

Board Statement



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As Chair of the Board, I am pleased to provide an updated Statement of the Board's support for Electricity North West's ED2 business plan. We would particularly like to highlight the continued efforts that the team have made to ensure the ED2 business plan is genuinely led by customer and stakeholder views, undertaking its most extensive engagement exercise to date.

As a Board, we have driven as comprehensive and ambitious a business plan as possible, providing challenge throughout the process and engaging widely as a Board. As GEMA is setting out on its current review to ensure robust governance by Boards, we can provide assurance through our sector-leading governance structures that provide independent and transparent processes and behaviours.

Electricity North West is the strongest performing distribution network in the UK, rated green by Ofgem for its performance against all of the categories for every year of ED1 to date – the only network to do so. We have a track record for sector-leading, efficiency for costs in our ED1 business plan and then continuing to work hard within the period to outperform on our promises and to deliver yet further efficiencies against these. Our results show that these efficiencies do not come through sacrificing performance or safety and we continue to expect continued improvements across the remainder of ED1. We continue to not just innovate, but innovate and implement. During ED1, we have implemented Europe's most advanced, digital network control system offering the level of control needed to support the Net Zero challenge and continued to rollout cutting edge technologies, such as CLASS and Smart Street.

ENWL remains committed to playing a key role in supporting the UK in meeting its Net Zero targets, which will be essential to achieve the recent pledges at COP26. However, we recognise the challenges facing a Regulator setting a price control at a time of substantial change within the sector and at a time when there are increasing challenges regarding the price consumers pay for energy in this country. Our final business plan combines proposals to adjust allowances as dynamically as possible to allow for uncertainties to be responded to as they are realised, balancing our need to be able to finance this activity, whilst not impacting on customer bills before the need crystallises. For this reason, our plan is contingent on effective uncertainty mechanisms being put in place for and managed in accordance with expectations during the ED2 period.

Based solely on Ofgem's working assumptions for cost of capital allowances, we do not believe that ENWL's ED2 business plan is currently financeable on a notional company or actual company basis. We believe, however, that more can be done within the spirit of the principles Ofgem has outlined and that there are tools available that would allow this plan to be financeable. It is not possible for Electricity North West to reach a final position on cost of capital at this stage. We have only recently seen the detailed outcome of the RIIO-2 Energy appeals to the Competition and Markets Authority (CMA) and have not been able to discuss this fully with our advisors prior to finalising this submission. More detail on our financeability

concerns and on various options that we suggest could be utilised to deal with these issues is provided in section 5 of this Statement and we are keen to engage now as a matter of priority on this aspect of the business plan.

ENWL has a track record of constructive engagement with Ofgem and of providing pragmatic and balanced solutions to issues identified. As a Board, we expect to continue this engagement over the coming weeks and months. When we submitted the draft plan in July 2021, we committed to submitting an ambitious, efficient, affordable and robust Final business plan to Ofgem in December. We have reflected on the feedback from the RIIO-2 Challenge Group, the independent ENWL Customer Engagement Group (CEG) and our customers and stakeholders, as well as other developments over the last few months, and sought to respond to these in this revised plan.

We remain passionate about ensuring ENWL is well positioned to deliver an innovative and customer-focussed service that supports the North West in its transition to Net Zero during ED2 and beyond. We believe that this plan will allow us to do this and our strong performance in ED1 illustrates that we do and will deliver on our commitments.



Alistair Buchanan,
Chair

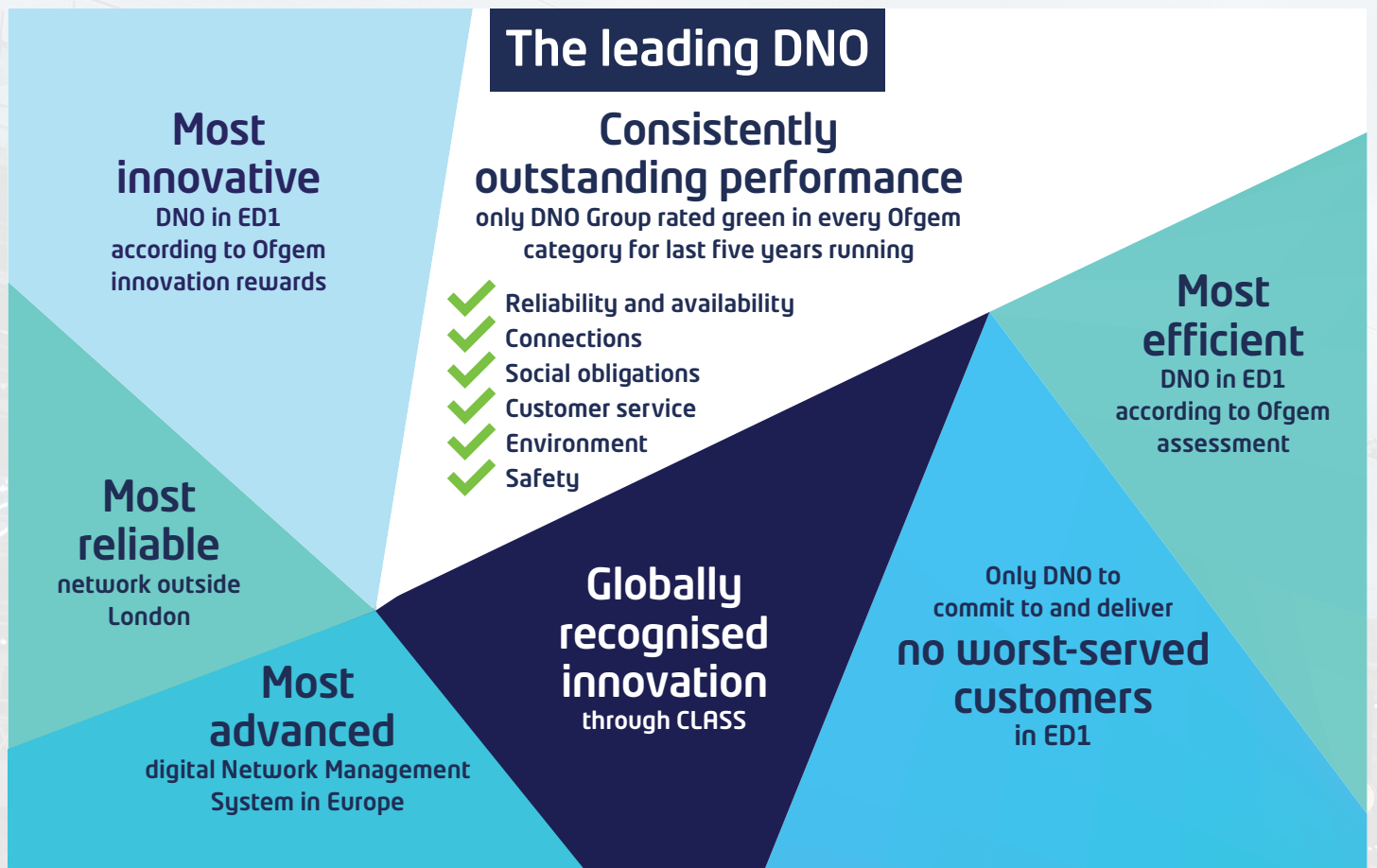
1 Summary


As a Board, we support this submission to Ofgem and its RIIO-2 Challenge Group, confident that the team at Electricity North West has worked hard to develop a business plan centred on and calibrated to the priorities of its customers and stakeholders, that is ambitious, efficient and (subject to the financeability issues referred to above) affordable and that has been robustly and effectively assured.

We recognise ED2 will be a period of change and expansion as we support our customers and stakeholders to transition to Net Zero and our role as a Distribution System Operator (DSO) increases. Flexibility will be key to respond effectively to the pace of these changes. Since we submitted our draft plan in July 2021, there have been a number of developments including the publication of Ofgem's minded-to position on the Access and Forward-looking Charges review and the challenges facing the energy retail sector due to the movements in the wholesale gas prices. We have also received detailed feedback from the RIIO-2 Challenge Group and our CEG on our draft plan. All of these have fed into the revised thinking that underpins this plan. Our final business plan includes, in response to the feedback we have received from Ofgem and the Challenge Group, an increased use of uncertainty mechanisms. However, it is key that these uncertainty mechanisms are designed as robust arrangements, which allow funding to be available when it is needed and ensure there is no inadvertent delay to Net Zero.

We have included our suggestions on how we think these can work and are keen to engage early with Ofgem on the detail of these as they will form a fundamental part of the ED2 arrangements, without which we cannot be confident that our proposals will be viable. Poorly designed mechanisms will add additional and unnecessary risk to the delivery of our customers' requirements.

We highlighted our concerns regarding Financeability as part of our previous Statement and this continues to present challenges for Electricity North West. We are not party to the CMA deliberations for RIIO-GD2 and T2 and so have only recently seen the detailed outcome from the CMA process. As a result, we have been limited in terms of the proposals and suggestions we have been able to make. However, we have sought to outline alternatives that we believe should be workable and that would enable the concerns we have raised to be addressed. These include options to ensure efficiently incurred debt can have a reasonable expectation of being adequately funded without detriment to customers, provided that finance is raised in an efficient manner. We are keen to engage with Ofgem on this as a matter of a priority to understand what options could be progressed further to address these challenges.





We are proud of Electricity North West's track record for delivering during ED1, despite having a challenging settlement for the period. We are the only DNO group to secure green status in every category of Ofgem's annual report assessment for last four years running. Some of the highlights of our performance during ED1 include:

- Delivering the most significant improvement in customer satisfaction scores, from 8.0 out of 10 at the start of ED1 to 9.08 out of 10 in 2020/21;
- Most reliable network outside London;
- Only DNO to commit to and deliver no worst-served customers in ED1;
- Significant reduction in our business carbon footprint;
- Continued development and implementation of innovative new approaches to release capacity, reduce customers' bills and improve reliability through our CLASS, Smart Street and Sentinel projects; and
- Rollout of NMS as the most advanced digital Network Management System in Europe, building on our telecoms investment in DPCR5.

Whilst not measured in detail by Ofgem, safety remains at the forefront of all of our activities and ensuring our colleagues, customers and communities remain safe is a priority across the organisation.

These significant improvements in the service provided have also been accompanied by delivering ongoing efficiencies in our costs, with our current outperformance of 7.5% of our allowed totex being shared with customers in the form of lower than expected bills. This is on top of our annual cost to customers being one of the lowest across the ED1 period. These efficiencies have also created opportunities for additional investment into the network by our shareholders to deliver further benefits for customers.

ED2 presents exciting and novel challenges for Electricity North West, the sector and wider industry. As a Board, we believe that Electricity North West's updated plan further demonstrates that ENWL is an ambitious, efficient, and robust and responsive organisation, which understands its customers and stakeholders needs and priorities and is able to facilitate them through this period of change. It also builds on ENWL's strong track record for delivering efficiency. We believe this business plan to be a great plan for and have the backing of the people of the North West, and that the team at Electricity North West has all the capabilities to deliver it for them.

2 Framework for developing our plan

Achieving Net Zero is a key challenge facing the energy sector. In developing its thinking on how best to support the energy transition, ENWL started early, listening to its customers to understand how crucial electricity is to their lives.

This engagement has then gone through a series of iterative stages, leading to new learning and understanding, and these insights have been shared with us as a Board. We recognise the significance of our role in ensuring appropriate governance is maintained to deliver day in, day out for the many households, businesses and other organisations served throughout the North West (including our vulnerable customers and those in fuel poverty).

Whilst this engagement commenced in 2019, a significant element has taken place against the backdrop of Covid-19. This has proved a challenging and thought-provoking time to undertake this work. It has provided a deeper understanding of our customers' and stakeholders' priorities as all involved have considered the ramifications of the pandemic in terms of both very immediate and pressing matters and consideration of the longer-term impacts.

Since we submitted the draft plan, the energy sector has faced a period of unprecedented scrutiny, with gas prices rising exponentially and a number of suppliers unable to continue trading. As a Board, we have monitored these developments carefully, mindful of our statutory obligations as directors to the organisation and its stakeholders, including its customers and shareholders. In making revisions to the plan, the team have, as always, ensured that decisions are made only after giving full consideration to balancing the needs of current and future customers, and seeking to ensure that today's customers face only costs that are proportionate to their use of the assets.

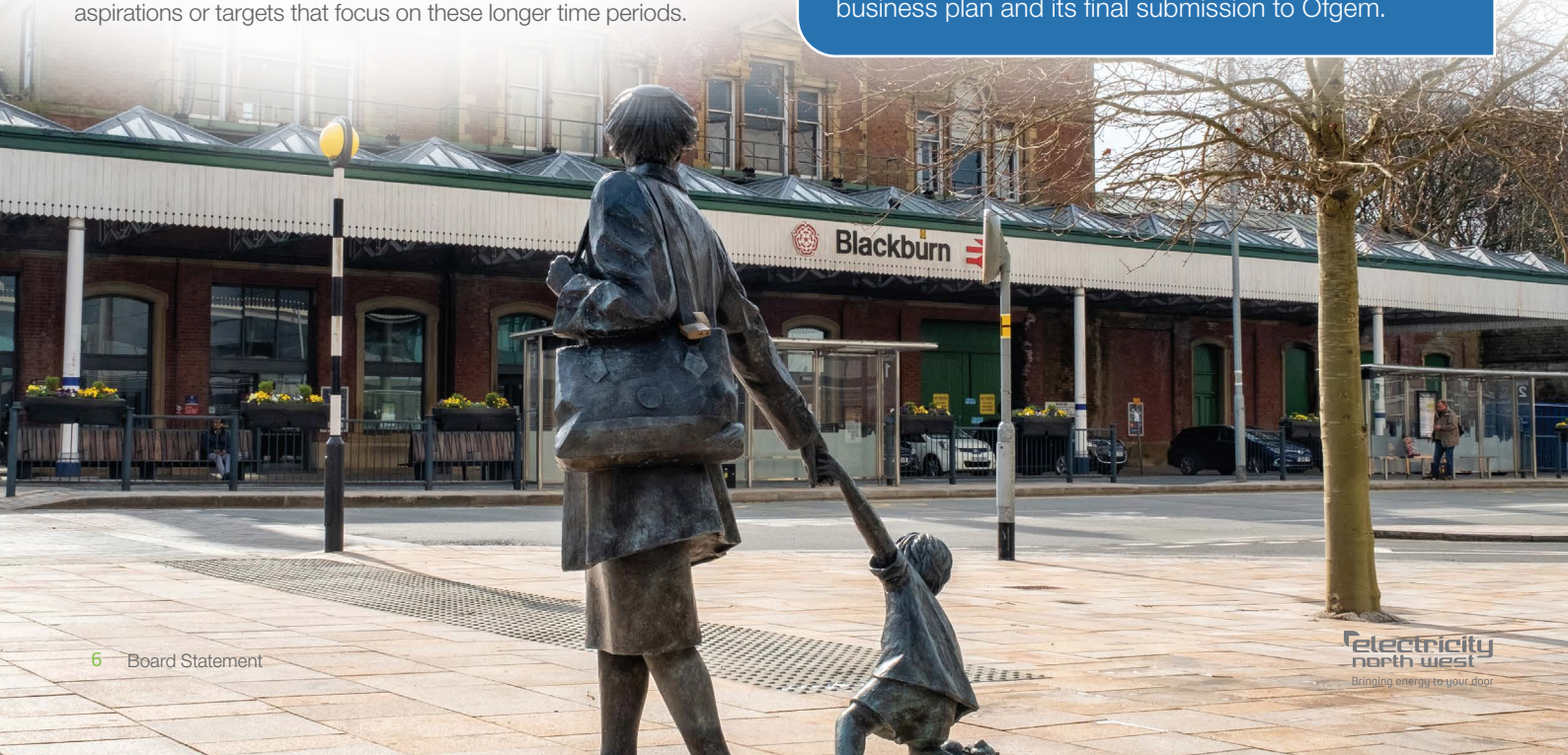
As a Board, we have remained actively involved in the development of our business plan, in line with our standard approach to business planning for the organisation. We set the strategy for the business and this includes ensuring that the strategy for the ED2 business plan aligns with the wider business strategy and is focussed on meeting the needs of our customers and stakeholders. Whilst this five-year period forms the focus of the plan, our consideration extends beyond this to ED3 and beyond, and many of our stakeholders have aspirations or targets that focus on these longer time periods.

We have been comprehensively briefed by members of the Executive Team and Senior Leaders throughout the process to ensure we are abreast of the specific requirements of Ofgem to feed into this process and we have received regular updates on key developments since the RIIO-2 process commenced. Throughout the process, we have challenged the team, to ensure that the plan sets out what ENWL needs to deliver to enable our customers and stakeholders to achieve their aspirations. This requires balancing the needs of the different groups served by the organisation to support the transition to Net Zero, whilst ensuring no one is left behind.

ENWL operates in line with the UK Corporate Governance Code as issued by Financial Reporting Council to ensure that best practice in corporate governance is adhered to by all representatives of the organisation. This creates the foundation for a well-established and robust approach to corporate governance, internal control, risk management and assurance that we, as the Board of ENWL, form part of and oversee. This framework, in conjunction with our extensive engagement, underpins the development of the ED2 business plan.

This does not operate in isolation and we have sought to ensure ENWL embraces best-practice by actively engaging with peers throughout the energy networks sector and beyond to understand and learn from the thinking and experiences of others in developing robust, customer-centred plans. Examples include: NGN, United Utilities and Anglian Water on developing effective customer and stakeholder engagement approaches; Thames Water on providing support to vulnerable customers; and PWC who advised two Gas Distribution Networks and six water companies in relation to their recent price controls.

Taking account of the above framework, the involvement of a strong, experienced and dedicated team, detailed consideration of the assurance undertaken and having provided appropriate challenge to the team, we passed a resolution at the Board meeting on 29 November to support our ED2 business plan and its final submission to Ofgem.



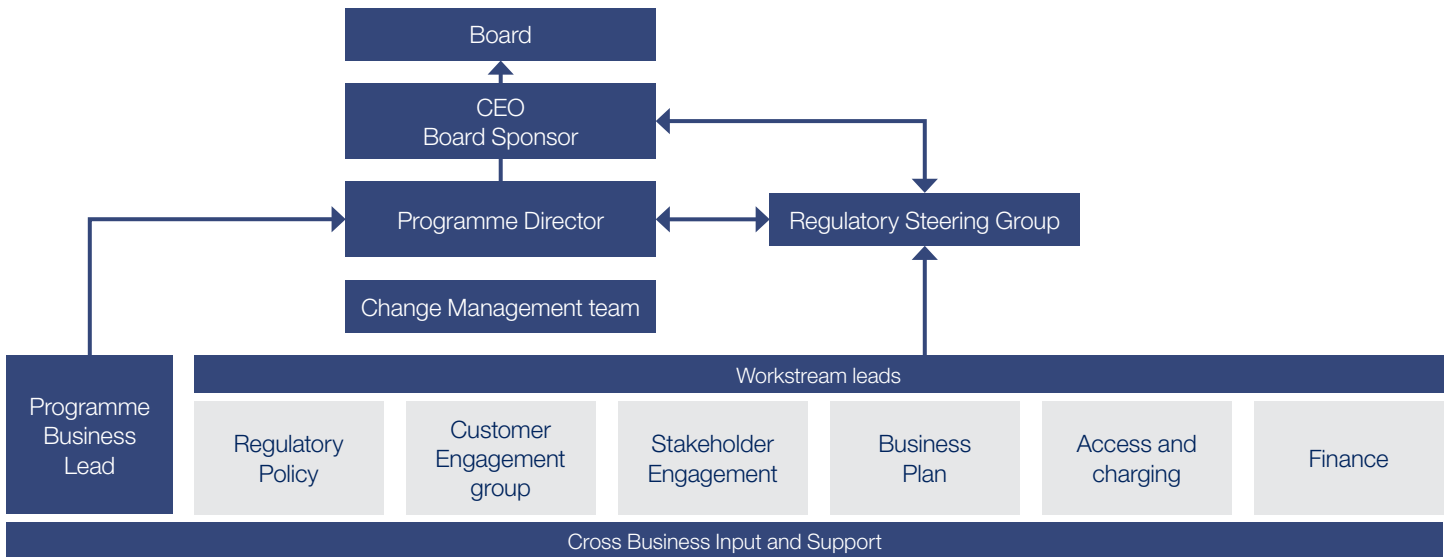
3 Involving the right people

As one of the major businesses in the North West, we are able to attract and retain some of the most talented individuals from the Board level down. This is evidenced through our strong ED2 team which has been tasked with supporting the development of the plan and challenging the underpinning research and analysis to ensure it is robust, efficient and ambitious.

Role of non-executive directors: As members of the Board, our non-executive Directors have played key roles in the development and challenge of the business plan. Our Audit Committee consists solely of our independent non-executive directors and they, with support from the Chair of the Board, have been tasked with overseeing and reporting back to the Board on the assurance of the ED2 business plan to ensure it is sufficiently robust and in line with Ofgem’s expectations.

In seeking greater understanding and challenge to the assurance process, the Non-Executive Directors have been engaged in a number of additional activities, that enables them to better challenge and understand the business. Rob Holden, Anne Baldock and Susan Cooklin have joined events with customers and stakeholders during the last year to ensure they properly understand the concerns and issues facing our customers. Anne has been appointed as the Board’s vulnerable customer champion and Susan as our employee champion. The members of the Audit Committee have also had the chance to meet with the CEG team as part of planned Board engagement activities.

Regulatory Steering Group: The detail of the ED2 business plan has been developed by Senior Leaders under the leadership of the Executive Team and with oversight from the Regulatory Steering Group. Membership of the Regulatory Steering Group consists of the CEO, CFO, Regulation and Communications Director, Engineering and Technical Director and the leads for the ED2 workstreams as set out below.



RIIO-ED2 Price Control Team: The RIIO-2 Price Control Team consists of the Regulation and Communications Director, in the role of Programme Director; Head of Economic Regulation, as Programme Business Lead; Workstream leads, responsible for delivering the key elements of the RIIO-ED2 project as shown above; and RIIO-ED2 Project Manager. It is tasked with working across the business and has drawn on contributions from a wide range of business areas to support the task including Customer and Stakeholder Engagement, Financial Control, Reporting and Planning; Investment Management; Distribution System Operation (DSO); Safety, Health and Environment; IT; Operations; and HR.

Assurance Framework: a detailed exercise was undertaken to risk assess the various elements of the business plan and the thinking that underpins it. The approach used is described in more detail in part 4 of this Statement and in the Assurance Annex. This has been developed and overseen by the Head of Risk, Control and Assurance who is independent from the RIIO-ED2 Price Control Team. A range of assurance, provided by internal and external subject matter experts, has been undertaken and is complemented by a range of input and advice from recognised leaders in the field.

Board Approval: throughout the process, the Board has endeavoured to act in a manner that is robust and balanced, seeking to satisfy our duties to both the shareholders of the organisation and to our customers and stakeholders. We have sought to ensure consideration is given to the long-term consequences of the proposals within the ED2 business plan for the organisation and those it serves; to understand and respond to the needs of the wide range of our customers and stakeholders, including employees; and to uphold the high standards of business conduct that we believe are essential in all of our activities.

Customer Engagement Group: from its initial proposal, ENWL has proactively sought challenge and constructive debate with our Customer Engagement Group (CEG), chaired by Jeff Halliwell. We have engaged throughout the process with the CEG and have valued their insight. There has been regular and ongoing dialogue between our Chair and the CEG’s Chair, as well as more formal CEG to Board engagement. Whilst not part of the assurance framework, this engagement has also informed our view that the process that has been followed in the development of the ED2 business plan is robust, ambitious and efficient.

3 Involving the right people

At ENWL, we have an outstanding team of talented and dedicated professionals who bring fresh insights and challenge to our business and to their roles to serve our customers on a daily basis. We recognise this is more important than ever as we face the challenge of driving the energy transition and delivering Net Zero.

Having joined ENWL from the Drax Group in 2016, development of the ED2 business plan has been a new challenge for me so I have sought to ensure that, alongside David Brocksom as our CFO, we are supported by a strong, capable and dynamic team who are passionate about delivering the right plan to allow us to meet our customers' needs and our stakeholders' Net Zero ambitions during the ED2 period and beyond.

I have sought to bring together a wide range of experience and knowledge in the ED2 Team, combining ENWL's experience from RIIQ-ED1 and previous controls in our Regulation and Communications Director (Paul Bircham) and Head of Asset Management (Jonathan Booth), with insights and experience from across the sector including our Head of Economic Regulation (Paul Auckland, who joined in 2017 from National Grid) and Head of Risk, Control and Assurance (Jen Carter, joined from SSE in 2015). Between these four executives, we can draw on experience from 11 price controls and large regulatory assessments, across electricity distribution, transmission and water. We have also sought to capitalise on experience from outside the sector, with our Head of Corporate Finance & Investor Relations (Danny Clarke) joining in 2017 with over 20 years' experience in corporate finance.

This is supported by the diverse portfolio of experience and interests represented within our Non-Executive Directors and through the fresh and relevant insights brought by the range of assurance providers we have engaged to challenge and assist our thinking. These providers have included Chris Watts and Grant McEachran (S & C Electric) who are both former members of Ofgem's team and have been providing advice and assistance to the Audit Committee, as they have overseen the assurance of our ED2 business plan.

In addition, we have made a tremendous effort to make the CEG challenge process work effectively, using the Group to challenge the ambition of our programme and test the robustness of the customer and stakeholder input. To enable this, we spent a full 12 months (April 2019 to April 2020) inducting and training the CEG to understand the details of our business and our region. They have used this knowledge to really challenge the Executive to produce an ambitious and customer centred ED2 proposal. In my view, this has been a tough but helpful process.

Our customers and stakeholders have been key to this work. Engaging with them during the uncertainty introduced by Covid-19 has given me and the team more of an emotional, as well as very practical, insight in the challenges faced by some of the people we serve. As people have struggled to juggle working from home, with home-schooling children and worries about loved ones, it has been a very real reminder of the important role we play in serving our communities.



Peter Emery
CEO

4 Approach to assuring our plan

As a Board, we support Ofgem’s challenge to DNOs to ensure the plan is robust as we believe this serves the interests of our customers and stakeholders by allowing their views and needs to be effectively expressed. Robust and accessible regulatory submissions assist the Regulator to undertake its role effectively and ensure we remain transparent and accountable in our activities.

ENWL has a well-established approach to assuring regulatory submissions, in line with Ofgem’s Data Assurance Guidance, which is built on the foundations of our ‘three lines of defence’ assurance model. This is a common approach, adopted by many large organisations, and tailored to meet the specific needs of ENWL. This approach to assurance is overseen by the Audit Committee and led by the Head of Risk, Control and Assurance, who reports to the CFO and the Chair of the Audit Committee to ensure appropriate independence is maintained.

Innovation and creativity are encouraged in all functions at ENWL and this includes assurance. Drawing on previous regulatory experience, our Head of Risk, Control and Assurance developed a bespoke risk assessment methodology to consider the likelihood and impact of issues associated with both the development of the ED2 business plan and the thinking that underpins it. This resulting risk assessment has been used to drive a tailored and efficient approach to assurance, prioritising areas of potential significance to our customers and stakeholders; GEMA and Ofgem as our Regulator; and us as the Board.

Responsibility for the oversight of the resulting Assurance Plan was delegated to our Audit Committee, who were tasked with assessing the robustness of the approach and advising the Board on the quality of the assurance and the process undertaken. To date, the Board,

via its delegation to the Audit Committee has held an additional ten sessions, plus dedicated sessions on cyber; sought advice from the Chair of the Board in light of his prior experience; and is being supported and advised by both the Head of Risk, Control and Assurance and external advisors from S&C Electric Holdings Limited. In addition, external assurance has been undertaken by a range of subject matters experts from a number of organisations including: KPMG, WSP, Frontier Economics, Gartner and Rothschild & co. This has been supported by detailed input from NERA, Oxera, Arup and PWC. More detail is provided in the Assurance Annex to the plan.

We were one of the first DNOs to establish our Customer Engagement Group and we have been keen throughout that the Group provide a strong counter to our thinking. Whilst not a formal part of our assurance process, the Customer Engagement Group has played an important role in challenging and scrutinising many aspects of the ED2 business plan and the underpinning thinking and providing feedback to the Audit Committee and the Board on areas of concern.

For this revised plan, additional assurance activity has been focussed upon aspects of the plan that have been revised (such as in light of feedback received or updated information); financeability concerns; and ensuring we are positioned to deliver the plan effectively from April 2023.

On the basis of this and the report and feedback provided to us by the Chair of the Audit Committee, we are satisfied that a robust and effective assurance exercise has been undertaken.



As Chair of the Audit Committee, I am pleased to report that we have provided a thorough challenge to the assurance undertaken by ENWL and are supportive of the submission of the business plan. Since November 2020, the Audit Committee has held an additional ten sessions to be able to scrutinise and challenge the team, been provided with progress reports in relation to the assurance undertaken and challenged areas where further work was considered to be beneficial.

We take our work seriously, as we know that this assurance provides the bedrock for ENWL to pursue its leadership in innovation and Net Zero, whilst giving comfort that the basics are being done to the highest standards. I can confirm that we, as an Audit Committee, have scrutinised and challenged the assurance process and believe the approach adopted is in line with our, and Ofgem’s, expectations.

Rob Holden, Chair of the Audit Committee



5 Board Assurance Statement

As a Board, we are satisfied that ENWL has provided an industry-leading business plan that meets Ofgem's requirements as set out in the business plan guidance, as well as responding to the needs and priorities of the customers and stakeholders of the NW and their ambitions for Net Zero. We set out below how we believe we have met these requirements.

Customer and Stakeholder Led

The Board acknowledges and applauds the extensive work undertaken by ENWL, particularly the most comprehensive customer and stakeholder engagement exercise that ENWL has ever undertaken and the introduction of ongoing triangulation to ensure all customer and stakeholder views have been weighed transparently and fairly to inform our understanding of our customers' and stakeholders' needs and priorities. ENWL continues to lead the sector in terms of innovation, with proposals to fully embed a number of key projects into BAU during ED2 including those which are focussed on making it easier for low carbon technologies to connect and to promote energy efficiency by reducing energy demand (such as 'Smart Street') and technologies to allow latent capacity within the network to be made available as a means to balance the network ('CLASS'). We challenge the rest of the sector to take similar steps. The ambitious Plan builds on ENWL's commitment to enabling the transition to Net Zero, supported by our customers and stakeholders, recognising ENWL cannot do this in isolation and whole system interaction is essential to its effective delivery.

Ambitious and Efficient

We are also confident that our ED2 business plan is ambitious, efficient and affordable, and provides value for money for all our customers. We recognise that a significant number of our customers face vulnerable circumstances and that approximately 13% of households through the North West are faced with fuel poverty. Significant consideration has gone into our business plan as to how service levels and cost can and should be balanced to ensure value for money for those who pay for our activities. Whilst individual proposals are set at the levels that our ambitious customers and stakeholders are prepared to support, ENWL have continued to look at areas to mitigate bill increases, recognising the bill impact on those we serve.

Since submitting our draft business plan, we have further refined and developed our proposals to ensure that we are rising to the challenges posed by our stakeholders, ensuring that activities are prioritised in line with these expectations, and challenging ourselves that we are able to deliver on our commitments.

Our Environmental Action Plan, for example, sets out the goals that we have committed to as part of our ongoing commitment to leadership in Net Zero and looking after our natural environment. These build on the steps we have taken during ED1 and illustrate our commitment to reduce our own impact, as well as supporting our customers and stakeholders and encouraging our suppliers as they too contribute to the promises recently made during COP26.



One of the challenges we received from the RIIO-2 Challenge Group was in relation to the growth of our totex, particularly load-related investment. We have listened to this feedback and responded by moving £224m of anticipated investment from our base case into uncertainty mechanisms which we believe are robust and split out £112m of bespoke activities that are not directly applicable to other DNOs. We have challenged ourselves to improve the efficiency of the scope and costs of the remainder, resulting in a reduction of a further £89m. Whilst we strongly expect to need to deliver our full totex plan, we see merit in using uncertainty mechanisms (provided they are agile, robustly calibrated and operate as anticipated at the time of inception) to ensure customers only pay for what is required.

We have also challenged the business plan to ensure it is deliverable. We welcome ENWL's combined approach of upskilling colleagues, giving them increased opportunities to develop and progress, and timely engagement with the supply chain. We believe this, along with ENWL's innovative adoption of new technologies and techniques, will enable it to continue to be at the cutting edge for efficiency within the sector and will enable it to recruit and retain staff in an ever increasingly competitive labour market.

We are content that the ambition and service levels in this plan meet the expectations of our customers and stakeholders (including their expectations for Net Zero) whilst ensuring that the bill impact is significantly less than they have indicated they would be willing to pay.

Affordable and Value for Money

The willingness to pay and acceptability testing research that we have undertaken showed that 81% of customers would be willing to pay an additional £9.80 on their bills for the package of improvements in this plan. In order to deliver the outcomes requested by our customers and stakeholders, we will need to invest almost £1.79bn over the ED2 period, with additional potential spend if required. However, we are pleased to note that, as a result of the efficiency and effectiveness of the business and our proposed use of uncertainty mechanisms, counter-balancing bill changes mean that, using Ofgem's working assumptions, we anticipate the bill impact of this plan to be a reduction of £12.49 per year. As over 97% of customers were prepared to accept an increase in the bill to deliver these commitments, we are confident the plan is value for money for our customers.

Accurate and robust

We are confident that the process that has been put in place by ENWL is sufficiently robust to ensure that ENWL's submission is accurate, complete and of an appropriate quality to allow Ofgem to be able to undertake its responsibilities.

As described above, the assurance process has been overseen on our behalf by the Audit Committee who have reviewed the processes used to develop and compile the submission. The Committee has considered the business plan process and approach to populating the business plan in general, as well as given more detailed consideration to topics such as workforce and deliverability, as well as specialised areas like cyber. Based on the Audit Committee's work and regular reports back, we are satisfied that a thorough, robust and risk-based approach to assurance has been adopted.

Reservations over the financeability of the Plan

The Board's key concern with the business plan is that it struggles to fit within Ofgem's current working assumptions for cost of capital allowances. If these remain unaltered, we consider ENWL's ED2 business plan will not be financeable either on a notional or actual capital structure basis.

The ENWL team have demonstrated to us how ENWL is not financeable for ED2 using Ofgem's working assumptions and have gone on to consider what steps might need to be taken to achieve a financeable plan. Feedback from the RIIO-2 Challenge Group included observations that it would be beneficial for ENWL to provide further information on its concerns. The supporting evidence and justifications have been expanded upon in section 7 of the business plan and our supporting annexes.

Firstly, we looked at the scale of ambition in our plan, which we refer to above and explored whether a reduced scope and expenditure would make a material change to the key financeability metrics. Our findings in this area showed that taking such action does not have a significant impact on the financeability of the plan and that taking these mitigating measures will not make any material change to its financeability. Further, as a Board, we felt that to reduce our ambition on investment in the business plan would actually undermine the 'call to arms' from our stakeholders, including Ofgem and BEIS, for the delivery of Net Zero.

Secondly, we looked at what economically feasible steps might be open to us to assist in the financeability of our plan. Our modelling has shown that whilst it will improve the situation somewhat, even taking the economically feasible mitigating step within ENWL's control of foregoing dividends for the full five-year period (a step which is equivalent to an equity injection of in excess of £150m) is insufficient in itself to make the plan financeable. In order to achieve financeability we believe that this measure should be coupled with an adjustment to

- the Cost of Equity (to a level that is appropriate for the risk that equity needs to bear to invest to sufficient levels to deliver the transition to Net Zero, recognising that this is higher risk than other sectors that are not expecting to see comparable levels of growth) and
- the Cost of Debt (to ensure efficiently incurred debt costs are reasonably likely to be met within a reasonable timeframe); plus
- the maintenance of the gearing level at 65% as utilised in ED1 to reduce the amount of external capital necessary to support the investment required.

We are willing to consider different approaches as to how these adjustments can be delivered and are keen to engage with Ofgem on this as a priority. As a Board, we believe that we have and will continue to try to exhaust all economically feasible options before us prior to resorting to increasing costs for customers.

Our request for special consideration, both in reference to our unique position in electricity distribution as a single licensee group and the challenges we face with financeability, is not unheard of in DNO price controls. As far back as 1999, SEEBOARD was awarded a special allowance in the final business plan and, in 2004, Scottish Power received special treatment before licence drafting. More recently, the Highlands and Islands and London have received different treatment to recognise the specific challenges associated with their geography and, since T1, SHETL has its own methodology for cost of debt. All of these reflected unique considerations beyond management control, akin to the positions we face in terms of the frequency by which we can economically issue debt and our size relative to other parties in the distribution sector. We are committed to working with Ofgem to develop an appropriate response for ENWL to address these considerations, with minimal impact on customers.

We have only recently received the detailed outcome of the RIIO-2 Energy CMA appeals. We believe that there are options available to Ofgem within the scope of the principles it has previously set out that would allow ENWL's business plan to be financeable. We are, however, unable to give a final position on this as, we have been unable to gain sight of the final outcomes from the appeals process in relation to T2 and GD2, or to engage with Ofgem otherwise on financeability issues until very recently. We are keen to progress this engagement as a matter of priority, so we can discuss the steps that could be used to remedy the situation, without transferring undue risk or costs to our customers and maintaining the requirement for ENWL to remain an efficient operator.

Finally, we have included proposals on Uncertainty Mechanisms which we believe would operate dynamically and allow us to respond promptly to customers' requirements, without creating any further stress to our financeability. This business plan is contingent on these, or mechanisms that have a similar effect, being put in place to avoid an additional and unnecessary funding issue.



5 Board Assurance Statement

Closing Statement

The Board has reviewed the assurance work conducted in relation to the process followed to develop the thinking that underpins this plan; the process utilised to populate the submission; and the deliverability of the business. The Board has reviewed and supports the business plan, recognising that it has been thoroughly underpinned by a robust approach to engagement with customers and stakeholders and their priorities for the delivering of a Net Zero economy for the North West of England.

The full Board confirms that, provided that the uncertainty mechanisms outlined in this plan are adopted and managed as we anticipate, the ENWL business plan:

- Is Customer and Stakeholder-led, reflecting the priorities of our customers for the ED2 period and beyond;
- Is Ambitious and Efficient, ensuring that we can meet the requirements to transition to a low carbon economy for the NW;
- Is, and is capable of remaining once financeability issues have been satisfactorily resolved, Affordable and Value for Money, minimising the impact on our customers' finances and staying comfortably within their stated willingness to pay values; and
- Is Accurate and Robust, with a risk-based approach to assurance utilised throughout.

At this stage, the Board cannot say the business plan is financeable on the basis of Ofgem's working assumptions for either the notional or actual company basis, without some change to these assumptions. However, we believe there is opportunity to resolve this, subject to Ofgem's engagement. We believe that these concerns are clearly set out and supported by evidence and justification. Where there are applicable measures within our remit that could be used to aid this, we have considered these and provided a justification for what may be appropriate to use. We welcome engagement with Ofgem to consider how these can be taken forward constructively.

On this basis, the Board unanimously approved this business plan for submission on Monday 29th November 2021.



6 Alignment of pay and reward to delivery of business plan commitments

As a Board, we believe it is important that there is a clear alignment between remuneration and delivery against the outputs set out in our ED2 business plan to ensure ongoing delivery in line with our customers' and stakeholders' expectations.

The Remuneration Committee, on behalf of the Board, monitors pay and reward across the organisation, including the ratio between executive pay and that of the wider workforce. This provides invaluable insights for us to ensure we achieve our commitment to reward all of our colleagues fairly for their contributions to deliver for our customers in the North West.

During ED1, we have made considerable progress in increasing the diversity in our workforce, increasing the female representation in our leadership team to 32% and seeking to do more to ensure our workforce is representative of the communities we serve. We have also closed our gender pay gap from 16.3% in April 2017 to 13.6% in April 2020 (based on median pay). As a Board, we are committed to continue to support initiatives to strengthen the representation of our workforce during ED2 and beyond.

The benefits package for all colleagues is tracked and benchmarked to ensure we are well-placed to attract and retain the workforce needed for today and tomorrow. We also provide a number of incentive schemes, including our unique Colleague incentive scheme which seeks to ensure alignment for all of our colleagues in terms of rewards and outputs.

We recognise the balance that needs to be struck between offering a package that attracts and retains high quality resource to deliver our commitments, with the need to ensure we keep customers' bills as low as possible. We believe the linkage of our incentive schemes to our commitments, as described below, for all of our colleagues is the most effective way to deliver this.

Executive leadership team (ELT)

ENWL has operated a scorecard approach to remuneration for the Executive Team for a number of years. The current Executive Scorecard considers key performance metrics, including totex performance, health and safety, customer satisfaction and sustainability across the organisation. Whilst broader than the other incentive schemes within the organisation, there is an intrinsic link between all of the mechanisms to ensure continued focus on our customers' priorities.

Progress against this scorecard is reviewed by the Remuneration Committee, on behalf of the Board, on a regular basis and pay and benefits packages are intrinsically linked to this scorecard. The scorecard will be revised in light of the final settlement reached with Ofgem and approval of the ED2 scorecard will require this clear linkage between remuneration and delivery in line with our customers' and stakeholders' expectations. We expect delivery of key customer priorities, such as Net Zero and other components of our business plan, to be factored into future arrangements.

Leadership schemes (SLT and WLT)

We operate two incentive schemes for our leaders; one for those with responsibility for leading a team or providing specialist expertise and one for our more senior leaders, recognising the additional

As Chair of Remuneration Committee, I want our customers and stakeholders (including the members of GEMA) to know that we have taken concerns expressed around ensuring pay is linked to performance with the utmost seriousness. Our pay policies are aligned with tough KPI's, that draw on Ofgem's guidance, especially recently with regard to climate change challenges.

Further, we are committed to revisiting these pay-performance linkages as Ofgem's thinking on Net Zero and other components of our business plan develops further and welcome further dialogue on this.

Sion Jones, Chair of the Remuneration Committee



level of responsibility held by this group. Both schemes consist of a 70:30 split, with the value of the performance incentive determined by company (70% of maximum incentive) and personal (30%) performance. Recommended awards are calibrated by the ELT to ensure consistency in the award across the organisation.

Company performance is calibrated with the Colleague incentive scheme (described below) so those eligible have visibility throughout the year on the company's performance and the likely implications for this element of the incentive.

Colleague Incentive scheme

As a Board, we want the benefits of delivering the very best customer service on a network that's reliable and affordable for our customers to be shared with all ENWL colleagues. Our colleague incentive scheme applies to all colleagues who are not in the leadership bonus schemes, who have worked with us for at least three months and are not subject to any final disciplinary action. As a Board, we set an incentive 'pot' based on net costs, with cost savings and income generating initiatives feeding directly into this. Colleagues who have met performance expectations during the year receive a share of the pot based on their performance.

A monthly update on the size of the pot is provided to all colleagues as part of our Team Briefs. The update is transparent and helps colleagues to understand the challenges facing the business. With support from their leaders, they can then consider the contribution they can make to the size of the pot and opportunities to reduce costs or drive additional income, such as through incentive performance.

Whilst the 'scorecard' for this scheme is streamlined from the ELT scheme in particular, they all operate on the basis 'if one pays, all pay', in line with our intention that there is a One Team, One Objective mindset throughout the organisation.



Electricity North West

Borron Street
Portwood
Stockport
SK1 2JD

www.enwl.co.uk