# Regulatory Financial Performance Report

Commentary

July 2019

SGN

Your gas. Our network.

# Contents

# 1 Purpose and Background

## 1.1 Background

In August 2018, Ofgem's Open letter set out the alternative approach to RIIO Accounts, the 'Regulatory Financial Performance Reporting ("RFPR")' guidance and Regulatory Instructions and Guidance (RIGS), to network operators. Along with this reporting pack is the 'RFPR Commentary' which we are required to submit together on the 31st of July and publish on our website. All commercially sensitive information will be redacted, particularly that relating to financing.

Where relevant, the figures provided in this commentary and the associated templates have been reconciled to the Regulatory Reporting Packs ("RRPs") and, therefore, the statutory accounts.

# 2 Executive Summary

SGN has maintained a strong performance during RIIO GD1 and have made significant investment to ensure we provide a safe and reliable network.

Safety is paramount in everything that we do, keeping our customers, our people and the public at large, safe in and around our activities. We continue to exceed our 97% emergency response rate target, have achieved all annual output targets and are on track to achieve the 8-year output targets.

We continue to prioritise delivering what customers tell us is important whilst working with other stakeholders towards a decarbonised future. After listening to our stakeholders, we committed to return a voluntary contribution of £145m to consumers; this included £10m funding to help the fuel poor programme for vulnerable customers. We also voluntarily extended our Fuel Poor target in both Southern Gas Networks ("Southern") and Scotland Gas Networks ("Scotland"). We are on track to achieve both targets, although there is some challenge in achieving our target in Southern.

We were awarded seven external awards in the year including 'Company of the Year' at the Gas Industry Awards, as well as having the number one customer service for Scotland for the third year running.

## 2.1 Financial Performance measures

The SGN GD1 notional pre-financing RORE is 11.1%, the key components of this are the allowed equity return and incentives, of which the Totex incentive is the largest contributor. SGN's projected Totex performance over GD1 is as follows:

| £m | 8 years GD1 (forecast) | 8 years GD1 (actual) | Variance (%) |
|---|---|---|---|
| Opex | 1,577 | 2,047 | 23% |
| Repex | 2,009 | 2,307 | 13% |
| Capex | 925 | 964 | 4% |
| **Total** | **4,511** | **5,319** | **15%** |

Included in our GD1 allowance is a reward for being the frontier network for overhead costs.

There are several key drivers of the outperformance, primarily driven by efficiency improvements and our continued focus on innovation such as the use of robotics. We have continued to benefit from our decision to retain a meterwork capability with legacy meterwork contracts continuing as a result of the delay in the rollout of the smart metering programme.

Operationally, we have seen a reduction in the number of gas escapes since the beginning of GD1, largely attributable to the investment into our Repex programme and focus on risk removal.

Replacement expenditure has been managed by the mix of diameter work to ensure continued risk removal and the implementation of sustainable efficiency drivers such as CISBOT. Using the latest technology has allowed us to maintain and renew our gas network. We continue to maintain the delivery of replacement pipes with the highest risk score to deliver the best value for money. We have also invested into the quality of contractors to ensure the delivery of the Repex programme in GD1 which has come with additional cost pressures.

Capex outperformance continues to be driven by lower than anticipated reinforcement spends; this is as a result of enhanced planning and completion of replacement work as well as slower than anticipated economic growth.

Our debt strategy has been to diversify our risk through different markets and we will continue to review this strategy in light of political and regulatory change.

## 2.2 Operational Performance measures

Below is a summary of our annual output performance where we continue to deliver strong performance:

**How we fared in our primary outputs:**

🟠 Risk of not reaching annual output or forecast achievement for the eight year period.

🟢 Successful achievement of an annual output or forecast achievement of the eight year output.

| ANNUAL OUTPUT MEASURE | | ACTUAL | |
|---|---|---|---|
| **Primary Output** | **Deliverable** | **Scotland** | **Southern** |
| Connections | Guaranteed standards performance | 🟢 | 🟢 |
| Environmental | Leakage | 🟢 | 🟢 |
| Reliability (network capacity) | Achieving 1 in 20 obligation | 🟢 | 🟢 |
| Safety (emergency response) | 97% controlled escapes | 🟢 | 🟢 |
| | 97% uncontrolled escapes | 🟢 | 🟢 |
| Safety (management of repairs) | GS(M)R 12 hour escape repair requirement | 🟢 | 🟢 |
| | Management of repairs (repair risk) | 🟢 | 🟢 |
| Safety (major accident hazard prevention) | GS(M)R safety case acceptance by HSE | 🟢 | 🟢 |
| | COMAH safety report reviewed by HSE | 🟢 | 🟢 |
| Customer service | Planned interruptions survey | 🟢 | 🟢 |
| | Emergency response and repair survey | 🟢 | 🟢 |
| | Connections survey | 🟢 | 🟢 |
| | Complaints metric | 🟢 | 🟢 |

| RIIO-GD1 EIGHT YEAR OUTPUT COMMITMENT | | FORECAST | |
|---|---|---|---|
| **Primary Output** | **Deliverable** | **Scotland** | **Southern** |
| Connections | Introduce distributed gas entry standards | 🟢 | 🟢 |
| Social obligation | Fuel poor connections* | 🟢 | 🟠 🟢 |
| | Carbon monoxide awareness | 🟢 | 🟢 |
| Environmental | Leakage | 🟢 | 🟢 |
| | Provide biomethane connections information | 🟢 | 🟢 |
| Reliability (loss of supply) | Duration of planned interruptions | 🟢 | 🟢 |
| | Duration of unplanned interruptions | 🟢 | 🟢 |
| | Number of planned interruptions | 🟢 | 🟢 |
| | Number of unplanned interruptions | 🟢 | 🟢 |
| Reliability (network reliability) | Maintaining operational performance | 🟢 | 🟢 |
| Safety (mains replacement) | Iron mains risk reduction (based on MRPS) | 🟢 | 🟢 |
| | Sub-deducts networks off risk | 🟢 | 🟢 |

* Southern Fuel Poor will turn green after investment into initiatives

We have delivered all our output targets in 2018/19, building upon our performance over the prior five years of GD1. We are forecasting to deliver all our 8-year outputs. In Southern we have put in place measures to mitigate the delivery challenges we are facing in Fuel Poor, more detail is included on this further in section 3.4.

More information on our outputs and performance against these outputs can be found in our annual GD1 Stakeholder Report:

https://www.sgn.co.uk/uploadedFiles/Marketing/Pages/Publications/Docs-Stakeholder/SGN-Stakeholder-Engagement-Submission-2019.pdf

# 3 Overview of Regulatory Performance

## 3.1 RORE

The notional operational RORE of 11.9% in Scotland and 10.7% in Southern are driven by our allowed equity return (6.7%) as well as Totex performance (4.4% and 2.9% respectively). This is further broken down as follows:

| Notional RORE | Cumulative to 2019 | | RIIO-GD1 Period | |
|---|---|---|---|---|
| | Scotland | Southern | Scotland | Southern |
| Allowed Equity Return | 6.7% | 6.7% | 6.7% | 6.7% |
| Totex outperformance | 4.3% | 3.0% | 4.4% | 2.9% |
| IQI Reward | 0.4% | 0.3% | 0.4% | 0.3% |
| Broad Measure of Customer Satisfaction | 0.3% | 0.3% | 0.3% | 0.3% |
| Shrinkage Allowance Revenue Adjustment | 0.0% | 0.0% | 0.0% | 0.1% |
| Environment Emissions Incentive | 0.1% | 0.2% | 0.1% | 0.3% |
| Discretionary Reward Scheme | 0.0% | 0.0% | 0.0% | 0.0% |
| NTS Exit Capacity | 0.0% | 0.3% | 0.0% | 0.3% |
| Network Innovation | (0.1%) | (0.2%) | (0.1%) | (0.2%) |
| Penalties and fines | 0.0% | 0.0% | 0.0% | 0.0% |
| **RoRE - Operational performance** | **11.7%** | **10.7%** | **11.9%** | **10.7%** |
| Debt performance - at notional gearing | 0.6% | 0.1% | 0.2% | 0.0% |
| Tax performance - at notional gearing | 0.3% | 0.2% | 0.2% | 0.2% |
| **RoRE - including financing and tax** | **12.5%** | **11.1%** | **12.3%** | **10.9%** |

The above position considers enduring value adjustments for our voluntary contribution of £145m[1] and phasing of our large diameter replacement programme[2]. After adjusting for these timing items, we are forecasting that the position at year 6 will be broadly maintained until the end of RIIO-GD1, falling slightly due to cost pressures we are seeing on Totex (e.g. labour costs and loss of legacy meterwork).

The key driver of the performance is our allowed equity return of 6.7%, the RORE is further improved by our Totex performance and debt, further details of these can be found in section 3.3 and 3.6 respectively.

## 3.2 Revenue

**Scotland year on year allowed revenue movements**

Collected revenues were £315.7m, reflecting an under recovery of £6m, primarily driven by variations in capacity demand from when the tariffs were set and the reduction in commodity revenue due to milder weather.

In 2018/19 allowed revenue in Scotland was £20.4m higher than the prior year, driven primarily by:

- An increase of £13.9m in base revenue as per licence
- Over recovery of capacity income from 2016/17 (two year lagged)
- RPI of £5.1m, the final 2016/17 (two year lagged) position, being lower than the forecasted RPI
- Increase in incentives predominately due to the increase in shrinkage and environmental emissions

[1] SGN made a voluntary contribution of £145m in November 2017 for the benefit of our customers
[2] SGN have by design retained large diameter pipes that have a higher cost to the end of the programme to maximise the benefits potential of new technology and innovation.

This has been partially offset by an increase in the MODt adjustment moving from a -£12.3m to -£21.2m in 2018/19, reduction in allowed revenue by £9m. The downward movement was predominantly due to the reduction of the Cost of Debt, a reduction in Totex sharing and a reduction of finance costs.

**Southern year on year allowed revenue movements**

Actual collected revenues were £772.6m, reflecting an over recovery of £2.1m . This was primarily driven by slight differences in our capacity demand from when the tariffs were set and the reduction in commodity revenue due to the warm summer and mild winter.

In 2018/19 our Allowed Revenue in Southern was £49.3m higher than the prior year, driven primarily by:

- MODt adjustment of £33.8m, is predominantly due to a reduction of £4m in the TOTEX Incentive Mechanism, Xoserve and Cost of Debt
- Over recovery of capacity income from 2016/17 (two year lagged)
- RPI of £13m, the final 2016/17 (two year lagged) position, being lower than the forecasted RPI.
- Reduced pass through costs due to an increase in NTS pensions adjustment offset by a reduction in shrinkage volumes and market prices.

Increase in base revenue of £30m, is largely attributable to inflation.

## 3.3 Totex performance

The table below shows SGN's Totex performance for this financial year and the 6-year cumulative position against allowance (before enduring value adjustments).

| 2018/19 Prices £m | 2018/19 Actual | 2018/19 Allow | Variance % | 6 years GD1 Actual | 6 years GD1 Allow | Variance % | 8 years GD1 Forecast | 8 years GD1 Actual | Variance % |
|---|---|---|---|---|---|---|---|---|---|
| Opex | 211 | 253 | 17% | 1,187 | 1,552 | 23% | 1,577 | 2,047 | 23% |
| Repex | 266 | 297 | 10% | 1,465 | 1,767 | 17% | 2,009 | 2,307 | 13% |
| Capex | 140 | 132 | -6% | 710 | 774 | 8% | 925 | 964 | 4% |
| **TOTAL** | **617** | **682** | **10%** | **3,362** | **4,093** | **18%** | **4,511** | **5,319** | **15%** |

We had a favourable TOTEX variance for the 6 years to 18/19 of 18%. This is broadly in line with our performance for the first 5 years of GD1 of 19%.

**Opex**

During the financial year, Opex has been impacted by the number of reported escapes falling over both networks, along with the retention of meter work contracts and slower uptake of smart meters. This has been offset by emerging labour cost pressures, implementation costs of migrating our IT platform to the cloud the transfer of non-operational property out of the regulated business.

**Capex**

In year costs have been most significantly impacted by LTS projects, namely the Erskine Bridge project which began in March 2018 to replace 1.5km of 300mm diameter pipelines suspended within the deck structure of the bridge.

This is a significant project which has already passed key milestones such as precision drilling technique; Horizontal Directional Drilling (HDD), used to insert 1.9km, 450mm pipeline under the River Clyde. The project encountered complex geology and the multiple attempts before completion.

We are confident our new pipeline below the river should be fully operational in late spring 2019 at which time we will decommission and remove the existing pipelines from the underside of the Erskine Bridge.

Two other major crossings are also involved; eight metres below the dual-tracked, electrified railway at Kilpatrick Station and crossing below the A82 main road as well as the c.2,000-year-old Antonine Wall, a designated ancient monument.

Other projects have started in 2018/19 which were originally forecasted for 2017/18, the delay due to engineering problems. In a bid to ensure that output delivery is on track for GD1 and to mitigate the risk to delivery there have also been projects spanning the two financial years.

The GD1 performance is driven by lower than anticipated reinforcement spend; this is as a result of enhanced planning and completion of replacement work as well as slower than anticipated economic growth.

**Repex**

Repex has seen more Tier 2 and 3 replacement projects which has reduced the amount of underspend compared to the previous year. We continue to face increasing cost pressures from contractors in the delivery of our output safety measures. We are expected to deliver greater than target risk removal as the price control period has allowed for flexibility in delivering the output target with our innovative techniques where possible.

**Totex**

We have maintained a consistent forecast of RIIO-GD1 TOTEX at 15.2% below our allowances, 15.3% previously, driven by our efficiency gains over the period. These include our roll out of innovation, introduction of management changes, improved processes and overall a frontier efficient business model.

## 3.4 Output & Incentive Performance

We have strived to meet all our output targets during 18/19 and in some cases are targeted to exceed by the end of GD1 whilst the challenge has remained with Southern fuel poor delivery.

We increased our fuel poor connections target by 1,367 in Southern and 6,130 in Scotland in September 2015, based on stakeholder feedback. The revised target has proved more challenging in the south, whereas in Scotland we are targeting to over-deliver our output. Consequently, we have implemented an innovative delivery plan and additional funding to help ensure the output target for Southern is on track to be delivered by the end of GD1. Year on year we have seen an 18% increase in the number of fuel poor homes connected across the two networks.

Our 2018/19 performance for incentives has generated income of £3.7m for Scotland and £20.7m for Southern. This includes the recent stakeholder and DRS awards. Both of our networks continue to perform strongly. We continue to achieve excellent performance within our customer service outputs. Our Scotland network remains the UK's number one gas network for Customer Service for the third year running.

Under the sharing arrangement, 36% of our outperformance of £730.5m would mean £262m will be returned to customers over the 6 years in GD1. This has been a key driver in delivering the 7% real reduction in customer bills during the RIIO-GD1 period.

Incentive mechanisms that can increase or decrease our revenues during RIIO-GD1 include:

- Customer Service
- Customer Complaints
- Stakeholder Engagement
- Shrinkage
- Environmental Emissions Volumes
- NTS Exit capacity volume bookings
- Discretionary rewards

Our incentive performance to date has resulted in average incentive income earned per year of £16.9m. A breakdown of the overall incentive income earned in each year is shown in the table below.

| SGN Incentive £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|
| Shrinkage | 0.8 | 0.8 | 0.6 | 0.8 | 0.9 | 1.2 |
| EEI | 2.4 | 3.7 | 3.4 | 4.7 | 4.5 | 5.0 |
| NTS Exit Incentive | 2.6 | 1.1 | 1.9 | 5.5 | 6.0 | 9.7 |
| Customer Satisfaction | 4.2 | 5.3 | 5.2 | 5.3 | 5.3 | 5.5 |
| Customer Complaints | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stakeholder Engagement | 2.1 | 2.4 | 1.8 | 3.2 | 2.3 | 3.0 |
| DRS Award | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **12.1** | **14.0** | **12.9** | **19.5** | **18.7** | **24.4** |

*Note that this is income earned and ignores the 2-year lag for income purposes.*

This can be further split by network as follows:

| Southern £m Nominal | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|
| Shrinkage | 0.7 | 0.7 | 0.6 | 0.6 | 0.7 | 1.0 |
| EEI | 2.0 | 2.9 | 3.0 | 3.5 | 3.5 | 4.0 |
| NTS Exit Incentive | 2.5 | 1.2 | 2.0 | 5.5 | 6.0 | 9.7 |
| Customer Satisfaction | 2.8 | 3.1 | 3.7 | 3.7 | 3.7 | 3.9 |
| Customer Complaints | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stakeholder Engagement | 1.5 | 1.7 | 1.3 | 2.2 | 1.6 | 2.1 |
| DRS Award | 0.0 | 0.5 | 0.0 | 0.0 | 0.3 | 0.0 |
| **Maximum Allowed Revenue (exc. SIUs)** | **9.5** | **10.1** | **10.4** | **15.5** | **15.8** | **20.7** |

| Scotland £m Nominal | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|
| Shrinkage | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| EEI | 0.3 | 0.8 | 0.4 | 1.2 | 0.9 | 1.0 |
| NTS Exit Incentive | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Customer Satisfaction | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 |
| Customer Complaints | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stakeholder Engagement | 0.6 | 0.7 | 0.5 | 1.0 | 0.7 | 0.9 |
| DRS Award | 0.0 | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 |
| **Maximum Allowed Revenue (exc. SIUs)** | **2.5** | **3.3** | **2.5** | **4.0** | **3.5** | **3.7** |

We continue to focus on customer value by delivering our outputs whilst providing a cost-efficient network. This approach has provided each network with continuing benefits from incentive income outlined by the RIIO-GD1 framework.

**Stakeholders**

Overall, we continue to build on stakeholder relations to ensure that whilst providing a safe and efficient service we look after vulnerable customers and all customers impacted by our work to maintain and improve the gas network. We now have access to real-time information about our 6,500 roadworks by using Roadworks.org which has seen a 24% reduction in enquiries around our replacement works. The implementation of the 'Live Chat' service for new connections has seen a 28% increase in digital contact.

Our focus on helping vulnerable customers has seen the creation of a 'referral app' so that our engineers are not leaving gas appliances switched off for those who cannot afford repairs. We have a network to refer customers to including fire and safety visits, energy efficiency advice and appliance repair assistance programme. While we continue the focus on our core activities the app has been very well received by our engineers.

Innovation is at the heart of our business as we strive to ensure that a safe and reliable service is delivered, we have extended our investment into CISBOT robots to increase regular use to seal larger diameter cast iron gas mains and minimise disruption to our customers. It also means that's we are less visually intrusive and make fewer excavations. By implementing robotics, we save time and money, ultimately impacting our customers.

We are committed on investing into the decarbonisation of gas and opportunities of collaboration to sustain and improve the future of gas as a frontier network.  To support the quality of our network and people, we continue to invest in our workforce, encouraging younger people to take on engineering vocations and cross-flex the workforce.

## 3.5 Innovation

Collaboration and shared learning are key in driving innovation forward in our industry. In 2018/19 our project portfolio included over 50 projects funded through the NIA mechanism and 3 NIC projects, spending over £3m on these respectively and 1 NIC collaboration project. The projects are directed at providing better practice across distribution, replacement, emergency, repair, pressure management and new gas sources.

## 3.6 Financing and Net Debt position

Determining financing performance is a complex area, in particular with respect to the treatment of inflation. Various methodologies can be applied, particularly around the application of short- and long-term inflation which can produce alternative views on performance. We have followed the Ofgem guidance in determining financing performance, although other methods can be applied.

We are currently assessing our financing strategy for the remainder of RIIO-GD1 and RIIO-GD2 as part of our financeability assessment in our GD2 Business Plan. There currently exists a range of gearing we are considering and our forecast of maintaining our current gearing falls within this range.

| FY19 Net Debt £m | Southern | Scotland |
|---|---|---|
| Opening Net Debt | 2,765.2 | 1,203.5 |
| Issuances | 160.0 | 150.0 |
| Repayments | (400.0) | (75.0) |
| Accretion | 16.6 | 12.6 |
| (Net Inflow) / Net Outflow of Cash Equivalents & Short-Term Deposits | 266.6 | 1.7 |
| **Closing Net Debt** | **2,808.4** | **1,292.8** |

**Financing**

During the financial year we had £475m of existing financing due to mature, split across both distribution networks (Southern Gas Networks plc (Southern): £400m; and Scotland Gas Networks plc (Scotland): £75m). As a result of the £400m bond issuance for Southern Gas Networks plc towards the end of the previous financial year, the refinancing requirement for Southern was relatively modest and therefore took the decision to issue the following in the US private placement markets across both networks:

- £75m 2.74% notes due September 2030 Southern Gas Networks plc
- £75m 15yr 2.87% due September 2033 Southern Gas Networks plc
- £75m 2.74% notes due September 2030 Scotland Gas Networks plc
- £75m 15yr 2.87% due September 2033 Scotland Gas Networks plc

Each of the tranches priced efficiently against the iBoxx benchmark spot rate (on the day of issuance) and vs available pricing in GBP public markets.

The proceeds settled in September and we utilised the proceeds, alongside existing cash balances from the March public issuance to settle the repayment of maturing debt.

In addition to this we have also drawn £10.0m on the revolving credit facilities in place at Southern Gas Networks plc (2018: undrawn).

Southern and Scotland both had extension options on their respective revolving credit facilities due during the year and we have executed both of these to extend the respective facilities:

- Southern Gas Networks plc revolving credit facility: extended for a further year to 15 March 2024; and
- Scotland Gas Networks plc revolving credit facility: extended for a further year to 15 March 2024.

**Risk management**

During the year the group had £350m of fixed interest rate commitments maturing and £125m of floating interest rate commitments maturing (there was no maturity of index-linked commitments). To maintain a good degree of certainty of the groups interest cost all new debt issuance (£300m) was put in place at fixed interest rates.

**Performance vs benchmark**

We have seen positive performance against the cost of debt allowance to date in GD1, however, as the low interest rate environment continues, this performance has been (and continues to be) eroded by a fall in the allowance (10 year trailing average iBoxx). By the end of GD1, performance turns negative indicating the 10-year trailing average is no longer funding our embedded debt.

## 3.7 Taxation

We take a prudent approach with relation to tax, recognising liabilities expected to arise and only recognising assets once confirmation has been received from HMRC. Our primary objective has always been to recognise and adhere to all tax legislation policies and remain compliant.

**Our tax strategy**

We shall organise ourselves to ensure that we:

- Comply with all tax legislation requirements.
- Operate within the law.
- Maintain strong relationships with the tax authorities built on trust and co-operation.

**Compliance**

We are proud to pay our fair share of tax, and our primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect our fiscal obligation to government whilst, at the same time, recognising all legislative concessions and reliefs.

**Operate within the law**

We manage our total tax liability within the framework of legislative reliefs but do not take an aggressive stance in our interpretation of tax legislation. Our policy is to operate within the law at all times, therefore we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

**Trust and co-operation**

Central to our Tax Policy is the maintenance and development of a strong working relationship with HMRC and other Treasury departments based on trust and co-operation.

**Tax contribution**

Our tax contributions in the year amounted to £364.4m (2018:£366.3m), these consist of the following contributions:

- Corporation tax of £65.4m (2018: £66.6m) paid on our taxable profits
- VAT of £119.0m (2018: £127.2m)
- Business rates of £116.6m (2018: £113.3m) paid to local authorities
- Employment taxes of £63.4m (2018: £59.2m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

## 3.8 RAV

Our RAV increased by 4% in the year, largely driven by indexation of 2.6%.

| Southern 2009/10 prices £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|---|
| Opening RAV | 2,863 | 2,852 | 2,846 | 2,862 | 2,893 | 2,930 | 2,968 | 2,985 |
| Additions | 131 | 140 | 149 | 166 | 181 | 194 | 188 | 183 |
| Depreciation | (142) | (145) | (134) | (134) | (144) | (157) | (170) | (186) |
| Closing RAV | 2,852 | 2,846 | 2,862 | 2,893 | 2,930 | 2,968 | 2,985 | 2,982 |

| Scotland 2009/10 prices £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|---|
| Opening RAV | 1,277 | 1,282 | 1,282 | 1,291 | 1,308 | 1,321 | 1,336 | 1,338 |
| Additions | 69 | 67 | 70 | 78 | 79 | 87 | 81 | 83 |
| Depreciation | (65) | (67) | (61) | (61) | (66) | (72) | (79) | (87) |
| Closing RAV | 1,282 | 1,282 | 1,291 | 1,308 | 1,321 | 1,336 | 1,338 | 1,335 |

## 3.9 Dividends

Our dividend policy is to manage the level of distributions after taking into consideration the expected cash flows and investment plans, the level of committed funding available as well as the gearing covenants and targets set by the Board. In the year ended 31 March 2019 Scotland paid cash dividends of £31.4m (2018: £69.0m) and Southern paid cash dividends of £67.6m (2018: £117.0m).

## 3.10 Pensions

The table shows the movement of the pension deficit for the defined benefit scheme. The pension deficit repair payment reduced mainly in the Southern network by £3.1m.

We have included within TOTEX the incremental pension deficit payment of £1.7m in Southern and £1.3m for Scotland representing the share of the deficit payments relating to service post April 2013 consistent with the pension deficit allocation methodology .

# 4 Data Assurance

The RFPR pack has been through a data assurance process involving separate preparer, reviewer, and sign-off of the templates, documented by our assurance system, iComply. The final packs have then been reviewed by the CFO & CEO before finalisation.

As this is the first financial year we have completed these templates in full, our process will include methodology statements upon which we will perform risk assessments as per the defined RIGS and Data Assurance Guidance (DAG) process. Once these procedures have been put in place, the templates requiring additional assurance will be reflected in our process.