SUMMARY OF CHANGES FROM THE JULY 2013 VERSION OF OUR WELL JUSTIFIED BUSINESS PLAN

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1. Summary of Main Changes

1.1 Expenditure

Since we published our well justified business plan in July 2013, we have made a number of changes to our plan to respond to feedback from customers, stakeholders and Ofgem. Our changes address areas where our plan appeared to be slightly expensive, reflect the latest available information and improve the clarity and structure of our plan.

The overall effect of the changes to our actual and planned expenditure is to reduce our forecast expenditure for the period 2016 – 2023 by more than £14m. The changes are summarised in the following table.

£m, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	**DPCR5 total**	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1 total**
Additional efficiencies	-	-	-	-	-	**-**	-2.8	-4.1	-3.8	-3.3	-4.9	-4.7	-4.1	-10.1	**-37.8**
New information	-	-	-	-22.8	17.9	**-4.9**	5.1	0.5	0.5	0.1	0.1	0.2	0.2	0.1	**6.9**
Correction of errors and omissions	0.1	0.0	-0.2	-	0.2	**0.1**	-0.7	0.7	0.5	0.1	0.8	1.7	4.2	9.2	**16.4**
Total	**0.1**	**0.0**	**-0.2**	**-22.8**	**18.1**	**-4.8**	**1.7**	**-3.0**	**-2.8**	**-3.0**	**-4.1**	**-2.8**	**0.2**	**-0.8**	**-14.5**

1.2 Outputs

We consulted with stakeholders extensively on the development of the outputs that we included in our previous plan. Ofgem's feedback confirmed our view that our plan included well developed output proposals. We have therefore made very few changes to our output proposals. The changes we have made following stakeholder engagement and Ofgem feedback are:

- We have removed the specific commitment to spend £1 million each year on social outputs but have added a number of additional outputs. We believe that focusing on the delivery of these commitments is more appropriate that just spending a fixed amount of money.
- Despite there being an exemption available for severe storms that allows DNOs to only compensate customers after 48 hours, wherever possible we will continue to pay compensation after 18 hours.
- We have reviewed Ofgem's published targets for both the time to quote and the time to connect small service connections. After testing with stakeholders, we have set revised targets in line with the targets for maximum reward.

1.3 Financing

Ofgem's decision not to Fast Track our plan and to reduce the Cost of Equity to 6.3% (and potentially lower) creates significant downward pressure on our key financial metrics. We have therefore revisited our financing proposals and, in particular, the steps we must take to ensure the company maintains stable credit ratings and remains financeable. Our financing plan has been significantly updated.

Our revised plan includes:

- an alternative proposal for different weightings to the trailing average Cost of Debt calculation
- a revised Cost of Equity assumption of 6.3% which we believe is justified by our demonstrably efficient plan
- our gearing is unchanged at 65%
- updated tax pool allocations
- updated assumptions about DPCR5 close-out adjustments
- a lower level of revenue deferral from 2014-15 into 2015-16 of £11m

We include sensitivity analysis showing that if Ofgem opts to set our Cost of Equity at its "central reference point" of 6.0% we would need to reduce our notional gearing to 62.5%.

1.4 Revenues and Prices

The changes to our plan result in further reductions to the revenues that we propose to raise from customers from 2016 to 2023. Our proposed base revenues drop by a further £76m relative to our July 2013 plan.

	£m, 8 year total
July 2013 plan	**2,940.2**
Changes to deferral, including changed tax treatment	-19.0
Changes to totex expenditure (excluding impacts on tax allowance)	-12.5
Effect of changes to tax opening balances and tax pool percentages to totex allocations	-9.5
Changes to non totex expenditure	16.1
Changes to other costs or cost treatment, eg excluded services	-7.5
Changes to legacy (inc DPCR5 RAV), assumptions (eg RPI, IQI reward spread) & pension deficit	34.0
Removal of fast track reward	-50.4
Changes to financing (Kd, Ke)	-16.6
Changes to revenue profiling	-10.7
Other changes	-0.1
March 2014 plan	**2,864.0**
Total reduction in revenue	**-76.2**

Overall, the impact on prices that will be paid by domestic customers as a result of our new plan is a reduction of £19.72 (or 18%) from 2014-15 to 2015-16. The average price paid by domestic customers in RIIO-ED1 will be £87.38 per year. This is 16% lower than the average price paid across the DPCR5 period.

1.5 Presentation of our Plan

Following feedback from customers, stakeholders and Ofgem, we have made substantial changes to the presentation of our plan to make it easier to navigate and to allow some key aspects of our plan to be more easily understood.

2. Introduction

Since we published our well justified business plan in July 2013, we have made a small number of changes to our plan to respond to the feedback from customers and stakeholders. Our changes address areas where our plan appeared to be slightly expensive, include updated financing assumptions, reflect the latest information available and improve the clarity and structure of our plan.

Our revised well justified business plan can be found at the following link: www.enwl.co.uk/business-plan/WJBPhome.

This document describes these changes.

3. Process

We have followed a clear process to identify the changes we needed to make to our plan. We tested these changes with customers and stakeholders, undertook analysis to assure ourselves that our plan is efficient and assured ourselves that the data included in our plan is robust.

3.1 Stakeholder Engagement

We sought further input from stakeholders on three aspects of our resubmission, to ensure that we are making the right decisions for them.

- Changes to our original submission
- New proposals
- Further formal input and support of original plans

Using channels we established during engagement for the original submission we were able to go straight to engaged and informed stakeholders for input on the resubmission.

We held an extraordinary External Stakeholder Panel meeting in January 2014 and also held an extra Engaged Consumer Panel survey and workshop.

These engagement activities focused on four key aspects of our plan that we felt needed further input from stakeholders. They were:

- Connections
- Vulnerable customers
- Storm compensation
- Electricity theft

3.2 Efficiency Analysis

We have undertaken a huge amount of work assessing the potential for efficiency improvements in the way we operate, maintain and develop our network.

We have reviewed our plan in great detail in preparation for resubmission and have undertaken substantial analysis to assure ourselves that our revised plan represents an efficient and well justified proposition for customers to fund.

3.3 Assurance and Approval

We commenced our data and process assurance planning for our well justified business plan in 2011 and have committed significant resources to it.

Our plan comprises a combination of historic actual data, current year data and forecast data; these aspects require quite different assurance processes. Our governance process for our revised plan is consistent with other significant regulatory submissions and builds on our assurance of our original plan, including assurance checks, second person review, internal expert reviewers, risk-based audits and ultimately, approval by the Electricity North West Board.

4. Efficiency Adjustments

Ofgem generally found that our plan was efficient. However, in a small number of areas we accept that our proposed costs were higher than those of other DNOs and agree that we should adjust our forecasts downwards.

Unless otherwise stated, all numbers presented in this document are presented in 2012-13 prices and are gross costs prior to any customer contributions and include any associated real price effects.

4.1 Asset Replacement and Reinforcement Unit Costs

We have reviewed the unit costs associated with all our activities, updated them for latest market evidence and compared our forecasts to those of other companies and those suggested by Ofgem’s cost assessment analysis. In a small number of instances, in particular for some 33kV and 132kV assets, we found that our proposed unit costs were not competitive and have updated our forecasts accordingly.

We have also reviewed our largest schemes and have changed our proposed solution for one of our sites in light of the application of updated cost benefit analysis. This has reduced our proposed programme by £4m.

We have additionally reviewed our proposed approach and costs for the unlooping of services to accommodate the connection of low carbon technologies.

4.2 Black Start Costs

We have reviewed our proposals associated with ensuring that the network has enough back up capacity to be re-started should the whole system ever go down (known as Black Start). This largely involves ensuring substations have sufficient battery backup and that communications systems still work in the event of a complete mains power failure.

Following our review, we have now assumed that we will be able to make use of battery saver technology. We have also moved the costs of changing our existing batteries on a like for like basis to asset replacement, reducing the cost of this programme.

4.3 Rising & Lateral Mains

Historically there has been uncertainty over ownership of many rising laterals and mains (RLMs) in multiple occupancy buildings. We undertook our first RLM replacement projects in 2013.

The costing of the RLM replacement programme in our July 2013 plan was based on prices quoted by our then-current RLM contractor for work with an assumed efficiency from a competitive tender process. We have since been to market for a number of framework contracts to deliver the increased volume of work in the remainder of DPCR5 and the RIIO-ED1 period. This exercise revealed lower contractor prices than previously forecast and as a result we have reduced the RLM forecast.

4.4 Occurrences Not Incentivised

We have made two changes to the costs that we forecast associated with Occurrences Not Incentivised.

- We have adjusted our forecast to recognise a double-count included in our July 2013 plan whereby work associated with faulty cut-outs was double counted in this category and the new smart meter category.
- We also recognise that our costs associated with emergency disconnections were high compared to those of other DNOs and have reduced them accordingly.

4.5 CEO Etc Costs

We have reviewed the level of business support costs forecast by other ownership groups in their July 2013 plans. We recognise that several other ownership groups forecast to spend a lower level of CEO Etc costs than we included in our original plan. As a consequence, we have removed more than £10m from our original forecast of CEO Etc costs.

4.6 Efficiency Adjustments - Summary

The effect of these changes is to remove £38m of further efficiency savings from our plan, as shown in the following table:

£m, gross costs, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	**DPCR5 total**	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1**
Reinforcement	-	-	-	-	-	**-**	0.1	-0.9	-0.6	0.0	-1.7	-0.3	0.3	-2.2	**-5.2**
Asset Replacement	-	-	-	-	-	**-**	-1.1	-1.5	-1.3	-1.4	-1.4	-0.3	-0.3	-3.7	**-11.1**
Black start	-	-	-	-	-	**-**	-	-	-	-	-	-2.3	-2.3	-2.3	**-6.8**
Rising Mains & Laterals	-	-	-	-	-	**-**	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	**-1.7**
Occurrences Not Incentivised	-	-	-	-	-	**-**	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	**-2.8**
CEO Etc Costs	-	-	-	-	-	**-**	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	**-10.3**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-2.8**	**-4.1**	**-3.8**	**-3.3**	**-4.9**	**-4.7**	**-4.1**	**-10.1**	**-37.8**

5. Changes Due To New Information

In the eight months that have passed since our previous plan was published, we have received updated information in a number of areas that we have factored into our plan.

5.1 2013-14 Latest Performance and Re-profiling

We have updated our plan to reflect our latest delivered performance. Population of 2013-14 costs and volumes required of a mixture of actual and forecast data. To allow sufficient time for data validation and assurance of tables, we populated 2013-14 based on actual data to 31 December 2013 plus forecast data for January to March 2014. In some areas we are further ahead in our delivery of efficiency savings that we expected to be, leading to reductions in expenditure that will be shared with our customers.

As part of our ongoing management of the delivery of our activities, we have made some minor amendments to the timing of some projects during the course of the year. We have reflected these in our revised plan.

5.2 Overhead Line Clearances

We are currently undertaking a substantial programme of updating our overhead lines to comply with revised standards required in Regulations 17 and 18 of the Electricity Safety Quality and Continuity Regulations (ESQCR).

The programme to date has been substantially focused on low voltage and high voltage mains clearance issues, and also completing a programme of re-measurement of clearances previously judged as ‘marginal’. This latter work has revealed significant quantities of additional non-compliant clearances which have been added to the forecast workload.

In order to achieve the most efficient delivery route, we have combined the ESQCR compliance work with the other elements of our woodpole programme to deliver an integrated programme of work by area which resolves both compliance and condition issues.

5.3 Operational IT Programme

Since July, our Operational IT programme has been regularly reviewed in line with overall IT strategy, taking into account the emerging requirements driven by the low carbon economy.

This has resulted in the core delivery programme being delayed in order to carry out detailed reviews of our Operational IT infrastructure to ensure it is sustainable, scalable and supportable into the future at optimal cost and will provide a platform for future smart grid functionality. These reviews informed a strategic decision to implement a new commercial off the shelf advanced Network Management System. The delivery profile has therefore changed from the original plan with much more work being delivered in 2014-15 than we originally planned.

5.4 Resilience Tree Cutting

Following this winter's storms, we have reviewed the way in which we prioritise our resilience tree cutting programme. We plan to change the work mix associated with this activity to better target the most vulnerable parts of our network. As a consequence of this change, the volume of work and its associated average unit costs have changed, leading to a slight increase in our planned expenditure.

5.5 Low Carbon Network Fund - Smart Street

In November 2013, Ofgem announced that we had been successful in being awarded Low Carbon Network Funding for our 'Smart Street' project. We have included estimated project costs for Smart Street in our revised plan. This project will start in 2014 and is forecast to complete in 2018.

5.6 Re-profiling of Property Provision

Electricity North West holds liabilities associated with the leasehold titles of 35 retail premises that we held when we engaged in retail operations until the mid 1990s. The leases were assigned to a third party from 1996, but we remained contingently liable for rent and other property payments under contractual arrangements. In November 2012, the assignee of leases of these buildings entered into administration, following which we recognised a provision in our financial statements for year ending 31 March 2013.

We have undertaken a considerable amount of work to seek to minimise our liabilities in this area. We have updated our forecast in line with our latest view of our liabilities. The costs associated with this activity are not funded by our customers.

5.7 Real Price Effect (RPE) Changes

Our revised plan contains a slightly different mix of activities. The proportion of activities that we plan to deliver via our own labour and via contractor labour has also changed slightly. As a consequence of this, our forecast level of RPEs has also changed slightly.

We have not made any changes to our assumed RPE indices.

5.8 Changes Due to New Information - Summary

The effect of changes due to new information is shown in the following table:

£m, gross costs, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	**DPCR5 total**	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1 total**
2014 Actuals and re-profiling	-	-	-	-17.9	-3.5	**-21.5**	-	-	-	-	-	-	-	-	**-**
Overhead line clearances and associated asset replacement and refurbishment	-	-	-	-	4.8	**4.8**	4.2	-	-	-	-	-	-	-	**4.2**
Operational IT & Telecoms	-	-	-	-6.9	8.6	**1.7**	-	-	-	-	-	-	-	-	**-**
Resilience tree cutting	-	-	-	-	-	**-**	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	**2.1**
LCNF Tier 2 - Smart Street	-	-	-	-	8.2	**8.2**	2.2	0.7	0.5	-	-	-	-	-	**3.4**
Profiling of retail property provision	-	-	-	2.0	-0.5	**1.5**	-1.6	-0.5	-0.2	-0.1	-0.2	0.0	0.0	-	**-2.4**
RPE change due to new programme mix					0.4	**0.4**	-0.0	0.0	0.0	0.0	-0.0	-0.1	-0.1	-0.2	**-0.4**
Total	**-**	**-**	**-**	**-22.8**	**17.9**	**-4.9**	**5.1**	**0.5**	**0.5**	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**	**6.9**

6. Correction of Errors and Omissions

We have identified a few omissions from and other errors in our July plan that we have corrected in our revised plan.

6.1 Minor Corrections to Historical Actual Expenditure

In July 2013 Ofgem's business plan data template followed a slightly different format to previous reporting requirements. We made a few, very minor errors in populating our historical data in the new format that we have corrected in this plan.

We have also received feedback from Ofgem regarding its view of a severe weather event that we experienced in January 2013. Ofgem's view of the impact of the event differed slightly from the view we had included in July. This has resulted in slight re-categorisation of some costs and activities in our new plan.

6.2 National Grid Exit Charges

We are required to make payments to National Grid Electricity Transmission (NGET) for connections to its network. In our previous plan, the costs associated with new NGET projects were inadvertently omitted.

We have included our view of the exit charges that we will incur because of new supergrid transformers and associated equipment due to five projects that we expect to occur in the RIIO-ED1 period.

6.3 Smart Meter Roll Out Costs

Our July 2013 plan included an error in how we presented the proportion of costs associated with the smart meter roll out, for which we are seeking up-front funding. Having better understood Ofgem's requirements for data to be populated, we have amended our plan.

6.4 Errors and Omissions - Summary

The effect of changes due to new information is shown in the following table:

£m, gross costs, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	DPCR5 total	2016	2017	2018	2019	2020	2021	2022	2023	RIIO-ED1
2011 to 2013 Actuals modifications	0.1	0.0	-0.3	-	-	**-0.2**	-	-	-	-	-	-	-	-	**-**
Exit Charges	-	-	-	-	0.5	**0.5**	-0.7	0.7	0.5	0.2	0.9	3.2	4.7	9.8	**19.3**
Smart Meters	-	-0.0	0.1	-	-	**0.1**	0.0	0.0	0.0	-0.1	-0.1	-1.5	-0.5	-0.5	**-2.6**
Other	-	-	-	-	-0.3	**-0.3**	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	**-0.2**
Total	**0.1**	**0.0**	**-0.2**	**-**	**0.2**	**0.1**	**-0.7**	**0.7**	**0.5**	**0.1**	**0.8**	**1.7**	**4.2**	**9.2**	**16.4**

7. Presentation of our plan

7.1 Business Plan Narrative and Data Table Commentary

Following feedback from stakeholders and Ofgem, we have made some changes to the presentation of our plan to make it easier to navigate and to allow some key aspects of our plan to be more easily understood.

In particular, we have amended the structure of our plan to make our strategies with respect to smart grids and smart meters clearer. We have also updated our innovation strategy in response to Ofgem feedback.

7.2 Updated Cost Benefit Analyses and Scheme Papers

We have refined the presentation of our cost benefit analysis, condition based risk management approach and scheme papers for our revised plan to better explain our proposals and their justification and to make it clearer where trade-offs exist.

7.3 Change in Insurance Balance

Having understood from Ofgem its intention in normalising insurance costs out of its business support analysis we propose to slightly change the balance of insurance versus 'self insurance' (ie carrying risk and bearing the costs if the issue arises) in our plan. We have made this change in a way that has not changed the costs that we are proposing that customers fund. We have achieved this by moving these costs from Finance where many uninsured claims are reported.

7.4 Presentational Changes Due to Ofgem Reporting Rules

Ofgem has asked companies to outline in data tables the amount of expenditure they expect to make in improving quality of supply performance. Quality of Supply is subject to an incentive mechanism which generates penalties and rewards depending on our performance against Ofgem's targets. Consequently we expect to fund our quality of supply improvement plans from the incentive revenues and have not requested any funding for this in our well justified business plan. This therefore represents only a presentational change to our plan.

Ofgem has also clarified that it will treat theft in conveyance activities as being price controlled from RIIO-ED1. We have therefore re-categorised our forecast for this important activity. We predict that these costs will be offset by an equivalent level of income and therefore on a net basis this represents only a presentational change.

£m, gross costs, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	**DPCR5 total**	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1**
QoS- DNO funded	-	-	-	-	-	**-**	3.0	2.5	2.0	1.5	-	-	-	-	**9.0**
Move Theft in Conveyance activities into price controlled	-	-	-	-	-	**-**	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	**0.4**
Remove Theft in Conveyance from non price controlled	-	-	-	-	-	**-**	-0.0	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	**-0.4**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**3.0**	**2.5**	**2.0**	**1.5**	**-**	**-**	**-**	**-**	**9.0**

7.5 Presentation of Price and Expenditure Changes – Plan on a Page

We have updated the way in which we have populated our 'Plan on a Page' summary document in line with Ofgem instructions.

The Plan on a Page has been derived on the following assumptions:

- We populated revenue forecasts using the version of the Common Distribution Charging Methodology (CDCM) model that was used to produce final prices for 2014-15 in Dec 2013. This model was used to derive prices for 2014-15 and for each year of the RIIO-ED1 period.
- This model uses the same inputs as the 2014-15 pricing model in each year except for the following:
  - The target revenue in each year is calculated using the DPCR5 base revenue for 2014-15 and the base revenue forecast from our Price Control Financial Model across the RIIO-ED1 period.
  - In line with Ofgem's instructions, the revenues for 2014-15 are adjusted for items such as Top-Up & Standby, EDCM revenue and tax trigger
  - The volume forecast is set as that used in 2014-15 and increased by the growth rate assumed in our plan (average of 0.58% per year for volumes and 0.13% per year for customer numbers)

Our previous submission was based on the 2013-14 CDCM pricing model updated for any CDCM inputs where we had the 2014-15 data available.

We have updated the basis on which we present expenditure forecasts in our Plan on a Page in line with Ofgem's instructions. This revised basis included the following changes from our previous plan:

- Excludes costs that will be subject to logging up during RIIO-ED1, such as undergrounding for visual amenity and worst served customer expenditure
- Excludes non activity based costs such as business rates, pension deficit payments and those NGET exit charges that are treated as pass through
- Includes RPEs associated with our plan

7.6 Presentation of Price Changes – "Most Likely" Prices for Domestic Customers

In reflecting the impact of our plan on customer prices, we have assessed the effect of delivering our proposals on our overall revenues, including factors such as incentive performance. We did this analysis in our original submission in July 2013 and have amended the assumptions in our latest submission. As summary of the changes in price setting between these two scenarios is included in the appendix.

Base revenues from our Most Likely scenario have been amended to reflect our new plan and revised financing assumptions. We have also updated our revenue assumptions for:

- Updated inflation assumptions
- Updated to use our 2014-15 CDCM model including updated coincidence factors, 500MW model values and the introduction of the new timebands from April 2015
- The DPCR4 losses closeout has been amended in line with Ofgem's latest proposals and our response on indexation
- Our incentive performance has been updated to reflect our amended targets in connections, clarification of the incentive rate for connections and customer service incentive schemes and updates to both targets and incentive rates for the interruptions incentive scheme
- We have included an assumed level of LCNF recovery in 2015-16 for the final year awards
- Updated the network innovation allowance for reduced base revenues
- Removed an allowance for the network innovation competition as this will now be recovered via System Operator charges
- Updated assumed excluded service revenues
- We have included the planned reversal of the £5 discount given to domestic customers in 2014-15 by calculating charges with this revenue removed then adding £5 per customer to the domestic standing charges in 2015-16.

8. Outputs

We consulted with stakeholders extensively on the development of the outputs that we included in our previous submission. Ofgem's feedback confirmed our view that our plan included well developed output proposals. We have therefore made very few changes to our output proposals.

The changes we have made are outlined below.

8.1 Social Outputs

We have removed the specific commitment to spend £1 million each year but have added a number of additional outputs. We believe that focusing on the delivery of these commitments is more appropriate that just spending a fixed amount of money.

Category	Objective	Measurement	Target	Date
Social	Enhanced PSR service	Up-to-date and accurate information	Contacting PSR customers every two years	Ongoing
Social		Enhanced training for all customer-facing front-line people	Improved identification of and advice to vulnerable customers	Ongoing
Social		Welfare package support and temporary power supplies	Deliver services during planned or unplanned power interruptions	Ongoing

8.2 Customer Service Outputs

In January the majority of our engaged consumers told us that being paid £54 after 18 hours without power due to a storm is about right. We agree and despite there being an exemption available for severe storms that allows DNOs to only compensate customers after 48 hours we have not used this exemption during recent severe weather events in December 2013 and February 2014.

We were planning to continue with this approach, and consulted stakeholders to ask if we should set a policy of never using the exemption. It is our intent not to use the exemption, however our stakeholder panel were keen for us to maintain an element of discretion.

We considered the approach of some DNOs to simply double payments, however that still involves a trigger point at 48 hours. Our customers tell us that they want us to keep the trigger point for payments at 18 hours, meaning that we will pay more customers more compensation.

We know that Ofgem will reduce the threshold for paying compensation after loss of supply in normal weather conditions to 12 hours on 1 April 2015. We considered whether we should avoid using exemptions even after the standard had been tightened. By maintaining the discretion advised by our stakeholder panel we believe we will be able to do this in some circumstances. However, the costs associated with paying compensation to all customers without power for 12 or more hours during the recent exceptional run of bad weather and hurricane force winds would have been prohibitively expensive. In similar circumstances we are likely to pay compensation to all customers without power for 18 or more hours.

8.3 Connections Outputs

Since our submission in July 2013, Ofgem has set the targets for the Time to Connect incentive that covers both the time to quote and the time to connect small service connections. We have reviewed these targets and, after testing with stakeholders, have set revised targets in line with the targets for maximum reward.

Category	Objective	Measurement	Target	Date	Measurement	July 2013 targets	Ofgem Time To Connect Maximum reward Targets	Target
Connections	Connection quotation	Single domestic quotations	Six working days	2015 onwards	Single domestic quotations	Five working days	6.4 working days	Six working days
		Up to four domestic connections	Ten working days		Up to four domestic connections	Seven working days	10.12 working days	Ten working days
Connections	Connection completion	Single domestic quotations	30 working days	2015 onwards	Single domestic quotations	25 working days	32.47 working days	30 working days
		Up to four domestic connections	40 working days		Up to four domestic connections	35 working days	39.91 working days	40 working days

9. Financing

Ofgem's decision to not Fast Track our plan and to reduce the Cost of Equity to 6.3% (and potentially lower) creates significant downward pressure on our key financial metrics. We have therefore revisited our financing proposals and, in particular, the steps we must take to ensure the company maintains stable credit ratings and remains financeable. Our financing plan has been significantly updated.

We have produced three revenue forecasts as part of this business plan using the Price Control Financial Model. Our 'Vanilla' revenue forecast reflects the default Ofgem assumptions and contains a number of unresolved errors we have identified. To create our 'Plan on a Page' summary we have produced a variant to this Vanilla forecast that, as instructed by Ofgem, reverses the effect of the £5 discount given to domestic customers in 2014-15 (to allow comparability between DNOs) and also our includes assumed revenue profiling.

There are a number of key assumptions in the Vanilla and Plan on a Page models that do not represent the true pressures on our key financial metrics. These include some errors and inappropriate assumptions in Ofgem's model. These are adjusted in our 'Most Likely' model which has been used to assess our performance against credit rating agency benchmarks and to determine indicative prices for customers, suppliers and other stakeholders. Our Most Likely model also includes scenario analysis that tests the sensitivity of our base revenue and financeability performance to alternative assumptions.

In this document the changes detailed compare the Most Likely model with the equivalent from July 2013 for the previous version of our business plan. A comparison of these three models included in our new plan to our previous plan is summarised on the next page.

Summary of differences between Price Control Financial Models and base revenue presentations

	1 July 2013 Well Justified Business Plan	Vanilla	Plan on a Page	17 March 2014 Most Likely
Cost of Debt Allowance	Simple 10-year trailing average of average A and BBB iBoxx Bond Yields	Simple 10-year trailing average of average A and BBB iBoxx Bond Yields	Simple 10-year trailing average of average A and BBB iBoxx Bond Yields	Modified Trailing average from 14 to 20 years by 2020 of BBB iBoxx Bond Yields
Cost of Debt Allowance: assumed level through ED1 for PCFM base case	2.92%	2.72	2.72%	2.72%
Cost of Equity	6.80%	6.30%	6.30%	6.30%
Notional Gearing	65%	65%	65%	65%
Capitalisation	72%	72%	72%	72%
Depreciation	Transitional profile from 20 to 45-years within ED1	Transitional profile from 20 to 45-years within ED1	Transitional profile from 20 to 45-years within ED1	Transitional profile from 20 to 45-years within ED1
Deferred revenue from DPCR5 £m	£25m	£11.22m	£0m	£11.22m
Revenue profiling	Profiled	None	Uses Base scenario 1 from Most Likely PCFM	Profiled
Incentive revenue in PCFM	Fast Track Reward	None	None	None
Metering write-off corrected	Yes	No	Yes	Yes
Revenue profiling formulae included	Yes	No	Yes	Yes
Legacy Model - Tax calculation change (includes 6 mth cashflow)	No functionality available	Incorrectly calculated	Incorrectly calculated	Excluded
Legacy Model Logged-up Costs	Corrected	Includes mapping error	Includes mapping error	Corrected
Pension deficit	N/A	11.08	11.08	14.18
Incentive revenue in charges calculation	Incentive rewards consistent with delivery of all outputs	N/A	None	Incentive rewards consistent with delivery of all outputs

9.1 Cost of Capital

We are no longer able to accept Ofgem's policy position for the Cost of Debt allowance. We set out an alternative proposal for different weightings to the trailing average calculation.

We include a Cost of Equity of 6.3% in our revised plan. We strongly believe that our demonstrably efficient plan should command a cost of equity that is close to the 6.4% awarded to the Fast Track companies in February 2014. This level, when combined with our modified cost of debt trailing average and 65% gearing, provides adequate Cost of Capital allowances to maintain the financial metrics at marginal, but acceptable levels.

If Ofgem opts to set our Cost of Equity at its "central reference point" of 6.0% we are not certain to maintain investment grade credit ratings with allowances based on a notional gearing level of 65%. If this Cost of Equity is applied we would need to reduce our notional gearing to 62.5%.

In order to achieve matching reductions to the company's actual net debt, the business will need to restrict dividends so as to retain cash flow and mitigate incremental debt requirements. This represents a material commitment from shareholders to restrict distributions from the company, effectively in place of a rights issue or equity injection and very much reflects Ofgem's desire to see financeability pressures shared by shareholders.

Our plan sets out detailed justification for these changes.

9.2 Updated Tax Pools Allocations

We have updated our assumptions regarding how our expenditure is allocated to tax pools to:

- Reflect changes to categories in Ofgem's financial model and, in particular, the treatment of pensions.
- Update our assumptions regarding how our expenditure is allocated between tax pools, based on our latest information and to reflect Ofgem's instruction to populate this based on a version of our plan that includes the potential new nuclear power station at Moorside.

This change results in a substantial reduction to our proposed tax allowance.

9.3 Change to Revenue Deferral from 2014-15

In our July 2013 plan, we proposed to defer £25m of revenue from 2014-15 into 2015-16 to bring forward price cuts for customers. Our revised submission includes a lower level of revenue deferral of £11m.

Ofgem has also asked us to change how this deferral is treated in its financial model. This has resulted in a consequential change to tax allowances.

9.4 Updates to DPCR5 Legacy Adjustments

Our revised plan includes our updated view of the adjustments that Ofgem will make as part of its ‘close-down’ of the current regulatory period (DPCR5).

The changes in this area are substantially due to corrections to Ofgem’s modelling approach. However, small adjustments are due to changes in our DPCR5 forecasts of costs and activities.

9.5 Changes to Revenue Profiling

Our July submission included a different revenue profile to our revised plan. A range of factors contribute to this difference, the most material of which is the reduction in revenue deferral from £25m to £11m.

We have now re-profiled the model to account for new inputs and resulting unprofiled revenue outputs. Ofgem’s model maintains an NPV neutral position; the adjustments needed to maintain this NPV neutrality have resulted in a significant revenue change.

9.6 Other Change to Revenues, eg excluded services

A number of other, smaller changes have been made to our revenues. In particular, Ofgem has made a change to how it treats revenues associated with miscellaneous excluded services. We do not believe that this adjustment is consistent with Ofgem’s draft licence for DNOs for RIIO-ED1.

9.7 Changes to Proposed Base Revenues

The changes to our plan result in further reductions to the revenues that we propose to raise from customers from 2016 to 2023. Our new plan proposes to recover £76m less from our customers than our July 2013 plan.

£m, 2012-13 prices, 8 year totals	**July 2013 plan**	Impact of tax treatment for deferred revenue following movement to new model	Change to totex expenditure (excluding impacts on tax allowance)	Effect of changes to tax opening balances and tax pool percentages to totex allocations	Change to non totex expenditure	Change to other costs or cost treatment, eg excluded services	Changes to legacy (inc DPCR5 RAV), assumptions (eg RPI, IQI reward spread) & pension deficit	Changes to deferral	Removal of fast track reward	Changes to financing (Kd, Ke)	Changes to revenue profiling	Other changes	**March 2014 plan Most Likely**	Total Change
Fast pot expenditure	535.6	-	-8.7	-	-	-	-	-	-	-	-	-	526.9	-8.7
Non-controllable opex	357.0	-	-	-	16.1	-	-	-	-	-	-	-	373.0	16.1
RAV depreciation	1,132.5	-	-1.5	-	-	-	2.8	-	-	-	-	-	1,133.8	1.3
Return	552.9	-	-2.4	-	-	-	1.5	-	-	-9.7	-	0.0	542.3	-10.6
Equity issuance cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional income	47.8	-	-	-	-	-	-	-	-47.8	-	-	-	-	-47.8
Core DARTs	112.3	25.0	-	-	-	-7.6	32.8	-13.8	-	-	-10.0	-	138.7	26.3
DPCR5 deferred revenue	25.0	-25.0	-	-	-	-	-	-	-	-	-	-	-	-25.0
Recalculated base revenue (except tax allowance)	**2,763.0**	**-**	**-12.5**	**-**	**16.1**	**-7.6**	**37.1**	**-13.8**	**-47.8**	**-9.7**	**-10.0**	**0.0**	**2,714.7**	**-48.4**
Tax allowance	177.2	-3.9		-9.5	-	0.1	-3.0	-1.4	-2.5	-6.9	-0.6	-0.1	149.3	-27.8
Recalculated base revenue	**2,940.2**	**-3.9**	**-12.5**	**-9.5**	**16.1**	**-7.5**	**34.0**	**-15.2**	**-50.4**	**-16.6**	**-10.7**	**-0.1**	**2,864.0**	**-76.2**

10. Overall Effect of These Changes

The overall effect of the changes to our plan is to reduce our forecast expenditure for the period 2016 to 2023 by more than £14m.

£m, 2012-13 including associated RPEs	2011	2012	2013	2014	2015	**DPCR5 total**	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1 total**
Additional efficiencies	-	-	-	-	-	**-**	-2.8	-4.1	-3.8	-3.3	-4.9	-4.7	-4.1	-10.1	**-37.8**
New information	-	-	-	-22.8	17.9	**-4.9**	5.1	0.5	0.5	0.1	0.1	0.2	0.2	0.1	**6.9**
Correction of errors and omissions	0.1	0.0	-0.2	-	0.2	**0.1**	-0.7	0.7	0.5	0.1	0.8	1.7	4.2	9.2	**16.4**
Total	**0.1**	**0.0**	**-0.2**	**-22.8**	**18.1**	**-4.8**	**1.7**	**-3.0**	**-2.8**	**-3.0**	**-4.1**	**-2.8**	**0.2**	**-0.8**	**-14.5**

Appendix 1 provides an alternative presentation of the changes in our expenditure forecast in the format used in the expenditure chapter of our plan.

The changes to our plan result in further reductions to the revenues that we propose to raise from customers from 2016 to 2023. Our proposed revenues drop by a further £76m relative to our July 2013 plan.

	£m, 8 year total
July 2013 plan	**2,940.2**
Changes to deferral, including changed tax treatment	-19.0
Changes to totex expenditure (excluding impacts on tax allowance)	-12.5
Effect of changes to tax opening balances and tax pool percentages to totex allocations	-9.5
Changes to non totex expenditure	16.1
Changes to other costs or cost treatment, eg excluded services	-7.5
Changes to legacy (inc DPCR5 RAV), assumptions (eg RPI, IQI reward spread) & pension deficit	34.0
Removal of fast track reward	-50.4
Changes to financing (Kd, Ke)	-16.6
Changes to revenue profiling	-10.7
Other changes	-0.1
March 2014 plan	**2,864.0**
Total reduction in revenue	**-76.2**

The price reductions that we proposed in our July plan were the largest of any company. Overall, the impact on average prices that will be paid by domestic customers as a result of our new plan is to reduce average prices paid by domestic customers by £19.72 (or 18%) in 2015-16 to £87.38 per year. This represents just 16% of customer bills.

Appendix 1

The following table presents the changes to our planned expenditure in the format used in the expenditure chapters of our business plan.

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**RIIO-ED1 Total**
Investing in the network	Replacing & refurbishing	0.0	0.0	-0.2	-14.4	7.6	-0.3	-1.6	-1.5	-1.6	-1.5	-1.4	-0.5	-3.5	-12.0
	Managing network impacts	0.0	0.0	0.0	-0.9	4.4	3.4	0.1	0.1	0.1	0.1	0.0	0.0	0.1	4.0
	WSC	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Resilience	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-2.1	-2.1	-2.1	-6.3
	QoS	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Making new connections	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
	Ensuring capacity	0.0	0.0	0.0	-6.5	-2.2	0.1	-0.8	-0.6	0.0	-1.6	1.3	1.9	1.0	1.2
	TOTAL	**0.0**	**0.0**	**-0.2**	**-20.0**	**9.9**	**3.1**	**-2.4**	**-2.0**	**-1.4**	**-3.1**	**-2.2**	**-0.7**	**-4.5**	**-13.2**
Repair and maintenance of the network	Repairing Faults	0.0	0.0	0.0	0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-2.5
	Severe Weather	0.0	0.0	0.0	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Inspections & Maintenance	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Tree-cutting	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.0
	Other	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	TOTAL	**0.0**	**0.0**	**0.0**	**-0.2**	**-0.5**	**0.0**	**-0.1**	**-0.1**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.5**
Supporting network activities	Supporting investment delivery	-	-	-	0.0	- 0.0	0.0	- 0.0	0.0	0.0	0.0	0.0	0.0	- 0.0	0.2
	Supporting network operations	-	-	-	0.1	- 0.0	0.0	0.0	0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	0.0
	Replacing non-operational assets	-	-	- 0.0	- 2.7	- 0.0	0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	0.0
	Innovation	-	- 0.0	- 0.0	- 2.0	8.2	2.8	0.7	0.4	- 0.1	- 0.1	- 0.1	- 0.1	- 0.1	3.3
	TOTAL	**-**	**- 0.0**	**- 0.0**	**- 4.7**	**8.2**	**2.8**	**0.7**	**0.5**	**- 0.0**	**- 0.1**	**- 0.1**	**- 0.1**	**- 0.2**	**3.5**
Business support	Managing IT	-	-	-	0.2	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	-0.2
	Managing our people	-	-	- 0.0	- 0.1	- 0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Managing buildings	-	-	-	0.6	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	0.0
	Running our corporate functions	-	-	-	0.9	- 0.0	- 1.3	- 1.2	- 1.3	- 1.3	- 1.3	- 1.3	- 1.3	- 1.2	-10.3
	TOTAL	**-**	**-**	**- 0.0**	**1.6**	**- 0.0**	**- 1.3**	**- 1.2**	**- 1.4**	**- 1.3**	**- 1.3**	**- 1.3**	**- 1.3**	**- 1.2**	**- 10.4**
Performing our other business activities	Smart Metering Readiness Cost	0.0	0.0	0.0	0.3	1.2	0.0	0.0	0.0	-0.1	-0.1	-0.5	-0.5	-0.5	-1.5
	Metered Connections Outside Price Control	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
	Unmetered Connections Outside Price Control	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Other Customer Funded Activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4
	Non Activity Based Costs	0.0	0.0	-0.1	-0.3	0.4	-0.7	0.7	0.5	0.2	0.9	1.6	3.0	6.4	12.6
	TOTAL	**0.0**	**0.0**	**-0.1**	**-1.7**	**1.7**	**-0.7**	**0.7**	**0.5**	**0.1**	**0.8**	**1.0**	**2.5**	**5.9**	**10.9**
Total Expenditure		**0.0**	**-0.1**	**-0.3**	**-24.9**	**19.3**	**3.8**	**-2.3**	**-2.5**	**-2.7**	**-3.7**	**-2.7**	**0.4**	**0.0**	**-9.7**
Real Price Effects (RPEs)		0.0	0.0	0.0	1.2	0.2	0.0	-0.1	-0.1	-0.1	-0.2	-0.4	-0.3	-0.8	-1.9
Total Expenditure including RPEs		**0.0**	**-0.1**	**-0.3**	**-23.7**	**19.5**	**3.8**	**-2.4**	**-2.5**	**-2.8**	**-3.9**	**-3.0**	**0.0**	**-0.8**	**-11.6**

This presentation includes a slightly different sub-set of activities and therefore shows a different change. This is because this presentation excludes atypical costs that we are not asking customers to fund (-£2.4m in RIIO-ED1 period)

Further Detailed Appendix

To aid understanding which aspects of our detailed plan have been changed, we also append the following change logs:

- A summary of which Business Plan Data Tables have been changed
- A summary of which cost benefit analyses have been changed
- A summary of which scheme papers have been changed
- A summary of which financing assumptions have been changed
- A summary of the changes in assumptions for Most Likely price setting