SP Energy Networks 2015 – 2023 Business Plan Executive Summary

SP Distribution plc
SP Manweb plc

Updated March 2014

SP ENERGY NETWORKS

A Message from Frank Mitchell CEO

I am pleased to present our final business plan for 2015-2023 for our electricity distribution networks in Central and Southern Scotland, Merseyside and North Wales. These plans have been constructed to incorporate the feedback we have received from our stakeholders and the 3.5 million customers we serve.

This document also lays out our plans to incorporate smart metering and to create the flexibility in our approach and network to accommodate new capacity as we build towards a low carbon future.

Stakeholders may be aware that our July 2013 plan for our distribution businesses was not fast tracked by Ofgem. This outcome was disappointing to us since our SP Transmission business was the leading company in the RIIO-T1 process, and was fast tracked in 2012. It is also disappointing that this will delay the implementation of the plans that we developed in conjunction with our stakeholders.

We have taken the opportunity from our July 2013 plan being resubmitted to further improve our submission by:

- *Updating our costs and volumes in the light of latest information, delivering some £450m of further reductions to our controllable costs.*
- *Using the latest Ofgem information to demonstrate that our costs in many areas are already more efficient than the fast tracked company or the expert view. Where there are comparable unit costs we are 12% more efficient than WPD.*
- *Ensuring we build a stronger case to justify important elements of our plan that our stakeholders have told us are key e.g. Resilience investment of £225m[1], public safety investment of £265m and investment to improve the service we provide to poorly served customers.*
- *Providing additional information to help Ofgem to make fully informed decisions on investment volumes, particularly where these are higher due to the position that key assets are in terms of criticality and their life cycle.*
- *Retaining our original output commitments to customers, including double guaranteed standard payments.*

Ultimately all of our objectives are balanced against the cost to the end consumer. On a like for like basis, whilst increasing our outputs and commitments to customers, our costs will be around 2% less per annum than in DPCR5.

1. *Includes storm resilience, flooding and black start expenditure.*

Impact on our element of Customer Bills

Using average domestic consumption (3,300kWh) as required by Ofgem and comparing with the period 2010-2015:

- *Our domestic customers in central and southern Scotland will see a 11% reduction, average £99 p.a. to £88 p.a.*
- *Our domestic customers in England and Wales will see a 18% reduction, average £126 p.a. to £103 p.a.[2]*

Our stakeholders have fed back to us their priorities; these drive our submission and are as follows:

- *Stakeholders believe that they should not face increased risk from an ageing network and that it is critical to maintain public, staff and contractor safety.*
- *They recognise the benefits of reductions in interruptions (18% reduction in last 5-years alone) and in the duration they are off supply when interrupted (a 31% reduction in the last 5-years)[3]. Therefore continuing this improvement, further reducing the number and length of power cuts remains a priority.*

2. *These numbers are expressed in 12/13 prices and will vary depending upon actual inflation (RPI) and customer consumption.*

3. *Between 2008 and 2013, we reduced the number of interruptions experienced by our customers by 18%, the total amount of time customers were off supply by 31% and the average time a customer was off supply by 16%.*

- *Improving customer service across operations and connections. In DR5 our customers are scoring us between 8 and 9 out of 10 (which compares favourably with the top UK customer service companies[4] across all sectors).*

- *Our customer outputs set out more than 90 separate customer commitments to improve the essential service we provide. These are deliberately ambitious but our rate of improvement in DR5 demonstrates to all that they are deliverable.*

- *Our stakeholders want to see customer service continue to improve and we see the introduction of smart metering and smart grid technology as key to enabling this in ED1 and ED2.*

- *This winter has seen the UK significantly affected by severe weather. In our Scottish, North West England and Welsh territories we are perhaps more acutely aware of the impacts of these events given their relative frequency compared to the rest of the UK. Stakeholders wish to see us continue to invest more to reduce the impacts of major storms and this is why we have proposed £210m[5] to continue resilience programmes that we have now been running for over 15-years.*

- *Stakeholders want us to improve service to more than the worst served customers as defined by Ofgem. We have plans to extend our targeted performance improvement programme to cover 40% of what we define as poorly served customers, those whose supply is interrupted more than 10 times the average. To achieve this we are targeting £6m of investment in spur lines, with clear stakeholder support.*

4. Which? reveals best and worst brands for customer satisfaction out of UK's biggest brands rated on service 19 September 2013. Top 5 companies in UK score 8.2 to 8.8 out of 10.

5. Overhead line rebuild and resilience programme

- *Prepare the network for low carbon technologies. To achieve this we plan to invest more than £358m to increase network capacity, to facilitate low carbon technology as well as general load growth. We will use smart metering and network monitoring to target this investment where the need is greatest.*

We have begun to prepare for the challenge of ED1, a cross functional team drawn from across my business is focussed on building an implementation plan. During ED1 we will transform our business further and the service we provide by:

- *Bringing our business even closer to our customers to become more responsive, whilst also reducing our centralised support costs and overheads.*

- *Training our staff to harness the benefits of smart technologies to transform our customer relationships.*

- *Applying a stream of innovation to deliver long lasting benefits for our stakeholders.*

By 2023, we intend to lead the industry by continuing to apply our guiding principles to be:

- *A customer service focused company trusted by our communities and stakeholders.*

- *An engineering company with strong stewardship of assets and world class safety credentials.*

- *A company that attracts and develops skills for the future from the communities we serve.*

Application of these guiding principles has delivered significant customer benefits during DPCR5, including:

- *Our customers ranking us higher on customer service (25% improvement in SPD and 12% in SPM).*

- *Reduced cable fault repair costs by around 1/3rd.*

- *Reduced our customer interruptions and average time off supply by 7% and 10%.[6]*

- *Being on track to deliver 100% of our current regulatory contract.*

- *We have now connected 28% of GB renewable distributed generation to our networks, despite serving only 14% of GB demand customers.*

It is therefore with a significant degree of confidence that we propose this Business Plan to Ofgem. We have researched the needs of our stakeholders, we have benchmarked our costs in terms of efficiency, we have balanced risk decisions against value for money for paying customers and we have further improved our business plan. The application of our guiding principles has turned around our company's performance during DPCR5, this can be seen in our results both financial and non-financial in 2012/13 and will ultimately underpin our successful delivery of the RIIO-ED1 contract.

As I am sure you understand, the business plan is prepared on the basis that the present currency,territorial and regulatory arrangements in Great Britain will continue in their present form throughout the duration of the RIIO-ED1 price control. If there is a material change to any aspect of these arrangements, then the respective business plans of each of SPT, SPD and SPM and their revenues will have to be reviewed.

Finally, I would like to thank again the stakeholders who helped us develop our plans, and continue to engage with us through our enduring stakeholder panels and forums. I look forward to providing updates on our progress and obtaining your ongoing input to shaping our priorities to meet the challenges of the next decade.

Frank Mitchell

6. From April 2010 to March 2013, customer interruptions reduced by 7%, total time off supply reduced by 16% and average time off supply improved by 10%.

We have set out more than 90 separate commitments to improve the essential services we provide to our customers. These are deliberately ambitious, but our rate of improvement in DR5 demonstrates that they are achievable.

Executive summary

Our whole business plan in brief

Our 2015-2023 Business Plan was originally published in July 2013. Following feedback from the industry regulator (Ofgem) and our stakeholders, we have now published an updated version in March 2014.

This document provides an Executive Summary and brings out the key highlights. Those readers wishing to understand our plans in more detail can access our main business plan via our website: *http://www.spenergynetworks.com/pages/distribution_business_plan.asp*

We have published even greater detail within our comprehensive suite of annexes and supplementary documents, also available via our website.

Within this document we present **Our Recent Performance and Track Record** of continuous improvement. More detail is set out in our main business plan **Chapter B1e – Delivering our 2010-2015 Contract.**

The Challenges we face in the RIIOED1 period and the future uncertainties are described here and in more detail in our main business plan **Chapter B2 – Our Challenges.**

We provide an overview of what our stakeholders told us, their willingness to pay for incremental investments, and how we have incorporated this into our plans in **Stakeholder Priorities.** We provide further information in our main business plan **Chapter B3a – Learning from Stakeholders.**

In **Chapter d** we explain **Our Strategy for RIIO-ED1**, which is built on the foundation of our guiding values. You can find out more in our main business plan **Chapter B1a – Our Strategic Vision and Guiding Values.** We also outline the role of innovation and provide more detailed information in our **Annex – Innovation Strategy.**

We describe what our customers and stakeholders can look forward to in **Outputs.** Our comprehensive outputs framework, comprising more than 90 commitments is described in greater detail in our main business plan **Chapter C5 – Outputs and Incentives.**

In **Expenditure** we provide a headline summary of our plans which are set out in more detail in our main business plan **Chapter 6 –Expenditure** and in our more detailed **Annex C6 – Expenditure.**

Financing Our Plan Efficiently summarises the key financial parameters, with more detail set out in our main business plan **Chapter 9 – Financing.**

The Impact of Our Plan on Customer Bills provides detail of the cost to our main customer groups comparing average 2010-15 to 2015-23.

Finally we explain how our plan is **delivering value for money** for our customers.

This business plan is prepared on the basis of the current EU and UK legal and regulatory framework applicable to SPD and SPM.

In this document we explain:

Topic	More detail in main business plan chapters
a. Our recent performance and track record	B1e – Delivering our 2010-15 contract
b. The challenges we face in RIIO-ED1	B2 – Our challenges
c. Stakeholder priorities	B3 – Stakeholder engagement
d. Our strategy for RIIO-ED1	B1a – Our vision and guiding values
e. Outputs	C5 – Outputs and incentives
f. Our total planned expenditure	C6 – Expenditure
g. Financing our plan efficiently	C9 – Financing
h. The impact of our plan on customer bills	C10 – Our revenues and impact on customer bills
i. Delivering value for money	C10b – Delivering value for money

a. Our Recent Performance and Track Record

Some highlights of what we have delivered during DPCR5

We have continuously improved our Safety performance

Since 2010 we have reduced the total number of accidents in our business by over 50%. Our Total Recordable Injury Rate ("TRIR") is 0.24 incidents per 100,000 hours worked, well below our aggressive target of 0.5 and **significantly better than the industry average**.

We have continuously reduced our costs

During DPCR5 our cost reduction focus has been on the direct activities of performing tasks. For example since 2010 **our cable fault repair costs have reduced by more than 30%**.

We have continuously improved storm resilience

Our networks had relatively **fewer customers affected by recent major storms** (Christmas 2013) than other affected DNOs **despite facing the highest wind speeds of all**.

We have continuously improved Customer Service

Our average score (out of 10) in the industry survey of customer satisfaction for SPD increased to 8.75 and in SPM to 8.35. The very best companies in other sectors score between 8 and 9 out of 10 on customer service.

Which? Top 5 companies:		Ofgem Scores:
1. Lush	8.8	
2. Lakeland	8.5	SPD – 8.8
3. First Direct	8.4	
4. John Lewis	8.2	SPM – 8.4
5. RAC	8.2	

Which? reveals best and worst brands for customer satisfaction UK's biggest brands rated on service 19 September 2013

We have continuously improved our fault response

Operational initiatives and deployment of new technologies has enabled us to improve the number of customer minutes lost (CML) year on year since 2010. **We have delivered an 18% reduction in SP Manweb and a 10% reduction in SP Distribution**.

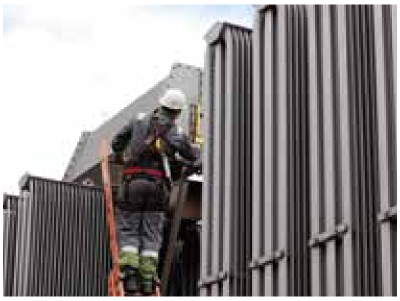
Find out more in our main business plan

The improvements we have delivered in DPRC5 have provided confidence that our output commitments to customers set out in **Chapter 5 – Outputs and Incentives** are challenging but achievable.

More detail on our DPCR5 performance is set out in **Chapter B1e – Delivering our 2010-2015 contract**, and our preparations for RIIO-ED1 in **Chapter 7 – Business Readiness.**

b. The Challenges We Face in RIIO-ED1

Our business environment and future uncertainties



Keeping our network fit for purpose

Much of our network was installed in the 1950s-1970s and is approaching the end of its operational life.

Our investment needs, informed by asset condition, are different across our two networks and different to other DNOs.

Accommodating Future Customer requirements

Network capacity and connections are key economic enablers. We are the only DNO to work across Scotland, England and Wales (with higher carbon reduction targets in both Scotland and Wales). **We are working with developers and government to connect renewable generation and enable customers to use low carbon technologies.**

Our Future Workforce

Around 60% of our direct workforce and 60% of our contractor workforce are expected to retire in the next decade.

We and our contractors need to recruit, train and retain significant numbers of staff if we are to meet the challenges of the next 30 to 40 years.

Our unique network in Merseyside and North Wales

Was the most economic network design on installation more than 40 years ago.

Delivers better security of supply for customers but comes at a higher cost.

Is cost prohibitive to change to a traditional network design and customer service would suffer.

Resilience against extreme weather

There have been more severe weather events in the last 3 years than in the previous 10 years.

Our network has been made more resilient to storms over the last decade, however there is more to do.

Stakeholders want us to continue this work and do 10% more than we originally planned.

Uncertainties

We understand and are prepared for the risks and uncertainties of the RIIO ED1 period. Our plans are built around conservative forecasts of demand growth and customer uptake of low carbon technologies, but we can respond to meet higher scenarios.

Devolved and local government plans to introduce new street works taxes are still at an early stage.

c. Stakeholder Priorities

An overview of what our stakeholders have told us and how we have incorporated this into our plans

Stakeholder feedback for our SPD licence area

Phase 1		Phase 2				Phase 3		Phase 4
Stakeholder priority areas	What we proposed in draft plan (Feb 2013)	Stakeholders workshops (voting)	Stakeholder on-line survey (simalto)	Employee on-line survey (simalto)	Customer face to face survey (simalto)	What was in our July 2013 plan?		What's in our March 2014 plan?
Storm resilience	Improving resilience to >10% customers	↑	⟺	⟺	⟺	↑	Draft plan + additional 10% of km in severe weather areas will be made resilient	Same output, lower cost
Poorly served customers	Improving service to 40% of poorly served customers	↑	↑	↑	↑	↑	Draft plan + additional 14% investment targeted to poorly performing overhead lines and cables	Same output, lower cost
Energy advice for fuel poor	No expenditure in draft plan	⟺	Proposed alternative output related to fuel poverty					No change
Network capacity information for new connections	No expenditure in draft plan *	⟺	Exploring options for this to be funded by connections customers					No change
Future proofing the network	No expenditure in draft plan	↑	↑	⟺	⟺	↑	Investment in future proofing, in line with £10m option presented at stakeholder events	No change
Earlier approach to network investment	7 new grid or primary sites, 14 uprated sites	↑	↑	↓	↓	⟺	Consistent with draft plan – triggering reinforcement 20% earlier	No change
Future innovation spend	No expenditure in draft plan **	↑	↑	↑	↑	↑	80p per customer per annum, based directly upon stakeholder feedback	No change
Service position inspections	Inspection every 5 years starting 2015	⟺	↓	↓	⟺	↓	Inspections to start 5 yrs after smart-meter installation – later than draft plan assumption. Reduced investment in ED1.	No change
Flood protection	Protect 48,000 customers against 1 in 200 year event	⟺	↑	↓	↑	↑	Accelerating our fluvial *** flood protection programme prior to ED1. Reduced ED1 investment.	Extra ED1 investment in protection against pluvial **** flooding

* As stakeholders demonstrated strong support for Future proofing at our workshops, we presented an option for £10m investment in our surveys.
** As stakeholders demonstrated strong support for Innovation at our workshops, we presented an option for investment of 50p per customer per annum in our surveys.
*** Fluvial = river based floods.
**** Pluvial = localised rain based floods

SPD investment – our plans are £20m higher as a result of stakeholder priorities and willingness to pay

Incorporating Stakeholder Feedback into Our Plan

Highlights:

- *We have engaged with around 2,000 customers and stakeholders during our business plan preparations.*
- *97% of stakeholders who attended our draft business plan stakeholder events felt we were listening to their views.*
- *Stakeholder feedback varied between licence areas, highlighting the need to engage separately in each area.*

Throughout the engagement process we have received feedback at various stages from many groups of stakeholders. The tables above summarise the feedback at each phase and show what we have included in our final plan.

The arrows indicate the general direction of feedback across the investment options we engaged on in Phase2.

Increased investment options were tested through willingness to pay and bill impact.

In Phase 4 (March 2014) we have indicated what is included in this revised plan. In all cases we have maintained our commitments to stakeholders, whilst in some cases, we will deliver the same outputs at less cost. In addition, we have increased our plans for Pluvial (localised rainwater) flooding.

Stakeholder feedback for our SPM licence area

Phase 1		Phase 2				Phase 3		Phase 4
Stakeholder priority areas	What we proposed in draft plan (Feb 2013)	Stakeholders workshops (voting)	Stakeholder on-line survey (simalto)	Employee on-line survey (simalto)	Customer face to face survey (simalto)	What was in our July 2013 plan?		What's in our March 2014 plan?
Storm resilience	Improving resilience to >10% customers	↑	↑	↑	↔	↑	Draft plan + additional 10% of km in severe weather areas will be made resilient	Same output, lower cost
Poorly served customers	Improving service to 40% of poorly served customers	↔	↑	↑	↔	↔	Consistent with draft plan – investment targeted to poorly performing overhead lines and cables	Same output, lower cost
Energy advice for fuel poor	No expenditure in draft plan	↔	Proposed alternative output related to fuel poverty					No change
Network capacity information for new connections	No expenditure in draft plan *	↔	Exploring options for this to be funded by connections customers					No change
Future proofing the network	No expenditure in draft plan	↑	↑	↔	↔	↑	Investment in future proofing, in line with £10m option presented at stakeholder events	No change
Earlier approach to network investment	6 new grid circuits or transformers, 30 new or uprated sites	↔	↔	↓	↓	↔	Consistent with draft plan – triggering reinforcement 20% earlier	No change
Future innovation spend	No expenditure in draft plan **	↑	↑	↑	↑	↑	80p per customer per annum, based directly upon stakeholder feedback	No change
Service position inspections	Inspection every 5 years starting 2015	↔	↓	↔	↔	↓	Inspections to start 5 yrs after smart-meter installation – later than draft plan assumption. Reduced investment in ED1.	No change
Flood protection	Protect 120,000 customers against 1 in 100 year event	↔	↑	↔	↑	↑	Accelerating our fluvial *** flood protection programme prior to ED1. Reduced ED1 investment.	Extra ED1 investment in protection against pluvial **** flooding

* As stakeholders demonstrated strong support for Future proofing at our workshops, we presented an option for £10m investment in our surveys.
** As stakeholders demonstrated strong support for Innovation at our workshops, we presented an option for investment of 50p per customer per annum in our surveys.
*** Fluvial = river based floods.
**** Pluvial = localised rain based floods

SPM investment – our plans are £19m higher as a result of stakeholder priorities and willingness to pay

Applying our Ongoing Stakeholder Engagement Approach

Our ongoing stakeholder engagement uses our 7 Pillar approach, ensuring we build strong relationships of mutual benefit.

We describe our approach in more detail in our main business plan **Chapter 3 – Stakeholder Engagement**

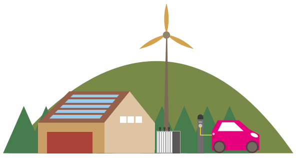
Stakeholder engagement underpins one of our three guiding values – we are a customer service focused company trusted by our communities and stakeholders.

Our approach was recently endorsed by Mid Galloway Councillor Alistair Geddes – *"SP Energy Networks has made a real effort to engage with the Mid Galloway Stakeholder Group and communication between the company and the local community has greatly increased. We welcome this new approach and encourage further engagement with this forum to strengthen relationships at a local level and provide a vehicle to voice opinion and suggestions on wider issues".*

Our engagement with stakeholders creates relationships with mutual benefit and helps us to deliver a stronger business

d. Our Strategy for RIIO-ED1

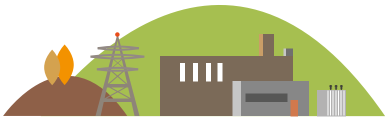
Built on the foundations of our guiding values and embracing innovation



Serving our customers

A Customer Service focused company trusted by our communities and stakeholders

- *Bringing our business even closer to our customers by devolving more responsibility and decision making to a local level.*
- *Setting high standards of service across all functions and geography.*
- *Increasing transparency to our customers via the web to allow them to drive their own service.*
- *Harnessing the benefits of smart technologies (both smart meters and smart networks) to transform our customer relationship for both existing and new customers.*



Managing our assets

An engineering company with strong stewardship of assets and world class safety credentials

- *Replace assets only when there is a clear needs case to maintain or reduce risk.*
- *Implement a stream of innovations with tangible long living benefits for customers.*
- *Back investment decisions with transparent cost benefit analysis.*
- *Develop a strength in asset data management to optimise investment decisions.*
- *Embedding the benefits of innovation within our plans to reduce customer bills.*

Developing our people

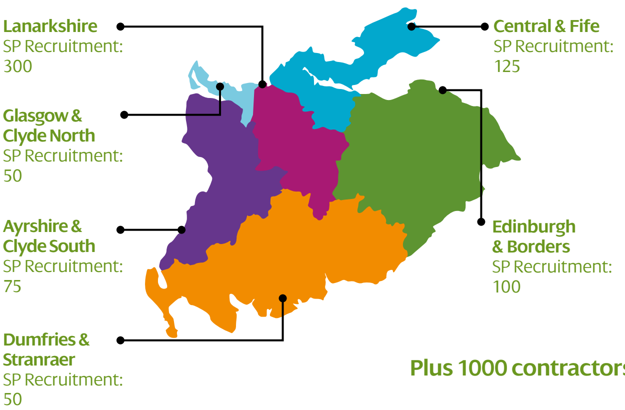
A company that attracts and develops skills for the future from the communities that we serve

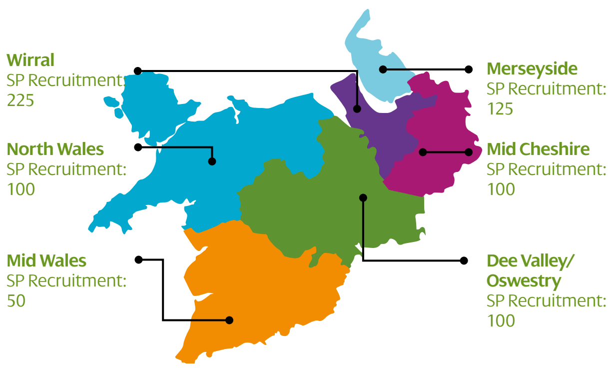
- *Address our efficiency gap in support costs by moving our business closer to our customers.*
- *Replenish our ageing workforce from the communities that we serve so that the investment that we make in recruitment and training continues to deliver in the long term.*
- *Develop and train our staff for a 'smarter' future, as technology and commercial innovations will enable staff to transform the service we provide.*

Deploying Innovation

Deploy commercial innovation to complement technical innovation and set the foundations for a future role as a Distribution System Operator actively managing energy flows on our network.

We plan to create more than 2,500 jobs across our supply chain



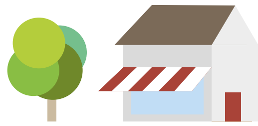


Plus 1000 contractors across both our areas.

Innovation embedded in our business plan delivers £70m benefits to our customers and stakeholders

e. Our Outputs

What our customers and stakeholders can look forward to in RIIO-ED1






Outputs

Our Outputs are the things that our customers and stakeholders directly experience and value. The full list of our output commitments are set out in our main business plan **Chapter 5 – Outputs and Incentives**, and our supporting asset replacement / refurbishment commitments (Secondary Deliverables) are set out in **Chapter 6 – Expenditure**.

These Outputs have been developed to meet the stakeholder and customer priorities identified through our ongoing programme of stakeholder engagement.

Our commitment to continuously improve is demonstrated by the increased customer compensation we will pay if we do not meet our standards:

- *Double Guaranteed Standard Payments, except for storms where we will make other arrangements that customers value more.*
- *In normal weather a domestic customer off supply more than 12 hours will receive compensation.*
- *In storms we will pay for hot meals and accommodation for vulnerable customers off supply more than 12 hours and other customers more than 48 hours.*

'Highlights' from our six output categories

Safety

Minimising the risks associated with distributing electricity:

- *Achieve zero employee lost time accidents.*
- *Remove high risk 'low' lines including those across roads by 2015 and all others by 2020.*

Reliability & Availability

Ensuring our network is resilient to extreme events and reliable under normal circumstances:

- *Reduce the average number of times customers lose power by 7%.*
- *Reduce by 16% the length of time those customers have no power.*
- *Reduce customers without power for more than 12 hours (outwith storms) by 70% by 2016 and 100% by 2023.*

Environment

Reducing our impact on the environment and playing our part in the low carbon transition:

- *Reduce the carbon footprint of the business by 15%.*
- *Underground 85km of overhead lines in areas of visual importance.*

Connections

Providing excellent service to all customers who want new connections:

- *Continue to facilitate industry leading competition in our network areas.*
- *Improve availability and transparency of connection information and costs.*

Customer Satisfaction

Aiming to deliver the highest satisfaction scores of any DNO:

- *Improve our overall customer satisfaction scores by 20% by 2023 (our customers rating us more than 9 out of 10).*
- *Pay compensation of £10 where we do not deliver an agreed action on your enquiry.*

Social obligations

Recognising and meeting the needs of vulnerable customers:

- *Update and re-launch an awareness campaign for our Priority Services Register (PSR).*
- *We will establish a stakeholder panel to guide our board of directors.*

f. Our total planned expenditure

Including 1% p.a. ongoing efficiency. Controllable costs reduced by £450m (July 13 plan)

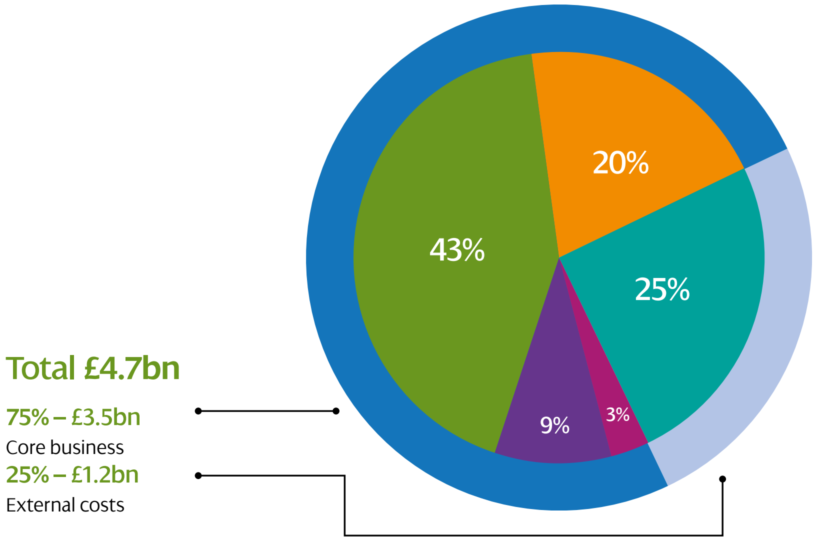
43% – £2.0bn of our costs relate directly to managing our ageing network

9% – £380m of our costs allow us to accommodate customers future requirements (including £20m to enable benefits of smart meters)

20% – £960m of our costs are engineering and corporate support activities

3% – £160m of our forecast costs are a real price effect contingency

25% – £1.2bn of our costs are non-core including corporation tax, business rates, transmission charges and legacy pension costs (including pensions update)



Controllable costs down 2% from 2010-15 resulting from 30% reduction in support costs whilst delivering 10% more non load and 28% more load investment

g. Financing our plan efficiently

Striking a balance of risk and reward between stakeholders

We propose a financing plan that is efficient, adheres to Ofgem policies laid out in its Strategy Decision document and is consistent with RIIO principles.

Our base financial plan gives a credit rating of Baa1 which is at the lower end of the range that underpins Ofgem's cost of debt index.

Our financeability demonstrates that we require:

- *as a minimum a cost of equity of 6.4% to enable us to attract and retain sufficient equity finance to provide the necessary investment to maintain network reliability and absorb the forecast expenditure volatility as we facilitate the transition to a low carbon economy and*
- *a one period transition to longer depreciation lives.*

Our risk and financeability assessment in Chapter C9 of our main business plan, demonstrates that there is a significant chance that our investors may have to provide a substantial equity injection during RIIO-ED1 to maintain an investment grade credit rating.

Parameter	DPCR5 (Current)	SPEN July 2013	SPEN March 2014	Comment
Cost of Debt	3.6%	Indexed	Indexed	Reflecting Ofgem's policy decision
Cost of Equity	6.7%	6.7%	At least 6.4%	Considering risk relative to the fast track company
Notional Gearing	65%	65%	65%	Considering risks and opportunities
Dividend Yield	5%	5%	5%	No change
Capitalisation	85%	80%	80%	Reflecting statutory accounts
Asset Lives	20 years	45 years for all new investment	8 year transition to 45 years	Reflecting the loss of fast track reward and financeability relative to the fast track company
Financeability	Investment Grade			Reflecting Ofgem's policy decision

h. The impact of our plan on customer bills

What does our updated plan mean for our customers?

In order to provide comparability across network companies we are required to present the bill impact as movement relative to typical 2014–15 charges and using GB average domestic consumption 3,300 kWh.

We have also included average 2010–15 domestic customer charges (updated to 2012–13 price basis) consistent with the information at our stakeholder events.

The average domestic customer in Merseyside, Cheshire, North Wales and North Shropshire (SPM) will see our component of their bill drop 18% from £126 p.a. to £103 p.a. average (2015-2023).

The average domestic customer in Central and Southern Scotland (SPD) will see our component of their bill drop 11% from £99 p.a. to £88 p.a. average (2015-2023).

These numbers are expressed in 12/13 prices and will vary depending on actual inflation and consumption.

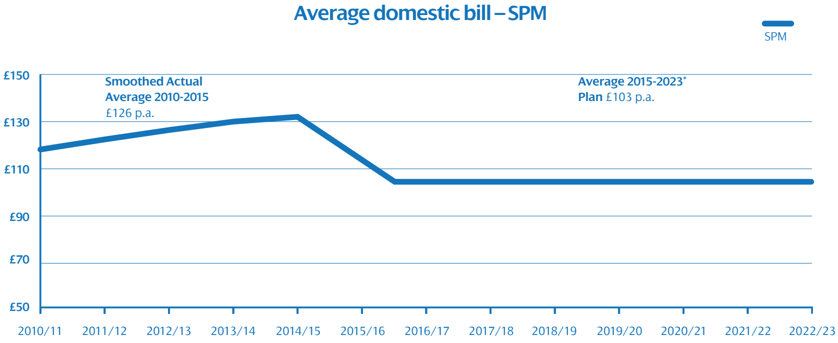
Why is the SPM bill higher?

There are two reasons for this, firstly this is a consequence of differences between when assets were installed in SPD and SPM.

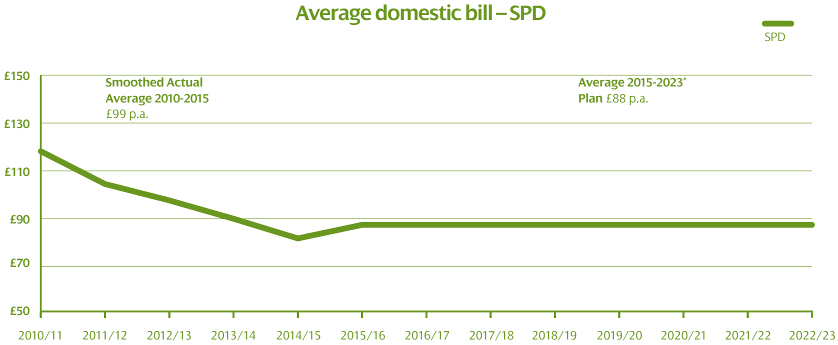
Secondly, our distribution network in England and Wales includes the 132kV network, in Scotland this part of the network is owned by the Transmission companies and therefore these costs are included within the charges SPD customers receive via their energy supplier.

Based on average GB domestic customer consumption, our bills will reduce by an average 11% in Scotland and 18% in England and Wales.

Average domestic bill – SPM

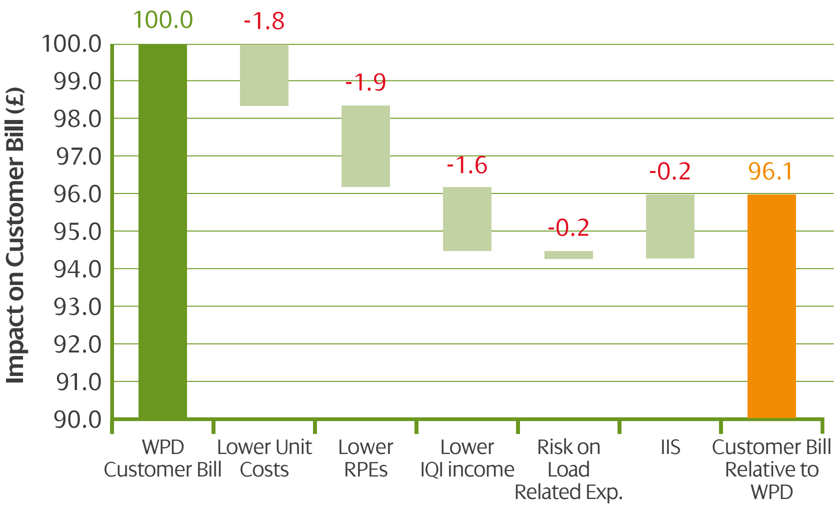


Average domestic bill – SPD



i. Delivering value for money

Our Plan Results In a 4% Reduction in Customer Bills Relative to Adopting WPD's Proposals[1]



We set out how our overall set of proposals – on key financing, cost and uncertainty measures – delivers value-for-money for the consumer.

Analysis of our overall plan relative to WPD's, demonstrates that we assume lower costs or greater risk in a number of key areas:

- *lower unit costs for key asset activities;*
- *lower real price effects (RPEs);*
- *potential zero IQI income reward; and*
- *greater risk in relation to investment to accommodate changing patterns of demand.*

- *Our lower costs or willingness to assume greater risk in these areas correspond to an average customer bill that is 4% lower than would be the case if we were to adopt WPD's proposals, or alternatively, an effective return on equity of less than 4% relative to our proposed baseline cost of equity of 6.4% (and equal to WPD's allowed rate of return).*

- *Overall, our package results in greater value-for-money for consumers than WPD because – we assume greater risk for a lower return.*

Our plan results in a 4% reduction in customer bills relative to adopting WPD's proposals[1]

1. Basis for calculation: We assume a baseline customer bill of £100, which corresponds to what SP customer bills would be if instead of SP's own unit cost, RPE, IQI income, LRE and IIS expenditure we would have used those granted to WPD. This bill level corresponds to an "adjusted SP revenue requirement" which is equal to the sum of (i) revenue

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