SP Electricity North West

Regulatory Financial Performance Reporting (RFPR) Commentary

31 March 2025

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1. Executive Summary

1.1. Company Performance

We are pleased to present the Regulatory Financial Performance Reporting (RFPR) for SP Electricity North West Limited (SP ENW) covering performance over the second year of the five-year regulatory period of RIIO-ED2. The year to March 2025 was a year of significant change in which the business continued to perform strongly against our business plan.

We have embedded and built on the capital delivery model, implemented last year to enable an enhanced capital delivery and commercial services function. This transformed the execution of our capital programme, and we have seen a step change in the scale of the investment against our allowances. Capital delivery will need to continue to increase throughout RIIO-ED2 and into ED3. We will continue to work on improvements to our processes and enhance our collaboration with strategic partners so we can secure the resources and materials needed to deliver these large programmes of work.

We made significant progress in delivery of our Cyber Security programme to better protect the network and the business. Last year we achieved basic compliance with the National Information Security cyber assessment framework. This year we made demonstrable progress towards the enhanced framework requirements, strengthening the resilience of the business against multi-vector threats and attacks.

These changes were achieved in the context of a complex and successful sale of the business, and a number of significant extreme weather events.

The private equity shareholders sold their interest in the company to strategic utility owner/operator, Iberdrola. Kansai, the Japanese utility, retained their ownership albeit at a reduced level. The business successfully navigated a CMA merger inquiry jointly with our new shareholders who took control of the business on 20 March 2025 as the CMA cleared the completed acquisition. Our first priority now is to ensure the successful integration of Electricity North West into the Iberdrola group, which includes a change to accounting year from fiscal to calendar year and aligning the business to new corporate governance and reporting standards, policies and procedures. To align with Iberdrola's ScottishPower brand within the UK the company has become SP Electricity North West and the distinctive Iberdrola/ScottishPower brand mark will gradually be rolled out across the company internally and externally.

Storm Éowyn, in January 2025, was the largest storm we have experienced, outstripping Storm Arwen of 2021. It was a harsh test on the developments we have made as a business. Our improved storm resilience and storm response capabilities were evident in transformed restoration times for customers compared to Storm Arwen, despite a substantial increase in the number of customers adversely impacted and off supply.

Employee safety and engagement as well as our customer service is the highest it has ever been. However, there remains much to do as we look ahead to the coming year. We are committed to ensure that we understand and continue to respond to needs of our customers and communities that we serve. It has continued to be a difficult time for our communities with energy costs remaining at the high level that we have seen over the last few years,

which serves to only increase the importance of the service we provide to the most vulnerable and poorest members of our community.

Our approach to asset management, innovation and capital investment and delivery is pragmatic and targeted. Our activities are targeted to improve the performance of the network, develop and reinforce the network efficiently, provide value for money, and a network that is able to meet our customers' needs.

Innovation is essential to maintain our sector leading network performance and reliability levels, and to meet the increasing demands on electricity from the decarbonisation of energy, at an affordable cost. We continue to develop and deliver our cutting-edge engineering innovations such as CLASS, Smart Street and LineSIGHT that will keep the network reliable, efficient and safe.

1.2.Cost Efficiency

SP ENW's costs account for around 12% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £124 per home for the year ended 31 March 2025; this compared to an average DNO customer bill impact of £142 per home (2024/25 Prices).

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. Unfortunately, the cost efficiencies we are forecasting have been more than offset by the significant negative movement in the retail price effects (RPE) allowances. The RPE allowance reduced by £64m (2020/21 prices) from the January 2024 PCFM and currently stands at a negative £47m reducing totex allowances, yet we are experiencing materials and labour costs higher than CPIH in our cost base and the RPE mechanism is not reflecting the costs we are experiencing.

The table below shows that we have spent our totex allowance in FY25, the underspend for the ED2 period to date of £61.4m is entirely driven by the large underspend in year 1. Year 2 totex delivery has improved significantly due to embedding the improvements we made last year to our capital delivery model. SP ENW forecasts a total totex overspend of £7.0m over ED2 (2020/21 prices), or <1.0% overspend. This forecast includes anticipated reopeners.

Note: We have left our Load reopener submission forecasts and allowances at £201.6m in line with the CVR and PCFM dry run 1 submission. This is different to Ofgem's latest published position, but this was agreed with Ofgem due to the timing of receiving the update. The Load reopener will be reviewed and updated in future PCFM submissions.

1.2.1. Totex expenditure compared to allowances

	FY25			ED2 Period to Date (2024/25)			ED2		
	Act	Allow	Var	Act	Allow	Var	Act	Allow	Var
Load Related Costs	45.5	37.8	(7.7)	69.0	67.1	(1.9)	374.1	373.1	(1.0)
Non-Load Capex (Ex Non Op Capex)	101.2	102.3	1.0	183.2	203.8	20.5	533.3	547.5	14.3
Non Op Capex	14.5	16.3	1.7	27.2	38.0	10.8	77.9	78.0	0.2
High Value Projects	0.1	0.0	(0.1)	0.7	0.0	(0.7)	20.7	20.0	(0.7)
Network Operating Costs	61.9	55.1	(6.9)	120.4	109.7	(10.7)	297.5	272.2	(25.3)
Closely Associated Indirects	55.5	65.5	10.0	108.9	130.9	22.1	326.5	349.8	23.3
Business Support Costs	47.9	38.7	(9.3)	91.5	77.4	(14.1)	226.4	203.1	(23.3)
Other Costs Within Price Control	15.0	26.1	11.1	21.5	56.8	35.3	162.0	167.5	5.5
Costs within Price Control (in Totex)	**341.8**	**341.8**	**(0.0)**	**622.4**	**683.8**	**61.4**	**2,018.3**	**2,011.3**	**(7.0)**
Outperformance			**(0.0%)**			**9.0%**			**(0.3%)**

2. Key Financial Performance measures (2020/21 prices)

In ED2 we have forecast a total totex overspend post enduring value adjustments of £7.0m (2020/21 prices).

We have committed to significant investment in a number of projects in ED2 to enhance the customer experience. This investment will contribute to improved performance in the areas of customer satisfaction, connections time to connect and the reliability of our network. As a result, we anticipate earning £42.4m (2020/21 prices) of output incentive revenues over the ED2 period.

We believe that when evaluating and understanding our returns against allowance, the cost of debt and taxation are important components, however as explained in sections 4.1, 4.8 and 4.9 below we believe the current forecast to outperform our cost of debt allowance of £43.6m (2020/21 prices) for ED2 (on a pre-tax adjustment and on an actual gearing basis) is skewed due to the effects of inflation as well as the actual gearing over ED2 averaging less than the 60% notional level.

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

3. Key operational performance measures

Operational Area	Measurement	FY25
Safety	Lost time incident frequency rate	0.01
Reliability and Resilience	Customer Interruptions (CI)	26.07
	Customer Minutes Lost (CML)	26.09
Environment	Business Carbon Footprint, excl. Losses (BCF) tCO2e	17,882
Connections	Time to Quote in days (LVSSA)	1.64
	Time to Quote in days (LVSSB)	5.06
	Time to Connect in days (LVSSA)	19.20
	Time to Connect in days (LVSSB)	16.66
Customer Satisfaction	Customer Satisfaction Survey Overall	92.9%
	Complaints metric	1.97
	Complaints resolved in 24 hours	84.0%
Employee Engagement	Engagement Rate	83.9%
DSO	Stakeholder Satisfaction Survey (Score out of 10)	8.86
	Performance Panel Assesment (Score out of 10)	6.71
Dig, Fix and Go	Average End-to-End Restoration Time after unplanned emergency street works in days	4.37
Vulnerability	Priority Services Register reach (proportion of eligible households that have registered)	0.96
	Social Value of Fuel Poverty services delivered (NPV)	10.22
	Social value of low carbon transition services delivered (NPV)	-0.13
	Average fuel poverty customer satisfaction survey score (scale 1 to 10)	9.48
	Average low carbon transition customer satisfaction survey score (scale 1 to 10)	9.00

3.1. Safety

As a highly regulated safety critical industry, we recognise that operational and asset safety is our licence to operate. As we continue to develop our safety culture, we have again achieved a reduction in our lost time injury frequency rate versus the previous year.

Operational safety

As a safety critical industry, the Company continues to maintain and invest in its training and authorisation processes. A new competency management system has been sourced and is in the process of being implemented. This will improve the way in which we ensure competency of those working across our infrastructure.

The Company continues to deliver a robust assurance process that includes the requirement for all operational employees to be subject to performance observations throughout the year. This extends to our contractors.

External accreditation to international safety management system standard ISO 45001 was achieved again in the year to 31 March 2025. This required a detailed audit by UKAS accredited certification body ISOQAR, who undertook an 11-day audit and found zero non-conformances.

We finished the year with a lost time injury frequency rate of 0.011. There was one lost time injury within the year, which is a reduction in previous years. Whilst it is recognised that that all incidents with injury should be avoided, this frequency rate is industry leading and demonstrates the maturity of our safety culture with sustained year on year improvement.

As we enter 2025/26, we will continue to develop initiatives and campaigns aimed at incident reduction and further developing our safety culture maturity.

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.

Our asset investment priorities that will deliver improved asset safety are as follows:

- Installation of LineSIGHT – a technology that will enable us to proactively identify faults that result in low hanging overhead lines
- Rising Lateral Mains – we will deliver a risk based rising & lateral mains inspection and replacement programme
- PCB contaminated Pole Mounted Transformer replacement – we will continue to replace PCB contaminated pole mounted transformers.

We will continue to assess asset safety risks and develop safety improvement strategies accordingly.

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 99.993%.

In the year ended 31 March 2025, the average number of interruptions per 100 customers (CIs) was 26.07 (FY24: 26.21). This has outperformed the target of 29.74 set by Ofgem.

Overall, the average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2025 was 27.09 (2024: 26.8) which was our third best performance. We outperformed the Ofgem target of 24.4 for unplanned interruptions with a result of 23.1. However, due to the acceleration of our capital delivery programme, the number of planned interruptions has increased pushing our CML result of 4.0 over the Ofgem target of 2.5 in FY25.

In both cases, these performances have been driven through a combination of investment in automation and in the network, as well as improved processes and focussed management. Our new network management system provides a strong platform for enhanced performance moving forward.

In FY25 we have seen an atypical impact from transmission faults causing a loss of supply, a substantial growth in Planned Supply Interruptions and growing impact from adverse weather.

An additional 2.4 CI impacts were seen from Transmission faults causing a loss of supply this financial year which is abnormally high. A full investigation has led to improvements in the business processes in managing transmission risk and automation restoration system.

A growth in Planned Supply Interruption impacts can be attributed to the substantial increase in tree cutting outage, PCB testing and consequential asset replacement and the installation of the LineSIGHT programme. Although these work streams have caused IIS impacts, they will bring long term reliability and safety benefits to our customers.

A growth in adverse weather impacts have impacted reliability performance this year. An additional impact 1.4 CI and 2.8 CML has been seen across rain events in May, Storm Bert, Strom Darragh, New Years Day Flooding and Snow in January. Although the impacts from this weather have been seen the incident response each time has been industry leading.

Despite the substantial impacts from Transmission fault, weather related impacts and growth in planned supply interruptions we delivered a second-best CI performance and third best CML performance due to substantial improvement in baseline reliability performance. Areas of reliability performance to highlight was the adoption and integration of Smart Meter notification into our business process to identify customers loss of supply: a substantial increase in fitting of LV Monitoring, LV Reclosers and Pre-emptive fault resolution.

Network Asset Risk Metric (NARM)

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 the Common Network Asset Indices Methodology (CNAIM). Our targets for risk reduction through this programme were published by Ofgem in December 2022 and equate to 416.6m risk points over ED2.

In FY24, we delivered 66m risk points and have delivered a further 42m points in FY25 through our programme of targeted replacement and refurbishment activities. In total, 109m risk points represents 26% of our ED2 target. The work bank profile is more heavily weighted towards the later years as we mobilise for an increased level of delivery.

Non-Connections Guaranteed Standards of Performance (GSoP)

	FY23/24			FY24/25		
	Total Customers Impacted	Number of Failures	% Pass Rate	Total Customers Impacted	Number of Failures	% Pass Rate
EGS1 - Main Fuse Failures	1,132	38	96.64%	1,082	51	95.29%
EGS2 - 12 Hour Failures	596,515	3,316	99.29%	589,629	5,810	99.01%
EGS2a - Multiple Interruptions	15	15	-	12	12	-
EGS2b - 5,000 No Supply Failures	-	-	-	49,554	-	-
EGS4 - PSI Not Notified	81,308	275	99.66%	87,880	396	99.55%
EGS5 - Voltage (Making Appt)	538	2	99.63%	624	21	96.63%
EGS5 - Voltage (Keeping Appt)	447	44	91.79%	621	5	99.19%
EGS8 - Making Appointments (RP)	12,011	363	96.98%	10,240	640	93.75%
EGS8 - Keeping Appointments	19,744	637	96.77%	22,833	670	97.07%
EGS9 - Late Payments	1,863	1,863	-	1,455	1,455	-
EGS11a - No Supply (Category 1)	68,480	306	99.55%	32,057	21	99.93%
EGS11b - No Supply (Category 2)	68,977	1,134	98.36%	95,008	2,358	97.52%
Overall Compliance	851,030	7,993	99.06%	890,995	11,439	98.81%

The overall compliance has reduced by 0.25% to 98.81% (FY24 99.06%). The number of customers impacted increased driven by storm events and the number of customers impacted by a Planned Supply Interruption. This year 5,810 customers were impacted by 12-hour failures. 100% of customers who were due a payment for the failure were proactively contacted by telephone or sent a letter to confirm their eligibility.

The volume of customers impacted by a Planned Supply Interruption continues to increase year on year, this is due to increased activity from our innovative quality of supply projects e.g. LineSIGHT.

EGS9 payments have reduced in comparison to last 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 ending 31 March 2025, we saw emissions remain significantly below those incurred at the start of ED1. The business carbon footprint for the year was 17,882 tCO2e, which is an increase on our previous year's emissions but in line with our expanded Science-based target reduction trajectory. Emissions in the year reflect the benefits of energy efficiency measures (including refurbishment of its buildings), and the use of HVO biofuel in a trial on our generators. 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, and to adopt more transparent reporting criteria. We have done this by moving to a target validated by the Science Based Target initiative. We made this

commitment in August 2023 and started to use this expanded emission target in FY25, that puts us on a 63% reduction plan for scopes one, two and three emissions by 2035.

The carbon emissions measure includes the impact of Sulphur Hexafluoride (SF6), which is a potent 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 an increased level when compared to the previous year (62.12kg compared to 28.23kg in 2024), equating to 0.38% of the total mass in service (2024: 0.17%). This was due to an improved inspection methodology for asset inspections. Although emissions were still at a low level the performance slightly missed the target to reduce our leakage rate to below 0.3% per year throughout ED2.

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 15,610 litres which is an improvement over the previous year's performance of 17,545 litres and meets our business plan commitment target of maintaining a leakage rate of less than 25,000 litres per year throughout ED2.

3.4. Connections

Time To Quote (TTQ) and Time To Connect (TTC)

The targets for TTQ and TTC have been tightened for ED2 and penalties added to the incentive mechanism. We have had another good year during which we exceeded the targets for TTQ and TTC metrics and are in reward for all four components.

Guaranteed Standards (GSoP failures)

We continue to focus on Guaranteed Standards of Performance for Connections. We are pleased that we have continued to reduce the number of failures down to 32 compared to 66 and 110 in the previous years. This remains a key area of focus to ensure we continue to improve the services to our customers.

3.5. Customer Satisfaction

Customer satisfaction

Delivering excellent customer service is important to us. Customer satisfaction levels have continued to improve year on year in ED2 with an overall score of 92.9% for the year ended 31 March 2025 (2024: 92.0%). The relative ranking among the DNOs was fourth, an improvement from fifth last year.

We are committed to further improving customer satisfaction levels and this is supported by a road map with clear actions in place that are monitored regularly by the Executive Leadership Team. The actions focus on inclusive customer service through reducing customer effort, simplification, owning what we do, and engaging, listening and improving.

Supporting priority service and vulnerable customers

Customers in vulnerable circumstances, especially those who are at more detriment during a power cut remain a priority focus. We are committed to supporting these customers when they need us and continue to find new avenues of raising awareness of the Priority Service Register (PSR) and encouraging registration to our PSR. Through partnerships and engagement our reach has increased this year to 95.7% (935,509 households).

We have also accelerated efforts to ensure that the data we hold is accurate and up to date as possible and have worked with Lexis Nexis to consolidate our data as well as reaching out to over 200,000 customers via digital channels, sending over 25,000 directed letters and calling over 100,000 properties.

Complaints

Our annual number of complaints received continues to remain in line with previous years' volumes. We track the time taken to resolve complaints when we do receive them. The overall complaints performance within the year is below the Ofgem target with a complaint metric of 1.97 (2024: 2.64), with 84% of complaints resolved in 24 hours (2024: 79.8%). This complaint metric reflects the percentage of complaints resolved within 24 hours, combined with the percentage complaints open and resolved within 31 days.

3.6. Employee Engagement

Our employee engagement is quantifiably assessed annually in the Climate Survey, which is undertaken by an independent, respected, expert organisation. Colleague engagement scores in our November 2024 survey were the highest ever recorded by the organisation, with an engagement rate of 83.9%. This was our second successive highest score and a significant improvement on prior year (82.8%). Our colleagues rated health and safety, pride and customer focus highest.

Gender pay gap overall increased slightly from 11.6% to 11.9%. Importantly, we do not have a gender pay gap for employees aged under 25, and we have a much smaller pay gap (approx. 6%) for those between the ages of 25 to 35, which bodes well for the future shape of our workforce. The recent revisions to parental pay places us at the frontier for benefits for maternity and primary care givers in our sector and ensures we are well placed to retain the diversity reflective of the communities we serve. In August 2024, working closely with our union partners, we secured a three year pay deal, recognising the importance of stability and security for our valued workforce.

3.7. Distribution System Operation

In FY25 we achieved a score of 8.86 for the Stakeholder Satisfaction Survey and a score of 6.71 for the Performance Panel Assessment. Both scores exceed the Ofgem targets and derived incentive revenues of £1.52m and £0.62m respectively in 2020/21 prices.

3.8. Dig, Fix and Go

Average End-to-End Restoration Time after unplanned emergency street works for FY25 was 4.4 days compared to target of 5.1 days giving incentive revenue of £0.71m in 2020/21 prices.

3.9. Vulnerability

Overall, customer vulnerability results were above target, apart from that for 'Low Carbon Transition Customer Satisfaction Survey' for which we did not meet the statistical robustness requirement.

We are committed to supporting priority service and vulnerable customers. We maintain a comprehensive Extra Care Register for those customers who may be more in need of our support, especially during a power cut and, alongside our annual leaflet awareness campaign, work with multiple partners to ensure that targeted groups are aware of the register and the support it can provide.

As well as our in-house expertise we have an extensive partnership network that informs and provides our service offerings. Our Take Charge campaign, in conjunction with Citizens Advice North West and the Energy Savings Trust, continues to be successful in helping customers take charge of their energy bills and maximise their income.

We have commissioned further research this year to understand how we can help the residents of the North West start or continue their low carbon journey and have used the findings to inform our strategy for ensuring a fair and just transition. Our Take Charge of your energy future – Go Low Carbon service offers impartial advice, ensuring customers are well informed to take action and to optimise the use of low carbon technologies (LCT).

4. Overview of regulatory performance

4.1. Return on Regulated Equity (RoRE)

RoRE based on Actual Gearing	Actuals 2024	Actuals 2025	Forecast 2026	Forecast 2027	Forecast 2028	Cumulative to 2025	ED2 period
Allowed Equity Return	4.4%	4.6%	4.4%	4.6%	4.8%	4.5%	4.6%
Totex outperformance	0.0%	-0.6%	-0.7%	0.4%	0.5%	-0.3%	-0.1%
Business Plan Incentive	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Output Incentives	0.4%	0.9%	0.7%	0.8%	1.1%	0.6%	0.8%
Other	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%
RoRE - Operational performance	4.7%	4.8%	4.4%	5.7%	6.4%	4.7%	5.2%
Debt performance - at actual gearing	4.0%	0.6%	0.6%	0.2%	-0.7%	2.2%	0.8%
Tax performance - at actual gearing	1.6%	1.1%	0.1%	0.1%	0.1%	1.3%	0.6%
RoRE - including financing and tax	10.2%	6.5%	5.1%	6.0%	5.8%	8.3%	6.6%

On an actual gearing basis, our Allowed Equity Return is 4.6%. Across ED2 there is anticipated totex underperformance impacted by a negative RPE allowance. The current approach to calculating RPE allowances is not sustainable in an environment that requires significant capital investment over the medium to long term. Output incentives earned by raising performance standards are currently forecast to have generated additional returns of approximately 0.8%. Operational performance (on an actual gearing basis) stands at 5.2%.

Our RoRE for the five years of ED2, including finance and tax is 6.6%. The ED2 overall post-financing and tax position is masked by an underlying "mechanical" debt outperformance in FY24 of 4.0% which has been generated by higher inflation causing the calculation in the Ofgem model to generate a negative "real" cost of debt. The approach to calculating the inflation element of debt, and thereby the in-year inflation to be deducted from nominal debt costs to derive real debt costs is skewed by the full impact of a high inflation deduction in FY24 resulting in an unrealistic negative real cost. There is also an inconsistency which is something we have highlighted on a number of occasions in ED1: the starting point to derive actual interest costs is a net statutory position, which after non-regulatory adjustment, is then converted to a "real" basis using inflation on a gross debt position rather than net debt. As we have relatively significant cash balances in the first few years of ED2, this can have a significant impact on the debt performance calculation.

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.

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 ED2 position from 6.6% to 6.2%, on an 'actual gearing' basis.

Tax performance – tax outperformance in FY24 and FY25 is driven by higher taxable interest costs than the notional company, when the in-year inflation adjustment is excluded from the financing performance analysis.

4.2. Reconciliation to Revenue and Profit

The purpose of this worksheet is to report allowed and actual revenue and reconcile this to the revenue shown in our statutory accounts. In addition, the worksheet also provides a reconciliation for regulated network profit to the profit shown in the statutory accounts.

4.3. Totex - Reconciliation

This worksheet shows our totex performance against allowances, plus a reconciliation of our actual costs per our statutory accounts with our actual reported annual totex.

4.4. Allowed Revenue

Nominal prices	Actuals **FY24** £m	Actuals **FY25** £m	Forecast **FY26** £m	Forecast **FY27** £m	Forecast **FY28** £m
Base Revenue	492.3	497.5	549.0	568.3	595.6
Equity issuance costs	5.9	0.0	0.0	0.0	0.0
Output delivery incentive	4.4	12.3	10.6	12.4	18.7
Other revenue allowances	0.5	-0.0	2.9	2.9	3.0
Tax	19.2	14.9	1.8	1.8	1.9
Correction term	11.2	13.5	-12.1	-122.4	31.3
Forecasting penalty	0.0	0.0	0.0	0.0	0.0
Legacy Allowed Revenue	19.1	45.3	-2.4	-2.7	-2.9
Allowed Network Revenue	**552.6**	**583.5**	**549.9**	**460.4**	**647.6**

Allowed revenue projections match the dry-run 1 ED2 Price Control Financial Model (PCFM) (uplifted for price base changes). Further planned dry-runs could change the forecast element of ED2.

For FY25, the largest component of allowed revenue is base revenue which comprises totex-related costs, non-controllable costs such as licence fees and business rates, debt interest and equity shareholder costs, and tax costs. Incentive revenue for FY25 stood at £12.3m with the largest component coming from consumer vulnerability performance (please see section 4.5 for further detail on incentives, noting the difference in price base).

The other two components of allowed revenue reflect timing adjustments. The first, the K factor at £13.5m, represents the under recovery of allowed revenue from 2024. The second, legacy allowed revenue at £45.3m represents the lagged close-out adjustments from ED1 that impact revenue in ED2. These include legacy true-ups for pass-through items (-£25.0m), true-ups for legacy incentive (£27.8m) and inflation true-ups (£44.9m).

4.5. Output incentive performance

2020/21 prices	Actuals FY24	Actuals FY25	Forecast FY26	Forecast FY27	Forecast FY28	Cumulative to FY25	ED2 period
	£m	£m	£m	£m	£m	£m	£m
Time to connect ODI	0.9	1.0	1.1	1.2	1.2	1.9	5.4
Broad Measure of Customer Service ODI	1.2	1.9	2.3	2.6	2.7	3.0	10.6
Interruptions incentive scheme ODI	0.9	0.4	2.0	2.5	3.2	1.3	9.0
Major connections ODI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consumer Vulnerability ODI	0.0	3.1	0.0	0.0	3.0	3.1	6.1
Distribution System Operator ODI	0.2	2.1	1.6	1.8	2.2	2.3	7.9
Dig, Fix and Go ODI (ENWL only)	0.4	0.7	0.7	0.8	0.8	1.1	3.4
Post-Tax Earned Incentive revenue	**3.5**	**9.3**	**7.7**	**8.9**	**13.1**	**12.7**	**42.4**

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 first two years of the five-year price control (FY24 and FY25) they contributed 0.6% of RoRE on average with the Consumer Vulnerability incentive contributing the most reward. On an ED2 basis the Broad Measure of Customer Service Incentive is expected to contribute the highest reward.

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.

4.6. Totex performance

2020/21 prices	Actuals FY24	Actuals FY25	Forecast FY26	Forecast FY27	Forecast FY28	Cumulative to FY25	ED2 period
	£m	£m	£m	£m	£m	£m	£m
Latest Totex actuals/forecast	280.6	341.8	444.5	467.3	484.2	622.4	2,018.3
Totex allowance including forecast allowed adjustr	342.0	341.8	414.7	444.1	468.7	683.8	2,011.3
Totex out(under)performance	61.4	-0.0	-29.8	-23.1	-15.5	61.4	-7.0
Customer share of out(under) performance	31.1	-0.0	-15.1	-11.7	-7.9	31.1	-3.6
NWO share of performance	30.3	-0.0	-14.7	-11.4	-7.7	30.3	-3.5
Total enduring value adjustments	-62.4	-12.7	14.8	32.5	27.7	-75.0	0.0
Enduring Value: Customer share of performance	-31.5	-6.4	7.5	16.4	14.0	-38.0	0.0
Enduring Value: NWO share of performance	-30.8	-6.3	7.3	16.0	13.7	-37.1	0.0
Total out(under) performance (including enduring value adjustments)							
Customer share of performance	-0.5	-6.4	-7.6	4.7	6.2	-6.9	-3.6
NWO share of performance	-0.5	-6.3	-7.4	4.6	6.0	-6.7	-3.5
Total	**-0.9**	**-12.7**	**-14.9**	**9.3**	**12.2**	**-13.6**	**-7.0**

Overall, in the first two years of ED2 we have delivered totex spend which is £61.4m lower than allowances however, this performance is adverse to allowances by £(13.6)m after accounting for the Enduring Value (EV) adjustment.

Year two spend was in line with the allowances and we are forecasting a relatively small overspend, including anticipated reopener spend, by the end of the price control. The change from the previous year when we forecast a totex efficiency of £19m over ED2 (c.1% efficiency) is due to the significant reduction in RPE allowances which has more than offset an improvement in the underlying forecast cost efficiency to 2% before the impact of RPE's.

The EV is entirely driven by the large underspend in year one. In FY24 our capital programme had a slower start than was forecast in the ED2 allowances but in year two our totex delivery improved significantly due to embedding the improvements we made in the prior year to our capital delivery model.

The underspend to date of £61.4m is largely due to timing or rephasing of work from year one of the price control and also reflects efficiencies earned of £4.3m, net of reinvestment of £1.9m. The latter principally includes revenue obtained from CLASS £16.5m, investment in quality of supply £(6.9m), increased spend on overhead line inspections following policy changes £(3.7m), and enhancing our Commercial services function £(4.0)m. These investments are all delivering enhanced network performance or totex efficiencies, which are then shared with customers. The most significant adverse variances have been seen in Network Operating Costs mainly due to the large number of severe weather events, an external factor which has negatively impacted our fault cost performance £(15.6m).

The Enduring Value methodology and adjustments are outlined in Appendix 1. The most significant elements of the calculation are the deferral of operational IT and Telecoms expenditure into the latter years of ED2 and the timing of the Smart Street and Asset and Refurbishment programmes. Allowances for these programmes have been profiled flat across ED2 but the planned spend profiles are more profiled towards the later years.

4.7. Innovation performance

Our commitment to delivering world class innovation for the benefit of North West and UK customers is unwavering in ED2. Innovation is the catalyst for enabling improvement to make our network more affordable, reliable and safer for North West customers.

We have been at the forefront of the industry developing transformative network innovation projects, which we continue to successfully transition into business as usual delivering tangible benefits to North West stakeholders. We strive to leverage our innovation culture, processes, frameworks and experience of deploying innovation into business-as-usual at pace to deliver more benefits to customers.

In ED2 we are continuing to take the strategic approach of focusing our innovation in the five industry challenge areas, ensuring we deliver outcome-based innovation. We are delivering measurable social, environmental and safety benefits to North West stakeholders and

customers whilst working to innovate in the areas of future system operations, the facilitation of the net zero energy transition and supporting consumer vulnerability.

As of the end of FY25, we have registered £3,379k worth of Network Innovation Allowance projects, representing a clear commitment to delivering against our strategic objectives. While expenditure to date stands at £174k, this reflects the natural phasing of project lifecycles, many of which are in the early stages of mobilisation. We have a well-defined delivery roadmap that supports the efficient and timely use of our full allowance. Key milestones have been mapped out across FY26 and beyond, and processes for several major workstreams are already underway. We remain confident that our plans will unlock the full value of the registered projects, with spend expected to ramp up significantly in the next reporting period as implementation progresses.

The integration of large volumes of renewable generation and meeting the increased capacity requirements for the electrification of heat and transport we believe will require innovation in the areas of enhanced network operability and the efficient use of system flexibility. We will continue to innovate and deliver solutions enhancing control and optimisation of our system to maximise the use of existing infrastructure capability whilst developing commercial and market solutions to support integration and efficient use of flexibility.

The development of our future system operations function will be underpinned by innovation in technology and digitisation to deliver best value for northwest consumers and to support regional growth. Our innovation work will develop new markets and the platforms required for participation in close to real time, new flexibility products such as in the areas of energy efficiency and heat technologies as well as local area energy planning. We continue to support the most vulnerable consumers in our region to ensure no one is left behind, this is a key focus area of innovation where we will further our understanding of the challenges and development of network and community solutions. Specifically, we will work to enable the highly innovative approach of network led energy efficiency in rural areas of fuel poverty as well as improving participation in emerging local markets.

We will continue to prepare for an inclusive net zero future in the North West; by developing integrated modelling, enhanced analytics, methods for sharing of data and insights and new visualisation approaches, all of which we believe supports greater active participation and best value for consumers. We will collaborate widely, working with a wider range of stakeholders, including regional stakeholders and other network companies, to co-create and deliver projects together.

4.8. Financing and Net Debt position

£m 2020/21	Actuals FY24	Actuals FY25	Forecast FY26	Forecast FY27	Forecast FY28	Cumulative to FY25	ED2 period
	£m	£m	£m	£m	£m	£m	£m
Assumed regulatory finance cost at actual gearing	-16.3	22.3	22.2	28.6	43.1	6.0	99.9
Assumed regulatory finance cost at notional gearing	-18.8	26.1	26.6	33.1	47.8	7.3	114.8
Forecast revised Cost of Debt Allowance	36.9	39.4	41.9	45.1	48.7	76.3	212.0
Cost of Debt out(under)performance at actual gearing (pre tax adjustment)	37.8	5.6	6.9	1.8	-8.4	43.4	43.6
Cost of Debt out(under)performance at notional gearing (pre tax adjustment)	38.0	-0.2	0.0	-5.0	-14.7	37.8	18.1
Impact on out(under) performance relating to deviating from notional levels of gearing (pre tax adjustment)	-0.1	5.7	6.9	6.8	6.2	5.6	25.5
Notional Gearing	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Actual Gearing	52.0%	51.3%	50.1%	51.9%	54.1%	51.7%	51.9%
Average Net Debt (per Regulatory Definition)	1,033.0	1,062.3	1,098.1	1,223.0	1,375.4	1,047.6	1,158.4
Equity RAV	952.9	1,007.9	1,093.3	1,133.4	1,167.2	980.4	1,071.0
Adjusted RAV - including latest forecast and Enduring Value adjustm	1,986.0	2,070.2	2,191.5	2,356.4	2,542.7	2,028.1	2,229.3

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
- £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
- £111.1m 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
- £250m revolving credit facility, of which nil was drawn at year end. Post year-end the £250m revolving credit facility was replaced in August 2025 with a £250m intercompany revolving credit facility from parent company Scottish Power UK plc, with initial maturity in April 2027, with options for 2 extensions.
- £500m letter of support from Scottish Power UK plc to North West Electricity Networks (Jersey) Limited and each of its subsidiaries including SP ENW, to ensure sufficient liquidity to conclude on Going Concern and Availabiltiy of Resources.

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 which matured in 2021. Subsequent to the maturity of the £200m fixed rate

intercompany 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 83%:17%. With these financing instruments in place, the proportion of nominal fixed and floating debt to index-linked debt is 63%:37%.

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
2025/26	£650m	6.00% nominal	Refinance of £450 8.875% bonds maturing in 2026 and financing of the ED2 capital program
2026/27	£250m	6.55% nominal	Financing of the ED2 capital program

Debt performance

On an actual gearing basis our cost of debt outperformance is £43.6m (2020/21 prices) cumulatively for ED2. This is driven by FY24 outperformance of £37.6m, due to an inflation component adjustment, where FY24 saw high levels of inflation. This outperformance is driven by the mechanical inflation adjustment described above. There are underlying pressures on our cost of debt due to a variety of factors which have impacted our historic debt issuances:

- 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.
- 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.
- SP ENW 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.

4.9. Taxation

2020/21 prices	Actuals **FY24** £m	Forecast **FY25** £m	Forecast **FY26** £m	Forecast **FY27** £m	Forecast **FY28** £m
Adjusted/ forecast regulated tax liability with timing differences	0.1	0.0	0.0	0.0	0.0
Revised regulated tax liability for comparison against allowance	0.1	-1.4	-1.7	-1.7	-1.6
Net forecast tax allowance	15.0	11.3	1.3	1.3	1.3
Regulated tax out(under) performance at actual gearing (pre adjustment for financing)	14.9	11.3	1.3	1.3	1.3
Regulated tax out(under) performance at notional gearing (pre adjustment for financing)	14.8	12.7	3.1	3.0	2.9
Impact on out(under) performance deviating from notional levels of gearing (pre adjustment for financing)	0.0	-1.4	-1.7	-1.7	-1.6
Tax performance - at notional gearing (RoRE)	14.8	12.7	3.1	3.0	2.9

Tax returns have now been filed for FY24 and therefore the performance figures for the first year of ED2 are aligned to the detail provided in the reconciliation; FY25 to FY28 are forecasts.

The FY25 tax liability has been estimated using draft workings prepared for statutory accounts reporting. For the last three years of ED2 we have estimated the tax liabilities using internal business modelling.

For FY25 we have determined a forecast tax liability position on a regulated basis utilising the 2025 statutory reporting estimate as a starting point. To establish a "regulated" tax

liability aligning to the composition of the PCFM tax allowance, we have applied the following adjustments to the statutory estimate:

1. Removed timing adjustments
2. Removed non-regulatory items
3. Removed "accounting" adjustments

(FY26 to FY28 utilised forecast tax liability positions from internal business modelling apply similar adjustments to arrive at an estimated regulatory-equivalent tax liability.)

This allows for a reasonable basis on which the liability and allowance can be compared. In FY24 and FY25 the difference amounted to 1.6% and 1.1% RoRE - with an overall ED2 position of 0.6% (actual company basis) - which can in part be attributed to the relatively high level of inflation, which increased debt costs, and for which we receive a tax deduction. (see comment on tax in RoRE section above).

The relative positions of the actual/forecast company tax liability and the notional company tax allowance are heavily impacted by the notional company approach to modelling financing costs and capital allowances versus the real world outcomes. Actual company financing costs and capital allowances are currently higher than notional company modelling giving rise to greater deductions for tax purposes. On an "adjusted-to-regulatory" company actual/forecast basis the FY24 year gives rise to a small tax liability of £0.1m, and the remaining ED2 years are forecast to be a loss and therefore incur no tax liability. FY26 to FY28 tax performance represents the effect of the deadband.

As noted in the RoRE section above financing performance, particularly in FY24, has been skewed by the effects of the inflation adjustment. For the reasons set out in that section, we do not believe this is an accurate representation of performance.

4.10. Corporate Governance

4.10.1. Corporate Ownership and Governance Framework

Appended to this commentary is a corporate ownership structure chart. It includes:

- The entities within the Licensee's group, up to and including the ultimate parent undertaking, North West Electricity Networks (Jersey) Limited.
- Ownership stakes in the group, including the Licensee, expressed as percentages.
- The registered companies' names have been provided in full for all companies in the ownership structure. The trading name for the licensee is SP Electricity North West)

We can confirm that the decision-making responsibility for the following matters for the Licensee (Electricity North West Limited) rests wholly with Electricity North West Limited:

- Purpose, values and strategy,
- Approval of Dividends

The decision-making responsibility for the following matters rests with NWEN UK per NWEN UK's terms of reference:

- Board director evaluation, and
- Executive remuneration

The Licensee's current Board Committees (and Board directors serving on each) are as follows:

Audit and Compliance Committee	Harold Hutchinson, Alistair Buchanan and Charles Langan

The Board composition for Electricity North West Limited:

	Position	Appointed	Resigned
Alistair Buchanan	Chair and Sufficiently Independent Director	25-Jul-2018	-
Harold Hutchinson	Sufficiently Independent Director	22 October 2024	-
Stephanie Trubshaw	Executive Director (Chief Operating Officer)	29-July-2025	-
Christopher Johns	Executive Director (Chief Financial Officer)	25-May-2023	-
Keith Anderson	Shareholder Appointed Non-Executive Director	22 March 2025	-
Charles Langan	Shareholder Appointed Non-Executive Director	22 March 2025	-
David Mesonero Molina	Shareholder Appointed Non-Executive Director	22 March 2025	-
Tetsu Onaru	Shareholder Appointed Non-Executive Director	2 July 2025	
Shinichiro Kitagawa	Alternate Shareholder-Appointed Non-Executive Director	2 July 2025	-

Other Board Director appointments since 1 April 2023

Anne Baldock	Sufficiently Independent Director	26-Sep-2018	21 March 2025

Susan Cooklin	Sufficiently Independent Director	25-Jul-2018	21 March 2025
Robert Holden	Independent Non-Executive Director	01-Jan-2016	21 March 2025
Ian Smyth	Executive Director (Chief Executive Officer)	05-Sep-2022	2 July 2025
Mitsuo Wada	Shareholder-Appointed Non-Executive Director	31-Jul-2023	21 March 2025
Masahide Yamada	Shareholder-Appointed Non-Executive Director	07-Jul-2022	2 July 2025
Makoto Murata	Alternate Shareholder-Appointed Non-Executive Director	28-Jul-2022	2 July 2025
Michiko Hara	Alternate Shareholder-Appointed Non-Executive Director	04-Jul-2024	21 March 2025
Genping Pan	Shareholder-Appointed Non-Executive Director	12-Dec-2019	22 October 2024
Hailin Yu	Alternate Shareholder-Appointed Non-Executive Director	24-Feb-2020	22 October 2024
Sion Jones	Shareholder-Appointed Non-Executive Director	20-Aug-2019	22 October 2024
Peter O'Flaherty	Shareholder-Appointed Non-Executive Director	17-Sep-2019	22 October 2024
Aisha Hamid	Alternate Shareholder-Appointed Non-Executive Director	02-Feb-2023	22 October 2024

4.10.2. Executive Remuneration Policies

Executive Remuneration Policies

The executive remuneration policy and structure during the year ending 31 March 2025 was determined by the Remuneration Committee of SP ENW. The Remuneration Committee was terminated by the directors of the Board on 23 March 2025 with all of its respective powers, duties, and obligations returning to the Board of Directors as necessary. The remuneration policy takes into account relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The SP ENW executive remuneration approach is to balance appropriate reward with the creation of long-term value, customer and stakeholder interest and sustainability and reliability of the network.

Share options are not offered as an incentive to either Executive or Non-Executive Directors as the Company is privately-owned.

Nature of remuneration of Executive Directors

Element	Purpose and link to strategy	Framework
Basic Salary	Basic salary provides the core reward for the role. Salaries are set at a sufficient level to attract and retain high calibre individuals who can deliver the Group's strategic objectives.	External advice is taken on all remuneration to ensure that it remains effective and appropriate. Levels of basic salary are benchmarked and will also reflect the director's experience and time at director level.
Benefits	Other benefits provided are designed, as with basic salary, to provide a competitive but not excessive reward package.	In addition to basic salary, directors are provided with a car allowance and private medical insurance.
Executive Incentive Plan ("EIP")	Executive Directors are members of the Executive Incentive Plan. This aims to reward both in-year performance and incentivise strategic and innovative behaviours over the longer-term, aligned to shareholder objectives, including customer performance. Following Health & Safety best practice, safety is considered to be an essential part of any role. Therefore, directors receive no Health & Safety related incentives.	The EIP works on a balanced scorecard approach, with measures scored on an annual basis but set in line with longer term ambitions, and bonus payouts in part deferred into subsequent years, to promote a strategic focus and sustainable performance.
Pension	Directors are offered the same level of defined contribution benefits as all other employees, or a taxable payment in lieu.	No director is a member of the defined benefit scheme which is now closed to new members.

Performance Related Remuneration

Executive incentive plan

The SP ENW remuneration policy weights executive compensation more heavily towards performance related pay. The portion of reward at risk (linked to performance-based elements) accounts for more than half the total remuneration opportunity.

The EIP consists of reward for achieving SP ENW scorecard measures combined with performance against individual objectives. Performance measures and targets are agreed at

the start of each financial year and are aligned with the SP ENW strategic business plan and priorities.

There is an award gateway which considers potentially reputationally damaging events and safety performance. The scorecard targets which are linked to 80% of the total payout, are based on the annual business plan which is reviewed and approved by the SP ENW Board of Directors. It includes targets covering financial performance, network reliability and customer satisfaction as well as employees and environmental metrics.

Individual performance which accounts for 20% of the potential payout, is determined by an assessment of the achievement of objectives set at the start of the financial year and alignment with organisational values.

The achievement of stretch performance across all measures will result in the maximum EIP award. Half of the EIP award is paid in June following the financial year end; the remaining 50% is held as a long-term incentive and paid over a number of years to retain directors and executive leaders and ensure long-term delivery of the SP ENW strategy. In the year ending 31 March 2025 100% of the bonus was paid during the year. The EIP awards are subject to malus and clawback provisions and are at the complete discretion of the Remuneration Committee/ Board of Directors.

2024/2025 Executive Remuneration

As at March 2025, SP ENW has two executive directors, Ian Smyth (Group CEO) and Chris Johns (Group CFO). All executive directors oversee mainly the running of SP ENW which has been reflected by allocating 98.85% of their total remuneration to the regulated business, with a small proportion of their time allocated to non SP ENW activities within the wider group.

CEO Pay Ratio

There are three methodologies that companies can choose to report their pay ratio, known as Option A, B and C (see “The Companies (Miscellaneous Reporting) Regulations 2018” where the CEO pay ratio requirements are set). The government preference, and most accurate reporting method, is Option A. SP ENW have elected to use this method, consistent with previous years, which enables us to compare total remuneration for the financial year ended 31 March 2025, in line with the pay gap requirements.

The CEO pay ration is based on total remuneration which is inclusive of bonus, long term executive incentive payments, additional allowances or payments, benefit in kind and employer pension contributions.

Bonus payments are linked closely to Company performance and the timing of maturity of long-term incentive arrangements, so may fluctuate year on year.

Our Executive Remuneration Strategy follows the same methodology as our Management (personal contract) pay strategy, whereby the budget for pay increases is aligned to affordability based on the price control determination settlement set by Ofgem. Individual target pay is market median (UK - excluding London) and we benchmark externally in the

utilities sector and the wider UK economy, to ensure we have a consistent remuneration strategy and process across the business.

4.11. RAV

2020/21 prices	Actuals **FY24** £m	Actuals **FY25** £m	Forecast **FY26** £m	Forecast **FY27** £m	Forecast **FY28** £m
Opening RAV (before transfers)	1,983.2	2,067.7	2,158.5	2,315.5	2,495.8
Opening RAV (after transfers)	**1,983.2**	**2,067.7**	**2,158.5**	**2,315.5**	**2,495.8**
Net additions (after disposals)	215.0	235.0	307.9	333.9	353.1
Net additions (after disposals) - enduring value adjustment	22.0	4.6	-5.3	-11.5	-9.8
Total Net Additions	237.1	239.6	302.6	322.4	343.3
Depreciation	-152.6	-148.4	-144.9	-141.6	-142.6
Total Depreciation	-152.6	-148.9	-145.5	-142.1	-142.8
Adjusted Closing RAV	**2,067.7**	**2,158.5**	**2,315.5**	**2,495.8**	**2,696.2**

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 2025 is £2.2bn in 2020/21 prices. This number is expected to increase in comparable price base as we continue to invest in the network and meet the challenges of Net Zero. RAV has also been adjusted in table R7 as a result of the adjustment to totex for Enduring Value. Please see the enduring value section in Appendix 1 for further details.

4.12. Pensions

Nominal prices	Actuals FY24 £m	Actuals FY25 £m	FY26 £m	FY27 £m	FY28 £m
Established deficit element funded via specific allowances	0.0	0.0			
Incremental deficit funded via totex	0.0	0.0			
Licensee share of total pension deficit repair payment made for defined benefit scheme	0.0	0.0			

2020/21 prices	Actuals FY24 £m	Actuals FY25 £m	Forecast FY26 £m	Forecast FY27 £m	Forecast FY28 £m
Established deficit element funded via specific allowances	0.0	0.0	0.0	0.0	0.0
Established deficit (EDE) allowance as per PCFM	0.0	-7.3	0.0	0.0	0.0

Latest pension scheme valuation (as advised to be used by Ofgem)	31/03/2022
Price base	2021/22
	£m
Total Liabilities attributable to post cut-off date notional sub fund	244.4
Total Liabilities attributable to pre cut-off date notional sub fund	1,153.6
Total Assets attributable to post cut-off date notional sub fund	241.3
Total Assets attributable to pre cut-off date notional sub fund	1,137.3
Deficit in the post Cut-Off Date Notional Sub-Fund	3.1
Deficit in the pre Cut-Off Date Notional Sub-Fund	16.3
Licensee element of established deficit	16.3
Licensee element of incremental deficit	3.1

Reporting of pension deficit information is aligned with Ofgem's latest reasonableness review (Nov 2023) which takes place every three years. The updated triennial review is based on a 31 March 2022 valuation. The outcome of our latest submission and review means no further customer funding is needed at this point in time.

We continue to monitor the performance of the pension funds with the funding rate at 31 March 2025 being approximately 111%.

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

5. Data assurance statement

We have applied the principles of Ofgem's data assurance guidance to the RFPR. We note the element of judgement and inherent risk in preparing forecasts until the end of the RIIO-ED2 period. Against this backdrop we have provided our best estimates aligned with Licence and guidance requirements. The submission has been subject to expert and second person review and signed off by the Chief Financial Officer on behalf of the Board.

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 SP ENW, the most material items impacting the EV are:

1. The timing of our Smart Street price control deliverable which is profiled more heavily in the second half of ED2.
2. The timing of our expenditure on Cyber resilience projects.
3. The timing of non-load related capital expenditure relating to operational IT estate enhancements and the delivery of risk points.

Enduring Value Methodology

The approach to EV by core category is outlined below:

Totex category	Expenditure Type	Basis of EV calculation
Load Related expenditure	Reinforcement expenditure (Distribution and connections) less customer contributions	Each year we assess our overall load related expenditure compared to allowances to assess whether any under or overspend needs to be included in our EV adjustment. At the end of FY25 we are slightly ahead of allowances as reflected in our Load reopener

		submission. We are expecting significant increases in spend in the later ED2 years. Connections is behind allowances, partly driven by Access SCR allowances being allocated into the first two years of ED2. Whilst we have seen increased acceptances for DUoS funded reinforcement of the back of the SCR reforms, the timing of this expenditure is more aligned to our re-opener submission and set to increase across the outer years of ED2. We have accelerated our primary reinforcement in line with our load related re-opener submission to meet the demands of our stakeholders and ensure that we scale our delivery capabilities for ED3. Secondary reinforcement is slightly ahead of allowances, whist our fault level programme is slightly behind, but both broadly aligned to our re-opener submission.
Smart Street Mechanistic Price Control Deliverable (SSMPt)	Smart Street	The allowances for Smart Street are flat phased, whereas the planned installation profile is back end loaded. We still expect to deliver the planned 1,000 units by the end of ED2 therefore the variance to allowance has been included in the EV adjustment.
Cyber Resilience	Cyber Baseline and Reopener	Adjustment made for profiling of delivery of cyber projects compared to allowances. In FY25 we significantly increased the level of activity and associated spend relative to FY24. The level of activity and spend continues to increase in FY26, to a level where we are confident in our ability to deliver the full set of outputs and utilise the full allowance over ED2.
Non-Load Capex	Asset Replacement and Refurbishment	Allowances for the asset replacement and refurbishment programmes have been profiled flat across ED2 but the planned spend profile is more heavily weighted towards the later years as we mobilise for an increased level of delivery. We also assess progress on risk point delivery against the overall ED2 target when making any adjustment.
	Operational IT and Telecoms	Current under / over spends vs. allowances fall into the EV calculation to the extent they unwind over ED2. In FY24 and FY25 we concentrated on embedding the Cyber Assessment Framework (CAF) basic policies, principles, and disciplines across the business. This focus meant that other enhancements to our operational IT estate were delayed. Another significant area of delayed spend was the Network Management System (NMS) rebuild as the design phase took longer than anticipated but is now progressing.
	Other Non-Load Capex (Legal and Safety, LineSIGHT, Civils etc.)	Current under / over spends vs. allowances fall into the EV calculation to the extent they unwind over ED2.
Non Operational Capex	Non-Operational IT / Fleet / Logistics / accommodation	Adjustments made where an acceleration or deferral has occurred on specific projects and manufacturing delays.

Network Operating Costs		Adjustment applied dependent on separate scrutiny of individual components in light of events affecting the network. This year we have included adjustments for inspections and maintenance and the smart metering roll out where the allowances do not match the internal programme phasing.
Business Support / Closely associated Indirects	IT and Telecoms / Wayleaves	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 we have included an adjustment here for our cybersecurity programme.

Summary of position at 31 March 2025

Enduring Value summary £m (2020/21 prices)	Cumulative 2025
Smart Street	21.4
Cyber Resilience	14.4
Non load – Op IT and Telecoms	13.1
Non load – Asset Replacement and Refurbishment	11.5
Non load – other	2.3
Non Op Capex	10.1
Network operating costs	8.5
Load related costs	-1.9
BS/CA Indirects	-4.4
Total	75.0

6.2. Appendix 2 - Net Debt Forecasting Assumptions

In the three years to 31 March 2028, SP ENW has the following debt maturity:

- £450m 8.875% fixed rate bond maturing in 2026.

In addition, there is capacity for incremental borrowings, which have been forecast based on business needs 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. Our working assumption for refinancing rates is derived from WACC allowance model provided by Ofgem, 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 £111.1m 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 4.8.
- Nominal and index-linked debt. Refinancing is currently forecast as being on a nominal basis and this assumption 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 SP ENW £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 SP ENW financing costs.

- 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).
- The forecast new debt/financing is done on a cumulative basis. This is done so future gearing is accurately reflected thus, analysed accordingly.
- The forecast new financing/refinancing net interest costs is also comprised on a cumulative basis.

6.4. Appendix 4 – SP ENW Corporate Structure