electricity north west
Bringing energy to your door

Regulatory Financial Performance Reporting (RFPR) Commentary

Electricity North West Limited

31 March 2024

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1. Executive summary

1.1. Board Introduction

The Board are pleased to present the Regulatory Financial Performance Reporting (RFPR) for Electricity North West Limited (ENWL) covering performance over the first year of the five-year regulatory period of RIIO-ED2.

As the only singleton (single licensed area) of the network companies (called DNOs) in Great Britain, ENWL is seen as punching "far above its weight" in key areas such as customer service for vulnerable customers and communities, innovations to assist towards Net Zero, and we score one of the highest on network resilience metrics. It is clear that DNOs continue to be seen by policy makers (national, regional and local) as key facilitators to Net Zero.

The Board at ENWL takes our responsibilities seriously and recognises that we need to seek to be efficient to keep bills as low as possible for customers whilst supporting growth and Net Zero energy transition as rapidly as we can. The national energy policy focusing on promoting the uses of electricity means that we expect to grow our business asset base by nearly a third in the next five years.

Despite a marked increase in both summer and winter storm activity in FY24 and having to cope with the commercial impacts of the very high inflation and associated pricing pressures, we are pleased to report that ENWL has largely met or surpassed its internal targets. The Board recognises that the Customer Minutes Lost (CML) and Customer Interruptions (CI) targets have been seriously impacted by the significant number of named storms experienced during the year, but the Board remains confident with our sector leading work on fault control and management.

Last year saw the beginning of a new chapter in our core business: a new five-year price control started in April 2023 with growth in asset base as a major challenge for the future. The Board and the wider Company continue to prepare for and assess future needs and potential challenges.

This document should be read in conjunction with the ENWL Annual Report and Consolidated Financial Statements for the year ended 31 March 2024:

https://www.enwl.co.uk/globalassets/investor-relations/documents/financial-reports/enw-limited/electricity-north-west-limited-annual-report-and-financial-statements-31-march-2024.pdf

1.2. Company performance

FY24 performance summary

Our strategy has been tested robustly and it has delivered for customers, stakeholders, shareholders and employees. The business performance has improved in all areas despite strong inflationary and cost headwinds.

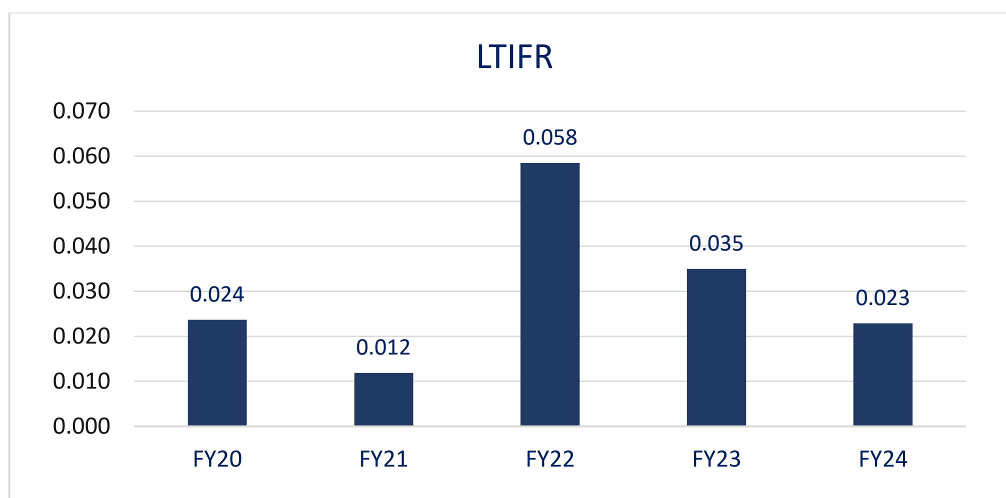
Our focus is to ensure the energy transition and the journey to Net Zero is experienced safely and securely by everyone in our communities.

Safety performance

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 contractor partners.

External accreditation to international safety management system standard ISO 45001 was achieved again in the year to 31 March 2024. 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 (LTIFR) of 0.023. There was a total of two lost time injuries within the year, which is a reduction in previous years. Whilst it is recognised 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:



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, specifically around the installation of LineSIGHT technology to identify faults resulting in low hanging overhead lines, risk based rising and lateral mains inspection and replacement in multi occupancy properties and replacement of polychlorinated biphenyls (PCB) contaminated pole mounted transformers.

We will continue to assess asset safety risks and develop safety improvement strategies accordingly. With respect to public safety, a tragic incident occurred on the network in October 2023 which resulted in a fatal injury to a member of the public. ENWL have fully investigated the matter internally and are assisting the Health and Safety Executive and HM Coroner with their investigations, which remain ongoing at the time of preparing this Report.

Customer service and connections

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 our priority service register (PSR) and encouraging registration to our PSR. Through partnerships and engagement our reach has increased this year to 82.4% (805,907 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.

Delivering excellent customer service is important to us. Customer satisfaction levels have continued to improve following the strong performance delivered in the ED1 period with an overall score of 92.0% for the year ended 31 March 2024 (2023: 89.4%). The relative ranking among the DNOs was 5th (2023: 9th) and 2nd overall for Connections 92.9% (2023 87.8%).

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.

We have had another good year during which we exceeded the targets for Time to Quote and Time to Connect metrics and are in reward for all four components.

Network reliability and resilience

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 2024, the average number of interruptions per 100 customers (CIs) was 26.21 (FY23: 26.6). This has outperformed the target of 29.9 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2024 was 26.8 (FY23: 26.9), which was our best ever performance and again represented an outperformance of the target of 27.54 set by Ofgem.

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.

Key to delivering reliability to customers is the improvement to the network's resilience to extreme weather events. Following learnings from Storm Arwen, we have further exercised and strengthened our approach to preparing and managing the network during significant events and utilising benefits within the new network management system and other technologies. It has been a challenging year dealing with extreme weather with 13 named storms during the year. We continue to invest significant funds in flood defences and interconnectivity to provide protection to a 1 in 1,000-year flood risk at key sites.

Delivering value for customers: Cost efficiencies (totex)

ENWL's costs account for around 11% of the typical domestic electricity bill charged by suppliers to North West customers, equivalent to £115 per home for the year ended 31 March 2024; this is in line with the average DNO customer bill equivalent of £115 per home.

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.

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.

The table below shows that we have underspent our FY24 totex allowance by £78m. This is primarily due to the timing of expenditure as we geared up and grew our delivery capability underpinning our capital programme in FY24. ENWL forecasts a total totex outperformance over ED2 of £19m (2020/21 prices), or 1.0%, sharing that benefit with customers. Efficiencies will be achieved through development of innovative solutions and targeting investment to ensure delivery of all outputs at the lowest cost solution.

Totex expenditure compared to allowances	FY24			ED2		
£m (2020/21 prices)	**Actual**	**Allowance**	**Variance to Allowance**	**Forecast**	**Allowance**	**Variance to Allowance**
Load Related Costs	25.4	45.3	19.9	355.9	351.5	(4.4)
Non Load Capex (excluding Non Op Capex)	81.1	114.4	33.3	591.1	600.5	9.4
Non Op Capex	14.1	22.6	8.5	81.1	79.4	(1.7)
High Value Projects	0.6	0.0	(0.6)	14.1	13.5	(0.6)
West Coast of Cumbria	-	-	-	-	-	-
Network Operating Costs	58.5	56.9	(1.6)	284.0	278.0	(6.0)
Closely Associated Indirects	53.4	68.6	15.2	330.5	359.4	28.9
Business Support Costs	47.1	50.2	3.1	251.0	244.4	(6.7)
Atypicals Non Sev Weather (Totex)	0.4	-	(0.4)	0.4	-	(0.4)
Costs within Price Control (in Totex)	**280.6**	**358.1**	**77.5**	**1,908.1**	**1,926.7**	**18.6**
			22%			**1%**

1.3. Future Outlook – ED3

Our pressing priority as a business is to mature quickly as an enhanced capital programme delivery organisation. Our strategy has been tested robustly and it has delivered for customers, stakeholders, shareholders and employees. The business performance has improved in all areas despite strong inflationary and cost headwinds. Our focus is to ensure the energy transition and the journey to Net Zero is experienced safely and securely by everyone in our communities.

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

£m 20/21	**ED2 period**
Customer share of Totex performance	*9.4*
NWO share of Totex performance	*9.2*
Totex out(under)performance, after EV adjustment	*18.6*
Output incentives	41.3
Cost of Debt out(under)performance at actual gearing (pre tax)	16.8
Regulated tax out(under) performance at actual gearing (not adjusted for financing)	4.4
	Average ED2 period
Equity RAV	1,024.8
Average Net Debt (per Regulatory Definition)	1,197.0
Adjusted RAV - including (EV) adjustments	2,221.8
RoRE based on actual gearing	6.1%

In ED2 we have forecast to deliver £18.6m of totex outperformance post enduring value adjustments (2020/21 prices), £9.4m (2020/21 prices) of which is shared with our customers.

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 £41.3m (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. Our cost of debt for the actual company is lower than our allowance - we are currently forecast to outperform our cost of debt allowance by £16.8m (2020/21 prices) for ED2 (on a pre-tax adjustment and on an actual gearing basis). Our actual company gearing is less than the notional company and as such, at notional gearing, ENWL is underfunded on debt.

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

3. Key operational performance measures

Operational Area	Measurement	FY24
Safety	Lost time incident frequency rate	0.02
Reliability and Resilience	Customer Interruptions (CI)	26.21
	Customer Minutes Lost (CML)	26.80
Environment	Business Carbon Footprint, exclu. Losses (BCF) tCO2e	13,999
Connections	Time to Quote in days (LVSSA)	2.22
	Time to Quote in days (LVSSB)	4.05
	Time to Connect in days (LVSSA)	25.04
	Time to Connect in days (LVSSB)	24.92
Customer Satisfaction	Customer Satisfaction Survey Overall	92.00%
	Complaints metric	2.64
	Complaints resolved in 24 hours	79.80%
Employee Engagement	Engagement Rate	82.80%
DSO	Stakeholder Satisfaction Survey (Score out of 10)	7.94
	Performance Panel Assesment (Score out of 10)	6.19
Dig, Fix and Go	Average End-to-End Restoration Time after unplanned emergency street works in days	4.70

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 2024. This required a detailed audit by UKAS accredited certification body ISOQAR, who undertook an 11-day audit and found zero non-conformances.

As we enter 2024/25, 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 2024, the average number of interruptions per 100 customers (CIs) was 26.21 (FY23: 26.6). This has outperformed the target of 29.9 set by Ofgem.

The average number of minutes for which customers were without supply during the year (CMLs) to 31 March 2024 was 26.8 (FY23: 26.9), which was our best ever performance and again represented an outperformance of the target of 27.54 set by Ofgem.

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.

Key to delivering reliability to customers is the improvement to the network's resilience to extreme weather events. Following learnings from Storm Arwen, we have further exercised and strengthened our approach to preparing and managing the network during significant events and utilising benefits within the new network management system and other technologies. It has been a challenging year dealing with extreme weather with 13 named storms during the year. We continue to invest significant funds in flood defences and interconnectivity to provide protection to a 1 in 1000-year flood risk at key sites.

Most customers enjoy excellent levels of reliability, but we recognise that there is variability in the level of service experienced by some. A few customers experience a level of service significantly worse than average, usually by virtue of their location or due to localised network issues. During the first year of ED2 the number of customers meeting this Ofgem definition increased by 322 in the year ended 31 March 2024 to 906 (FY23: 584), as a result of lower qualifying threshold in ED2. We have now initiated work on all circuits linked to the qualifying worst served customers as we transition to adopt a proactive approach to worst served customers with the clear aim of having no worst served customers on our network.

Network 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 62m risk points through our programme of targeted replacement and refurbishment activities, or 15% 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)

	FY22/23			FY23/24		
	Total Customers Impacted	Number of Failures	% Pass Rate	Total Customers Impacted	Number of Failures	% Pass Rate
EGS1 - Main Fuse Failures	1,079	37	96.57%	1,132	38	96.64%
EGS 2 - 12 Hour Failures	590,963	2851	99.55%	596,515	3316	99.29%
EGS 2A - Multiple Interruptions	5	5	-	15	15	-
EGS 2B - 5,000 No Supply Failures	23,084	-	-	-	-	-
EGS 4 - PSI Not Notified	60,905	473	99.23%	81,308	275	99.66%
ESG 5 - Voltage (Making Appt)	382	2	99.48%	538	2	99.63%
ESG 5 - Voltage (Keeping Appt)	845	38	95.70%	447	44	91.79%
EGS 8 - Making Appointments (RP)	14,362	900	93.73%	12,011	363	96.98%
EGS 8 -Keeping Appointments	21,604	195	99.10%	19,744	637	96.77%
EGS 9 - Late Payments	1,693	1,693	-	1,863	1,863	-
EGS11A - No Supply (Category 1)	-	-	-	68,480	306	99.55%
EGS11B - No Supply (Category 2)	-	-	-	68,977	1,134	98.36%
Overall Compliance	**714,922**	**6,194**	99.13%	851,030	7,993	99.06%

The overall compliance has reduced by 0.07% to 99.06% (FY23 99.13%). The number of customers impacted increased by 19% driven by storm event and the number of customers impacted by a Planned Supply Interruption. This year 3,316 customers were impacted by 12-hour failures. 100% of customers who were due a payment for the failure are 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 relating to increased activity from our innovative quality of supply projects LineSIGHT and PRESense, the number of failures where customers haven't received 48 hours' notice is 275, however the number of failures has reduced by 42% in comparison to last year (FY23 473).

EGS8 appointments and number of failures have both 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 SF_6 emissions

In the year ended 31 March 2024 we saw emissions remain significantly below those incurred at the start of ED1. The business carbon footprint for the year was 13,999 tCO_2e, which is an increase of 0.06% from the previous year (FY23: 13,990 tCO_2e). Emissions in the year reflect the benefits of energy efficiency measures (including refurbishment of its buildings), however, from

previous years we have seen less benefit from reduced business travel due to COVID restrictions and return to physical in-person working arrangements in our business that had been working from home. 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 CO_2 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, that puts us on a 63% reduction on scopes 1, 2 and 3 emissions by 2035.

The carbon emissions measure includes the impact of Sulphur Hexafluoride (SF_6), which is a strong greenhouse gas, historically used as insulation in electrical equipment. Our policy is to continue to install modern SF_6 equipment with lower leakage rates. SF_6 emissions during the year were at a reduced level when compared to the previous year (28.23kg compared to 38.24kg in FY23), equating to 0.17% of the total mass in service (FY23: 0.24%). This performance exceeds the target we set 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 17,545 litres which is an increase over the previous year's performance of 13,217 litres but 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 GSoP for Connections. We are pleased that we have continued to reduce the number of failures down to 66 compared to 110 the previous year. 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 critical for us. Customer satisfaction levels have continued to improve following the strong performance delivered in the ED1 period with an overall score of 92.0% for the year ended 31 March 2024 (FY23: 89.4%). The relative ranking among the DNOs was 5th (FY23: 9th) and 2nd overall for Connections 92.9% (FY23 87.8%).

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 PSR and encouraging registration to our PSR. Through partnerships and engagement our reach has increased this year to 82.4% (805,907 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.

Complaints

The number of complaints we receive has remained 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 2.64 (FY23: 2.7), with 79.8% of complaints resolved in 24 hours (FY23: 83.4%). 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. Our overall score and level of participation improved again this year. Delivering a culture of high engagement is critical for us and the engagement score of 82.8% is our highest ever. Gender pay gap overall increased slightly from 10.6% to 11.6% but importantly the gap between 18 to 30 years of age demographic reduced from 10% to 5%, which bodes well for the future shape of our workforce. The recent revisions to our parental pay policy 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.

3.7. Distribution System Operation

In FY24 the Distribution System Operation incentive was introduced. For our first Stakeholder Satisfaction Survey we achieved a score of 7.94 out of 10 and for the Performance Panel Assessment we scored 6.19. Both scores exceed the Ofgem targets and derived an incentive revenue of £0.18m in 2020/21 prices.

3.8. Dig, Fix and Go

Average End-to-End Restoration Time after unplanned emergency street works for FY24 was 4.7 days compared to target of 5.1 days giving incentive revenue of £0.39m in 2020/21 prices.

4. Overview of regulatory performance

4.1. Return on Regulated Equity (RoRE)

RoRE based on Actual Gearing	**ED2 period**
Allowed Equity Return	***4.8%***
Totex outperformance	0.2%
Output Incentives	0.8%
Other	0.0%
RoRE - Operational performance	***5.7%***
Debt performance - at actual gearing	0.3%
Tax performance - at actual gearing	0.1%
RoRE - including financing and tax	***6.1%***

On an actual gearing basis, our Allowed Equity Return is 4.8%. For the five years of ED2, totex outperformance contributes an additional 0.2% and 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 5.7%.

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

Our RoRE for the five years of ED2, including finance and tax is 6.1%. 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 inconsistent, and 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 6.1% to 5.7%, on an 'actual gearing' basis.

Totex outperformance reflects the efficiencies earned during ED2, net of reinvestment of efficiencies and sharing that benefit with customers.

Tax performance – interest costs relating to inflation linked debt have increased in the first year of ED2, lowering the profits chargeable to corporation tax and therefore the tax payable. This has improved the tax funding position. As mentioned above, debt performance is sensitive to inflation.

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**	***Forecast*** **FY25** **£m**	***Forecast*** **FY26** **£m**	***Forecast*** **FY27** **£m**	***Forecast*** **FY28** **£m**
Base Revenue	495.7	512.7	538.9	544.4	566.4
Equity issuance costs	5.9	-	-	-	-
Output delivery incentive	4.4	10.9	10.5	12.0	17.8
Other revenue allowances	0.5	2.8	2.8	2.6	2.6
Tax	28.0	43.8	38.1	29.4	26.6
Correction term	11.2	26.6	53.0	(29.5)	-
Forecasting penalty	-	-	-	-	-
Legacy Allowed Revenue	19.1	45.2	(2.4)	(2.7)	(2.8)
Allowed Network Revenue	**564.8**	**641.9**	**641.0**	**556.2**	**610.7**

Allowed revenue projections match the dry-run 1a ED2 Price Control Financial Model (PCFM) (uplifted for price base changes) which is an update to dry-run 1 at the end of August. This includes an adjustment in FY25 for Supplier of Last Resort (SoLR). Further planned dry-runs could change the forecast element of ED2.

For FY24, 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. Equity issuance at £5.9m arises following the transition from ED1 to ED2 where the notional company assumes the reduction in gearing from 65% to 60% is funded by an equity injection, which attracts an allowance to cover the costs of raising the equity. Incentive revenue for FY24 stood at £4.4m with the largest component coming from customer service performance (please see section 4.5 for further detail on incentives). The £0.5m of other revenue allowances is carry over network innovation allowance from ED1.

The other two components of allowed revenue reflect timing adjustments. The first, the K factor at £11.2m, represents the under recovery of allowed revenue from 2023. The second, legacy allowed revenue at £19.1m represents the lagged close-out adjustments from ED1 that impact revenue in ED2. These include true-ups for the 2022 K factor and inflation, as well as the lagged effect of incentive and pass-through cost mechanisms.

4.5. Output incentive performance

2020/21 prices	*Actuals* FY24 £m	*Forecast* FY25 £m	*Forecast* FY26 £m	*Forecast* FY27 £m	*Forecast* FY28 £m	Cumulative to FY24 £m	ED2 period £m
Time to connect ODI	0.9	0.9	1.1	1.2	1.2	0.9	5.2
Broad Measure of Customer Service ODI	1.2	1.8	2.3	2.6	2.7	1.2	10.6
Interruptions incentive scheme ODI	0.9	2.0	2.2	2.5	2.9	0.9	10.5
Major connections ODI	-	-	-	-	-	-	-
Consumer Vulnerability ODI	-	1.8	-	-	3.0	-	4.8
Distribution System Operator ODI	0.2	1.2	1.6	1.8	2.3	0.2	7.0
Dig, Fix and Go ODI (ENWL only)	0.4	0.6	0.7	0.8	0.8	0.4	3.2
Post-Tax Earned Incentive revenue	**3.5**	**8.2**	**7.9**	**8.8**	**12.9**	**3.5**	**41.3**

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 first year of the new five-year price control (FY24) they contributed 0.8% of RoRE on average with the Broad Measure of Customer Service incentive contributing the most 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 £m	*Forecast* FY25 £m	*Forecast* FY26 £m	*Forecast* FY27 £m	*Forecast* FY28 £m	Cumulative to FY24 £m	ED2 period £m
Latest Totex actuals/forecast	280.6	376.5	417.7	407.5	425.8	280.6	1,908.1
Totex allowance including forecast allowed adjustments and uncertainty mechanisms	358.1	375.9	400.2	388.7	403.8	358.1	1,926.7
Totex out(under)performance	77.5	(0.6)	(17.5)	(18.8)	(22.0)	77.5	18.6
Customer share of out(under) performance	39.2	(0.3)	(8.9)	(9.5)	(11.1)	39.2	9.4
NWO share of performance	38.3	(0.3)	(8.7)	(9.3)	(10.9)	38.3	9.2
Total enduring value adjustments	(78.4)	12.3	22.1	21.1	22.9	(78.4)	(0.0)
Enduring Value: Customer share of performance	(39.7)	6.2	11.2	10.7	11.6	(39.7)	(0.0)
Enduring Value: NWO share of performance	(38.7)	6.1	10.9	10.4	11.3	(38.7)	(0.0)
Total out(under) performance (including enduring value adjustments)							
Customer share of performance	(0.5)	5.9	2.3	1.2	0.5	(0.5)	9.4
NWO share of performance	(0.5)	5.8	2.3	1.2	0.4	(0.5)	9.2
Total	**(0.9)**	**11.7**	**4.6**	**2.3**	**0.9**	**(0.9)**	**18.6**

Totex spend for the year ending 31 March 2024 was £280.6m compared to an Ofgem allowance of £358.1m in 2020/21 prices this is, 22% lower than allowance before taking delivery of outputs into account. An Enduring Value adjustment of -£78.4m has been included to take into account such timing differences, generating underlying totex underperformance of £0.9m.

£m	ENWL Over/Under-spend Cost Categories: Efficiency	Service Enhancement	External Factors	Provision in the Price Control Settlement	Re-phasing or timing of work (EV)	Other	Total
Load related costs				(1.0)	7.1		**6.1**
Smart Street					13.8		**13.8**
Non load capex		(5.5)			38.8		**33.3**
Non op capex					8.5		**8.5**
High value projects						(0.6)	**(0.6)**
Network Operating Costs	0.2	(0.7)	(6.1)		5.0		**(1.6)**
Closely Associated Indirects	8.8	8.5	(2.0)				**15.3**
Business Support	(1.2)	(1.0)			5.3		**3.1**
Atypicals	(0.2)			(0.2)			**(0.4)**
Total	**7.6**	**1.3**	**(8.1)**	**(1.2)**	**78.4**	**(0.6)**	**77.5**
Variance to Allowance							22%

The outperformance to date of £77.5m reflects efficiencies earned of £7.6m, net of reinvestment of £1.3m. The latter principally includes revenue obtained from CLASS £8.5m, investment in quality of supply £(5.5m), increased spend on span inspections following policy changes £(0.7m), and enhancing our Commercial services function £(1.0)m. These investments are all delivering enhanced network performance or totex efficiencies, which are then shared with customers.

External factors, particularly significant bad weather events (13 named storms), have driven increased expenditure levels in Network Operating costs, along with the impacts from the delays in the national smart meter roll out and internal phasing of the inspection programme differing from the allowance profile. Closely associated indirect costs were impacted by delayed delivery of new vehicles and the effect that had on the repair and maintenance required for our existing fleet. Business support costs include the impact of inflationary pressures.

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 the 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 northwest 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 will continue to take the strategic approach of focusing our innovation in the five industry challenge areas, ensuring we deliver outcome-based innovation. We will deliver 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.

The integration of large volumes of renewables 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 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 £m	Forecast FY25 £m	Forecast FY26 £m	Forecast FY27 £m	Forecast FY28 £m	Cumulative to FY24 £m	ED2 period £m
Assumed regulatory finance cost at actual gearing	(16.3)	32.2	45.7	36.6	39.0	(16.3)	137.2
Assumed regulatory finance cost at notional gearing	(18.8)	36.2	49.7	39.6	43.9	(18.8)	150.6
Forecast revised Cost of Debt Allowance	37.0	39.7	42.8	45.5	48.5	37.0	213.6
Cost of Debt out(under)performance at actual gearing (pre tax adjustment)	37.9	(2.1)	(10.7)	(4.4)	(3.9)	37.9	16.8
Cost of Debt out(under)performance at notional gearing (pre tax adjustment)	38.1	(7.4)	(15.4)	(8.4)	(10.5)	38.1	(3.7)
Impact on out(under) performance relating to deviating from notional levels of gearing (pre tax adjustment)	(0.1)	5.2	4.7	4.1	6.6	(0.1)	20.5
Notional Gearing	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Actual Gearing	51.9%	53.3%	55.2%	55.5%	53.3%	51.9%	53.8%
Average Net Debt (per Regulatory Definition)	1,032.9	1,114.3	1,218.8	1,298.6	1,320.5	1,032.9	1,197.0
Equity RAV	958.5	975.6	990.1	1,041.9	1,158.1	958.5	1,024.8
Adjusted RAV - including latest forecast and Enduring Value adjustments	1,991.4	2,089.9	2,208.8	2,340.5	2,478.6	1,991.4	2,221.8

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
- £109.8m of various intercompany loans at differing fixed nominal rates issued maturing in 2028. All rates were set as third-party market rates at the time of issue
- £50m revolving credit facility, of which nil was drawn at year end. Post year-end the £50m revolving credit facility was replaced in April 2024 with a £250m revolving credit facility maturing April 2027

Hedging Instruments

- A set of RPI swaps totalling £200m (receive fixed to 2021, floating from 2021 to 2038, Pay RPI from start to 2038. These hedged the £200m fixed rate intercompany debt (ref C6) which matured in 2021. Subsequent to the maturity of the £200m fixed rate inter-company debt, the

swaps hedge £200m of the £300m fixed rate debt entered in 2020. When this debt matures in 2030, these swaps continue to hedge the replacement debt until 2038, hence the maturity date of the swaps of 2038. These swaps are structured on a PAYG basis, with accretion payable at either five or seven year intervals, dependant on the swap. All interest rates were competitively negotiated at inception of each instrument. The receive leg of the swap moved from fixed to floating in 2021, aligning with the maturity of the original underlying debt.

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

Without these inflation hedging instruments, the proportion of nominal fixed and floating debt to index-linked debt would be 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
2024/25	£400m	5.01% nominal	Refinance of £450 8.875% bonds maturing in 2026
2025/26	£250m	5.10% nominal	Financing of the ED2 capital program
2026/27	£250m	5.17% nominal	Financing of the ED2 capital program

Debt performance

On an actual gearing basis our cost of debt outperformance is £16.8m (2020/21 prices) cumulatively for ED2. This is driven by 2024 outperformance of £37.9m, due to an inflation component adjustment, where 2024 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:

- We have large embedded debt costs (£450m bond finance raised pre 2005) which pre-date the current trailing average mechanism. This debt was efficiently raised at the time of issuance however market rates have since fallen significantly.

- We are a small DNO and a singleton licensee, and as an infrequent issuer we are unable to raise 1/17th of our debt every year to match the current trailing average mechanism allowance, due to minimum issuance sizes in the markets.
- The pricing of smaller debt issuances is often at a premium to larger, issuances. There is no adjustment for this ‘small company premium’ within the current debt allowance.
- ENWL is an efficient, well performing company with gearing below notional level, but is rated BBB+ only. However, the trailing average mechanism uses a blend of iBoxx A and iBoxx BBB indices to estimate reference debt pricing.
- There is no allowance for the debt carry costs of refinancing ahead of debt maturity (“double-handling”) within the trailing average mechanism. In order to support our investment grade credit ratings, we need to refinance in advance of our maturities.
- The trailing average mechanism assumes that debt is raised at the average annual pricing level. Debt pricing can fluctuate materially within the year. Again, this can create windfall gains or underperformance due to lucky timing rather than good management performance.

From 2025 to 2028, (where inflation is forecasted to reduce and deviate from the high levels of inflation seen in 2024), we are underfunded on our cost of debt by £20.6m. This is largely attributable to the points explained above.

4.9. Taxation and Tax Reconciliation

2020/21 prices	*Forecast* FY24 £m	*Forecast* FY25 £m	*Forecast* FY26 £m	*Forecast* FY27 £m	*Forecast* FY28 £m
Adjusted/ forecast regulated tax liability with timing differences	18.7	30.5	27.5	22.7	20.6
Revised regulated tax liability for comparison against allowance	18.7	29.1	26.2	21.7	18.9
Net forecast tax allowance	21.9	33.3	28.5	21.6	19.2
Regulated tax out(under) performance at actual gearing (pre adjustment for financing)	**3.1**	**2.8**	**1.0**	**(1.2)**	**(1.4)**
Regulated tax out(under) performance at notional gearing (pre adjustment for financing)	**3.1**	**4.2**	**2.2**	**(0.1)**	**0.2**
Impact on out(under) performance deviating from notional levels of gearing (pre adjustment for financing)	0.0	(1.4)	(1.2)	(1.0)	(1.7)
Tax performance - at notional gearing (RoRE)	**3.1**	**4.2**	**2.2**	**(0.1)**	**0.2**

Our tax returns for FY24 have not yet been prepared and filed and as such the tax figures in the RFPR are forecasts for all five years of ED2. We will be in a position to complete the R5a tax reconciliation for 2025 RFPR reporting onwards in line with guidance.

For FY24 reporting within the RFPR we have determined a forecast tax liability position on a regulated basis utilising the 2024 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

This allows for a reasonable basis on which the liability and allowance can be compared. In FY24 the difference amounted to 0.4% RoRE which can in part be attributed to the relatively high level of inflation, which increased debt costs for which we receive a tax deduction. (see comment on tax in RoRE section above).

FY25 to FY28 utilised forecast tax liability positions from the latest PCFM with adjustments to put financing costs on an actual basis. The performance has been affected by the switch from notional to actual finance costs, as well as taxable fair value gains not captured by the tax allowance.

At this stage RFPR reporting is aligned to our PCFM dry run 1a submission which is prepared on the basis that a high level estimate of accelerated capital allowances is in place for FY24 only, and aligned to the Statutory accounts.

4.10. Corporate Governance

4.10.1. Corporate Ownership and Governance Framework

Appendix 4 in this commentary presents a corporate ownership structure chart dated as at 20 June 2024. 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 (ie Electricity North West) had also been included for the Licensee.

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,
- Board director nominations,
- Board director evaluation,
- executive remuneration, and
- dividend policy

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

Audit and Risk Committee:	Robert Holden, Anne Baldock and Susan Cooklin
Remuneration Committee:	Alistair Buchanan, Sion Jones, Genping Pan, Masahide Yamada, Mitsuo Wada and Peter O'Flaherty

Nominations Committee:	Alistair Buchanan, Sion Jones, Genping Pan, Masahide Yamada, Mitsuo Wada and Peter O'Flaherty
Health, Safety and Environment Committee:	Anne Baldock, Susan Cooklin, Ian Smyth, Sion Jones, Genping Pan, Masahide Yamada, Mitsuo Wada and Peter O'Flaherty
Protect Committee:	Ian Smyth and Christopher Johns
Company Investment Committee:	Ian Smyth and Christopher Johns
Sustainable Financing Committee:	Ian Smyth and Christopher Johns

The Board composition for Electricity North West Limited:

	Position	Appointed	Retired
Anne Elizabeth Baldock	Sufficiently Independent Director	26-Sep-2018	-
Susan Helen Cooklin	Sufficiently Independent Director	25-Jul-2018	-
Alistair Buchanan	Independent Non-Executive Director	25-Jul-2018	-
Robert David Holden	Independent Non-Executive Director	01-Jan-2016	-
Ian Thomas Smyth	Executive Director (Chief Executive Officer)	05-Sep-2022	-
Christopher Ian Johns	Executive Director (Chief Financial Officer)	25-May-2023	-
Mitsuo Wada	Shareholder-Appointed Non-Executive Director	31-Jul-2023	-
Masahide Yamada	Shareholder-Appointed Non-Executive Director	07-Jul-2022	-
Makoto Murata	Alternate Shareholder-Appointed Non-Executive Director	28-Jul-2022	-
Michiko Hara	Alternate Shareholder-Appointed Non-Executive Director	04-Jul-2024	-

Genping Pan	Shareholder-Appointed Non-Executive Director	12-Dec-2019	-
Hailin Yu	Alternate Shareholder-Appointed Non-Executive Director	24-Feb-2020	-
Sion Laurence Jones	Shareholder-Appointed Non-Executive Director	20-Aug-2019	-
Peter Bartholomew O'Flaherty	Shareholder-Appointed Non-Executive Director	17-Sep-2019	-
Aisha Hamid	Alternate Shareholder-Appointed Non-Executive Director	02-Feb-2023	-
Other Board Director appointments since 1 April 2023			
David Graham Brocksom	Executive Director (Chief Financial Officer)	05-Oct-2015	25-May-2023
Tatsuhiro Tamura	Alternate Shareholder-Appointed Non-Executive Director	07-Jul-2022	04-Jul-2024
Takeshi Tanaka	Shareholder-Appointed Non-Executive Director	25-Jun-2020	31-Jul-2023

4.10.2. Executive Remuneration Policies

Remuneration Committee

The Remuneration Committee of ENWL ("the Committee") comprises independent Non-Executive Directors as well as Non-Executive Directors representing the shareholders of the Group. As the Company is privately-owned and has no external shareholders, the Board of Directors believes that the interests of shareholders are appropriately represented on the Committee and that the Committee is suitably constituted to discharge its functions in relation to the alignment of remuneration policies and practices to the long-term sustainable success of the Company.

The Committee reviews and approves the overall remuneration policies for employees below director level but does not set remuneration for these individuals. This oversight role allows the Committee to take into account pay policies and employment conditions across the Group.

The Committee has reviewed the appropriateness of the remuneration structure for the RIIO-ED2 regulatory period and, subject to some changes, determined that it continues to promote the long-term success of the Company.

Executive Remuneration Policies

The executive remuneration policy and structure is determined by the Remuneration Committee of ENWL. 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 ENWL 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 ENWL 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 ENWL 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 ENWL 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 ENWL 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 ENWL strategy. The EIP awards are subject to malus and clawback provisions and are at the complete discretion of the Remuneration Committee.

2023/2024 Executive Remuneration

As at March 2024, ENWL has two executive directors, Ian Smyth (Group CEO) and Chris Johns (Group CFO). David Brocksom served as an executive director until his retirement at the end of May 2023; his remuneration declared in Table R9 reflects his service as an executive director. All executive directors oversee mainly the running of ENWL which has been reflected by allocating 98.8% of their total remuneration to the regulated business, with a small proportion of their time allocated to non ENWL 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. ENWL have elected to use this method, consistent with previous years, which enables us to compare total remuneration for the financial year ended 31 March 2024, 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. The Remuneration Committee Terms of Reference note that any decisions around Executive pay should have regard to pay across the Company.

4.11. RAV

2020/21 prices	***Actuals*** **FY24** **£m**	***Forecast*** **FY25** **£m**	***Forecast*** **FY26** **£m**	***Forecast*** **FY27** **£m**	***Forecast*** **FY28** **£m**
Opening RAV (before transfers)	1,983.2	2,079.1	2,187.6	2,322.6	2,456.4
Opening RAV (after transfers)	1,983.2	2,079.1	2,187.6	2,322.6	2,456.4
Net additions (after disposals)	220.5	261.8	289.1	283.7	298.9
Net additions (after disposals) - enduring value adjustment	28.0	(4.2)	(7.9)	(7.6)	(8.2)
Total Net Additions	248.5	257.6	281.2	276.1	290.7
Depreciation	(152.6)	(148.5)	(145.7)	(141.9)	(141.8)
Total Depreciation	(152.6)	(149.1)	(146.2)	(142.3)	(142.0)
Adjusted Closing RAV	**2,079.1**	**2,187.6**	**2,322.6**	**2,456.4**	**2,605.1**

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 2024 is £2.1bn 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	FY25 £m	FY26 £m	FY27 £m	FY28 £m
Established deficit element funded via specific allowances	-				
Incremental deficit funded via totex	-				
Licensee share of total pension deficit repair payment made for defined benefit scheme	-				

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

Latest pension scheme valuation (as advised to be used by Ofgem) Price base	31/03/2022 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 2024 being approximately 106%.

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

5. Data assurance statement

While we have applied the principles of Ofgem's data assurance guidance we also note the element of judgement required in preparing the forecasts until the end of the RIIO-ED2 period. The submission has been subject to expert and second person review and signed off by the Chief Financial Officer.

6. Appendices

6.1. Appendix 1 - Enduring Value Methodology

Overview

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

For ENWL, the two most material items impacting the EV are:

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

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. Whilst our core load programme is broadly in line with allowances in the first year of ED2, the in-year variance is driven by connections where we have seen a lower expenditure vs. allowances which included additional Access SCR uplift in years one and two of the price control. We have seen exponential increases in connections acceptances in FY24 and expect to fully utilise allowances in the period. We are anticipating submitting a significant load reopener submission in the first application window, as such the in-year variance to allowances is included within the EV adjustment calculation.
Smart Street Mechanistic Price Control	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

Totex category	Expenditure Type	Basis of EV calculation
Deliverable (SSMPt)		units by the end of ED2 therefore the variance to allowance has been included in the EV adjustment.
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 particular, enhancements to our operational IT and Network Management System (NMS) were delayed in FY24 and reprofiled later in ED2.
	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	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 2024

Enduring Value summary £m (2020/21 prices)	Cumulative 2024
Non load – Op IT and Telecoms	**17.8**
Smart Street	**13.8**
Non load – Asset Replacement and Refurbishment	**12.0**
Non load – other	**9.0**
Non Op Capex	**8.5**
Load related costs	**7.1**
Business Support Costs – IT and Telecoms	**5.3**
Network operating costs	**5.0**
Total	**78.4**

6.2. Appendix 2 - Net Debt Forecasting Assumptions

In the four years to 31 March 2028, ENWL 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 £109.8m 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.

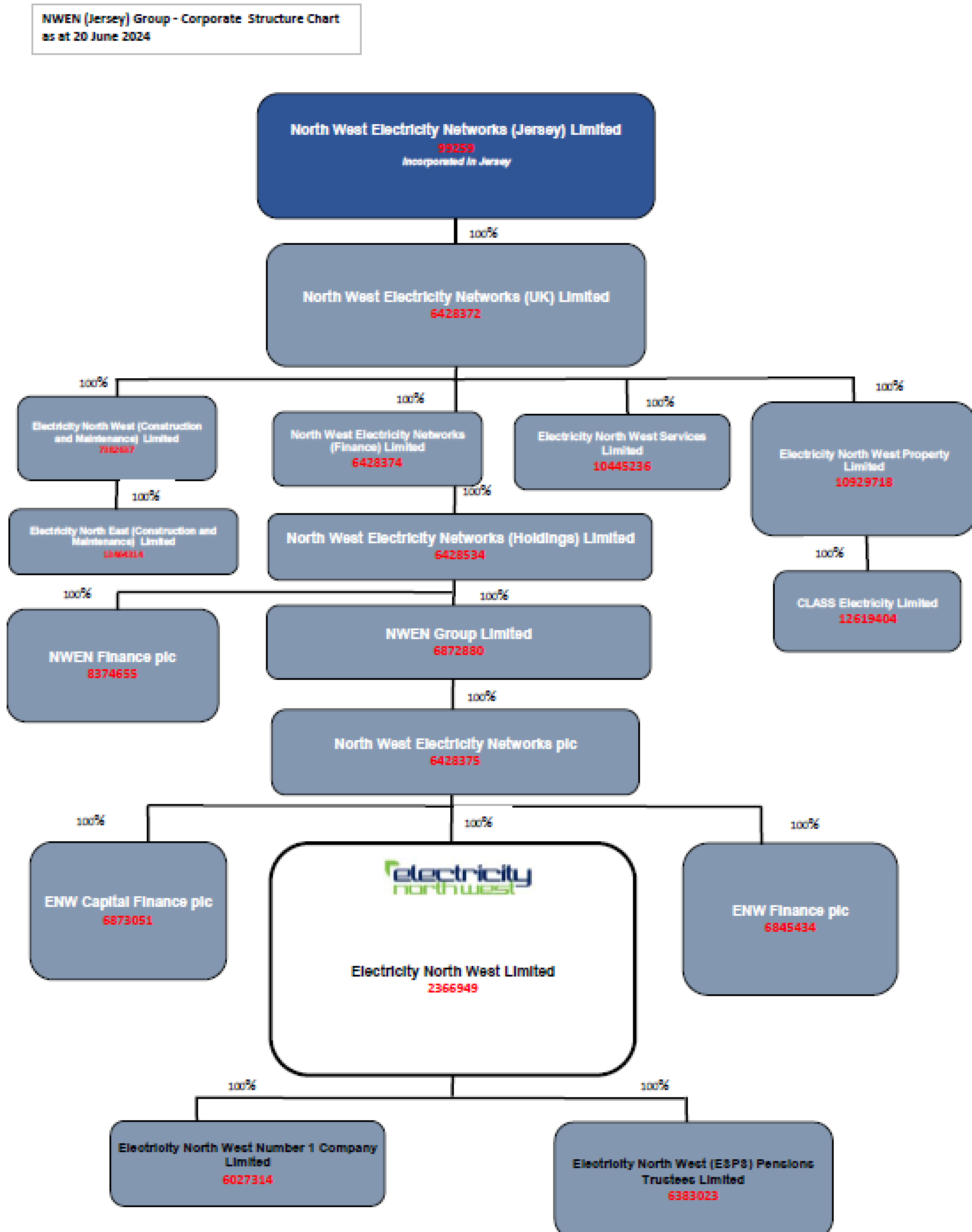
6.3. Appendix 3 - Methodology notes for completion of Net Debt and Financing tables

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

- Following the adoption of the IFRS9, the ENWL £250m bonds maturing 2026 are now held at amortised cost rather than fair value. This change took effect for the 2019 RFPR. The bonds were issued in three tranches across 2001-2002, at a premium to principal. This accounting change impacts the RFPR and the RoRE calculation in two areas.
    - Firstly, the regulatory debt has increased reflecting the unamortised premium on issuance.
    - Secondly, the annual amortisation of the remaining premium reduces ENWL financing costs.
- The 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 - Corporate Structure

ENWL corporate structure:



7. Glossary

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