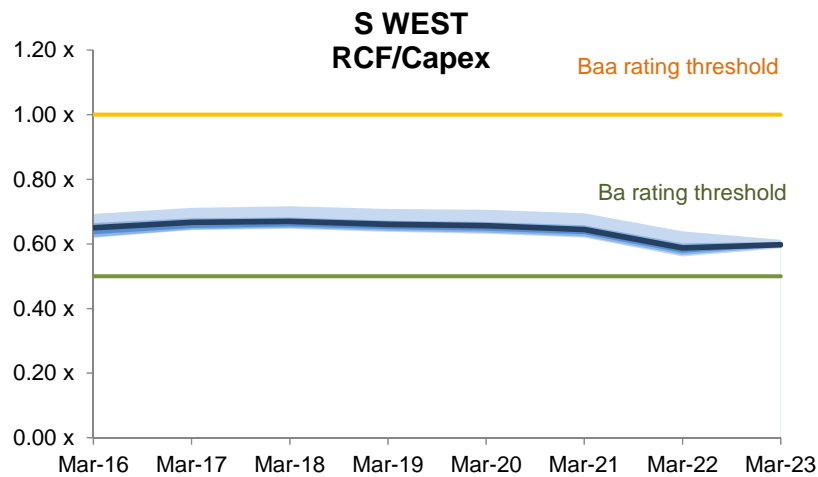


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

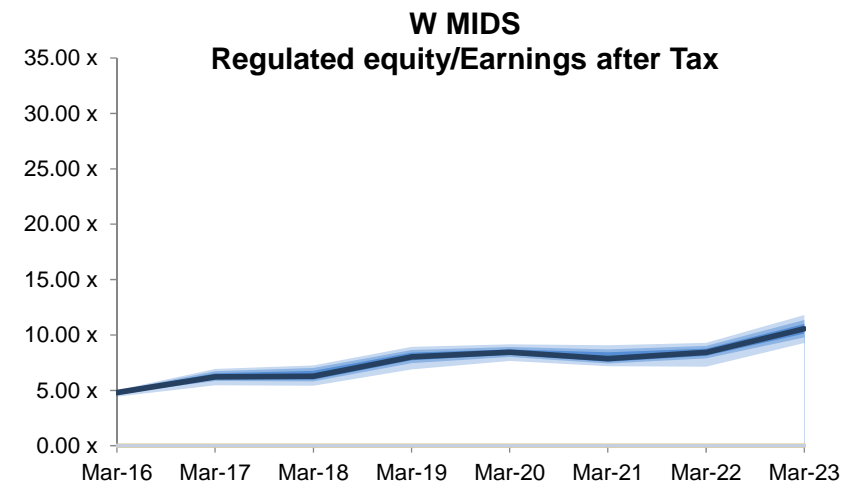
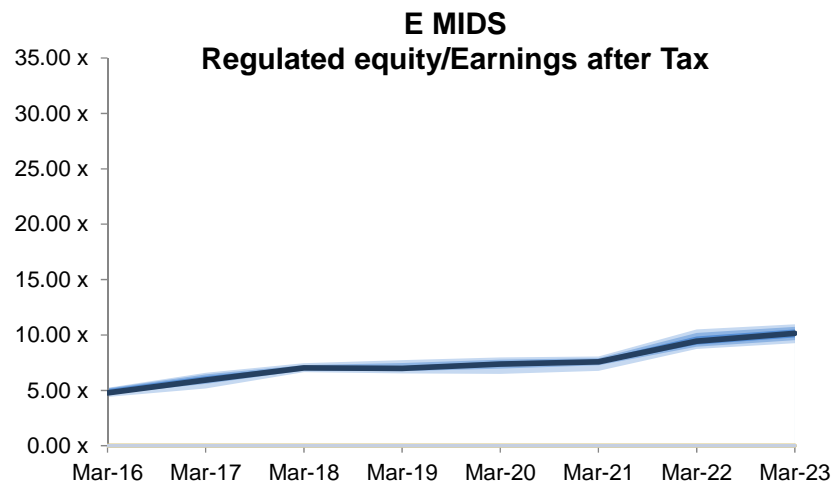
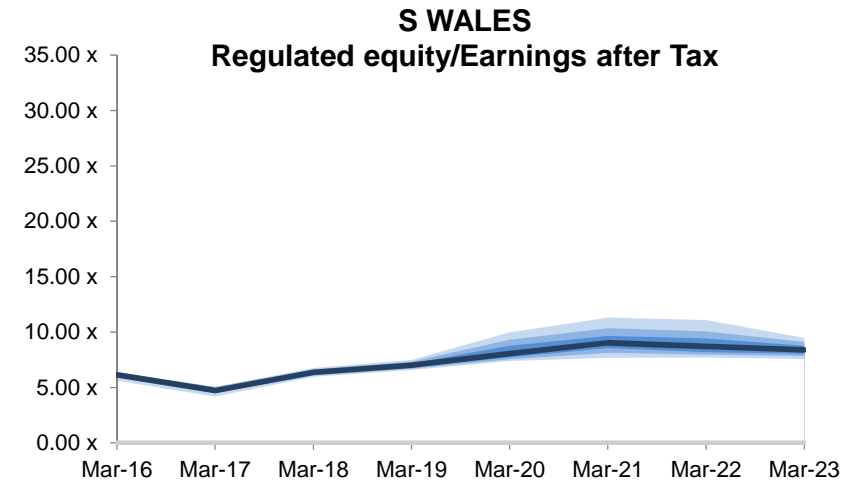
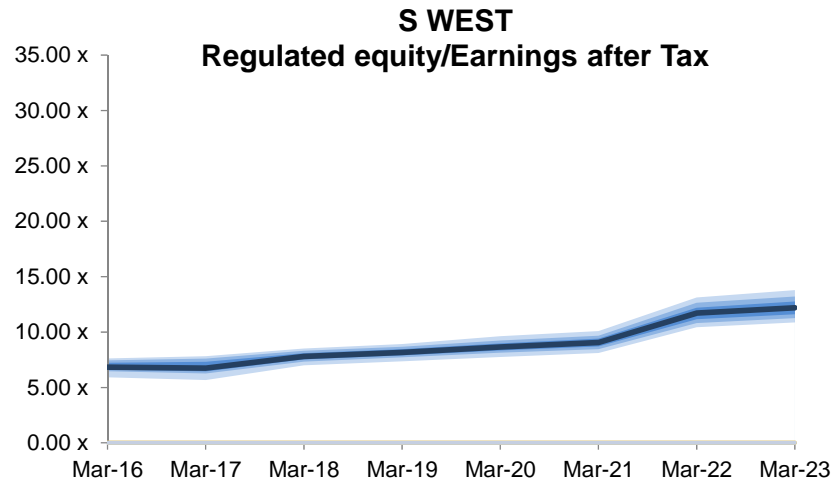


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

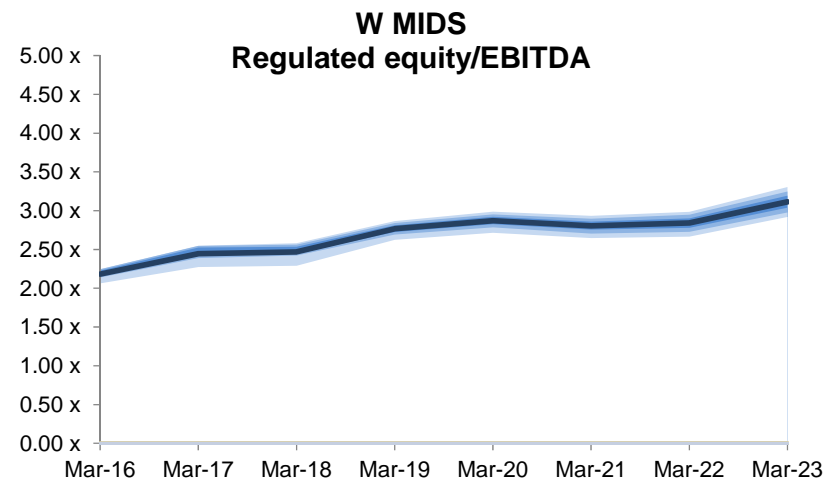
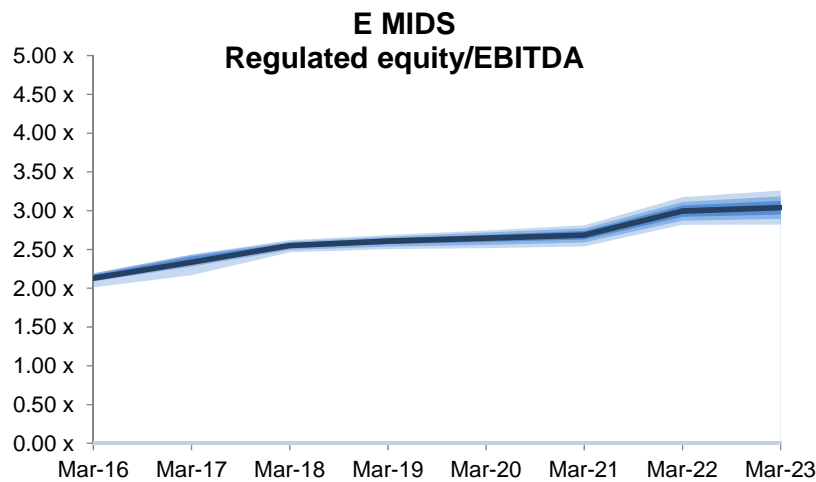
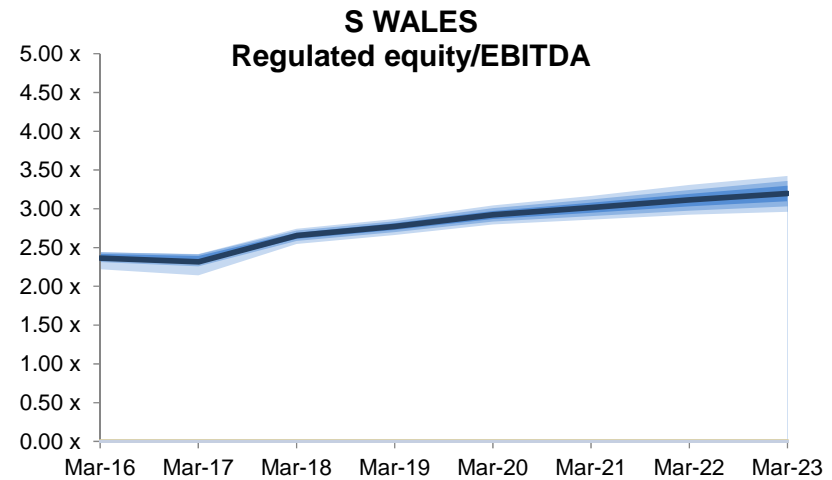
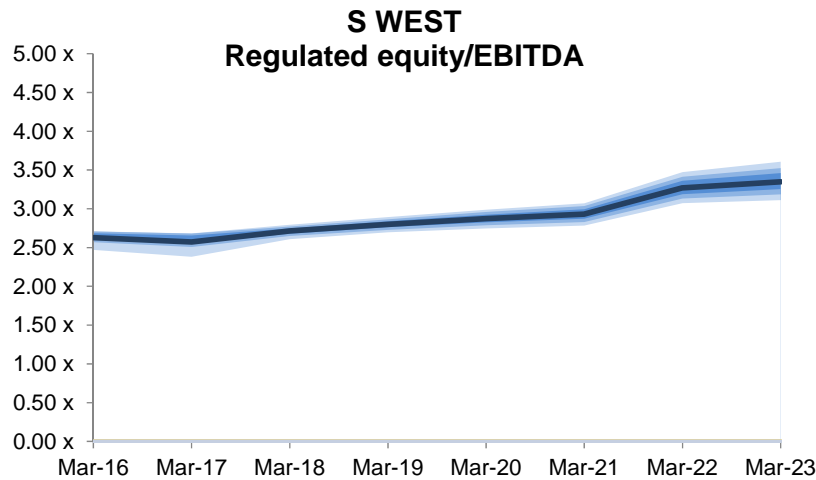


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)



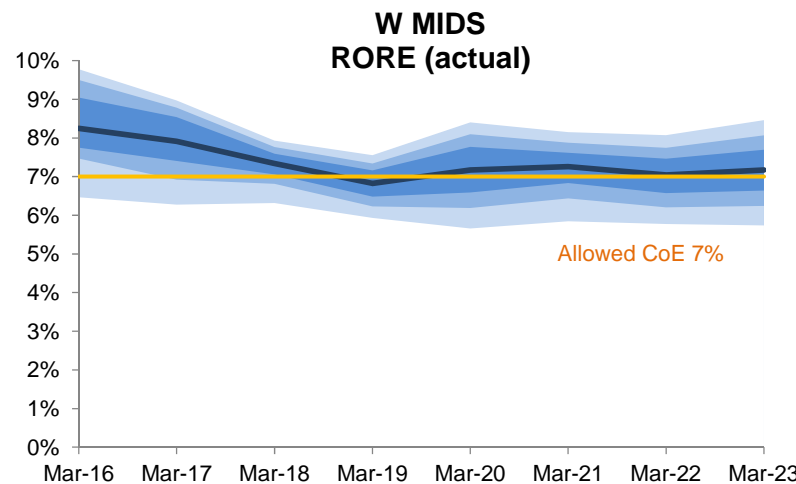
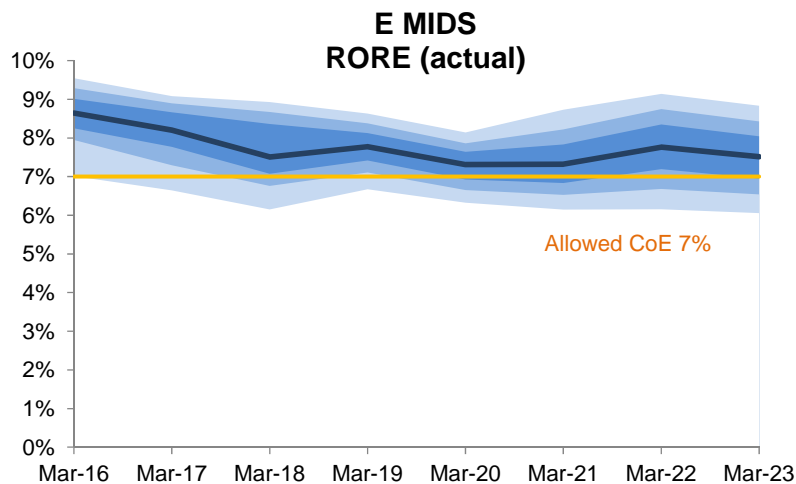
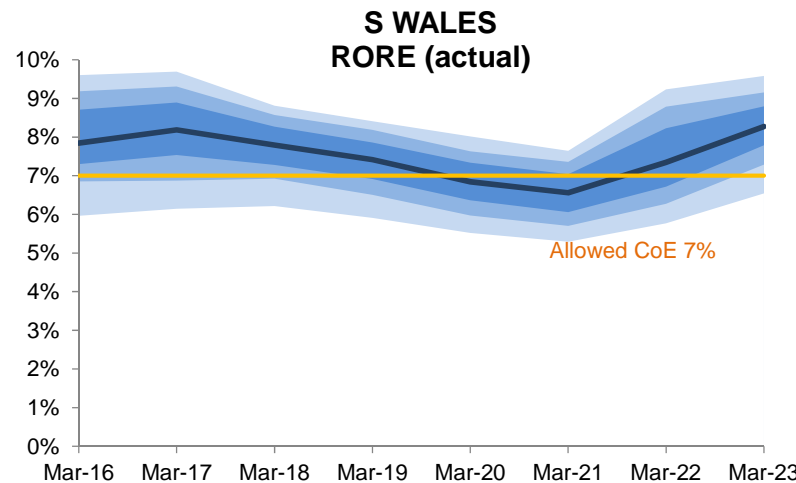
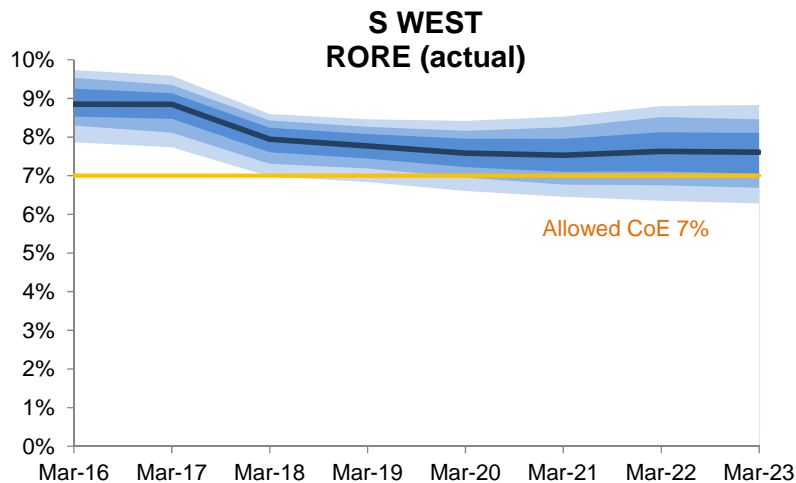
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)

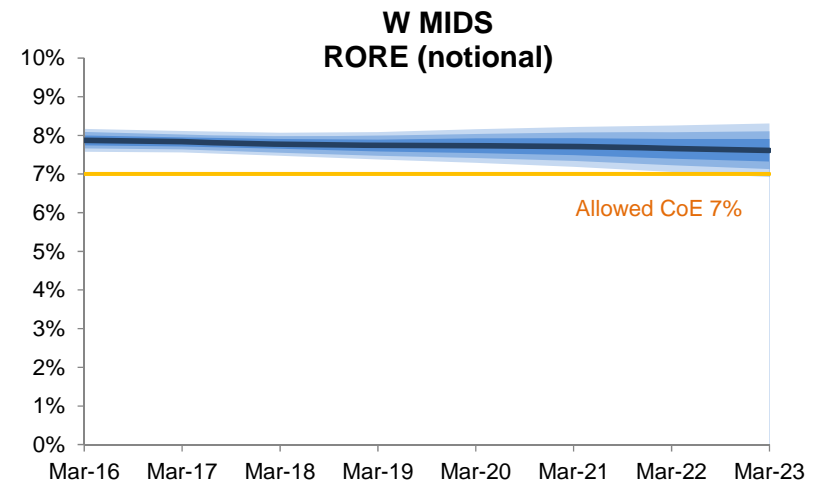
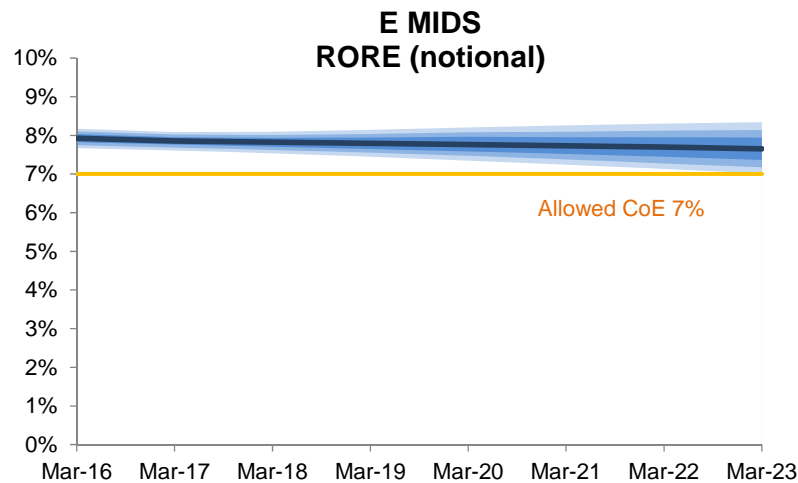
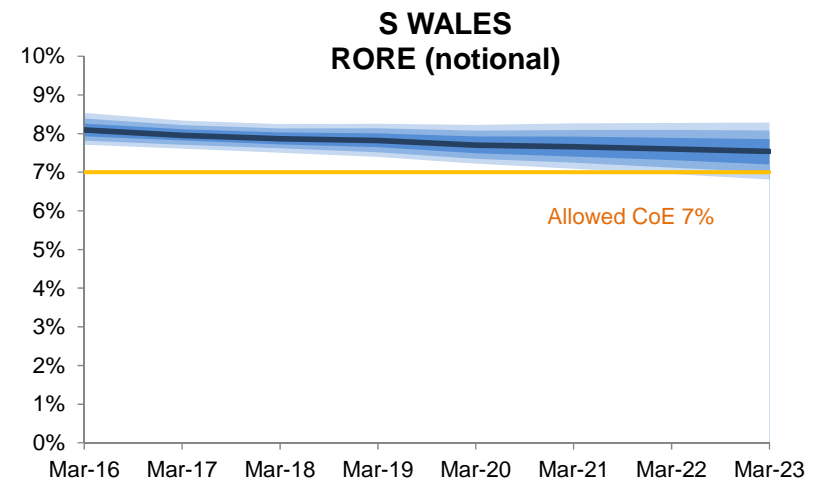
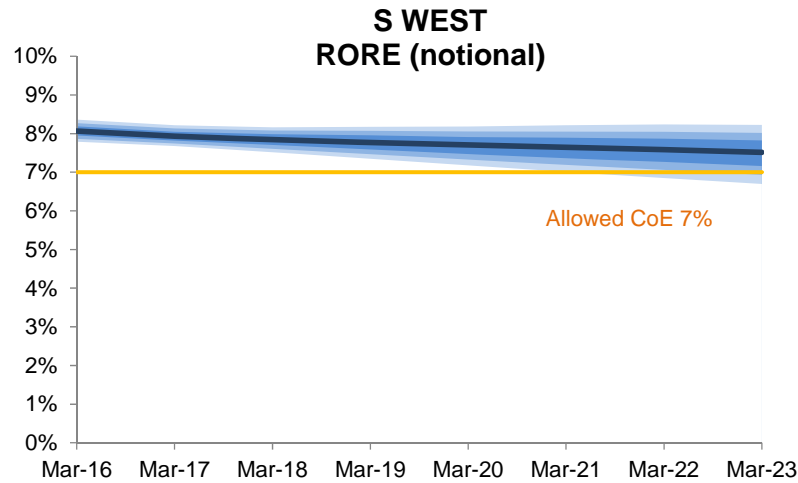


Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



Scenario 6: Notional gearing 65% - CoE 7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%



Model Outputs

Scenario 7

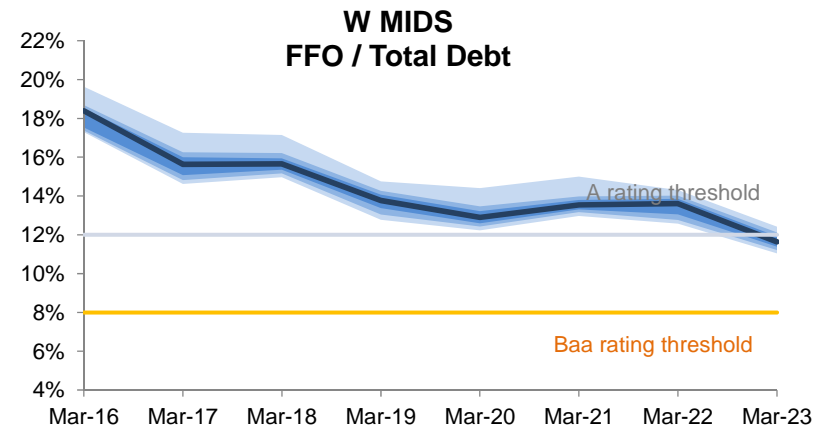
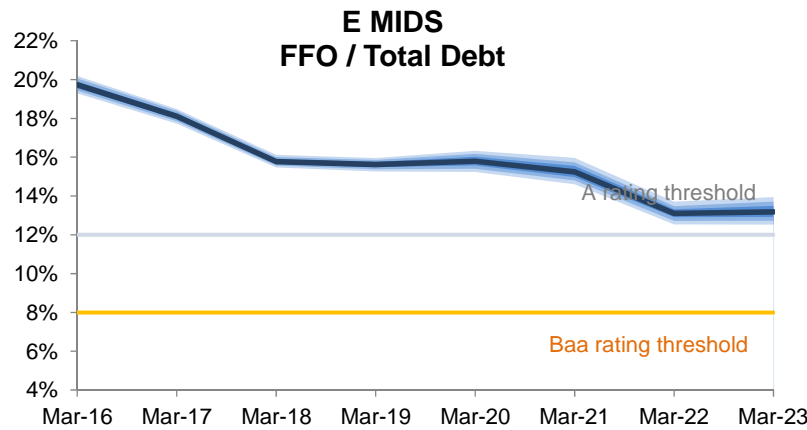
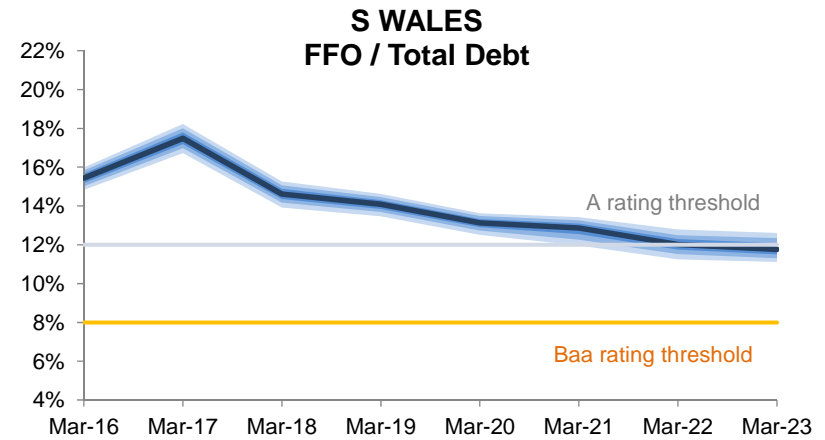
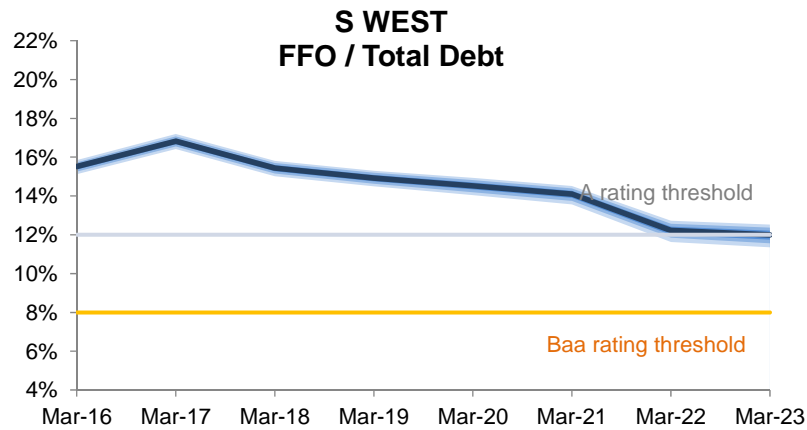
Notional gearing at **60 %** - CoE 6.7% - Capitalisation **80%** - 45 yr Depn (**phase-in**)

Reducing notional gearing leads to a significant improvement of the financial ratios relative to the scenario 4 (SWest and EMids remain above “A” rating during most of the regulatory period). RORE becomes less volatile due to out/underperformance being calculated relative to a larger equity RAV.

FFO / Average Total Debt



Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

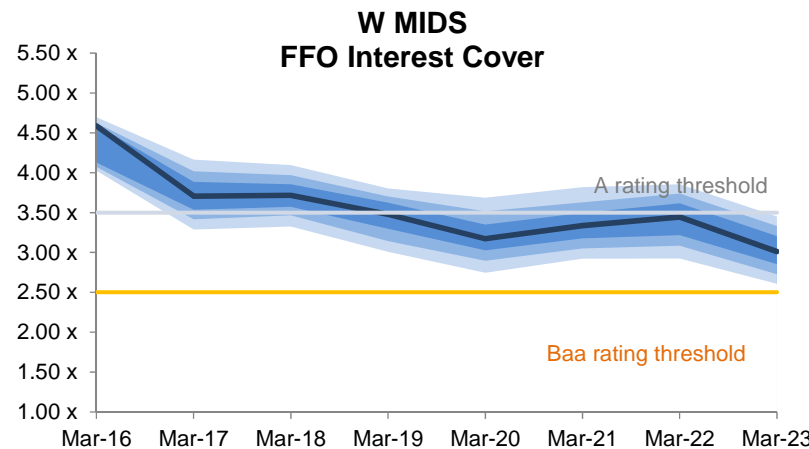
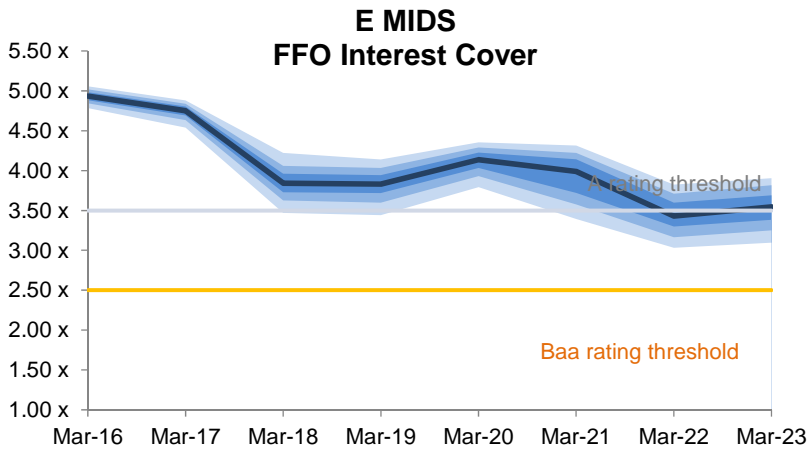
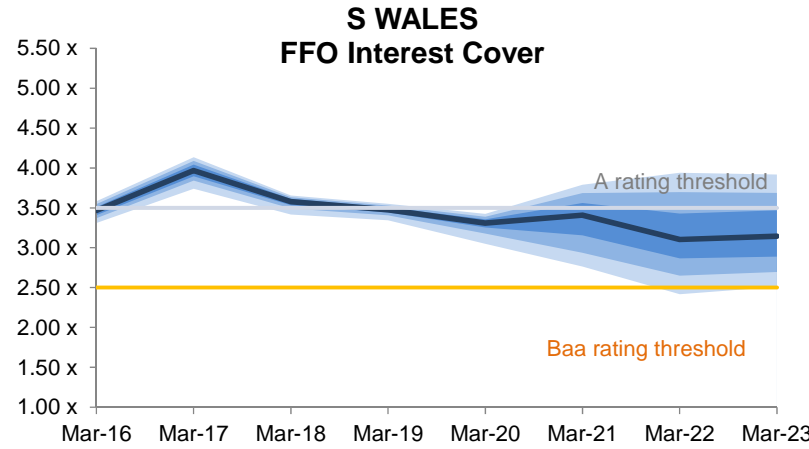
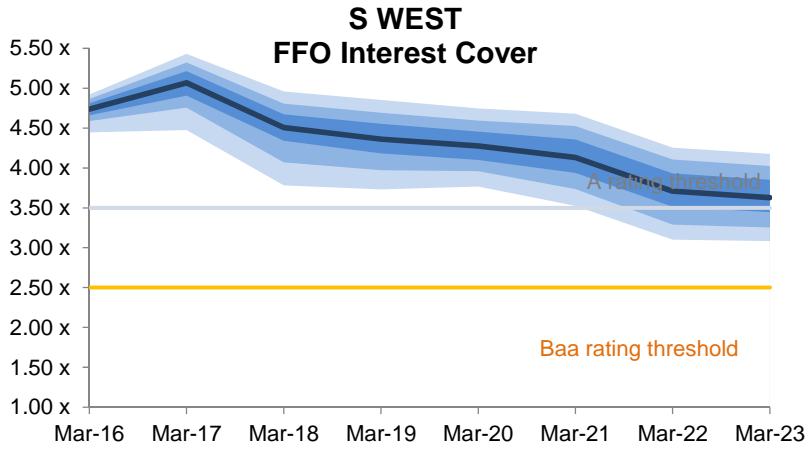


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



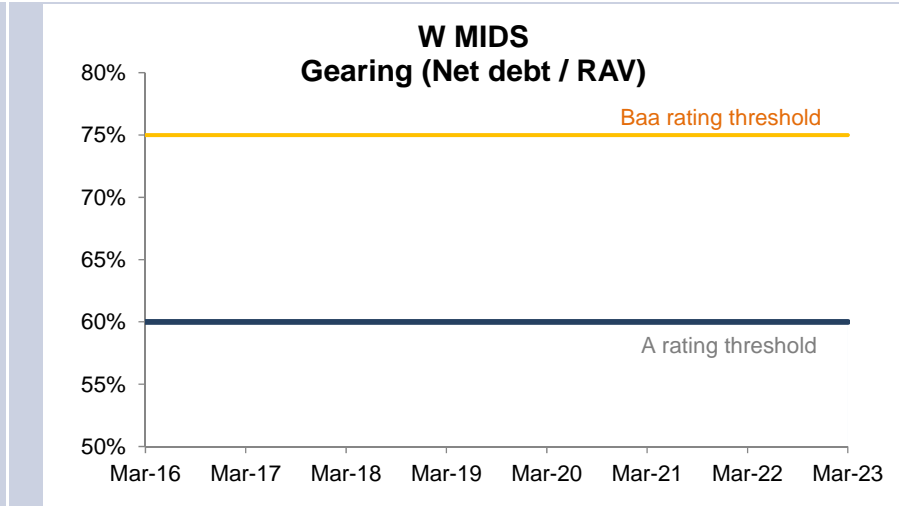
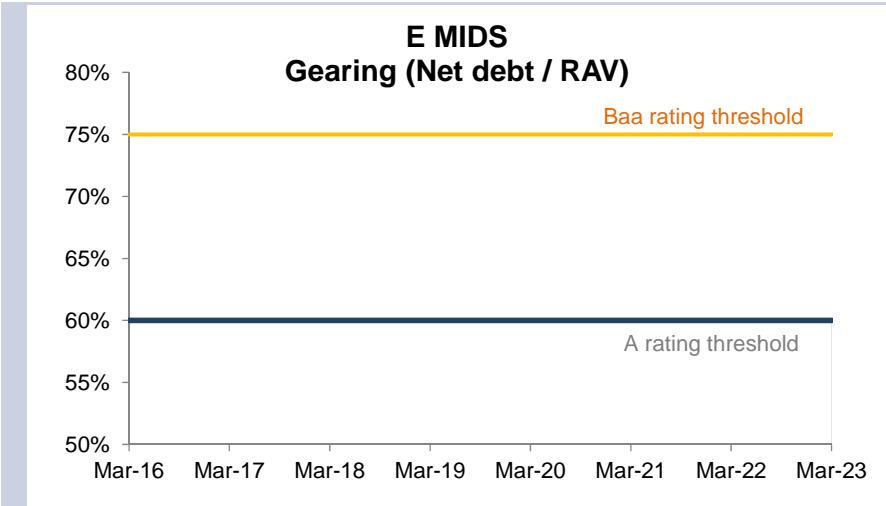
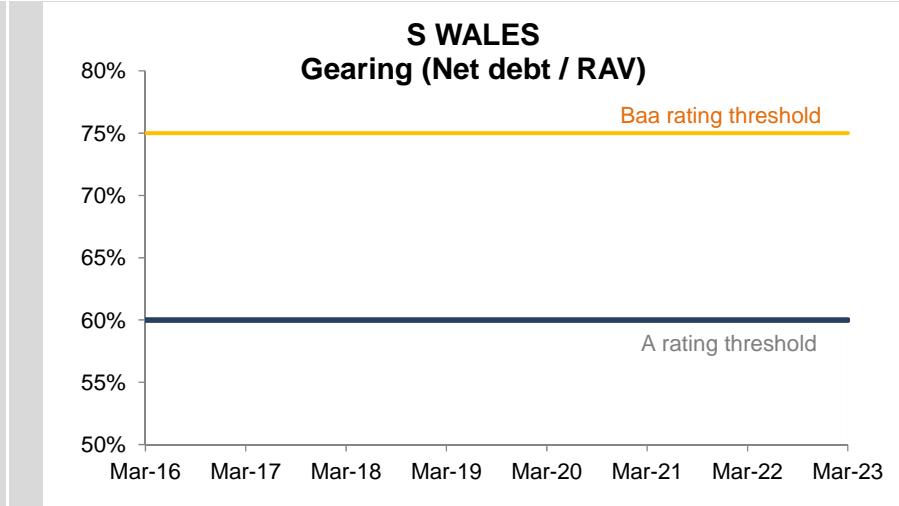
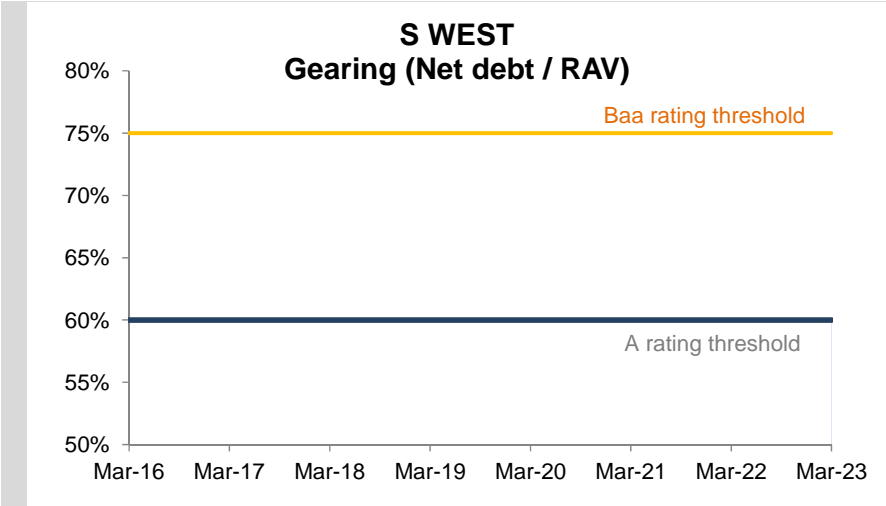
Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)



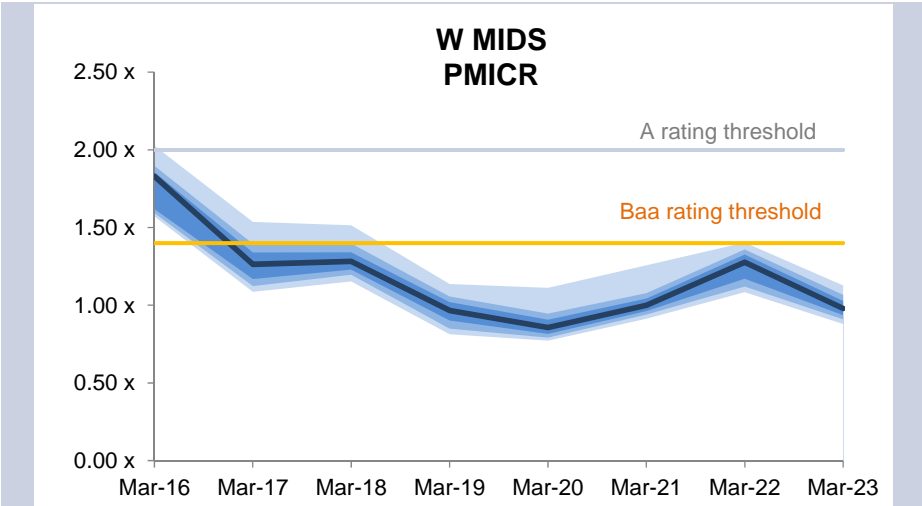
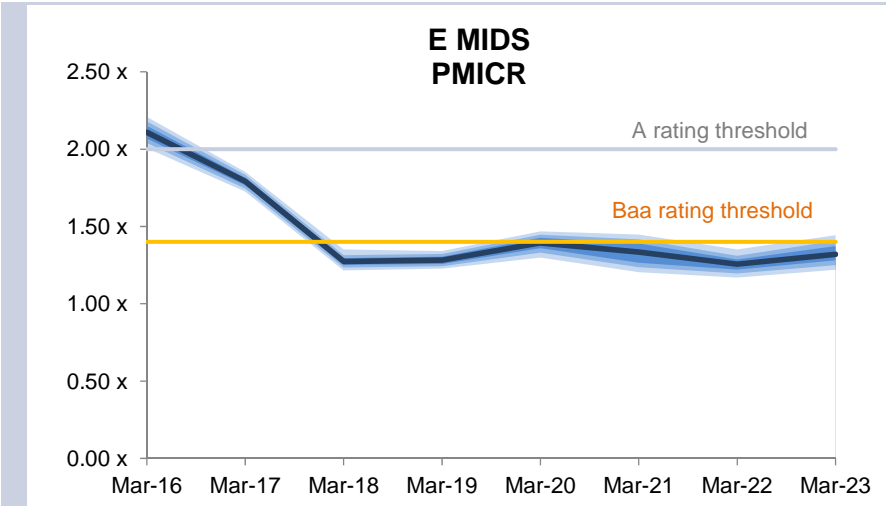
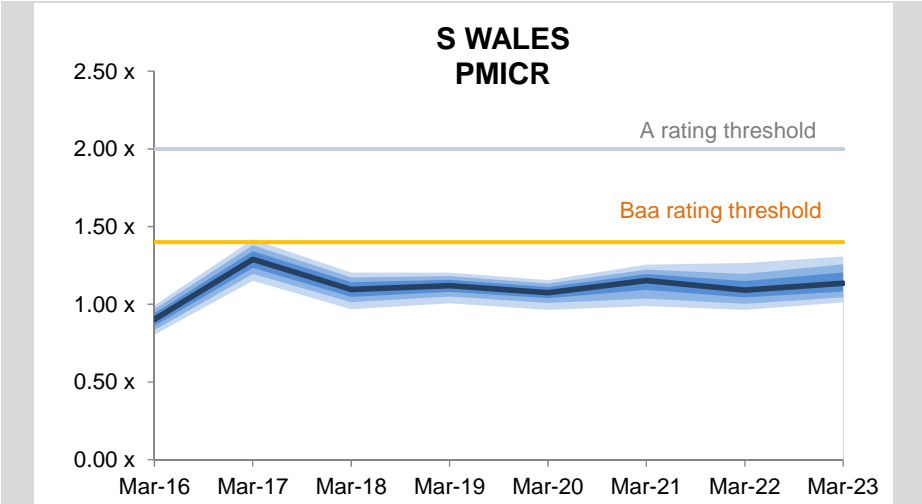
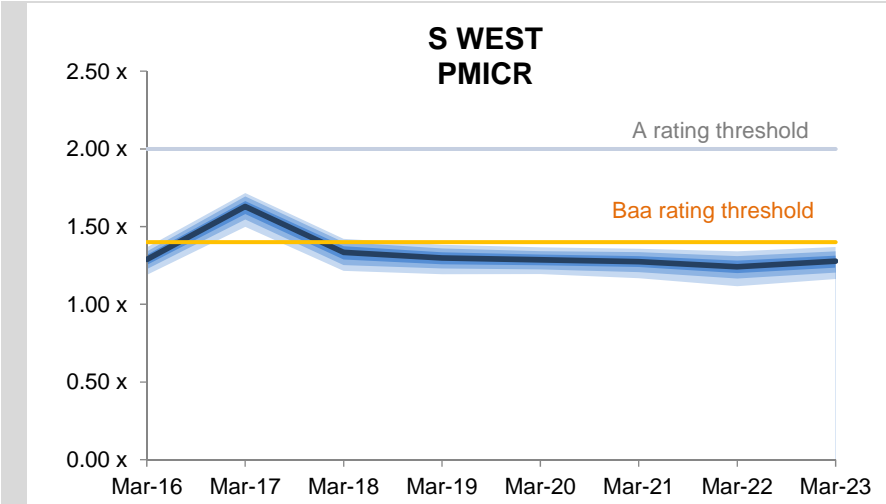
NERA
ECONOMIC CONSULTING

Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

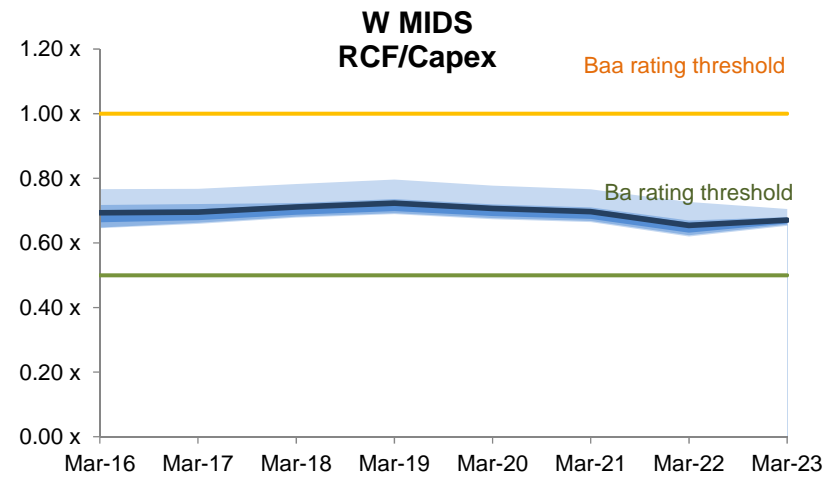
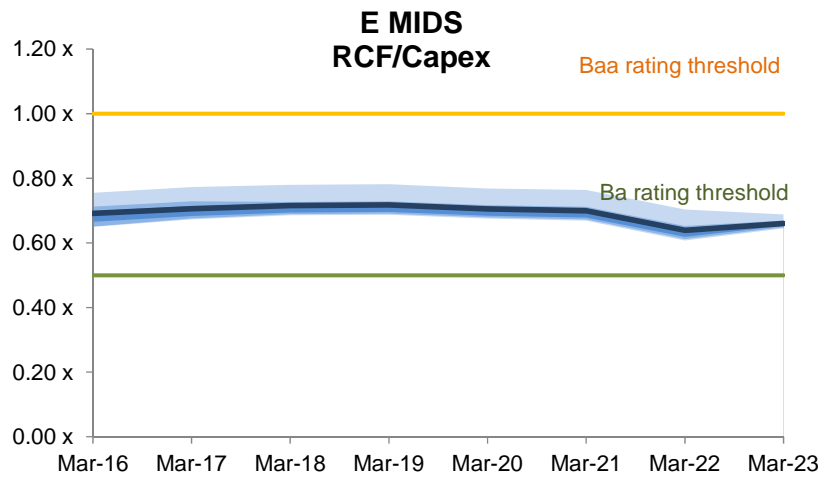
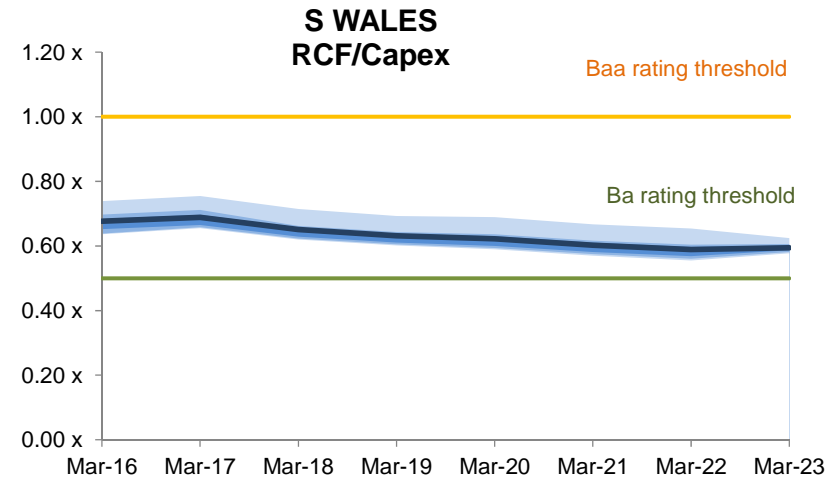
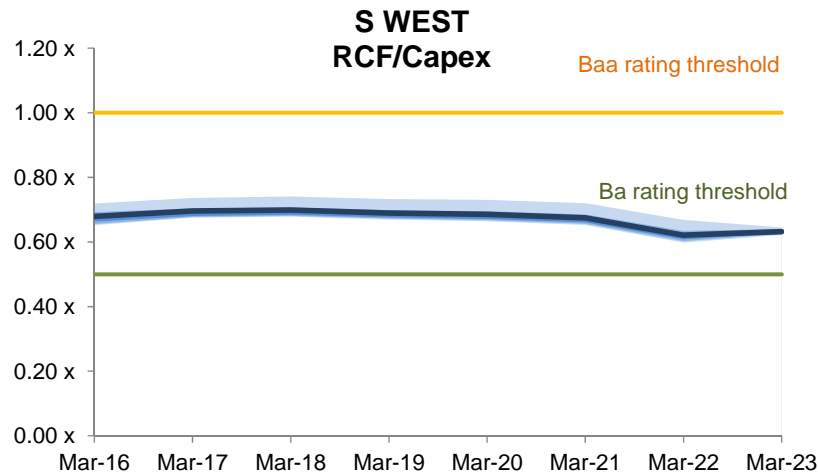


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

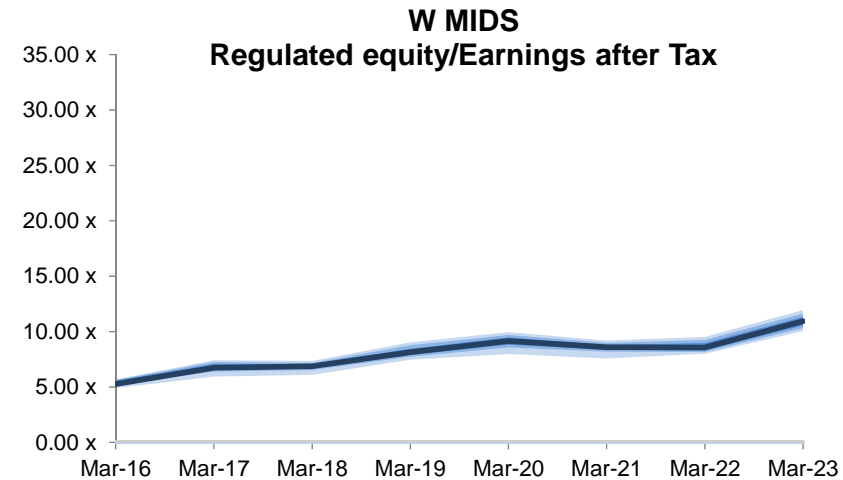
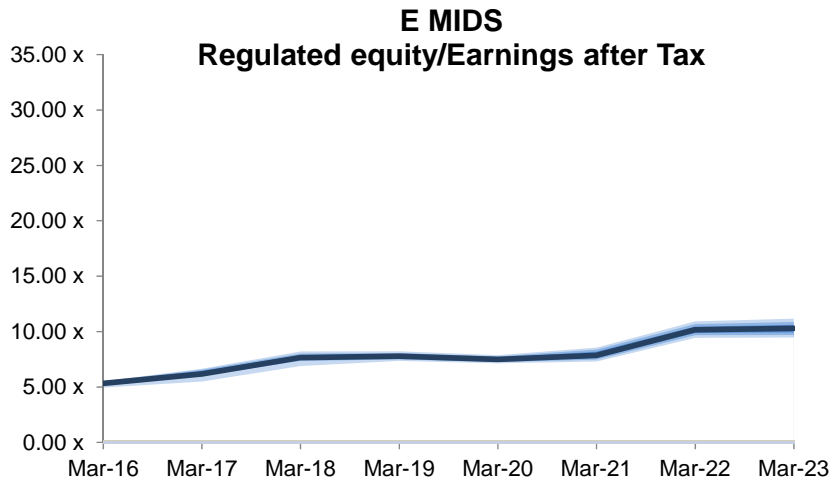
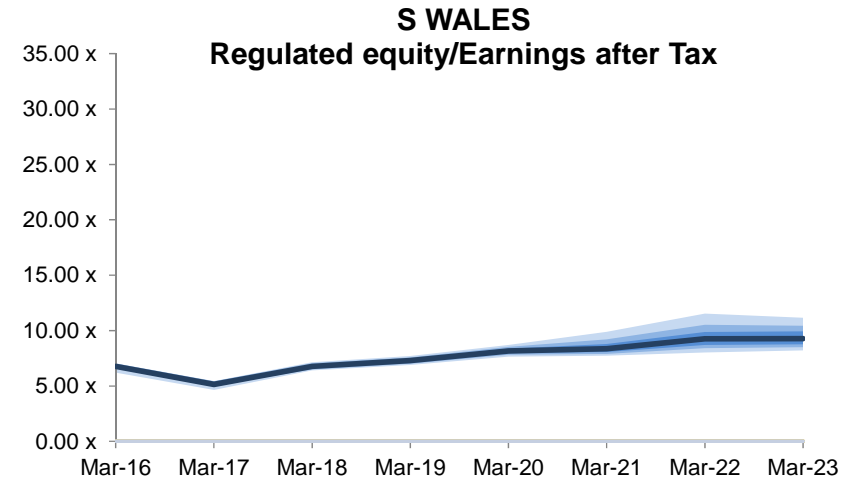
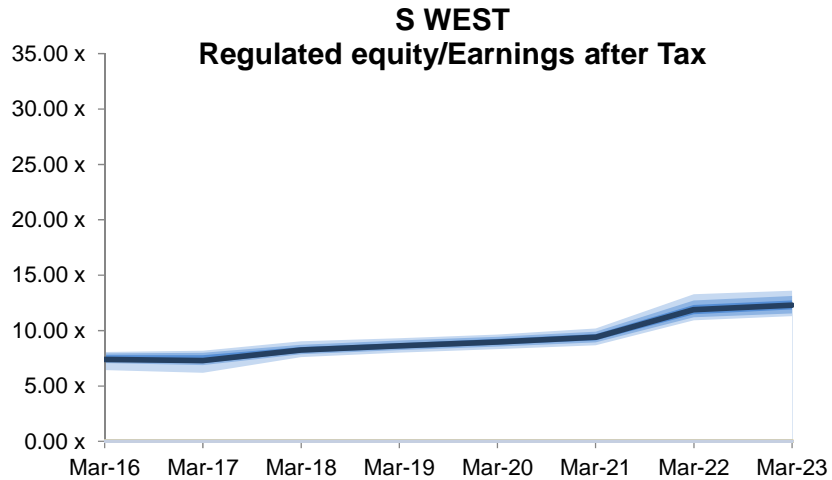


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 7: Notional gearing **60 %** - CoE **6.7%** - Capitalisation **80%** - 45 yr Depn **(phase-in)**

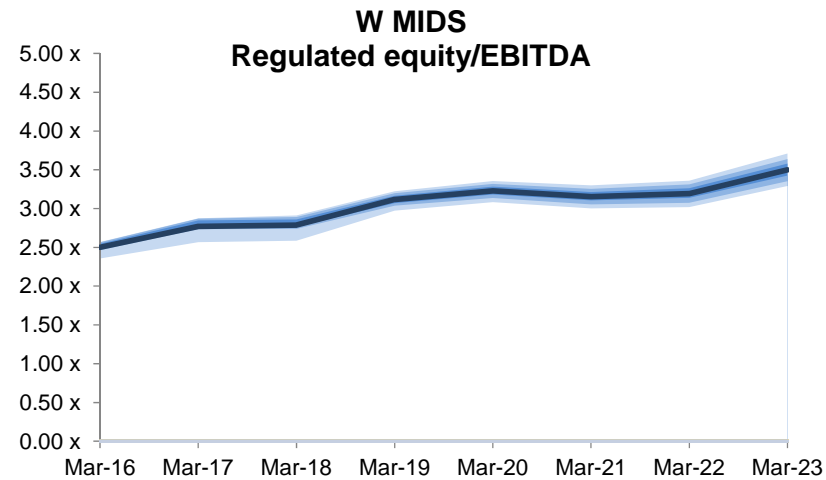
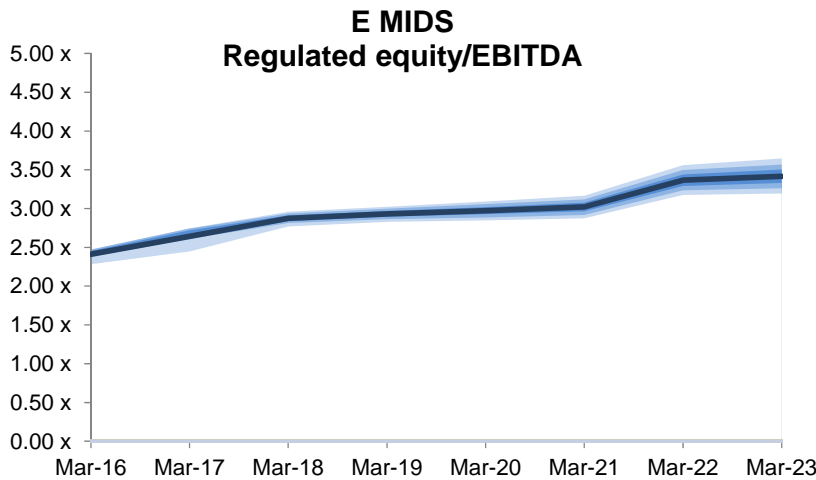
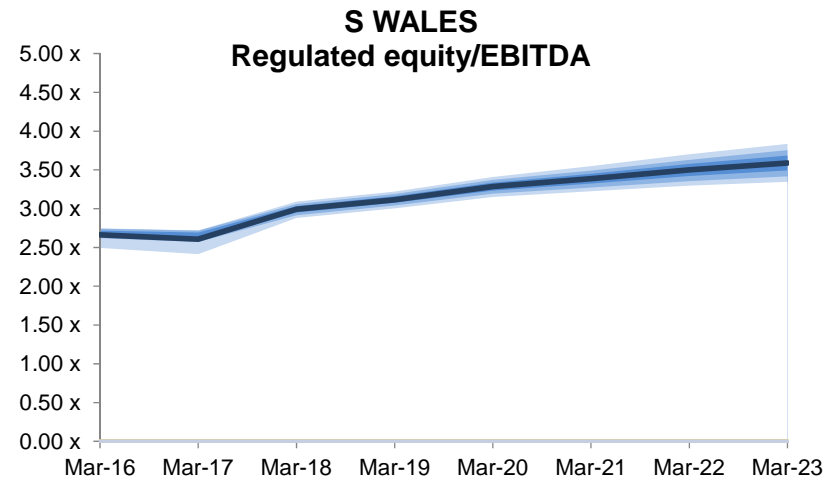
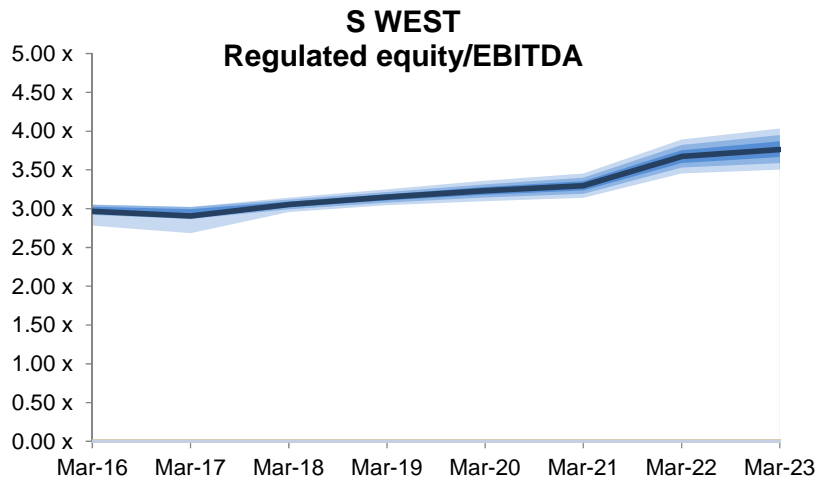


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 7: Notional gearing 60% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



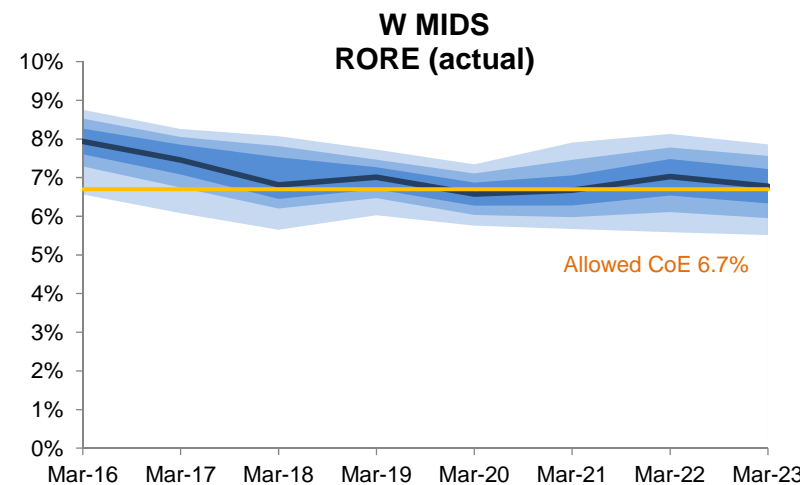
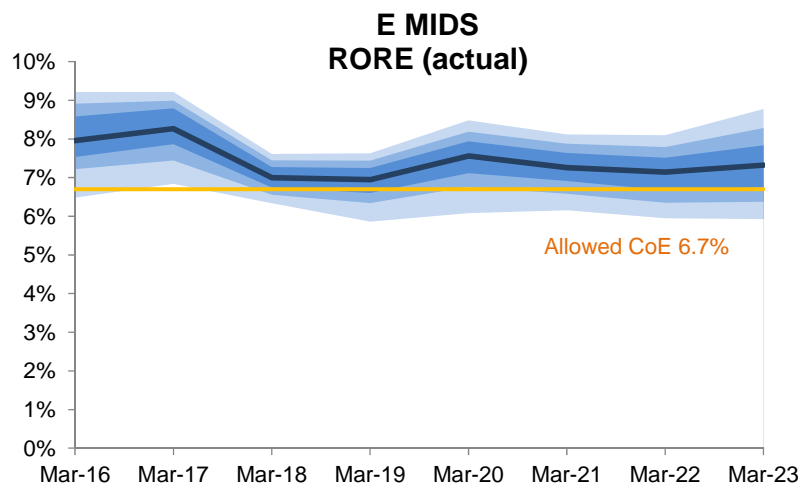
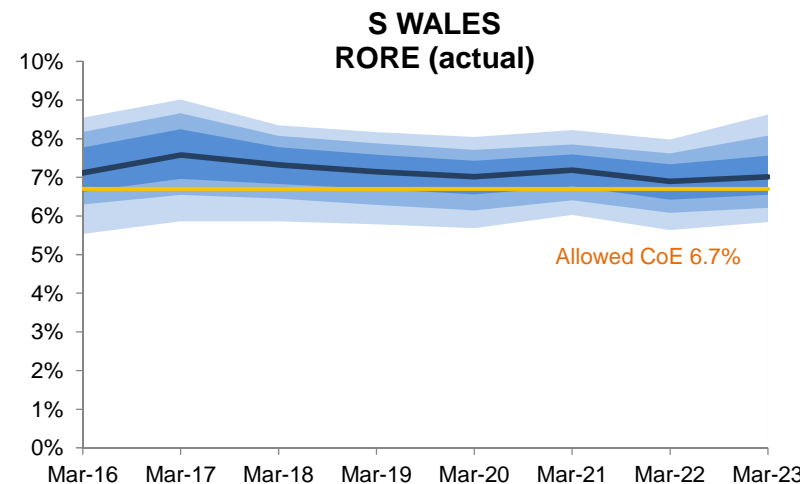
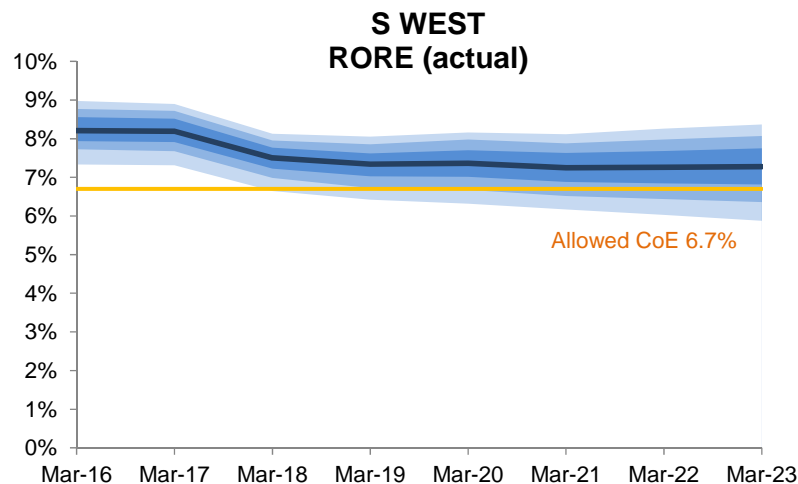
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

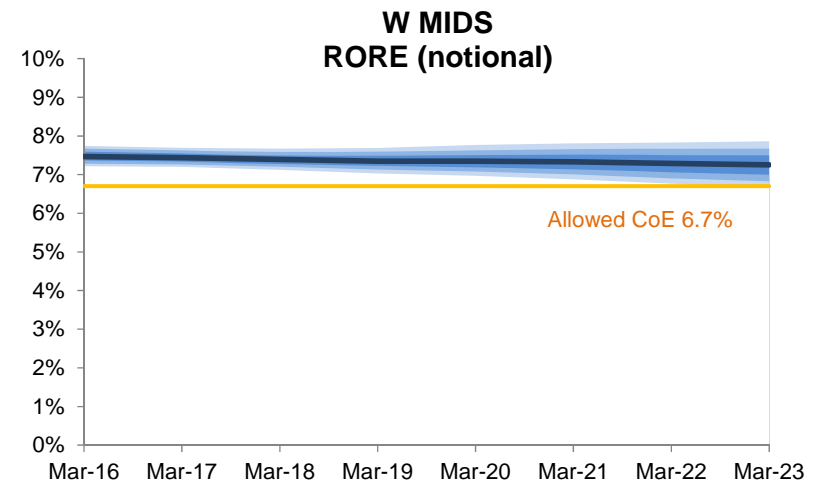
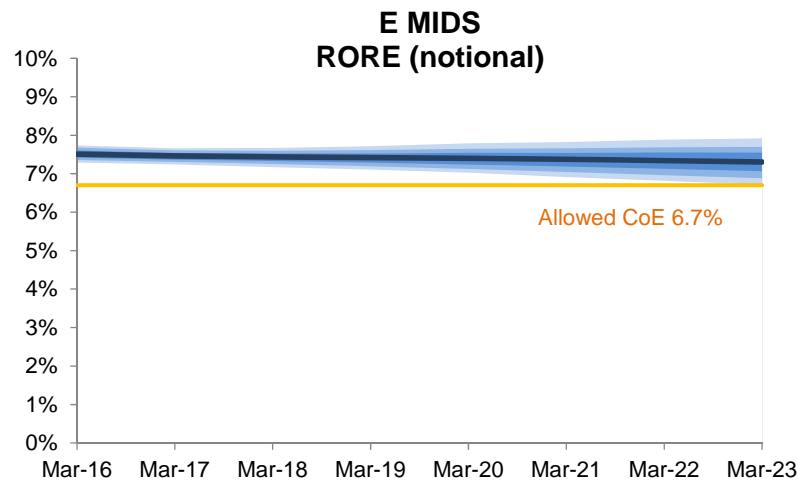
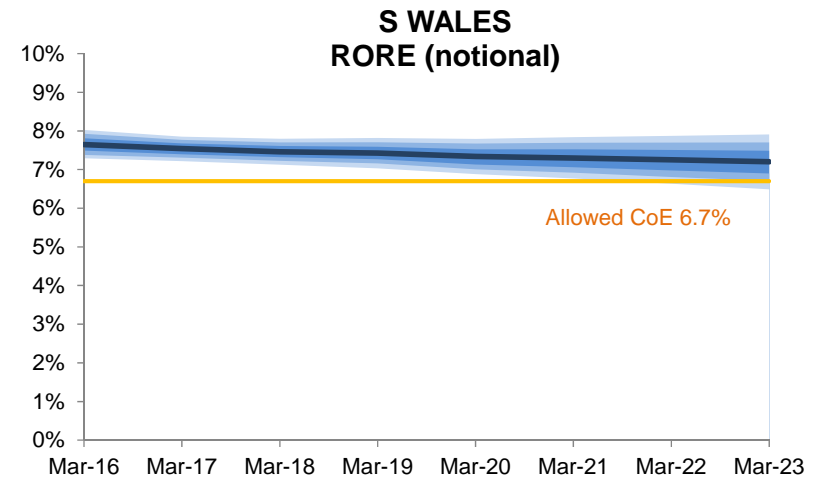
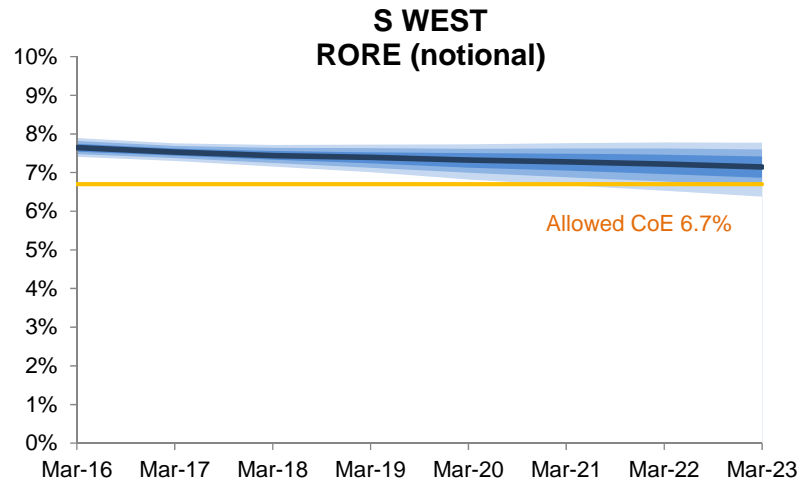
Scenario 7: Notional gearing 60 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances

Scenario 7: Notional gearing 60 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)





Model Outputs

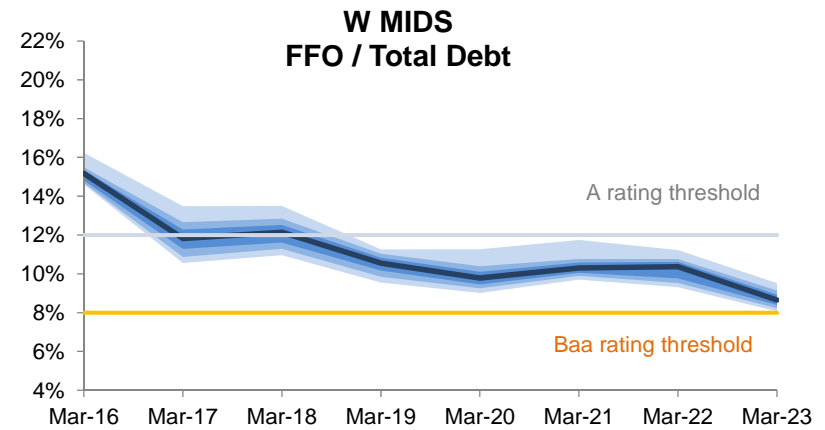
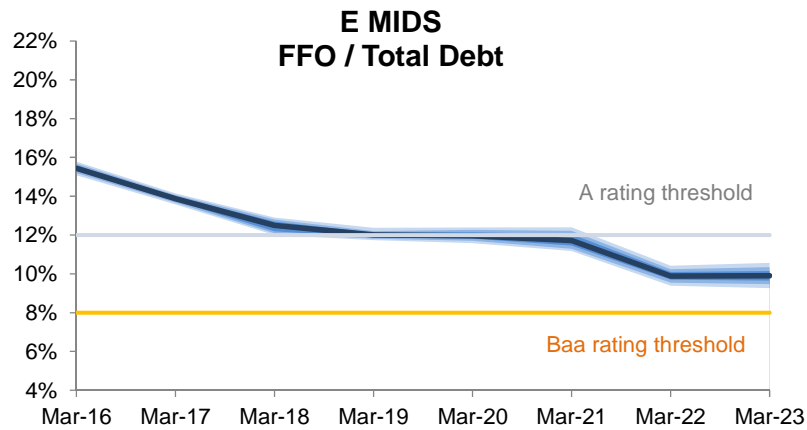
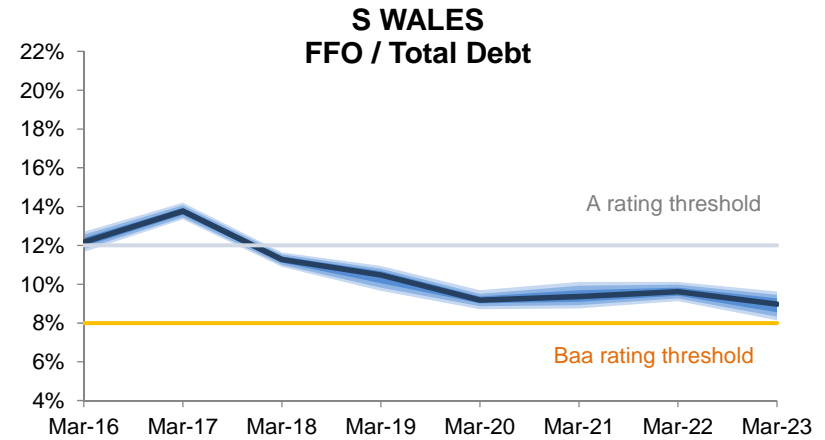
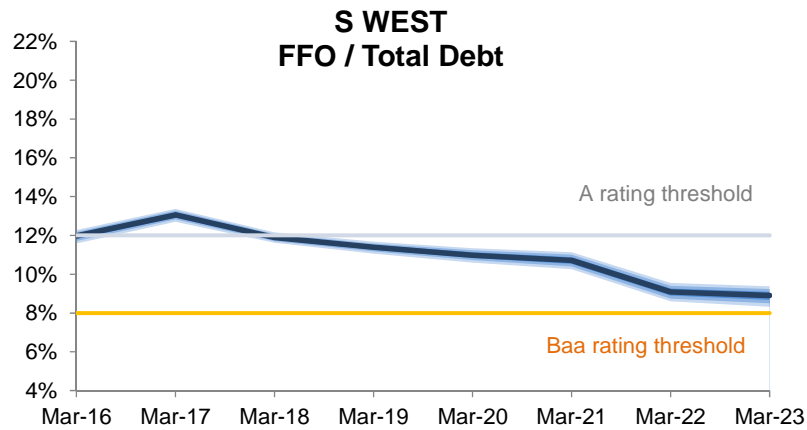
Scenario 8

Notional gearing at **70 %** - CoE 6.7% - Capitalisation **80%** - 45 yr Depn (**phase-in**)

Increasing notional gearing leads to a significant deterioration of the financial ratios relative to the scenario 4. RORE becomes more volatile due to out/underperformance being calculated relative to a smaller equity RAV.

FFO / Average Total Debt

Scenario 8: Notional gearing 70 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

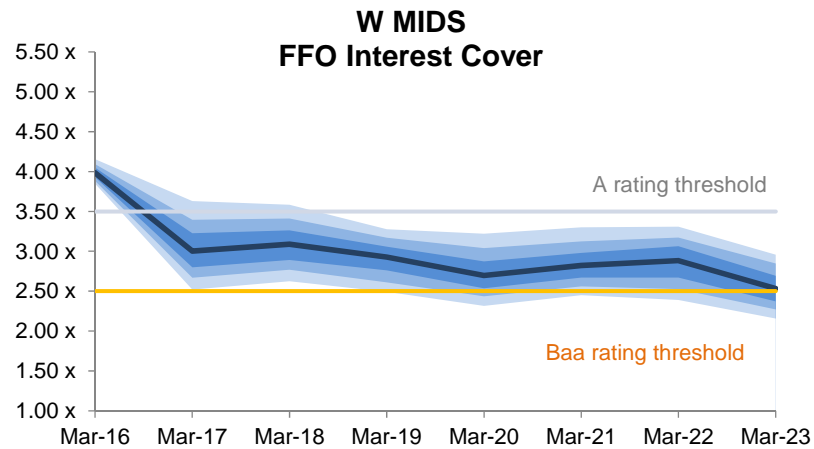
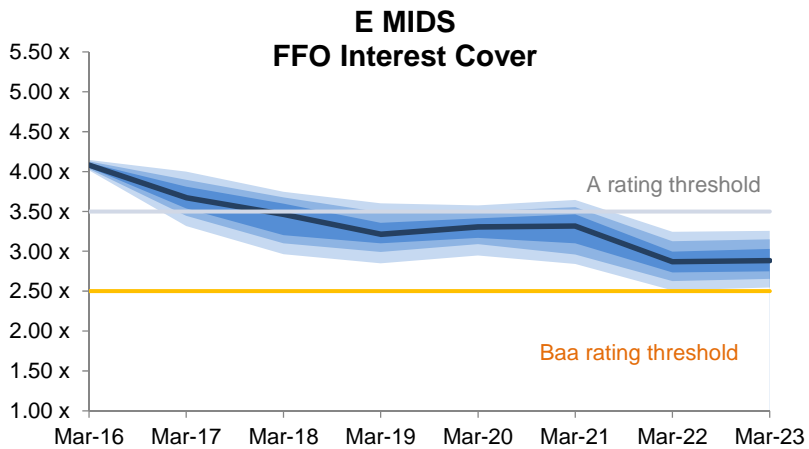
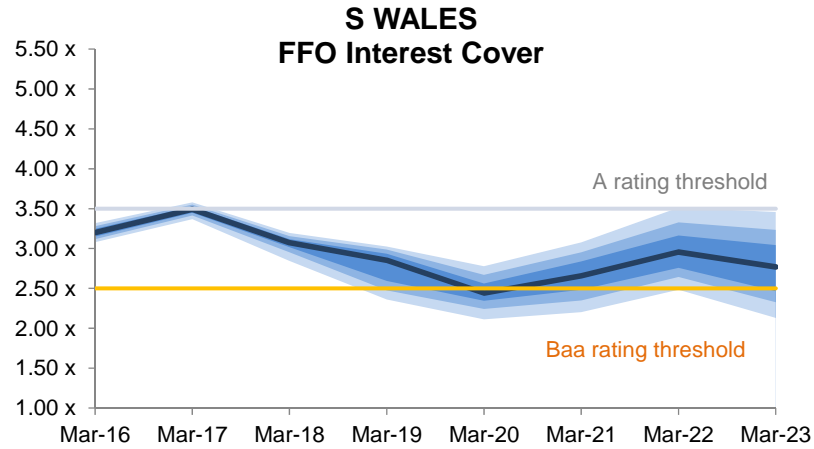
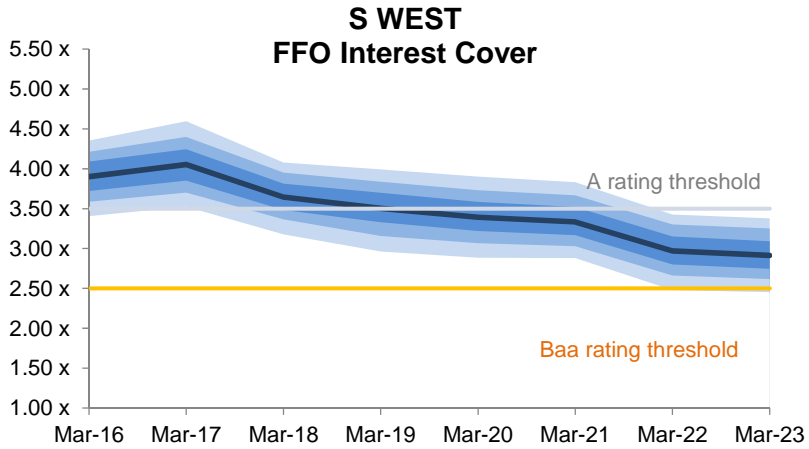


Confidence Levels: 50% - 75% - 95%

FFO / Interest Cover



Scenario 8: Notional gearing 70% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

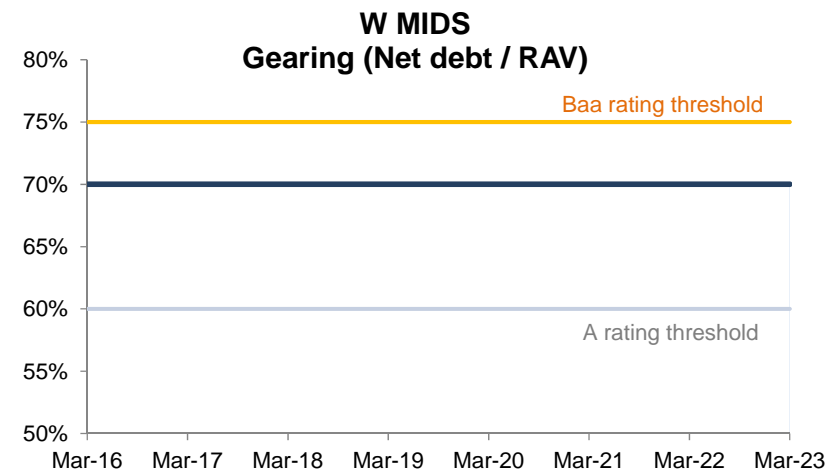
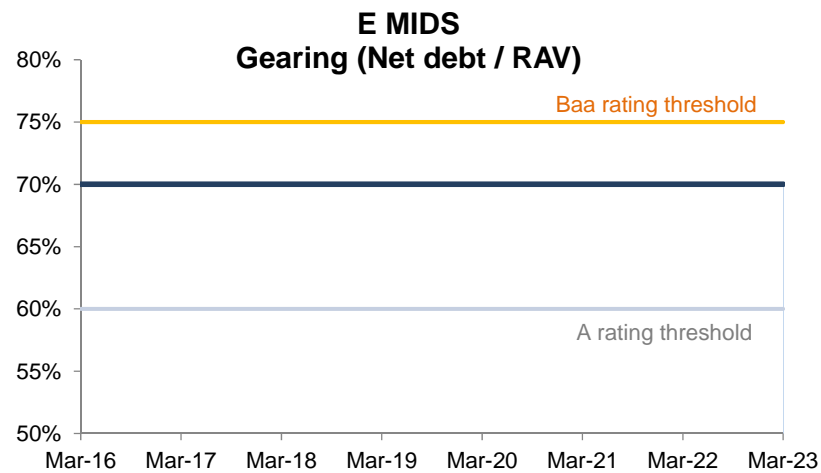
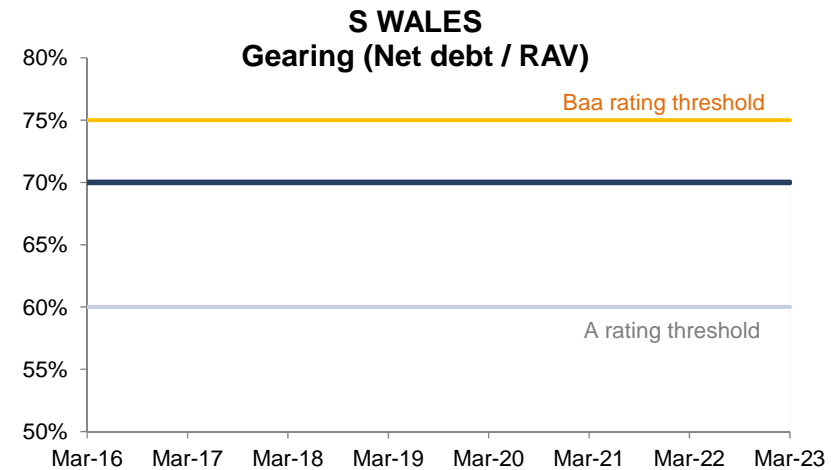
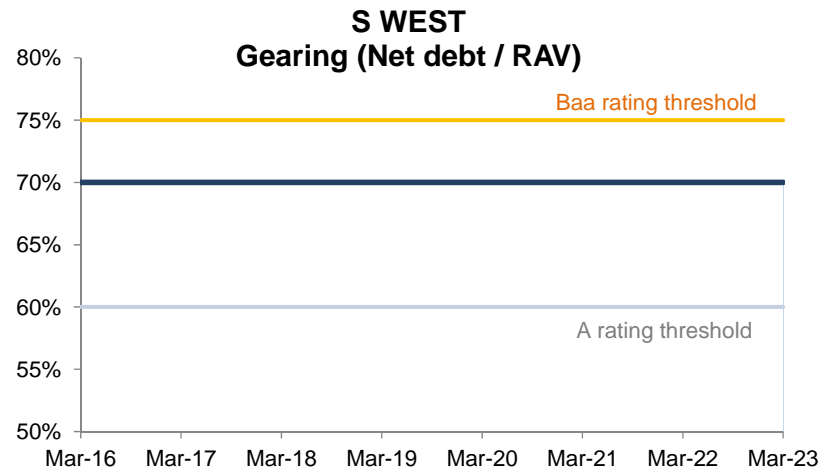


Confidence Levels: 50% - 75% - 95%

Gearing (Net Debt/RAV)

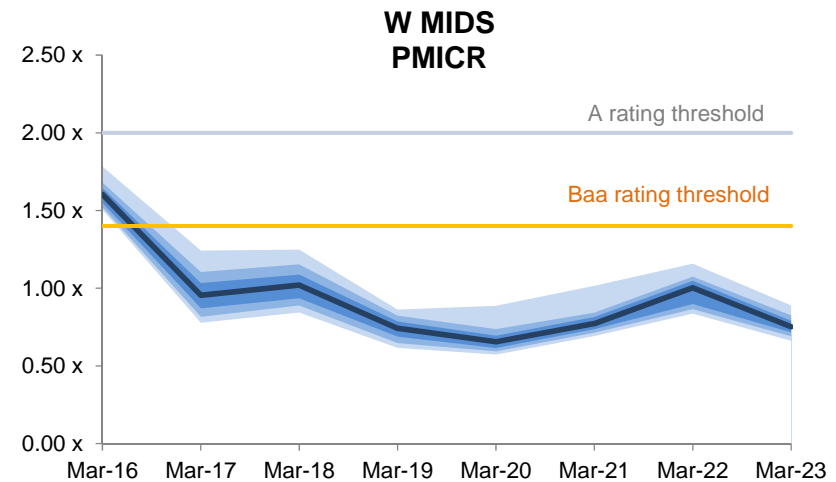
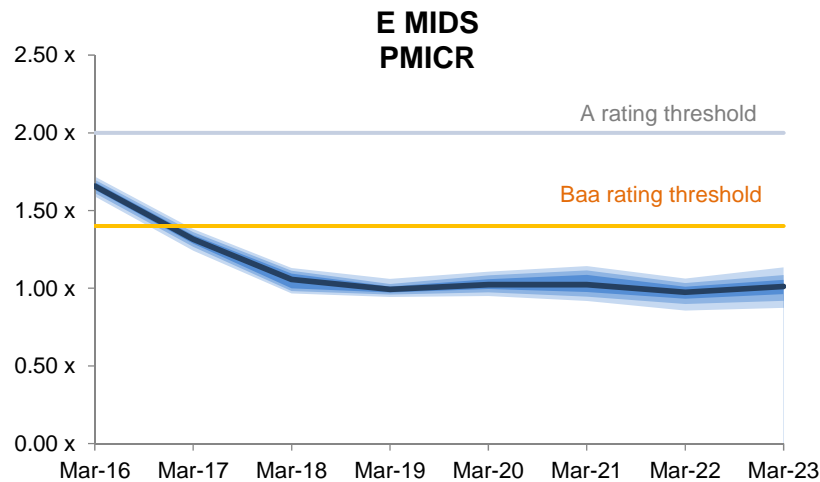
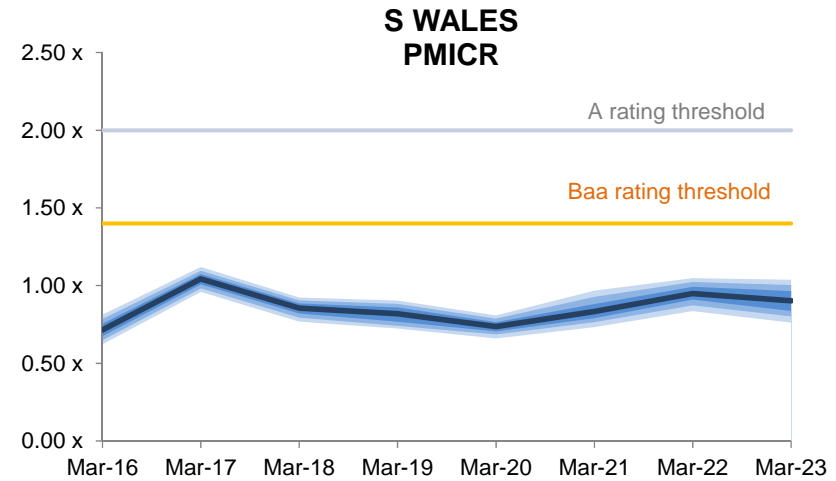
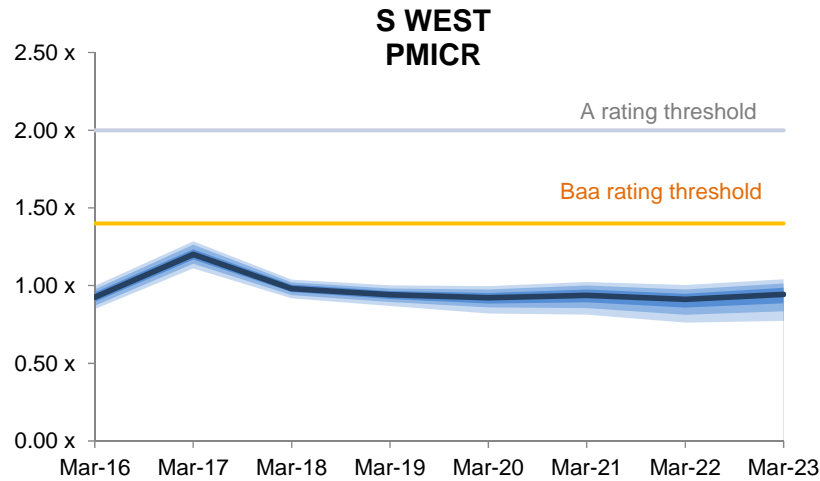


Scenario 8: Notional gearing 70% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



Confidence Levels: 50% - 75% - 95%

Scenario 8: Notional gearing 70% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

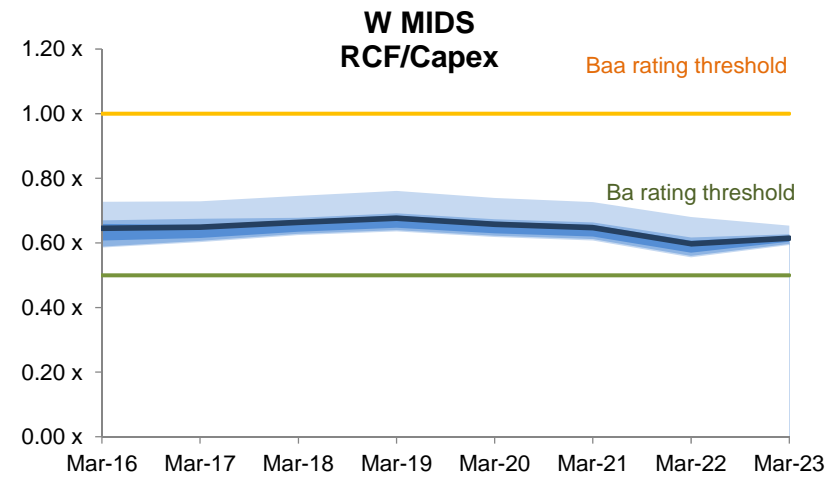
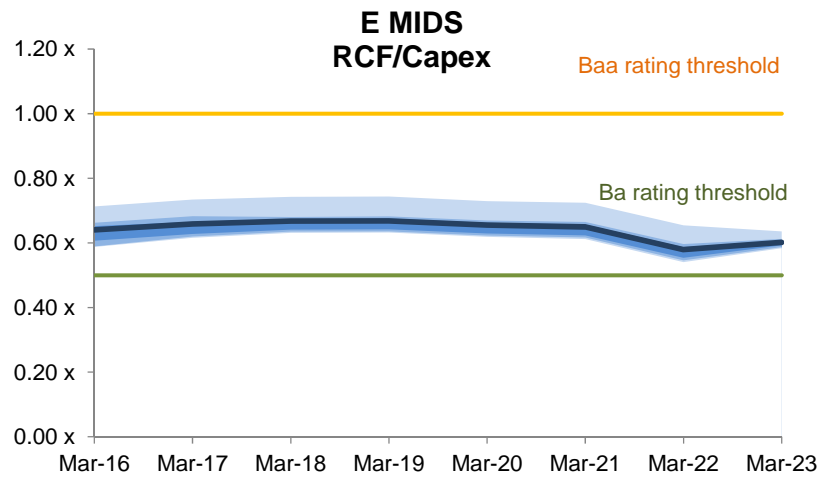
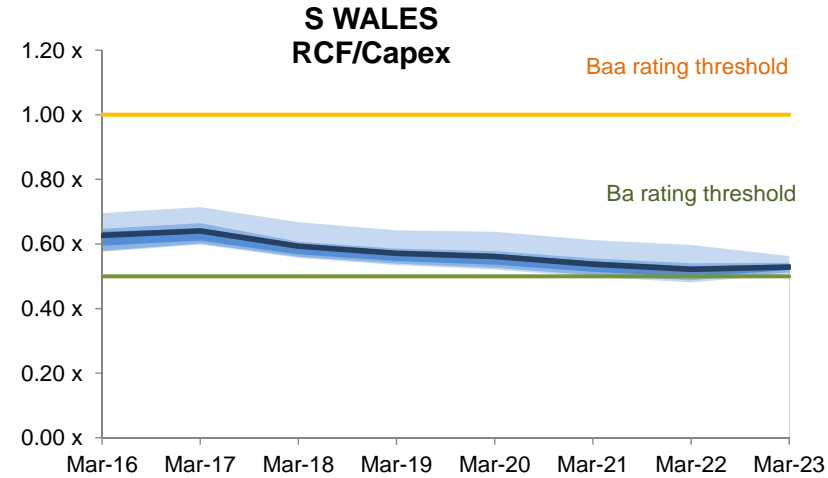
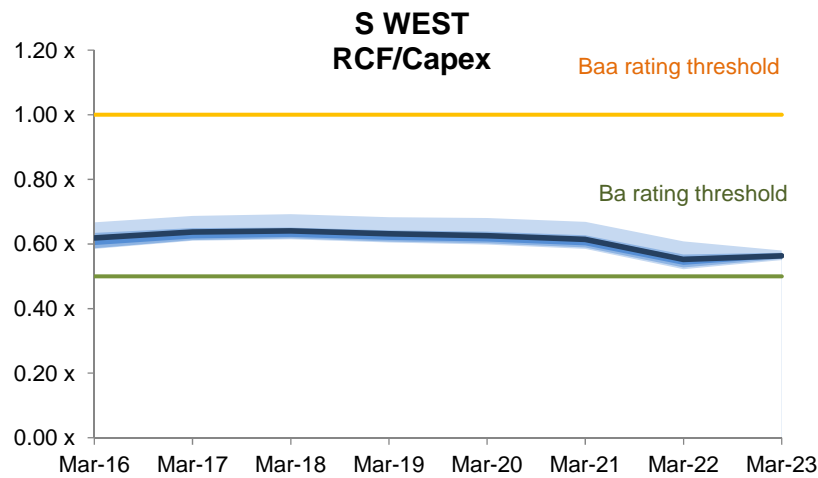


Confidence Levels: 50% - 75% - 95%

RCF / Net Capex



Scenario 8: Notional gearing 70% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

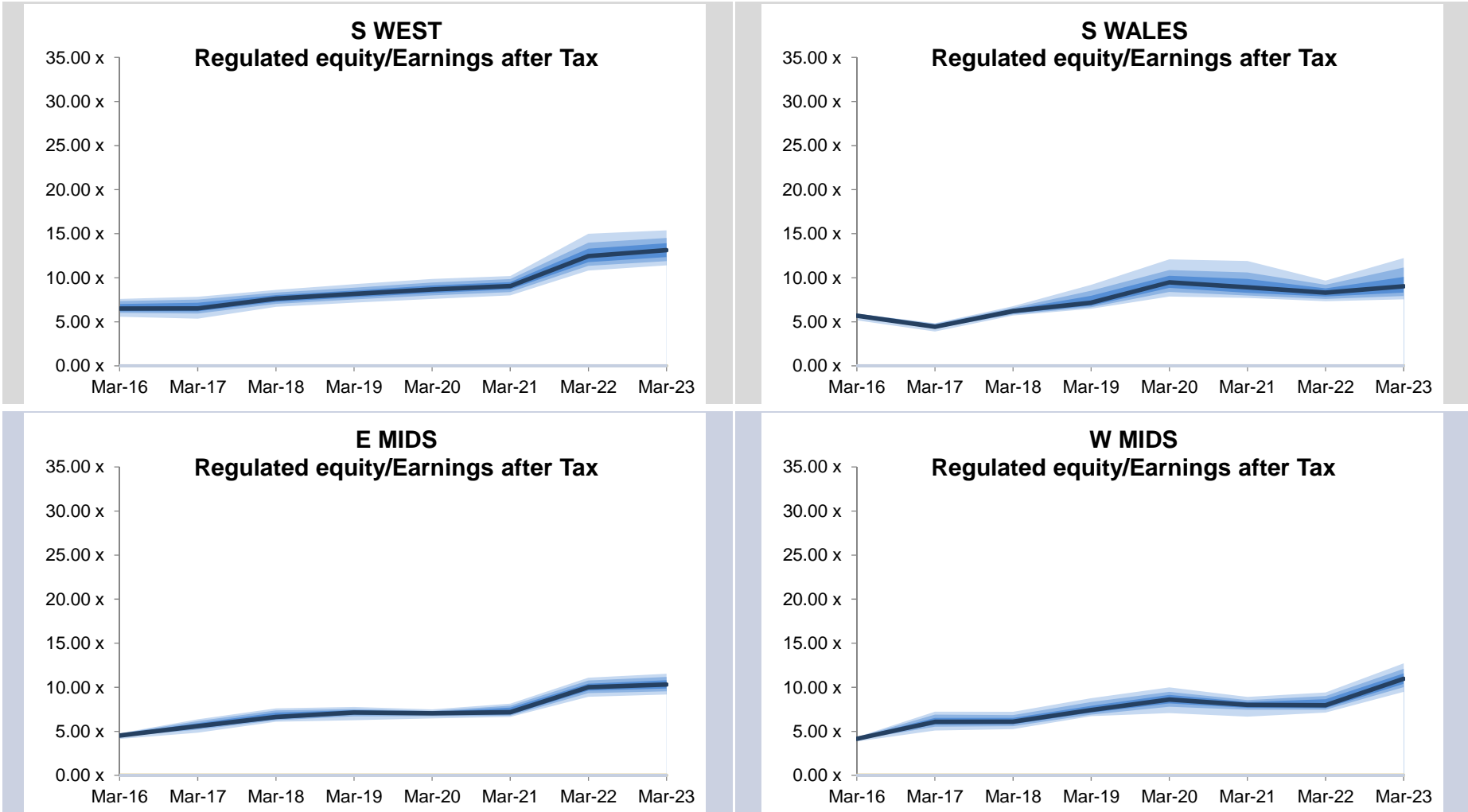


Confidence Levels: 50% - 75% - 95%

Regulated Equity / Earnings after Tax



Scenario 8: Notional gearing **70 %** - CoE **6.7%** - Capitalisation **80%** - 45 yr Depn **(phase-in)**

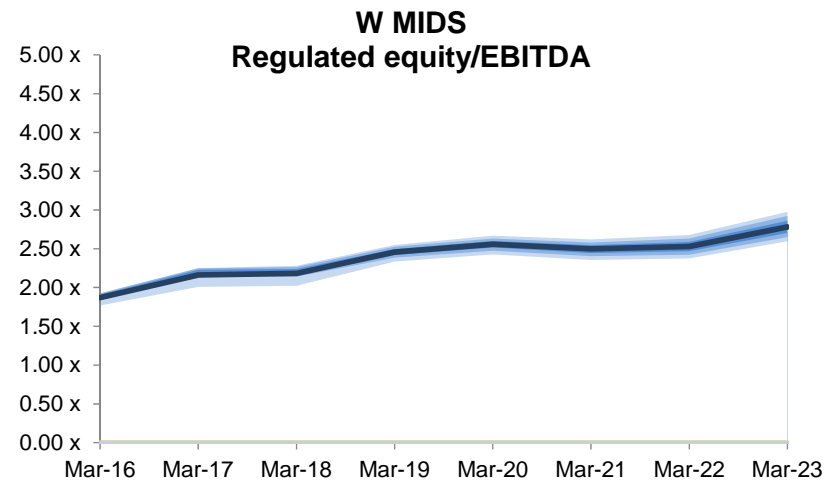
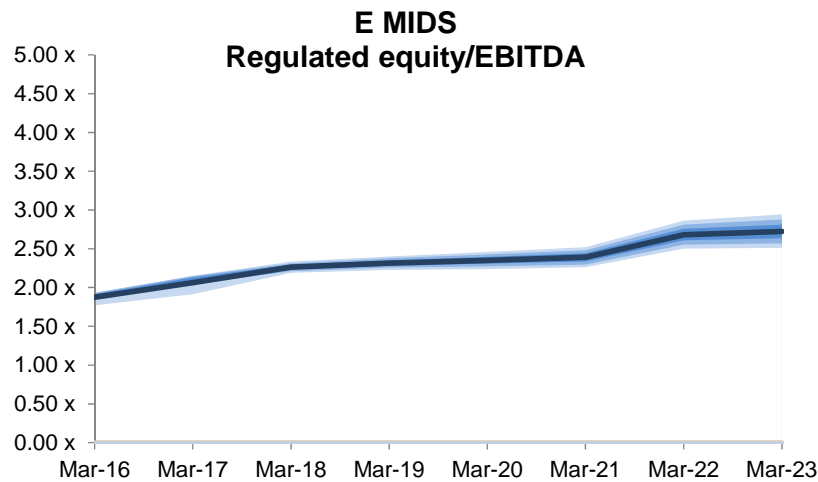
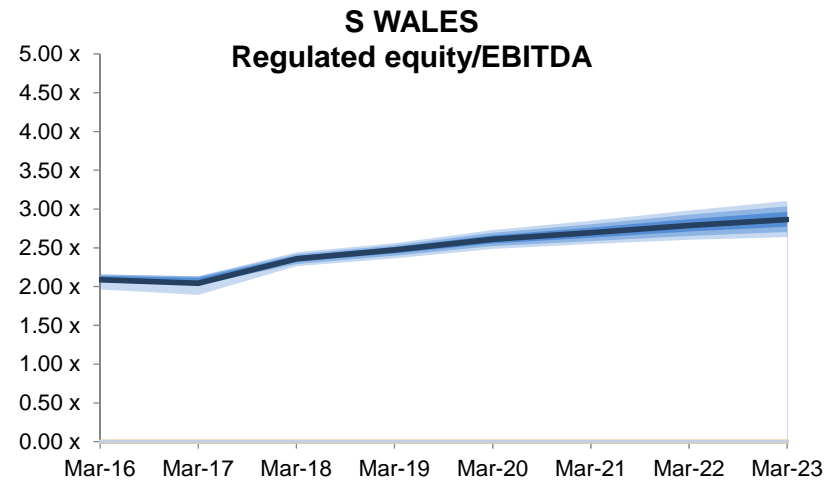
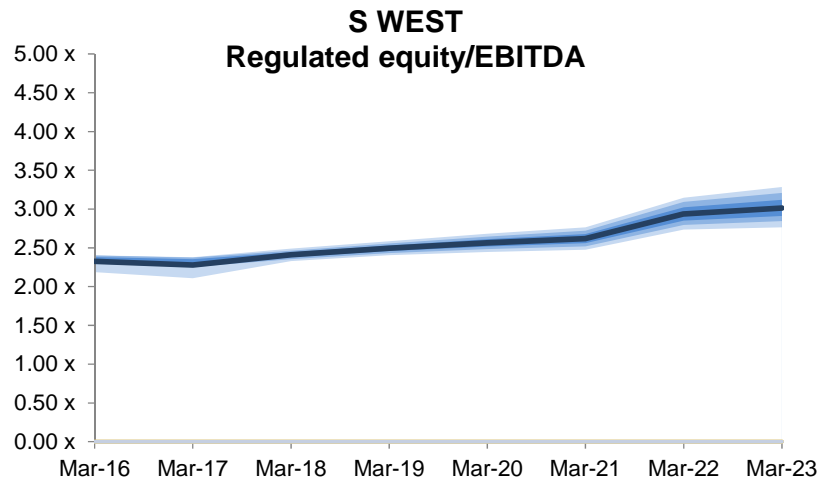


Confidence Levels: 50% - 75% - 95%

Regulated Equity / EBITDA



Scenario 8: Notional gearing 70% - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)



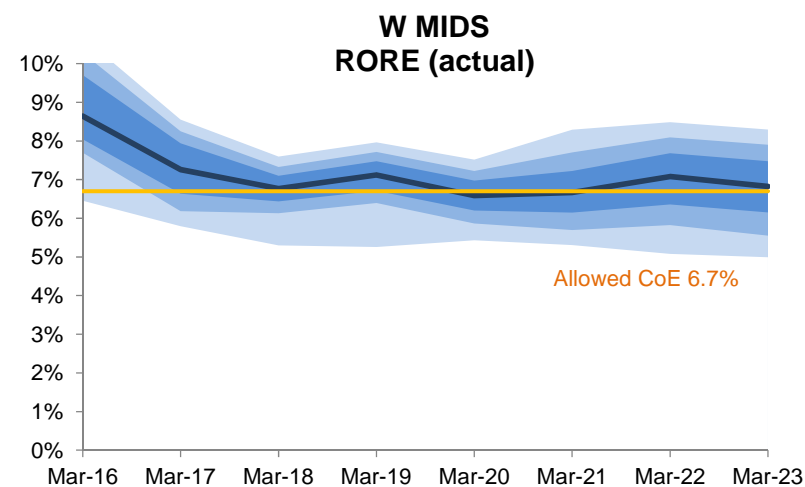
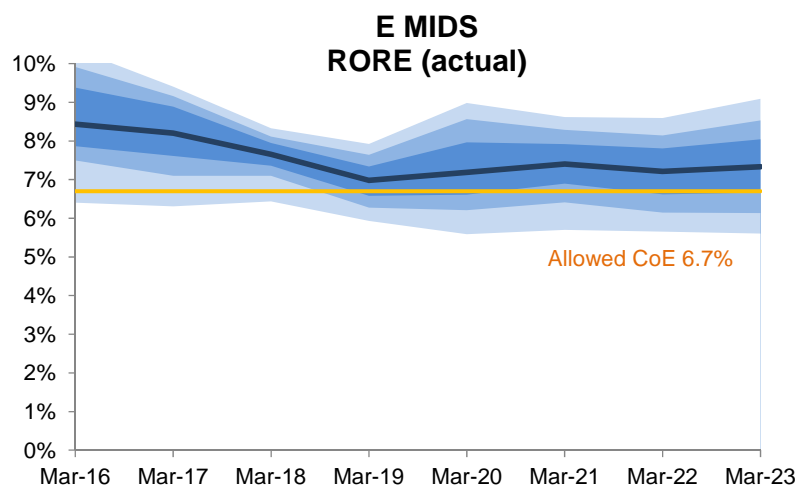
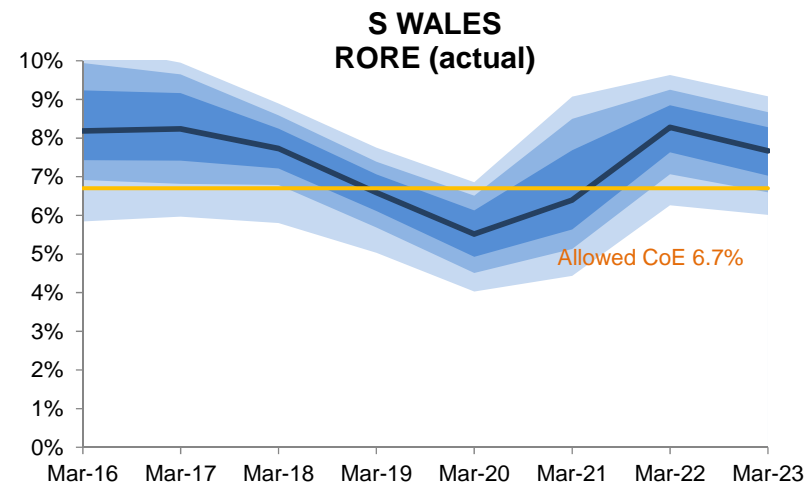
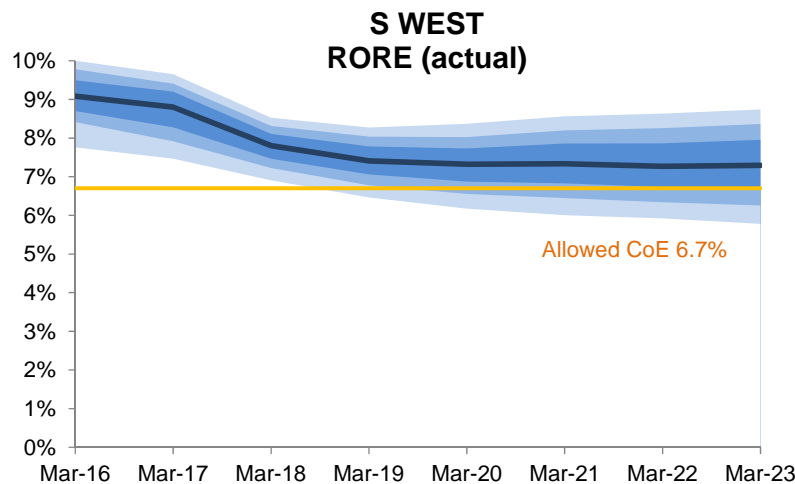
Confidence Levels: 50% - 75% - 95%

RORE (actual CoD) – higher volatility due to risks around WPD’s actual cost of debt



NERA
ECONOMIC CONSULTING

Scenario 8: Notional gearing 70 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)

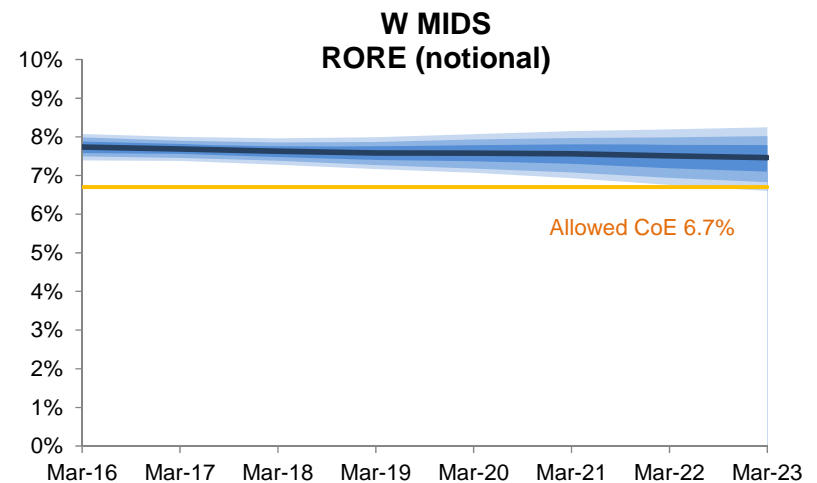
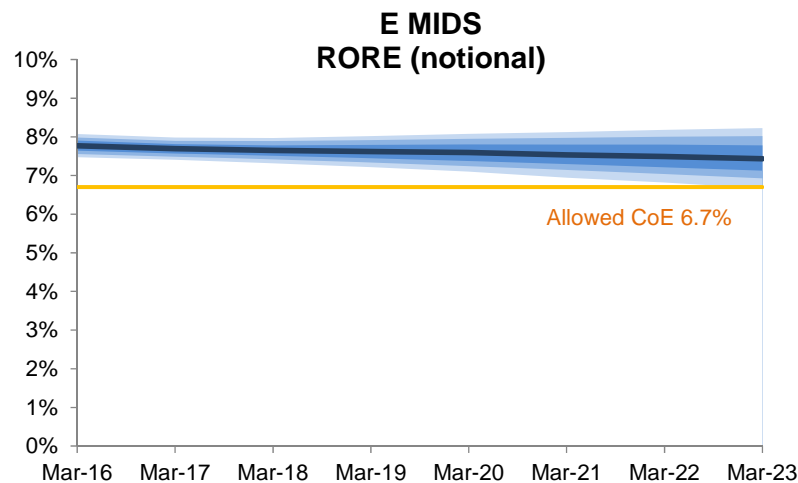
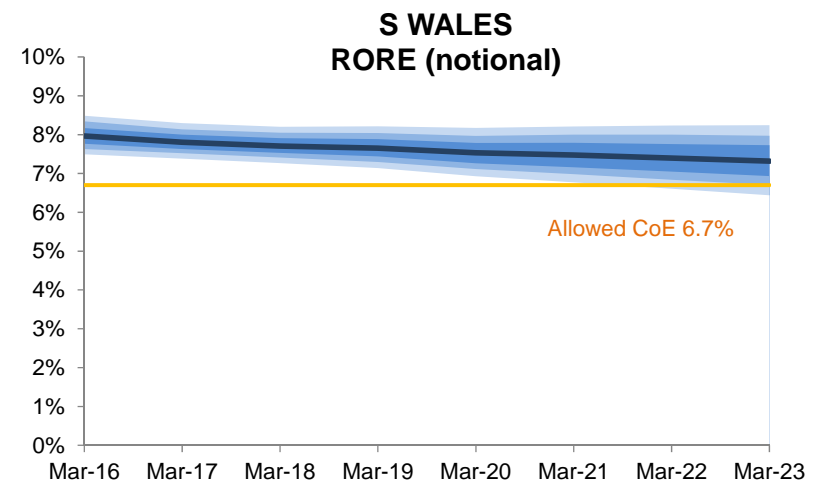
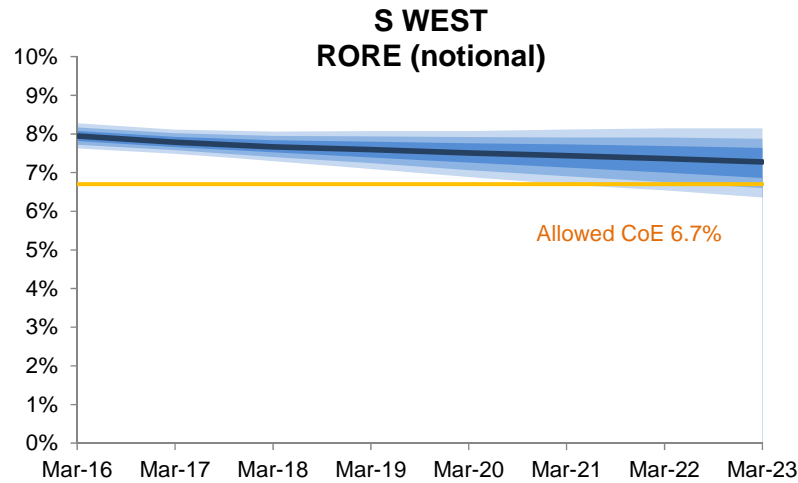


Confidence Levels: 50% - 75% - 95%

RORE (notional CoD) – assumes interest costs equal to Ofgem allowances



Scenario 8: Notional gearing 70 % - CoE 6.7% - Capitalisation 80% - 45 yr Depn (phase-in)





Contact Us

Richard Hern
Director
NERA—London
+44 20 7659 8582
richard.hern@nera.com

Richard Druce
Senior Consultant
NERA—London
+44 20 7659 8540
richard.druce@nera.com