Regulatory Financial Performance Reporting (RFPR) Commentary

Electricity North West Limited

31 March 2023

Contents

1. Executive summary

1.1. Board Introduction

The Board are pleased to present the Regulatory Financial Performance Reporting (RFPR) for Electricity North West Limited (ENWL) covering performance over the eight year regulatory period of RIIO-ED1.

Price control successfully concluded

The Board meetings in the last year have understandably been highly focused on the 2023-28 price control agreement. We entered discussions in a positive frame of mind, being the only DNO Group to have recorded a suite of only 'green lights' in the Ofgem traffic lights approach to performance evaluation, over each of the last five years. Even so, we were very far from complacent in this demanding process; for example, we needed to show that we were learning lessons from events such as Storm Arwen in November 2021.

The Board took a lot of advice – especially from our own designated customer engagement group. In addition, we took soundings from our three major regional political bodies (the Councils of Cumbria, Lancaster and Greater Manchester), as well as undertaking regular and multiple polling of opinions and views from our customers. For example, we noted that decarbonisation and net zero remains a top priority for the members of Youth Focus North West.

The ED2 final determination by Ofgem in December 2022 was carefully considered by the Board. The Board had very significant concerns about the challenging nature of the final settlement offer from Ofgem, particularly the very low unit costs used in some areas and the generic approach to setting a cost of debt for the sector without due consideration of company specific circumstances.

Ultimately, in discussion with the Board, the shareholders advised they would accept the final determination in order to enable the business to focus upon the huge programme of work required to support customers and stakeholders across the North West. The Board was particularly pleased that Ofgem recognised that ENWL has effectively become the 'innovation network company'. Our successes in this area means that our customers benefit from both electricity usage savings on their bills and cost benefits through lower charges. Ian Smyth, our new CEO intends to develop and extend this company characteristic during the next price control – with a particular regard to digitalisation.

The combination of a well-run network company, that is also innovative and imaginative, will position us well both through ED2 and, in the future, going into the 2028 price control, as well as supporting the desire amongst our local politicians to push to net zero well before 2050.

ENWL is re-energised for the future

The year ended 31 March 2023 was always going to be a 'transition year' given the uncertainties around RIIO-ED2 and changes in senior management. We saw a seamless CEO transition with Ian Smyth joining as CEO in September 2022, enabling Ian to build on the legacy of Peter Emery who stepped down this year. There has also been a smooth transition in Chief Financial Officer (CFO) as David Brocksom left ENWL in June 2023, being replaced on the Board in May by Chris Johns. We are very fortunate that one highly regarded industry CFO is being replaced by another.

That transition has been achieved in a highly professional manner. The new look team, led by a dynamic and energetic CEO, are now well placed to meet the considerable challenges ahead.

Ofgem and Government have recognised in recent months that it is the local distribution network companies, such as ENWL, that will 'lead the charge' for changes to meet the country's net zero aspirations. This is a heavy responsibility, and we will need to ensure that, by the time of the next regulatory review in 2028, we have met, or exceeded, the ambitions of customers, regulators,

Government and wider stakeholders. This has to be achieved in spite of navigating the cross winds of inflation, cost of living, supply chain disruption and access to relevant skilled employment groups.

The Board look forward to these challenges with great confidence, and excitement.

This document should be read in conjunction with the ENWL Annual Report and Consolidated Financial Statements for the year ended 31 March 2023:

https://www.enwl.co.uk/globalassets/investor-relations/documents/financial-reports/enw-limited/electricity-north-west-limited-annual-report-and-financial-statements-31-march-2023.pdf

1.2. Company performance

ED1 performance summary

ENWL has met all of the key regulatory outputs, delivering significant performance improvements over the eight year ED1 regulatory period, while keeping our bills as low as possible. Our performance exceeds the standards set in all licence conditions and will not trigger any ED1 close out mechanisms.

Key ED1 deliverables:

- Network reliability (measured as number of customer interruptions) showing a 19% improvement over the ED1 period, with interruptions among the lowest in the industry;
- Customer satisfaction levels improving from 80% to 89.4%;
- Connections time to quote / connect significantly exceeding Ofgem target, securing maximum incentive reward;
- Meeting all key obligations in our business plan commitments;
- Delivery of 11.9m risk points, above the 11.5m Ofgem target;
- Successful delivery of green recovery commitments;
- Social return on investment over ED1 of £657m through engaging proactively with stakeholders to deliver a consumer focused, socially responsible and sustainable energy service; and
- Since 2021, £3.39m of direct financial savings to 22,449 customers experiencing fuel poverty, delivered as part of cost-of-living crisis support, and equating to £151 per customer.

In respect of ED1 close out mechanisms, the Streetworks reopener was submitted and settled in 2019, with no other ED1 reopener mechanisms being triggered (including those potentially relevant to ENWL: load related expenditure, net to gross, risk points and link boxes).

We have delivered this while being absolutely focussed on cost efficiency, delivering the highest cost efficiency of any distribution network operator, both enabling additional investment in the network and saving our customers £74m over that period, in the form of lower bills, after these investments.

Safety performance

The Company ensures that all people are well trained and able to operate safely, backed by policy driven procedures and compliance assurance, alongside a behavioural approach that seeks to ensure that all staff and contractors approach any task with a strong behavioural attitude to safety.

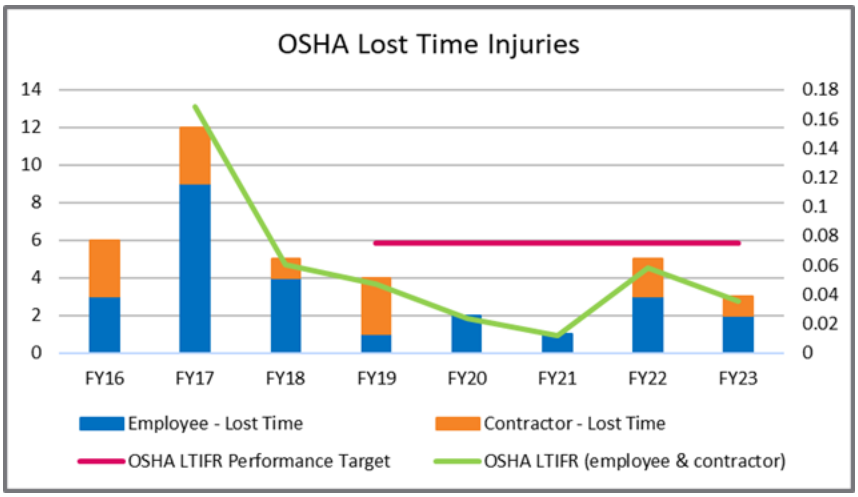
In the year ended 31 March 2023 we have continued to review and improve our safety management system which is certified to the international standard ISO 45001.

We finished the year ended 31 March 2023 with a lost time injury frequency rate 0.035 (2022: 0.058) having had three lost time injuries in the year (2022: five).

This relatively low incident rate reflects the sustained improvement since we embarked on a company-wide initiative to create an enhanced safety culture. The total recordable injury rate was 0.093 (2022: 0.175).

We continue to invest in asset programmes focussed on public safety, in particular with respect to the risks associated with link box failures and with rising and lateral mains in multi occupancy properties.

We are never complacent about safety. In the year to 31 March 2024, we will embed an updated plan to further improve our safety record, including working closely with our contract partners.



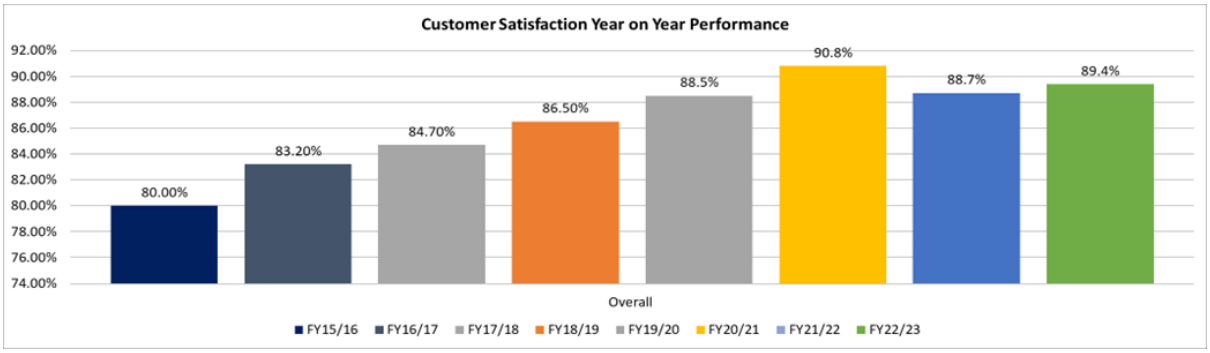
Customer service and connections

Supporting those of our customers in vulnerable circumstances is core to our customer strategy. Our "Electricity Users in Vulnerable Circumstances Strategy" is the framework we use to ensure that the support we are giving customers in our region is focused appropriately. In the year ended 31 March 2023 we have continued to promote our Priority Service Register (PSR), ensuring there is greater awareness of this free service and increase accessibility to it. The consumer facing name for the PSR is now the "Extra Care Register" which better reflects the support provided and is more engaging. Data cleanse activities and collaboration with other utilities have also improved our view of vulnerability of our region.

We have over 650,000 households on our PSR. Our enhanced contact campaign has increased registration on our PSR from 57.7% to 73.3% of those eligible in the region.

Delivering excellent customer service is important to us. Our overall customer satisfaction score for the year ended 31 March 2023 was 89.4% (2022: 88.7%). Throughout the ED1 period (2015 to 2023), our overall satisfaction has improved by 9.4%, from 80% to 89.4% (representing the second largest DNO improvement through ED1).

We are committed to improve further customer satisfaction levels, with clear actions in place that are monitored regularly by the Executive Leadership Team. The actions focus around reducing customer effort, simplification, owning what we do, and engaging, listening and improving.



Time to quote and time to connect performance has stayed consistent with previous year and is achieving maximum incentive reward both for time to quote and time to connect.

Network reliability and resilience

Our customers and stakeholders have made it clear that our fundamental role is to keep power flowing to customers and network users. This becomes ever more important as customer dependence upon electricity continues to grow as we move to a low carbon future. Network reliability continued to be high with a network availability of 99.995% (2022: 99.995%).

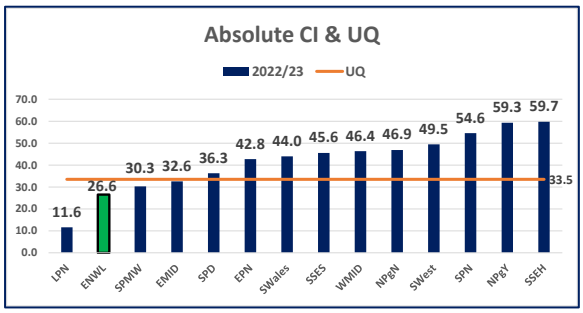
In the year ended 31 March 2023, the average number of interruptions per 100 customers (CIs) was 26.6 (2022: 25.8). This has significantly outperformed the target of 45.6 set by Ofgem, delivering the lowest level of CIs outside of London.

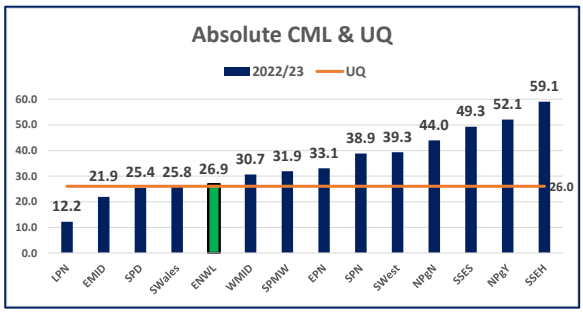
The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2023 was 26.9 (2022: 27.4), which was our best ever performance, and again represented a significant outperformance of the target of 38.2 set by Ofgem.

These performance improvements have been driven through a combination of investment in automation and network resilience, as well as improvements in operational response when faults do occur. This year saw further development of our network management system, providing a strong digital platform and offering industry leading emergency responses whilst protecting critical customers.

Our network has to withstand the external environment and other risks to ensure it continues to operate reliably even under extreme circumstances, such as severe winter storms. This year we continued to invest in vegetation management and installation of further automation devices to support rapid restoration of customer' supply, ensuring that interruption is kept to a minimum.

We have further strengthened our approach to preparing and managing the network during significant weather events and utilising benefits within the network management system. We continue to improve resilience through investment in flood defences and interconnectivity to provide protection to a 1 in 1000-year flood risk at key sites.





Delivering value for customers: Cost efficiencies (totex)

We remain committed to keeping our part of the customer bill low, which we know is absolutely essential given the current cost of living crisis. We have continued to keep our bills among the lowest in the UK with ENWL's typical domestic customer paying £123 a year, compared to the GB average of £138.

Innovation is key to delivering the performance our customers rightly expect at an efficient cost. We will continue to develop and deliver our cutting-edge engineering innovations, CLASS, SmartStreet and LineSight that will keep the network reliable, efficient and safe.

The investments we have made in recent years are allowing us to deliver performance improvements for our customers, visible in improved reliability measures and also to realise cost efficiencies, which we share with our customers. Net of additional investment, we have delivered £145.3m (2012/13 prices) of efficiency savings, from which our customers have also benefitted from lower bills, with customers receiving £75m (nominal prices) of these savings.

ENWL has delivered totex outperformance over ED1 of £145.3m (2012/13 prices), or 7.8%, sharing that benefit with customers. Efficiencies have been achieved through development of innovative solutions and targeting investment to ensure delivery of all outputs at the lowest cost solution. This benefit has been shared with customers and facilitated further investment in automation and in developing our leading digital network management solution.

Totex expenditure compared to allowances £m (2012/13 prices)	**Actual 12/13 prices £m**	**Allowance £m**	**Variance to Allowance £m**
Load Related Costs	109.0	135.3	26.3
Non Load Capex (excluding Non Op Capex)	554.4	732.4	178.0
Non Op Capex	80.0	51.6	(28.4)
High Value Projects - Smart Street	12.3	15.1	2.7
Moorside	-	-	-
Network Operating Costs	381.0	345.7	(35.2)
Closely Associated Indirects	342.9	357.2	14.4
Business Support Costs	241.4	235.4	(6.0)
Atypicals Non Sev Weather (Totex)	3.8	-	(3.8)
Costs within Price Control (in Totex)	**1,724.7**	**1,872.7**	**148.0**
Smart Street enduring value adjustment			(2.7)
Costs within PC (in Totex) after EV adj			**145.3**
			7.8%

Outperformance - Conversion to nominal prices and customer share.	**12/13 prices**	**Nominal Prices**
Customer Share of Efficiencies	60.9	75.0
ENWL Share of Efficiencies	84.5	104.0

Return on Regulated Equity

Our Return on Regulated Equity ('RoRE') for the ED1 period is 9.1% (on an actual gearing basis, post financing and tax). Totex outperformance and output incentives earned by raising performance standards have generated additional returns above the 6% allowed equity return. This operational return is most significantly reduced through financing under funding, with the costs of servicing our debt being higher than Ofgem allow us, with these actual debt service costs reflecting the efficient prices in the debt markets at the time our debt was issued.

RoRE Components Expressed on notional and actual equity basis	ED1 to 2023
Notional Equity Returns	
Allowed Equity Return	6.0%
Totex Outperformance	2.2%
Incentive Performance	2.2%
RoRE - Operational performance (notional)	**10.5%**
Debt performance	-0.4%
Tax performance	0.4%
RoRE - Post Finance & Tax (notional)	**10.5%**
Adjustment to actual equity	-1.4%
RoRE - Post Finance & Tax (actual)	**9.1%**

1.3. Future Outlook – ED2

During ED2, we will continue to build on the foundations that have been laid in ED1, delivering further improvements in customer satisfaction, targeting a minimum customer satisfaction of 90%, and further reducing both the number of power cuts, and the time customers are without power, by 20% from current levels, which in themselves are among the best in the industry.

As well as investing in the network to enable the transition to net zero, significant sums will go towards strengthening customer service and supporting those customers in vulnerable circumstances who need it the most.

2. Key Financial Performance measures

£m 12/13	RIIO-1 period
Customer share of Totex performance	*60.9*
NWO share of Totex performance	*84.4*
Totex out(under)performance, after EV adjustment	*145.3*
Output incentives	99.6
Cost of Debt out(under)performance at actual gearing (pre tax)	(21.1)
Regulated tax out(under) performance at actual gearing (not adjusted for financing)	21.3
	Average RIIO-1 period
Equity RAV	624.3
Average Net Debt (per Regulatory Definition)	925.0
Adjusted RAV - including (EV) adjustments	1,549.2
RoRE based on actual gearing	9.1%

In the eight years of RIIO ED1 we delivered £145.3m totex outperformance post enduring value adjustments (2012/13 prices), £60.9m (2012/13 prices) of which is shared with our customers.

We have committed significant investment in a number of projects in ED1 to enhance the customer experience. This investment has contributed to improved performance in the areas of customer satisfaction, connections time to connect and the reliability of our network. As a result, we have earned £99.6m (2012/13 prices) of output incentive revenue in ED1.

We believe that when evaluating and understanding our returns against allowance, the cost of debt and taxation are important components. Our cost of debt is higher than our allowance - we have underperformed our cost of debt allowance by £21.1m (2012/13 prices) for ED1 (on a pre-tax adjustment basis). The debt and hedging instruments were set up with interest rates competitively negotiated at the time.

The key financial performance measures discussed are in more detail in section 4.

3. Key operational performance measures

		2016	2017	2018	2019	2020	2021	2022	2023
Safety	Lost time incident frequency rate	0.06	0.10	0.04	0.05	0.02	0.01	0.06	0.04
Reliability and availability	Customer Interruptions (CI)	36.7	32.9	33.2	33.6	28.0	30.7	25.8	26.6
	Customer Minutes Lost (CML)	32.5	33.7	34.6	33.0	27.1	28.2	27.4	26.9
Environment	Business carbon footprint, excl. losses (BCF) (tCO2e)	23,133	21,012	20,599	20,417	18,051	14,090	14,649	13,990
Connections	Time to Quote (LVSSA) in days	4.0	3.0	3.7	3.7	2.5	2.6	2.8	2.5
	Time to Quote (LVSSB) in days	7.4	7.9	8.3	6.8	4.9	5.0	5.4	5.5
	Time to Connect (LVSSA) in days	30.4	31.9	31.7	32.9	27.8	27.8	27.8	23.7
	Time to Connect (LVSSB) in days	36.9	31.7	34.3	35.7	27.6	28.8	32.4	21.9
Customer satisfaction	Customer Satisfaction Survey Overall	80.0%	83.2%	84.7%	86.5%	88.5%	90.8%	88.7%	89.4%
	Complaints metric	7.65	3.45	2.29	2.06	1.89	1.75	3.45	2.49
	Complaints resolved in 24 hours	51%	77%	82%	82%	84%	86%	80%	83%
Social obligations	Stakeholder Engagement and Consumer Vulnerability Score	6.9	6.4	5.75	4.54	6.03	6.61	4.31	7.00

3.1. Safety

This is an industry that operates with hazards, and therefore the attention to safety needs to be the top priority. Central to our risk mitigation activities are operational safety, asset safety and environmental performance. There is an ongoing focus on promoting a safety culture and we have seen a decrease in our incident rate from the prior year. Our relatively low incident rate reflects the sustained improvements we have made since we embarked on a company-wide initiative to create an enhanced safety culture.

Operational safety

The Company ensures that all people are well trained and able to operate safely, backed by policy driven procedures and compliance assurance, alongside a behavioural approach that seeks to ensure that all staff and contractors approach any task with a strong behavioural attitude to safety.

The lost time injury frequency rate the year ended 31 March 2023 was 0.035 (2022: 0.058) having had three lost time injuries in the year (2022: five). The total recordable injury rate was 0.093 (2022: 0.175).

We are focussed on driving behavioural and cultural change in attitudes to safety and using learnings from, the primary leading indicators of safety observations and positive challenges. Safety observations in the year were recorded at 14,715 (2022: 9,438), plus 3,011 positive challenges (2022: 2,447).

Asset safety

The safety of the Company's employees, contractors and the public from the inherent risks of electrical assets is assured through the Company's ongoing asset investment programme and the associated asset risk management policies which define the programme scope.

During the year ended 31 March 2023 the Company completed our ED1 programme of work designed to reduce the risks associated with link box failure and rising and lateral mains (RLM) in multi occupancy properties.

We continue to use innovation to target the potential risks associated with electricity supplies in multi occupancy properties. We have installed innovative monitoring equipment which helps identify abnormalities and inform replacement prioritisation.

3.2. Reliability and availability

Reliability continues to be a key priority for our customers and will become even more important as the move to net zero carbon increases dependency on electricity in all aspects of our lives. Through investment in automation, robust inspection and maintenance programmes and our focus on operational response times we continue to provide industry leading reliability, with a network availability of 99.995%. Customer Interruptions were at upper quartile level, delivering the lowest level of interruptions outside of London.

In the year ended 31 March 2023, the average number of interruptions per 100 customers (CIs) was 26.6 (2022: 25.8). This has significantly outperformed the target of 45.6 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2023 was 26.9 (2022: 27.4), which was our best ever performance and again represented a significant outperformance of the target of 38.2 set by Ofgem.

In addition to the reliability improvements gained from investment in automation and focussed management of fault response, our new network management system provides a strong platform for enhanced performance moving forward.

Key to delivering reliability to customers is the network's resilience to extreme weather events. Following learnings from Storm Arwen, we have further exercised and strengthened our approach to preparing and managing the network during significant events and utilising benefits within the new network management system and other technologies. We continue to invest significant funds in flood defences and interconnectivity to provide protection to a 1 in 1000-year flood risk at key sites.

Most customers enjoy excellent levels of reliability, but we recognise that there is variability in the level of service experienced by some. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. During the year we have continued to invest in schemes to aim to reduce long term the numbers of worst served customers, with the number of customers meeting this Ofgem definition decreasing in the year to 584 in the year ended 31 March 2023 (2022: 711). We have now initiated work on all of the circuits linked to the qualifying worst served customers as we transition to adopt a proactive approach to worst served customers with the clear aim of having no worst served customers on our network.

Network Health Index

A major part of our reliability strategy is to intervene on higher risk assets before they fail. This is informed by a process of condition-based risk assessment in line with Common Network Asset Indices Methodology (CNAIM). Our targets for risk reduction through this programme were published by Ofgem in February 2016 and equate to 11.5m risk points over ED1.

In 2022/23, we delivered 2.0m risk points through our programme of targeted replacement and refurbishment, contributing to a total risk point reduction of 11.9m risk points over the ED1 period, or 103% of our ED1 target.

Non-connections GSoPs

The total number of failures decreased from the prior year, which was particularly impacted by storm events. This year there was a total of 2,759 12-hour failures in the year. Customers who were due a payment for the failure are proactively contacted by telephone or sent a letter to confirm their eligibility, of the total amount 98% of customers have received this payment.

The volume of customers impacted by a Planned Supply Interruption in the year increased considerably from last year, this being impacted by increased activity from our innovative quality of supply projects LineSight and PreSense, however the number of failures as a percentage has remained constant (99.22% last year and this year).

3.3. Environment

The Company is dedicated to achieving the highest standards of environmental performance, not only by minimising the risks created by our activities, but also through targeted investment in outputs that deliver a positive environmental impact.

Business carbon footprint and SF6 emissions

In the year ended 31 March 2023 we saw emissions remain significantly below those incurred at the start of ED1. The business carbon footprint for the year was 13,990 tCO2e, which is a decrease of 5% from the previous year (2022: 14,649 tCO2e). Emissions in the year reflect the benefits of energy efficiency measures (including refurbishment of its buildings), however, from previous years we have seen less benefit from reduced business travel due to COVID restrictions and return to work. We continue to work hard to embed some of the travel savings as permanent benefits.

We made a commitment to our customers to reduce carbon emissions, measured in tonnes of CO2 equivalent, by 10% from a 2014/15 base year by 2020. The level of emissions has actually been reduced by 42.7% from these levels in 2022/23.

Theis carbon emissions measure includes the impact of Sulphur Hexafluoride (SF6), which is a strong greenhouse gas, historically used as insulation in electrical equipment. Our policy is to continue to install modern SF6 equipment with lower leakage rates. SF6 emissions during the year were at a similar level to the prior year (38.24kg compared to 38.47kg in 2022), equating to 0.24% of the total mass in service (2022: 0.25%). This performance exceeds the target we set to reduce our leakage rate by over 20% from 2013 levels (0.38%) to 0.30% by 2023.

Fluid filled cable: oil leakage

We minimise emissions and spills, and are investing to remove potentially damaging equipment, and enhance the environment by undergrounding overhead cables. Overall leakage of oil from cables in the year was 13,217 litres which is a very slight improvement over the previous year's performance of 13,266 litres and meets our business plan commitment target.

3.4. Connections

Time to quote and time to connect

We have had another good year during which we exceeded the targets for Time to Quote and Time to Connect metrics, reaching maximum reward. Whilst for ENWL, ICE penalties can only apply to two small market segments out of the nine relevant segments (ENWL having passed the competition tests in the other seven categories during DPCR5), stakeholder engagement is important to us and we are pleased that Ofgem has recognised that we are meeting the needs of these stakeholders.

Guaranteed Standards (GSoP failures)

We continue to focus on Guaranteed Standards of Performance for Connections. While have seen a slight an increase in volumes of GSoP failures in the year, due to the significant volumes in work associated with Low Carbon connections such as EV's requiring network interventions, we continually review and seek ways to improve and enhance the level of service that we give to our customers. These plans will continue to focus on simplifying business processes and working closely with our contract delivery partners. The number of failures in FY23 was 110 compared to a prior year number of 90. This gave us a 99.55 % GSoP result, close to our business plan target of 100%.

3.5. Customer Satisfaction

Customer satisfaction

Delivering excellent customer service is important to us. Customer satisfaction levels have improved significantly over the ED1 period, from 80% at the start of ED1 to an overall score of 89.4% for the year ended 31 March 2023 (2022: 88.7%). The relative ranking among the DNOs was 9th (2022: 12th) with all DNOs showing performance at similar levels.

We are committed to improving further customer satisfaction levels, with clear actions in place that are monitored regularly by the Executive Leadership Team. The actions focus around reducing customer effort, simplification, owning what we do, and engaging, listening and improving.

Supporting priority service and vulnerable customers

Led by customer insight we changed the way we talk about 'priority services'; ran a successful recruitment campaign and collaborated with other utilities to promote 'PSR UK' which contributes towards ending the national 'postcode lottery' In delivering for our customers we have managed to reach out to 73% of our priority customers this year (2022: 58%) which exceeded our target.

We recognise our role in helping to tackle fuel poverty and the particular challenges this brings in our region. We are proud to have led industry collaboration and alignment to a clear and consistent fuel poverty measurement and reporting approach. Following engagement, Ofgem has advocated the ongoing adoption of the framework, so that it is embedded as part of annual vulnerability reporting during the next five-years. This will ensure services are robustly measured, consistently reported and reliably benchmarked, to deliver optimal value for customers Collaborating with our trusted partners, we scaled-up in-depth financial support to 12,362 fuel poor households, delivering an average saving of £187 per person – up from £106 last year.

Complaints

The number of complaints we receive has increased in the year, with complaint volumes up 28% compared to the prior year. This increase is attributed to a combination of some bad weather incidents and a significant increase in connections volumes due to the uptake in low carbon technologies. We have reviewed our policies and practices and have increased resource in the connections area to reduce complaint volumes.

We track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year continued to outperform the Ofgem target and reflects a year-on-year reduction, with a complaint metric of 2.6 (2022: 3.45), with 83.4% of complaints resolved in 24 hours (2022: 80.1%). This complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage of complaints resolved within 31 days.

3.6. Social Obligations

ENWL is committed to ongoing stakeholder engagement and recognises the proven value and insight that stakeholder relationships bring to our decision making, risk management and reputation.

Stakeholder engagement enables us to listen to, respond and collaborate to on the issues that matter most to our communities. This year, as a result of the combined effects of an energy and a cost of living crisis, this has been more important than ever. Working with existing and new partnerships we heard directly about the huge strain on resources that was being created as more and more of our communities sought help and advice about energy efficiency, debt support and the health and safety implications of meter tampering. By listening and responding to our stakeholders we have been able to co-create tailored services for our customers and target investment in further partnerships to support our partners.

Over the last three years stakeholder engagement has helped us to shape and refine our RII0-ED2 Business Plan for the next price control period, 2023-28. Our business plan was independently reviewed by our Customer Engagement Group (CEG) throughout the development process. The CEG has continued to meet publishing responses to Ofgem's draft and final determinations. We are now in the process of finalising our stakeholder engagement approach for 2023/24 to ensure enduring consumer input into decisions throughout the ED2 price control.

We have recently received our SECV score and were pleased to see that the significantly increased score of 7.0 (2022: 4.31) reflects our commitment to quality stakeholder engagement and the use of these insights in decision making in the business.

4. Overview of regulatory performance

4.1. Return on Regulated Equity (RoRE)

RoRE based on Actual Gearing	RIIO-1 period
Allowed Equity Return	***5.2%***
Totex outperformance	1.7%
IQI Reward	0.2%
Output Incentives	2.0%
Other	-0.1%
RoRE - Operational performance	***9.1%***
Debt performance - at actual gearing	-0.4%
Tax performance - at actual gearing	0.4%
RoRE - including financing and tax	***9.1%***

The legitimacy of the returns made in the energy sector remains an area of focus. We believe it is important that equity returns are reported prominently by networks in a transparent and consistent manner. As a result, we continue to disclose our Return on Regulated Equity ('RoRE') in our Annual Report and Financial Statements, most recently for the year ended 31st March 2023.

On an actual gearing basis, our Allowed Equity Return is 5.2%. For the eight years of ED1, totex outperformance contributes an additional 1.7%, output incentives that we have earned add a further 2.0% and IQI reward adds 0.2%. This results in a figure of 9.1% for the Operational Components of RoRE.

This metric provides only a partial view on returns, it does not include the additional performance relating to financing and tax and is therefore an incomplete measure of the actual returns earned by equity. It is therefore more appropriate to focus on the post financing and tax RoRE when assessing company performance and sector returns.

Our RoRE for the eight years of ED1, including finance and tax is 9.1%, this includes an adverse impact of -0.4% financing performance broadly offset by +0.4% tax performance. Despite a period of high inflation, ENWL remained under-funded on its efficiently incurred debt costs. Overall, post financing and tax ED1 RoRE has risen to 9.1% compared to 8.4% in the 2022 RFPR, largely as a consequence of high inflation in FY22 and FY23, and is now equal Operational RoRE.

Inflation forecasts had been marked lower in the 2020 and 2021 RFPR following the onset of the Covid-19 pandemic, but it has since been volatile, with actual and forecasts increasing sharply as a consequence of supply issues in world markets and the conflict in Ukraine.

High inflation for FY22 and FY23 impact RoRE:

- Debt under-funding has reduced as a consequence of higher inflation for FY22 and FY23 (further detail below). We note that ENWL has a higher proportion of RPI linked debt than the sector average, so this inflation benefit is lower for us relative to other networks in the sector.

Tax performance – interest costs relating to inflation linked debt have increased in the final two years of ED2, lowering the profits chargeable to corporation tax and therefore the tax payable. This has improved the tax funding position relative to the 2022 RFPR. As mentioned above, debt performance is sensitive to inflation. For inflation-linked debt (including fixed debt swapped to inflation-linked

using derivatives), higher inflation is largely neutral, with higher indexation and accretion charges broadly offset by a higher 'inflation in interest' adjustment.

This is not true however for fixed nominal debt. These debt costs are, by nature, fixed and any increase in inflation forecasts will only increase the 'inflation in interest' adjustment, thereby reducing the 'real' debt costs for fixed nominal debt.

By contrast, the debt allowance is only minimally impacted by changes in annual inflation forecasts, partly due to its historic tromboning construct and partly due to the use of more stable 10-year breakeven rates when calculating real debt allowances.

Economically, this dynamic leads to an improved debt-funding position when inflation is high and a worse debt-funding position when inflation is low. It highlights the inflation risk inherent in the price control and the associated risk reduction to networks from holding inflation linked debt, either from direct inflation linked issuances or through the use of derivatives.

We note that the 'inflation in interest' adjustment continues to be calculated based on the average gross debt position rather than the average net debt position. This is inconsistent with other elements of the calculation, with net financing costs effectively including cash interest income at nominal (unadjusted for inflation), with cash interest expense at real (adjusted for inflation). The effect of using net debt would be to reduce the ED1 position from 9.1% to 8.2%, on an 'actual gearing' basis.

Totex outperformance reflects the efficiencies earned during ED1, net of reinvestment of efficiencies and sharing that benefit with customers.

4.2. Allowed Revenue

Nominal prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m
Nominal Base Revenue	403.6	409.4	389.9	399.0	410.3	416.2	412.8	424.6
Incentive revenue adjustment	8.4	15.8	17.2	16.7	15.8	17.0	22.9	22.4
Adjustments for Allowed Pass-Through items	-	-	(0.9)	(0.8)	(4.2)	(3.9)	(4.0)	74.2
Network Innovation Allowance	2.5	2.9	2.7	2.8	2.9	2.9	2.9	2.2
Low Carbon Networks Fund revenue adjustment	1.6	0.1	0.3	0.7	0.1	(0.3)	0.1	(0.3)
DPCR4 residual distribution losses incentive and Growth Term	(11.6)	(10.7)	-	-	-	-	-	-
Correction factor	-	(30.6)	11.1	4.2	(3.8)	(0.3)	10.0	(22.3)
Allowed Network Revenue	**404.6**	**448.1**	**398.1**	**414.1**	**428.7**	**432.2**	**424.7**	**545.5**

Allowed revenue for 2022/23 at £545.5m represents a 28.4% increase in allowed revenues compared to 2021/22. This has been primarily driven by a large increase in Supplier of Last Resort levies (£80m) linked to the failures of suppliers in previous periods. ENWL makes no profit from the collection of these levies, paying the collected revenue in full to the supplier. Incentive revenue continues to reflect ENWL's strong performance and delivery for customers (allowed revenue is delayed by two years) on connections, customer satisfaction for the Broad Measure output incentive and CI/CMLs for the interruptions-related quality of service output incentive.

The correction factor, representing a 2021 under-recovery of allowed revenue is another reason why 2023 allowed revenue is higher than 2022.

Our incentive revenue is reviewed in detail in Section 4.3.

4.3. Output incentive performance – earned basis

12/13 prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m	RIIO-1 period £m
Broad measure of customer service	(0.2)	0.5	1.5	2.0	2.5	2.6	2.5	2.9	14.3
Interruptions-related quality of service	10.3	9.6	7.8	8.0	11.0	9.9	10.6	9.9	77.0
Incentive on connections engagement	-	-	-	-	-	-	-	-	-
Time to Connect Incentive	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	7.7
Losses discretionary reward scheme	-	0.6	-	-	-	-	-	-	0.6
Post-Tax Earned Incentive revenue	**11.1**	**11.6**	**10.3**	**10.9**	**14.4**	**13.4**	**14.0**	**13.8**	**99.6**

The output incentives are linked to delivering improved service levels to customers in the areas they value most and is also an important component of RoRE. In the eight years of the price control they contribute 2.0% of RoRE on average with the Interruptions Incentive Scheme (IIS) incentive contributing the most reward, through improving reliability levels to customers.

The output incentives are dependent on our key operational performance metrics as discussed in the Key Operational Performance Measures section above. Importantly the rewards we earn under these incentives have been set by Ofgem so that the rewards, reflected in our RoRE reflect the benefits delivered to customers so customers are net beneficiaries of our incentive performance. We invest both financial resources and management time to achieve these outcomes for customers. We continue to strive to deliver improved service levels for our customers, committing additional investment to do so, influenced by our programme of stakeholder engagement.

4.4. Totex performance

12/13 prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m	RIIO-1 period £m
Latest Totex actuals/forecast	230.5	195.4	226.6	232.7	212.7	201.7	207.8	217.3	1,724.7
Totex allowance including forecast allowed adjustments and uncertainty mechanisms	237.4	226.9	228.9	231.2	231.5	236.5	247.1	233.2	1,872.7
Totex out(under)performance	6.9	31.5	2.3	(1.4)	18.8	34.8	39.3	15.9	148.0
Customer share of out(under) performance	2.9	13.2	1.0	(0.6)	7.9	14.6	16.5	6.7	62.0
NWO share of performance	4.0	18.3	1.3	(0.8)	10.9	20.2	22.9	9.2	86.0
Total enduring value adjustments	(3.3)	(20.4)	1.9	28.6	(0.4)	(15.4)	(15.8)	22.0	(2.7)
Enduring Value: Customer share of performance	(1.4)	(8.5)	0.8	12.0	(0.2)	(6.5)	(6.6)	9.2	(1.1)
Enduring Value: NWO share of performance	(1.9)	(11.9)	1.1	16.6	(0.2)	(9.0)	(9.2)	12.8	(1.6)
Total out(under) performance (including enduring value adjustments)									
Customer share of performance	1.5	4.6	1.8	11.4	7.7	8.1	9.9	15.9	60.9
NWO share of performance	2.1	6.4	2.5	15.8	10.7	11.3	13.7	22.0	84.4
Total	**3.6**	**11.1**	**4.2**	**27.1**	**18.4**	**19.4**	**23.5**	**37.9**	**145.3**

Totex spend for the year ending 31 March 2023 was £217.3m compared to an Ofgem allowance of £233.2m in 2012/13 prices. In the eight years of the RIIO ED1 period we spent £1,724.7m on operating and managing the network; this is compared to an allowance of £1,872.7m, 8% lower than allowance before taking delivery of outputs into account. An Enduring Value adjustment of -£2.7m has been included to take into account such timing differences, generating underlying totex outperformance of £145.3m. Of these savings, £60.9m is returned to customers.

Totex - Comparison to allowances £m (2012/13 prices)	Analysis of drivers by Ofgem category					ED1 total
	Efficiency	Enhancements	External factors	Timing	Other	variance
Load Related Costs	21.6	-	2.8	-	1.9	26.3
Non Load Capex (excl. Non Operational Capex)	225.7	(39.4)	0.5	-	(8.7)	178.0
Non Operational Capex	10.8	(26.8)	(2.3)	-	(10.0)	(28.3)
High Value Projects	-	-	-	2.7	-	2.7
Moorside	-	-	-	-	-	-
Network Operating Costs	4.4	(3.1)	(36.5)	-	-	(35.4)
Closely Associated Indirects	(2.0)	(15.6)	7.0	-	24.9	14.5
Business Support Costs	(17.0)	-	11.0	-	-	(6.0)
Atypicals Non Severe Weather (Totex)	(2.3)	-	-	-	(1.5)	(3.8)
Costs within Price Control (in Totex)	**241.1**	**(84.9)**	**(17.5)**	**2.7**	**6.6**	**148.0**
Variance to allowances - %						7.9%

The outperformance to allowances in ED1 of £148m (pre-enduring value) reflects efficiencies earned of £241m, net of reinvestment of £85m. The latter principally includes the investment in CLASS (£16m), quality of supply (£39m), operational IT spend above allowances to facilitate DSO capability through NMS and ANM, non-operational IT to improve business systems and processes (£27m above allowances), and continued investment to support network resilience and business plan commitments (including flooding, blast bag mitigation and network maintenance activities). These investments are all delivering enhanced network performance or totex efficiencies, which are then shared with customers, both in ED1 and into ED2.

External factors, including significant bad weather events (Storms Desmond, Eva and Arwen) in particular, have driven increased expenditure levels in Network Operating costs, along with the impacts from the delays in the national smart meter roll out (increasing ONI costs). Business support costs include c£10m of insurance recoveries in relation to Storms Desmond / Eva in 2016.

The Enduring Value methodology and adjustments are outlined in Appendix 1. The most significant elements of the calculation are the deferral of load related expenditure into the latter years of ED1 offset by advanced delivery of the asset replacement network investment programme as noted in the variances above.

4.5. Innovation performance

Our innovation strategy forms an integral part of our business plan and is key to our success. It sets out our values, why we innovate for our customers and how we ensure we deliver value for them through a series of innovative projects.

It also sets out the challenges we face, our approach to using innovation to address these challenges, and the principles and themes that guide our thinking and the development of innovation projects. The strategy outlines our approach to engagement with stakeholders, including how to get involved in helping us with ideas and delivery of our plans.

Innovation is the 'ideas cauldron' where novel techniques and potential solutions, whether they be technological or commercial, are analysed, developed, trialled and ultimately transformed into practical solutions to deliver a better, zero carbon service for our customers; improve network performance and safety; and deliver ever more efficient ways of working

Core to the principles of the RIIO framework of electricity regulation, is that network operators must continue to provide and plan for a reliable and efficient network, while preparing for the net zero future, keeping costs low and ensuring that all our customers are included and treated fairly and equitably. Successfully delivering against our RIIO objectives presents several challenges right across the organisation, and it is in these areas that we aim to focus our innovation efforts. For the purposes of thinking about innovation, the challenges can be split into three broad areas:

- Energy System Transition
- Asset Management
- Vulnerability

We have further divided these areas into our Innovation themes as below:

- Consumer Vulnerability
- Net Zero and the Energy System Transition
- Optimised assets and practices
- Flexible and commercial evolution
- Whole energy system

These themes provide shared strategic direction, a means of categorising and tracking investment, and help innovators understand how they can collaborate with us.

The impact of innovation grew noticeably over the ED1 price control. Some examples are shown below.

CLASS

CLASS continues to be used as part of the ESO balancing service, helping to manage demand on the network efficiently. The use of CLASS in place of traditional generation to provide this service also has environmental benefits.

Smart Street

As the Innovation Roll-out Mechanism (IRM) deployment of Smart Street heads towards a successful conclusion we will soon be in a position to optimise the LV network. This will enable the network to run more efficiently and create capacity to facilitate load growth without reinforcing the network. Additionally, by running the network in this manner customers' appliances will run more efficiently, leading to savings on their energy bills

Sentinel

Whilst work continues on our Sentinel project to finalise software integration into our control room systems, the development of the equipment has been successfully completed. The output from this innovation project fed into our ED2 business plan as LineSight, where we gained approval for a large-scale roll-out of the technology to further improve the safety of our overhead network.

Perch

The Perch units are designed to improve the reliability and safety of our low voltage overhead network. By providing visibility and reclosing capabilities they allow us to identify and respond to faults much faster, especially in bad weather events.

PreSense

The PreSense unit, which took learnings from the Cable Asset Health NIA project along with further development gives us greater visibility of events on our LV underground network. This allows faster identification of potential and actual faults, speeding up response times and minimising disruption to our customers.

4.6. Financing and Net Debt position

£m 12/13	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m	RIIO-1 period £m
Assumed regulatory finance cost at actual gearing	38.6	36.2	28.7	29.3	30.9	38.6	20.9	- 19.4	203.8
Assumed regulatory finance cost at notional gearing	41.0	38.6	30.7	30.6	32.5	41.9	23.8	- 23.4	215.6
Forecast revised Cost of Debt Allowance	24.9	23.8	22.6	20.8	19.5	18.1	16.8	15.1	161.7
Cost of Debt out(under)performance at actual gearing (pre tax adjustment)	(11.0)	(9.8)	(3.7)	(6.1)	(8.9)	(17.8)	(1.2)	37.4	(21.1)
Cost of Debt out(under)performance at notional gearing (pre tax adjustment)	(13.2)	(12.0)	(5.6)	(7.3)	(10.3)	(20.9)	(3.6)	42.0	(30.9)
Impact on out(under) performance relating to deviating from notional levels of gearing (pre tax adjustment)	2.2	2.2	1.8	1.2	1.5	3.1	2.4	(4.6)	9.8
Notional Gearing	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
Actual Gearing	61.2%	61.0%	60.8%	62.3%	61.8%	59.8%	57.3%	53.9%	59.8%
Average Net Debt (per Regulatory Definition)	920.9	922.5	924.2	955.5	956.3	937.1	912.5	870.7	925.0
Equity RAV	583.8	590.1	596.6	578.0	590.8	629.2	679.8	745.9	624.3
Adjusted RAV - including latest forecast and Enduring Value adjustments	1,504.7	1,512.6	1,520.8	1,533.5	1,547.1	1,566.3	1,592.3	1,616.7	1,549.2

Our debt structure comprises of the following debt and hedging instruments:

Debt Instruments

- £450m 8.875% fixed rate bond maturing in 2026. An original bond issuance of £200m was transacted in 1995, followed by three re-taps issued at varying premia between July 2001 and February 2002. All issuances have been separately included in the RFPR tables, in-line with the guidance provided.
- £100m 1.4746% +RPI index linked bond maturing in 2046
- £75m 1.656% + RPI index linked loan from EIB maturing in 2024
- £60m 1.51% + RPI index linked loan from EIB maturing in 2024
- £50m 0.38% + RPI index linked loan from EIB maturing in 2032
- £50m 0% +RPI index linked loan from EIB maturing in 2033
- £300m 1.415% fixed rate loan, on back-to-back terms with public bond issued by ENW Finance plc in July 2020, maturing in 2030
- £425m 4.893% fixed rate loan, on back-to-back terms with public bond issued by ENW Finance plc in January 2023, maturing in November 2032
- £96.5m of various intercompany loans at differing fixed nominal rates issued maturing in 2028. All rates were set as third-party market rates at the time of issue
- £50m revolving credit facility, of which nil was drawn at year end.

Hedging Instruments

- A set of RPI swaps totalling £200m (receive fixed to 2021, floating from 2021 to 2038, Pay RPI from start to 2038. These hedged the £200m fixed rate intercompany debt (ref C6) which matured in 2021. Subsequent to the maturity of the £200m fixed rate inter-company debt, the swaps hedge £200m of the £300m fixed rate debt entered in 2020. When this debt matures in 2030, these swaps continue to hedge the replacement debt until 2038, hence the maturity date of the swaps of 2038. These swaps are structured on a PAYG basis, with accretion payable at either five or seven

year intervals, dependant on the swap. All interest rates were competitively negotiated at inception of each instrument. The receive leg of the swap moved from fixed to floating in 2021, aligning with the maturity of the original underlying debt.

- A new £200m swap was entered into during FY21 which came into effect from July 2021, which receives fixed and pays floating until 2030. The effect of this combined with the pre-existing £200m 2038 RPI swaps is to maintain the net position of receive fixed and pay RPI until 2030.
- A set of RPI swaps totalling £100m (Receive fixed to 2026, floating to 2050, pay RPI to 2050) which have the cumulative impact of hedging £100m of the £250m fixed rate debt maturing in 2026. Similar to above, these swaps mature in 2050 and it is our intention to use them to hedge future debt. These swaps are structured on a PAYG basis, with accretion payable at 10-year intervals, from 2030.

Without these inflation hedging instruments, the proportion of nominal fixed and floating debt to index-linked debt would be 73%:27%. With these financing instruments in place, the proportion of nominal fixed and floating debt to index-linked debt is 55%:45%.

The real interest coupon payable on index-linked financing is aligned with the real debt allowance (and RAV RPI indexation) received under the RIIO-ED1 framework. Holding a high proportion of index-linked finance minimises the cash flow mismatch between the inflation expectation 'wedge' built into nominal fixed interest payments and the actual, variable RPI outturn.

Forecast Debt issuance summary

Date of Issue	Amount	Interest Rate Assumption	Financing Rationale
			Note ***: Forecast debt financing in ED2 is provided for information only below and is not included in the RFPR data tables***
2024/25	£400m	5.45% nominal	Refinance of £450m 8.875% bonds maturing in 2026 via a bond issue
2025/26	£475m	5.47% nominal	Issuance to cover incremental debt requirement for target gearing and to finance the ED2 business plan

Debt performance

On an actual gearing basis our cost of debt underperformance is £21.1m (2012/13 prices) cumulatively for RIIO-ED1. Our underperformance is due to the mechanics of the current debt allowance, which give rise to the following:

- We have large embedded debt costs (£450m bond finance raised pre 2005) which pre-date the current trailing average mechanism. This debt was efficiently raised at the time of issuance however market rates have since fallen significantly.
- We are a small DNO and a singleton licensee, and as an infrequent issuer we are unable to raise 1/20th of our debt every year to match the current trailing average mechanism allowance, due to minimum issuance sizes in the markets.
- Debt with longer maturities of over 20 years are common within infrastructure, and help us to manage liquidity risk in particular, as well as ensuring market-backed sizes and reducing double handling.
- The pricing of smaller debt issuances is often at a premium to larger, issuances. There is no adjustment for this 'small company premium' within the current debt allowance.

- ENWL is an efficient, well performing company with gearing below notional level, but is rated BBB+ only. However, the trailing average mechanism uses a blend of iBoxx A and iBoxx BBB indices to estimate reference debt pricing.
- There is no allowance for the debt carry costs of refinancing ahead of debt maturity ("double-handling") within the trailing average mechanism. In order to support our investment grade credit ratings, we need to refinance in advance of our maturities.
- The trailing average mechanism assumes that debt is raised at the average annual pricing level. Debt pricing can fluctuate materially within the year. Again, this can create windfall gains or underperformance due to lucky timing rather than good management performance.

Overall, we consider the current cost of debt allowance methodology to favour the 'lucky' – those who have been lucky in their timing of refinancing and issuance, and the 'large' – larger, higher investment rated companies who are able to access the market more frequently with larger amounts.

4.7. Taxation

12/13 prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m
Adjusted/ forecast regulated tax liability with timing differences	24.4	25.6	14.9	19.2	20.6	15.5	10.4	5.1
Revised regulated tax liability for comparison against allowance	23.8	24.9	14.1	18.7	20.1	14.6	8.4	0.6
Net forecast tax allowance	20.9	26.5	20.3	18.9	18.4	18.1	16.9	17.0
Regulated tax out(under) performance at actual gearing (pre adjustment for financing)	**(3.5)**	**0.9**	**5.4**	**(0.3)**	**(2.3)**	**2.7**	**6.5**	**11.9**
Regulated tax out(under) performance at notional gearing (pre adjustment for financing)	**(2.9)**	**1.6**	**6.3**	**0.2**	**(1.7)**	**3.5**	**8.6**	**16.4**
Impact on out(under) performance deviating from notional levels of gearing (pre adjustment for financing)	(0.6)	(0.7)	(0.9)	(0.5)	(0.5)	(0.8)	(2.1)	(4.5)
Tax performance - at notional gearing (RoRE)	**(5.9)**	**(1.4)**	**4.4**	**(1.5)**	**(3.9)**	**1.7**	**5.8**	**18.7**

The tax under-performance at actual gearing in FY16, FY19 and FY20 relates to the fact that net revenue was greater than per the PCFM, resulting in a higher actual tax charge compared to the tax allowance.

There was a tax out-performance at actual gearing in FY17, FY18, FY21, FY22 and FY23. Although actual net revenue was higher than the PCFM in FY17, the collected revenue adjustment resulted in a tax out-performance. In FY18 and FY21, this was due to net revenue being lower than revenue per the PCFM, resulting in a lower tax charge compared to the tax allowance.

The tax out-performance in FY22 and FY23 is as a result of the increase in swap accretion and bond indexation following the rise in inflation. This has led to a reduction in tax liability and consequently improved performance against the allowance in these years.

The difference in the capital allowances between the PCFM and the actual CT600 will comprise two elements: being the difference between how the capital allowances are calculated between the PCFM and the CT600; and the difference between actual capital expenditure and expected capital expenditure.

We have not split these out due to the complexity involved and the full difference has been included within the revised regulated tax liability for comparison against allowance.

For FY22 and FY23, capital allowances super-deductions have also been in the calculation of both the forecast actual tax liability and the forecast tax allowance. A tax trigger adjustment has been made in the case of the PCFM.

We have re-submitted ENWL's tax return for FY21 which has resulted in an increase to the statutory liability of £1.3m for that year. We have also included £0.4m for "Tax arising from MOD values" following the review of FY21.

The "Tax impact of financing performance (at actual gearing)" has been calculated by taking the actual financing cost (at actual gearing) less the debt allowance multiplied by 65% of the RAV. The result is multiplied by the appropriate tax rate.

The "Tax impact of financing performance (at notional gearing)" has been calculated by adjusting actual financing cost for the ratio of the notional to actual gearing difference. This is compared to the allowance multiplied by 65% of the RAV. The result is multiplied by the appropriate tax rate.

We note that Ofgem has not provide formal guidance on how to calculate the tax impact of financing performance and that this may lead to differing methodologies being adopted by networks. We feel it would benefit transparency and consistency of reporting if common guidance was issued here.

4.8. RAV

12/13 prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m
Opening RAV (before transfers)	1,526.2	1,538.9	1,540.9	1,554.5	1,564.8	1,580.7	1,602.4	1,632.1
Opening RAV (after transfers)	1,526.2	1,538.9	1,540.9	1,554.5	1,564.8	1,580.7	1,602.4	1,632.1
Net additions (after disposals)	159.5	145.3	155.0	157.7	152.0	150.9	156.8	154.1
Net additions (after disposals) - enduring value adjustment	0.9	5.8	(0.5)	(8.1)	0.1	4.4	4.5	(6.3)
Total Net Additions	160.4	151.1	154.5	149.5	152.1	155.3	161.3	147.8
Depreciation	(147.7)	(149.1)	(140.6)	(138.9)	(136.3)	(133.6)	(131.6)	(129.8)
Total Depreciation	(147.7)	(149.1)	(140.9)	(139.2)	(136.3)	(133.6)	(131.7)	(130.0)
Adjusted Closing RAV	**1,538.9**	**1,540.9**	**1,554.5**	**1,564.8**	**1,580.7**	**1,602.4**	**1,632.1**	**1,649.8**

Regulatory asset value (RAV) effectively reflects the part of totex costs that are not immediately chargeable to the customer via allowed revenue, thereby spreading costs between current and future generations. Our adjusted closing RAV as at 31 March 2023 is £1.6bn in 2012/13 prices. This number is expected to increase in comparable price base as we continue to invest in the network. RAV has also been adjusted in table R9 as a result of the adjustment to totex for Enduring value. Please see the enduring value section in Appendix 1 for further details.

4.9. Dividends

Nominal prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m
Dividend paid as per Statutory Accounts	30.0	81.0	75.6	46.3	38.3	30.7	97.1	23.0

During the year ended 31 March 2023, the Company paid dividends totalling £23.0m (2022: £97.1m). At the Board meeting in May 2023, the directors proposed a final dividend of £18.6m for the year ended 31 March 2023.

The dividends are paid from the available cash in each financial year at semi-annual intervals, with reference to the forecast business needs, the Group's treasury policy on liquidity, financing restrictions, applicable law in any given year and the Company's licence obligations. We continue to

invest in our network, aiming to deliver optimal performance for our stakeholders. We focus on delivering business performance throughout RIIO-ED1 and into RIIO-ED2 that is both strong and continuously improving.

4.10. Pensions

Nominal prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2021 £m	*Actuals* 2023 £m
Established deficit element funded via specific allowances	11.0	11.1	17.0	17.4	17.9	18.9	19.4	20.0
Incremental deficit funded via totex	-	0.2	0.3	0.4	0.4	(2.5)	(2.5)	(2.5)
Licensee share of total pension deficit repair payment made for defined benefit scheme	**11.0**	**11.3**	**17.3**	**17.8**	**18.3**	**16.4**	**16.9**	**17.5**

12/13 prices	*Actuals* 2016 £m	*Actuals* 2017 £m	*Actuals* 2018 £m	*Actuals* 2019 £m	*Actuals* 2020 £m	*Actuals* 2021 £m	*Actuals* 2022 £m	*Actuals* 2023 £m
Established deficit element funded via specific allowances	10.4	10.3	15.1	15.0	15.1	15.7	15.3	13.9
Established deficit (EDE) allowance as per PCFM	15.8	15.8	15.8	11.6	11.6	11.6	10.8	9.4

Latest pension scheme valuation (as advised to be used by Ofgem)	*31/03/2019*
Price base	*2018/19*
	£m
Total Liabilities attributable to post cut-off date notional sub fund	196.0
Total Liabilities attributable to pre cut-off date notional sub fund	1,282.4
Total Assets attributable to post cut-off date notional sub fund	203.5
Total Assets attributable to pre cut-off date notional sub fund	1,205.4
Deficit in the post Cut-Off Date Notional Sub-Fund	(7.5)
Deficit in the pre Cut-Off Date Notional Sub-Fund	77.0
Licensee element of established deficit	77.0
Licensee element of incremental deficit	(7.5)

Reporting of pension deficit information is aligned with Ofgem's latest reasonableness review (Nov 2020) which takes place every three years. The updated triennial review is based on a 31 March 2019 valuation. The 2023 Reasonableness Review will conclude in November this year.

We continue to monitor the performance of the pension funds with the funding rate at 31 March 2023 being approximately 103%.

Formal pension funding documents can be requested from the ENWL Pensions Department.

5. Data assurance statement

While we have applied the principles of Ofgem's data assurance guidance we also note the element of judgement required in preparing the forecasts until the end of the RIIO-ED1 period. We have also used certain assumptions regarding the RIIO-ED1 close out methodology in arriving at the Enduring Value adjustment, thus having an impact on our RoRE forecast. The submission has been subject to expert and second person review and signed off by the Chief Financial Officer.

6. Appendices

6.1. Appendix 1 - Enduring Value Methodology

Overview

Enduring value (EV) is an adjustment made to totex performance by licensees to reflect the true value of the performance over the course of the price control. The adjustment reflects the estimated value of the impact of decisions that impact future value. Adjustments are made for the known or estimated value of close out mechanisms and to reflect timing differences in delivery for example, expenditure in advance or lagged from the timing of the allowance received.

For ENWL, the two most material items impacting the enduring value are:

1. The timing of load related expenditure which is profiled more heavily in the second half of ED1, particularly the last year of the regulatory period, taken from the latest approved Business Plan.

2. Timing of delivery of the IRM funded Smart Street Roll out verses allowances and in delivery of risk points.

Enduring Value Methodology

The approach to Enduring value by core category is outlined below:

Totex category	Expenditure Type	Basis of EV calculation
Non Load	Asset replacement and refurbishment	Enduring value adjustment created on basis of progress against risk point targets. If risk point delivery is on track, no adjustment is made. Adjustments are made to reflect over or under delivery of risk points using the actual and forecast unit rate.
	Expenditure related to a Business Plan commitment	Any expenditure behind planned delivery will be included in the EV calculation e.g. Delayed delivery of pinch points
	Other Network Investment (e.g. Flood mitigation, legal and safety, Rising & lateral mains etc.)	Current under / over spends vs. allowances fall into the EV calculation to the extent they unwind over ED1.
Load Related expenditure	Reinforcement expenditure (Distribution and connections) less customer contributions	Three elements of calculation:

Totex category	Expenditure Type	Basis of EV calculation
		• Impact of higher / lower customer contributions recognised in the year they occur • Proportional recognition of overall forecast ED1 efficiency • The balance falls into EV being the variance to date we expect to unwind during ED1.
Network Operating Costs	Troublecall / I&M / cut outs (non smart)	Adjustments only in exceptional circumstances – out/underperformance in year taken to RoRE. Adjustment applied dependent on separate scrutiny of individual components in light of events affecting the network – storm-related repairs, etc. Separate consideration for Business Plan commitments and other internal programmes such as annual tree cutting profiles
Business Support / Closely associated Indirects		Adjustments only in exceptional circumstances – out/underperformance in year taken to RoRE. Under / over spend recognised in year with adjustments only for exceptional events. In ENWL's case, the element of the insurance claim receipt from the December 2015 storms which relates to future expenditure to improve flood defences has been treated as an enduring value adjustment in the past.
Non Operational Capex	Non Operational IT / Fleet / Logistics / accommodation	Adjustments only in exceptional circumstances – out/underperformance in year taken to RoRE. General principle is that under or overspend is recognised in the year it arises. Adjustments limited to specific large projects where acceleration or deferral has occurred.
IT&T Capex	Operational IT	Adjustments only in exceptional circumstances – out/underperformance in year taken to RoRE. General principle is that under or overspend is recognised in the year it arises. Adjustments limited to specific large projects where acceleration or deferral has occurred, in our case acceleration of an operational IT system (NMS).

Totex category	Expenditure Type	Basis of EV calculation
Uncertainty mechanisms		Adjustments made to include expected impact of close out mechanisms requires definition of close out mechanism. ENWL impact: NOMS – no adjustment as risk points delivery expected to be in line with target Street-works – Adjustments to allowances made as per 2019 reopener assessment. Smart meters – allowed revenue adjusted with volume driver mechanisms Load reopener/ net to gross: Innovation offset identified at the time of reporting to Ofgem is considered in assessing the impact of close out mechanisms No other close out or uncertainty mechanisms impact is expected

Other assumptions

1. Close out mechanisms are reflected on the basis of information available at the time and clarity of close out mechanisms
2. Non-totex costs are excluded from the enduring value calculation.

Summary of position at 31 March 2023

Enduring value summary £m (2012/13 prices)	Cumulative 2023	Cumulative 2022
Load related costs	**-**	**16.9**
Non load – risk point assessment	**-**	**4.6**
Non load – other	**-**	**0.6**
Smart Street IRM	**2.7**	**2.6**
Business support – Insurance recovery	**-**	**-**
Total	**2.7**	**24.7**

6.2. Appendix 2 - Net Debt Forecasting Assumptions

In the five years to 31 March 2028, ENWL has the following debt maturities:

- £75m 1.656% + RPI and £60m 1.51% + RPI index linked loans from EIB both maturing in 2024 - effectively refinanced in January 2023 through the £425m public bond issued by ENW Finance plc and on-lent to ENWL on back to back terms;
- £450m 8.875% fixed rate bond maturing in 2026.

In addition, there is capacity for incremental borrowings, which have been forecast based on business need and with reference to expected RAV growth.

The key assumptions used in modelling the debt and financing costs are as follows:

- **Refinancing rate and issuance costs.** As we prepare this year's RFPR we have received Ofgem's Final Determination for ED2. Our working assumption for refinancing rates is derived from WACC allowance model provided by Ofgem in the Final Determination, which includes the forecast spot iBoxx Utility nominal rates. **Debt issuance timing.** All external debt is assumed to be refinanced 12-18 months before the existing maturity date to reflect our treasury policy and manage liquidity risk in order to maintain our investment grade rating. This inherently includes either 'double-handling' costs for this period necessary to minimise our liquidity risk exposure. The 12 months is set to manage liquidity concerns against debt investors. At the time of refinance we would look to implement a forward starting debt product to mitigate these double handling costs whilst managing liquidity concerns.

  The £96.5m inter-company loan has been borrowed in instalments from the parent company, North West Electricity Networks plc. This is not directly linked to external debt and was refinanced on maturity in March 2023, without double-handling. All intercompany borrowings are made on an arms' length basis, reflecting market rates at time of drawing.

- **Issuance size.** To access the debt markets efficiently, we base our figures on a minimum issuance size of debt of £250m. We also take into consideration our incremental debt requirements at the time to maintain our RAV gearing targets.
  The current planned issuances can be seen in the forecast debt issuance summary table in section 4.6.

- **Nominal and index-linked debt.** Refinancing is currently planned to be on a nominal basis and will be revisited at the time of refinancing.

6.3. Appendix 3 - Methodology notes for completion of Net Debt and Financing tables

In completing the tables, we have made the following assumptions:

- Following the adoption of the IFRS9, the ENWL £250m bonds maturing 2026 are now held at amortised cost rather than fair value. This change took effect for the 2019 RFPR. The bonds were issued in three tranches across 2001-2002, at a premium to principal. This accounting change impacts the RFPR and the RoRE calculation in two areas.
    - Firstly, the regulatory debt has increased reflecting the unamortised premium on issuance.
    - Secondly, the annual amortisation of the remaining premium reduces ENWL financing costs.
- The reporting approach and standards are being developed over time for this new regulatory reporting pack. As a result of recent developments, the resultant financing charge is more reflective of the effective financing rate on issuance. While IFRS9 is only effective for the year ending 31st March 2019 onwards, we have chosen to include a retrospective adjustment for the first three years of ED1 to ensure performance is consistent across the regulatory reporting period. These changes have had the impact of increasing the reported return and debt performance in the RFPR.
- The Net Debt per Regulatory definition excludes debt fair value adjustments and the fair value of the derivative. It also excludes any restricted cash balances.
- The cash balance is forecast to be maintained at, or above, a minimum acceptable level for working capital requirements. In some years it could be significantly higher due to liquidity requirements and maturing debt instruments being pre-funded (see above).
- Table E shows trading and rechargeable balances between ENWL and other Group companies. These balances are all held flat for forecasting purposes.
- To calculate proportions of debt which are fixed / floating / index-linked on a pre and post-hedging basis, we have excluded the retained cash balances from the Total Net Debt subtotal in order to provide a meaningful split. If these balances are included (presumably on a floating basis), then during periods of 'double-handling' when the cash balances are significant, the resultant proportions calculated can be negative and misleading. We therefore believe that the proportions shown are more helpful and reflective of our underlying interest rate exposures.

7. Glossary

ASID	Average Supply Interruption Duration
BEIS	Department for Business, Energy and Industrial Strategy
CI	Customer Interruptions
CLASS	Customer Load Active System Services
CML	Customer Minutes Lost
CNAIM	Common Network Asset Indices Methodology
CSAT	Customer Satisfaction
DNO	Distribution Network Operator
DSO	Distribution System Operator
ENWL	Electricity North West Limited
EV	Enduring Value
GEMA	Gas and Electricity Markets Authority
GRESB	Global Real Estate Sustainability Benchmark
GSoP	Guaranteed Standard of Performance
IFRS	International Financial Reporting Standard
IRM	Innovation Roll Out Mechanism
NMS	Network Management System
Ofgem	Office of Gas and Electricity Markets
PSR	Priority Services Register
PCFM	Price Control Financial Model
RAV	Regulatory Asset Value
RFPR	Regulatory Financial Performance Reporting
RIIO	Revenue using Incentives to deliver Innovation and Outputs
RIIO - ED1	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 1
RIIO – ED2	Revenue using Incentives to deliver Innovation and Outputs – Electricity Distribution 2
RoRE	Return on Regulated Equity
RPI	Retail Prices Index - a UK general index of retail prices (for all items) as published by the Office for National Statistics (January 1987 = 100).
SECV	Stakeholder Engagement and Customer Vulnerability
tco_2e	Tonnes of Carbon Dioxide Equivalent
Totex	Total expenditure