# Regulatory Financial Performance Report

Commentary

July 2020

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 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. As a result of the COVID pandemic, Ofgem have extended these deadlines in 2020 to 31st August 2020.

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 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 to them whilst working with other stakeholders towards a decarbonised future. After listening to our stakeholders, we committed to return a voluntary contribution of £145m (16/17 prices) to consumers; this included £20m 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 five 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 fourth year running.

## 2.1 Financial Performance measures

The SGN GD1 operational RORE (based on notional gearing) is 10.9%, 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:

| | GD1 Forecast (£m) | GD1 Allowance (£m) | Variance (%) |
|---|---|---|---|
| Opex | 1,619 | 2,109 | 23% |
| Repex | 2,084 | 2,367 | 12% |
| Capex | 965 | 989 | 2% |
| **Total** | **4,667** | **5,466** | **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 such as the application and roll out of innovation, introduction of management changes, improved processes, frontier performance / efficient business model and improved contracting strategies. 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 effectively managed through

- Innovation - e.g. deployment of robotic technology
- Improved data analytics- we were the first network to adopt predictive analytics and to develop a flexible strategy on the iron mains risk reduction programme. We have developed an extensive analytics capability that has allowed us to target the pipes that pose the highest safety risk
- Contracting Strategy – we have moved away from the larger first tier contractors to the smaller second and third tier contractors and have absorbed a proportion of management and general overheads

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.

With regards Financing, our strategy is to achieve an appropriate investment grade rating through an efficient capital structure that achieves sufficient investor demand whilst managing financing risk such as inflation / interest rate exposure. We also plan to maintain sufficient liquidity headroom, further detail is contained in section 3.6.

## 2.2 Operational Performance measures

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

| Outputs Category | Output | Scotland | Southern |
|---|---|---|---|
| Safety | Emergency response - 97% controlled escapes | | |
| | Emergency response - 97% uncontrolled escapes | | |
| | 12-hour escape repair requirement | | |
| | Repair Risk | | |
| | Major accident prevention | | |
| | Iron Mains reduction | | |
| | Sub-deduct networks off risk | | |
| Reliability | Loss of supply - number of unplanned interruptions | | |
| | Loss of supply - duration of unplanned interruptions | | |
| | Loss of supply - number of planned interruptions | | |
| | Loss of supply - duration of planned interruptions | | |
| | Achieving 1 in 20 obligations | | |
| | Maintaining operational performance | | |
| Connections | Guaranteed Standards of Performance | | |
| | Introduce distributed gas entry standards (scmh connections) | | |
| Customer Service | Planned Interruptions survey (score out of 10) | | |
| | Emergency response repair survey (score out of 10) | | |
| | Connections survey (score out 10) | | |
| | Complaints Metric | | |
| Social Obligations | Fuel Poor Connections (no) | | |
| | Carbon Monoxide Awareness | | |
| Environmental | Leakage | | |
| | Biomethane connections information | | |

| | |
|---|---|
| R | GDN has failed to achieve an annual output or is forecasting to fail an eight-year output commitment. |
| A | GDN at risk of failing the eight-year output commitment. |
| G | GDN has successfully achieved an annual output or is on target to meet the eight-year output commitment. |

We have delivered all our output targets in 2019/20, building upon our performance over the prior six 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 within the Fuel Poor sector, and we are fully committed in meeting this output. 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, available on our website (https://www.sgn.co.uk/).

# 3 Overview of Regulatory Performance

## 3.1 RORE

The operational RORE (based on notional gearing) of 11.7% in Scotland and 10.6% in Southern are driven by our allowed equity return (6.7%) as well as Totex performance (4.2% and 2.9% respectively). This is further broken down as follows:

| Notional RORE | Cumulative to 2020 | | RIIO-GD1 | |
|---|---|---|---|---|
| | Scotland | Southern | Scotland | Southern |
| **Allowed Equity Return** | 6.7% | 6.7% | 6.7% | 6.7% |
| **Totex outperformance** | 4.2% | 2.9% | 4.2% | 2.8% |
| **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% | 0.0% |
| **Environment Emissions Incentive** | 0.1% | 0.2% | 0.1% | 0.2% |
| **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%** | **10.6%** | **11.7%** | **10.6%** |
| **Debt performance - at notional gearing** | 0.4% | 0.1% | 0.1% | -02% |
| **Tax performance - at notional gearing** | 0.3% | 0.3% | 0.2% | 0.2% |
| **RORE - including financing and tax** | **12.4%** | **10.9%** | **11.9%** | **10.7%** |

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 7 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).

[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.

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 £330m, reflecting an over recovery of £1.3m, primarily driven by variations in capacity demand from when the tariffs were set and the reduction in commodity revenue due to milder weather.

In 2019/20 allowed revenue in Scotland was £7.1m higher than the prior year, driven primarily by:

- An increase of £5.5m in base revenue as per licence (Put)
- RPI of £2.2m, the final 2017/18 (two year lagged) position, being higher than the forecasted RPI
- An increase in pass through costs from 2017/18 (two year lagged), the majority of which relates to the movement in business rates from the prior year (2016/17)
- K' over recovery of revenue from 2017/18 (two year lagged) due to an increase in capacity revenue

This has been partially offset by an increase in the MODt adjustment moving from -£21.3m in 2018/19 to -£30.5m in 2019/20. This reduced allowed revenue by £9.2m. The downward movement was predominantly due to the reduction of the cost of debt, tax gearing interest cost (TGIE) and tax trigger events (TTE).

**Southern year on year allowed revenue movements**
Collected revenues were £793.6m, reflecting an over recovery of £1.3m. This was primarily driven by variations in our capacity demand from when the tariffs were set and the reduction in commodity revenue, due to the milder weather.

In 2019/20 our allowed revenue in Southern was £21m higher than the prior year, driven primarily by:

- An increase of £18.8m in base revenue as per licence (Put)
- RPI of £5.2m, the final 2017/18 (two year lagged) position, being higher than the forecasted RPI
- An increase in pass through costs of £22.6m relating to 2017/18 (two year lagged), the majority of which relates to the movement in business rates from the prior year (2016/17)
- Increase in innovation due to the utilisation for the full allowance
- 'K' reduction in the over recovery levels in 2017/18 (two year lagged) compared to 2016/17

This has been partially offset by an increase in the MODt adjustment moving from -£33.8m in 2018/19 to -£61.3m in 2019/20. This reduced allowed revenue by £27.5m. The downward movement was predominantly due to the reduction of the cost of debt, the physical site security allowance (PSUP) and tax gearing interest cost (TGIE).

## 3.3 Totex performance

The table below shows SGN's Totex performance for this financial year and the 7-year cumulative position against allowance (before enduring value adjustments).

| | 19/20 Actual | 19/20 Allowance | Variance | 7-year Actual | 7-year Allowance | Variance | GD1 Actual | GD1 Allowance | Variance |
|---|---|---|---|---|---|---|---|---|---|
| Opex | 193.1 | 259.1 | 25% | 1,411.4 | 1,854.3 | 24% | 1,618.8 | 2,109.4 | 23% |
| Repex | 291.6 | 277.2 | (5%) | 1,794.9 | 2,089.8 | 14% | 2,083.7 | 2,367.1 | 12% |
| Capex | 134.8 | 100.8 | (33%) | 863.9 | 894.8 | 3% | 964.8 | 989.4 | 3% |
| **Total** | **619.5** | **637.1** | **3%** | **4,070.2** | **4,838.9** | **16%** | **4,667.3** | **5.465.8** | **15%** |

We had a favourable Totex variance for the 7 years to 2019/20 of 16%. This is slightly lower than our position at the end of 2018/19 of 18%. However, this reduction was expected, with a further reduction in our final year of GD1.

**Opex**
During the financial year, Opex has been impacted by the number of reported escapes reducing 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.

**Capex**
Capex expenditure has continued to normalise in the seventh year of GD1. The phasing of the capex expenditure has been planned longer term for efficient investment to maximise the use of savings in procurement, contract awards and flex of direct labour workload. We intend to continue this approach for the remainder of GD1 focussing on IT security and the monetised risk approach.

**Repex**
We continue to face increasing cost pressures from contractors, within both our networks, in the delivery of our output safety measures. Our amount of underspend has reduced as a result of these cost pressures, along with more Tier 2 and 3 replacement projects.  We have delivered 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**
Our forecast of RIIO-GD1 Totex is at 14.6% below our allowances, 15.2% previously, the reduction in the performance is predominately due to the cost pressures and the movement to higher diameter work within Repex.

## 3.4 Output & Incentive Performance

We have strived to meet all our output targets during 19/20 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.

Our 19/20 performance for incentives has generated income of £3.7m for Scotland and £16.6m for Southern. This includes a forecast for the stakeholder award. 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 fourth year running.

Under the sharing arrangement, 36% of our outperformance of £798.4m would mean £287m will be returned to customers over the 7 years in GD1. This has been a key driver in delivering the 5% real reduction in customer bills during the RIIO-GD1 period.

Incentive mechanisms that can increase or decrease our revenues during 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 £17.4m. 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 | 2019/20 |
|---|---|---|---|---|---|---|---|
| **Shrinkage** | 0.8 | 0.8 | 0.6 | 0.8 | 0.9 | 1.2 | 0.7 |
| **EEI** | 2.4 | 3.7 | 3.4 | 4.7 | 4.5 | 5.0 | 6.1 |
| **NTS Exit Incentive** | 2.6 | 1.1 | 1.9 | 5.5 | 6.0 | 9.7 | 4.9 |
| **Customer Satisfaction** | 4.2 | 4.6 | 5.2 | 5.3 | 5.3 | 5.5 | 5.5 |
| **Customer Complaints** | 0.0 | 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 | 3.0 |
| **DRS Award** | 0.0 | 0.7 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 |
| **Total** | **12.1** | **13.4** | **12.9** | **19.5** | **19.4** | **24.4** | **20.2** |

| Southern £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|---|
| Shrinkage | 0.7 | 0.7 | 0.6 | 0.6 | 0.7 | 1.0 | 0.6 |
| EEI | 2.0 | 2.9 | 3.0 | 3.5 | 3.5 | 4.0 | 5.1 |
| NTS Exit Incentive | 2.5 | 1.2 | 2.0 | 5.5 | 6.0 | 9.7 | 4.9 |
| Customer Satisfaction | 2.8 | 3.1 | 3.7 | 3.7 | 3.7 | 3.9 | 3.9 |
| Customer Complaints | 0.0 | 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 | 2.1 |
| DRS Award | 0.0 | 0.5 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 |
| **Total** | **9.5** | **10.1** | **10.4** | **15.5** | **15.8** | **20.7** | **16.6** |

| Scotland £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|---|
| Shrinkage | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 |
| EEI | 0.3 | 0.8 | 0.4 | 1.2 | 0.9 | 1.0 | 1.0 |
| NTS Exit Incentive | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Customer Satisfaction | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.6 | 1.6 |
| Customer Complaints | 0.0 | 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 | 0.9 |
| DRS Award | 0.0 | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Total** | **2.5** | **3.3** | **2.5** | **4.0** | **3.5** | **3.7** | **3.7** |

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

Our 19/20 forecasted performance for incentives has generated income of £3.7m for Scotland and £16.6m for Southern.

We continue to achieve excellent performance within our customer service outputs.

**Stakeholders**

During the year we developed our Business Plan. Throughout this process, we listened extensively to customers and stakeholders to create the Business Plan; with 23,000 high quality individual engagements and more than one million people reached online.

One of our specific business objectives is offering greater support for customers living in vulnerable circumstances (defined as over 65, children under five, disability, language/communication difficulties, long-term health issues, and fuel poor). We've developed an additional strategy and four-stage plan to focus specifically on vulnerable customers with the aim of:

- Embedding in our people a strong understanding and capability to respond to their needs.
- Ensuring our approach, communication and processes are accessible to all.
- Providing extra value by connecting customers in vulnerable circumstances to energy or safety partners.

- Providing free or discounted gas connections to households eligible for the Fuel Poor Network Extension Scheme (FPNES).

We've consistently improved how we communicate with our customers using appropriate channels and technology (SMS, email or voice) and will:

- Continue to explore the use of artificial intelligence so customers can quickly self-serve.
- Offer customers easier and faster online application services.
- Invest in analytics, giving us better insight and faster routes.
- Look at using innovative technology to keep our customers informed about our work at every stage.
- Explore new customer booking systems, allowing them to plan/book convenient time slots for work.

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.

**Employee engagement**
We place considerable value on the involvement of our employees. We have continued to keep them informed on matters affecting them and on the various factors affecting the wider Group. Participation by employees generally is encouraged through team meetings, briefings, a digital app and an intranet site. The CEO and other senior executives regularly communicate with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## 3.5 Innovation

Our innovation strategy is formed around collaborative working to develop new technologies and adopting market ready solutions to take us towards a low carbon future. In 19/20 our project portfolio included over 41 projects funded through the NIA mechanism and 2 NIC projects, spending over £4m and £3m on these respectively. 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

| FY20 Net Debt | Scotland (£m) | Southern (£m) |
|---|---|---|
| **Opening Net Debt** | 1,292.8 | 2,808.4 |
| **Issuances** | 125.0 | 100.0 |
| **Repayments** | (75.0) | (10.0) |
| **Accretion** | 10.7 | 13.0 |
| **(Net Inflow) / Net Outflow of Cash Equivalents & Short-Term Deposits** | 0.2 | (74.9) |
| **Closing Net Debt** | **1,353.7** | **2,836.5** |

**Financing**

During the financial year we had £85m of existing financing due to maturity, split across both distribution networks (Southern Gas Networks plc (Southern): £10m revolving credit facility; and Scotland Gas Networks plc (Scotland): £75m EIB fixed rate loans). In order to refinance this and to cover totex investments in FY20, we took the decision to issue the following in the US private placement markets across both networks:

- £100m 2.27% fixed rate notes due November 2034 Southern
- £75m 1.98% fixed rate notes due January 2032 Scotland
- £50m 2.04% fixed rate notes due January 2033 Scotland

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 for a further year to 14 March 2025. These were undrawn at year end (FY19: £10m drawn at Southern).

RPI impacted our index-linked debt by accruing £23.7m of accretion in FY20 (FY19: £29.2m).

**Risk management**

During the year the group had £75m of fixed interest rate commitments maturing and £10m 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 (£225m) was put in place at fixed interest rates.

**Performance vs benchmark**

Each of the tranches issued in FY20 priced efficiently against the iBoxx benchmark spot rate (on the day of issuance) and vs available pricing in GBP public markets.

For Scotland, the spot yield of the blended A/BBB iBoxx on the day of issuance was 2.53% and therefore the two transactions, on a yield basis, outperformed the index by 55bps and 49bps respectively – albeit the tenors are materially shorter (12yrs and 13yrs) than the weighted average life of the blended A/BBB iBoxx (c.21yrs). For Southern, the spot yield of the blended A/BBB iBoxx on the day of issuance was 2.64% and the transaction, on a yield basis, outperformed the index by 37bps – similarly to Scotland the tenor of the Southern issuance, at 15yrs, was shorter than the weighted average life of the blended A/BBB iBoxx.

When comparing our overall cost of debt against the cost of debt allowance, we note that we underperform as the 10-year trailing allowance no longer compensates us for the debt we issued between 2005 and 2010. We have seen positive performance against the cost of debt allowance in the first half of GD1, however, as the low interest rate environment continues, this performance has been (and continues to be) eroded by a fall in the allowance. As the overall GD1 to date performance turns negative, this indicates that the 10-year trailing average is no longer funding our embedded debt.

**GD1 End**

Forecast new debt issuance for FY21 will be sized to support the refinancing of Southern's £215m maturity in Dec-20 as well as the funding for totex investment in FY21. We are mindful of the level of uncertainty that the current price control negotiation and future of gas potentially creates for debt investors and this could have an impact on future pricing and demand for funding.

## 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 strive to minimise 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 £429.2m (2019: £364.4m), these consist of the following contributions:

- Corporation tax of £116.4m (2019: £65.4m) paid on our taxable profits
- VAT of £125.2m (2019: £119.0m)
- Business rates of £120.4m (2019: £116.6m) paid to local authorities
- Employment taxes of £67.2m (2019: £63.4m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

A change in UK tax payment legislation meant that all large companies moved to a payment regime of paying all corporation tax in the year in which it arises. This resulted in the Group paying an additional £41.3m of Corporation Tax in the year.

### 3.8 RAV

Our nominal RAV increased by 3.4% for Southern and 2.9% for Scotland in 2019/20. Indexation for 2019/20 (financial year average RPIt) is 2.6%. The capitalisation rate for Scotland is 35% and for Southern is 32%.

| Southern 09/10 prices | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|---|---|---|---|---|---|---|---|---|
| **Opening RAV** | 2,863 | 2,852 | 2,846 | 2,862 | 2,893 | 2,930 | 2,968 | 2,993 |
| **Additions** | 131 | 140 | 149 | 166 | 181 | 194 | 188 | 205 |
| **Depreciation** | (142) | (145) | (134) | (134) | (144) | (157) | (170) | (187) |
| **Closing RAV** | **2,852** | **2,846** | **2,862** | **2,893** | **2,930** | **2,968** | **2,985** | **3,012** |

| Scotland 09/10 prices | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m | 2020/21 £m |
|---|---|---|---|---|---|---|---|---|
| Opening RAV | 1,277 | 1,282 | 1,282 | 1,291 | 1,308 | 1,321 | 1,336 | 1,340 |
| Additions | 69 | 67 | 70 | 78 | 79 | 87 | 81 | 86 |
| 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** | **1,340** |

### 3.9 Dividends

Our dividend policy is to manage levels after the cash flows and investment across the business. In the year ended 31 March 2020 Scotland paid cash dividends of £28.1m (2019: £34.1m) and Southern paid cash dividends of £52.7m (2019: £67.6m).

### 3.10 Pensions

The R12 template of our submission shows the movement of the pension deficit for the defined benefit scheme. The pension deficit repair payment reduced slightly by £0.2m.

We have included within Totex the incremental pension deficit payment of £3.4m in Southern and £2.3m for Scotland representing the share of the deficit payments relating to service post April 2013 consistent with the pension deficit allocation methodology (PDAM).

For the latest valuation section of the table, we have used our 2016 valuations.

# 4 Data Assurance

The full RFPR pack has been subject to the full DAG methodology, which includes individual risk assessments and methodology statements for each individual template.

Each template involved a separate preparer, reviewer and approval/sign off by either a Senior Manager or Director, dependent on the individual risk score. All templates and evidence have been documented within our assurance system, iComply. The final packs have then been reviewed by the CFO & CEO before finalisation.