

SGN RFPR Commentary

September 2024




SGN
Your gas. Our network.

September 2023



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1 Purpose and background

1.1 Background

As set out in the RIIO-2 Regulatory Financial Performance Reporting (“RFPR”) – guidance and RIGs published 28th June 2024, each licence must provide a RFPR commentary and supporting enduring value methodology where applicable. This commentary is to provide an understanding of the licensee’s financial performance.

This commentary is required to be submitted along with the RFPR reporting pack no later than the 30th September following the end of every reporting year unless directed otherwise by the regulator.

This commentary is completed on behalf of both the Scotland Network and the Southern Network and is to be published on our website however, all commercially sensitive information will be redacted.

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.

The tables below are presented in either a 2018/19 price level or a nominal price level dependent on the requirements of the RFPR template inputs. The pricing level attributable to each table is clearly stated for each section.

2 Executive Summary

This 2023/24 period has been a year of investment to support our frontline colleagues and the vital work they do keeping our six million households and business customers safe and warm.

We have elevated safety across SGN with the creation of a new safety programme, face-to-face briefings for all frontline colleagues and a continued commitment to making safety our number one priority. We strive for zero-harm for colleagues, contractors and our customers. We have also further strengthened the frontline, recruiting more than 600 people and expanding our apprenticeship and trainee programmes to deliver a pipeline of talent for years to come.

We discuss more of our regulatory performance within our Regulatory Stakeholder Report which can be found on our website [here](#).

Our overall cumulative year 3 performance has resulted in an operational RoRE (based on notional gearing) of 4.3% in Southern and 6.4% in Scotland. In Southern, there is a reduction in return of -0.5 % from our allowed equity return, driven primarily by Totex underperformance. Additional returns of 1.6% on top of Scotland's allowed equity return is driven primarily by a favourable Totex performance. The RoRE's are calculated post enduring value adjustments so remove most of the timing variances. Overall output incentive performance is 0.1% favourable across both networks due to performance within collaborative streetworks as well as customer satisfaction. This is offset with fines within Guaranteed Standard of Performance (GSOP) payments in Southern for the regulated business. In addition, overspends necessary to deliver the outputs of the H100 project are being funded outside of regulatory totex of approximately £41m (nominal prices).

Totex over/under performance in Scotland and Southern, respectively, has driven an average GD2 forecast Notional Operational RORE of c 6% in Scotland and 4% in Southern, against an allowed equity return of 5%. The overspend on H100 would have an additional 0.2% adverse impact.

3 RIIO-GD2 Key Financial performance measures

SGN's Totex performance for full 5 years of RIIO-GD2 price control period, in 2018/19 prices, is as follows:

Full GD2 Totex performance

	Scotland			Southern			SGN		
	RIIO-GD2 Act + Fcst	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act + Fcs	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act + Fcs	RIIO - GD2 Allowance	Variance
Opex	373	362	-3%	784	626	-25%	1,157	988	-17%
Repex	292	326	10%	899	808	-11%	1,191	1,134	-5%
Capex	289	290	0%	323	376	14%	612	667	8%
Totex	954	978	2%	2,006	1,811	-11%	2,960	2,789	-6%

We anticipate that over the course of GD2, in Scotland we will recover the current year expenditure position to deliver our GD2 outputs for less than the allowances awarded at the outset of the price control period with an efficiency benefit of 2%, £23m.

In southern we remain fully committed to deliver our originally agreed tier 1 repex workload and effectively manage the safety risk of our network, but in order to prevent the risk of over-recovery within customer bills we have forecast a reduction in delivery of up to 220km within the GD2 period. Despite the reduction in workload, we anticipate that southern expenditure will exceed allowances by £195m over the GD2 period, an 11% over-expenditure.

SGN's Totex performance for the current year of the RIIO-GD2 price control period, in 2018/19 prices, is as follows:

Current year (23/24) totex performance

Em 18/19 prices inc RPEs	Scotland			Southern			SGN		
	Actual	Allowance	Variance	Actual	Allowance	Variance	Actual	Allowance	Variance
Opex	78	68	-14%	169	122	-39%	247	190	-30%
Repex	62	62	0%	182	158	-15%	244	220	-11%
Capex	58	64	10%	71	81	13%	129	146	11%
Totex	197	194	-2%	422	361	-17%	619	556	-11%

This shows a 2% over expenditure – approximately £3m in Scotland and a 17% over expenditure in Southern - £61m to bring a combined current year performance of an 11%, £64m over-expenditure relative to allowances. The current year spend has been assessed against below 5 categories:

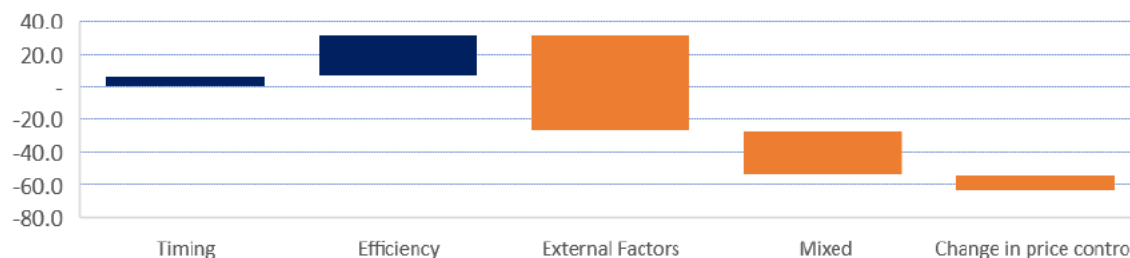
- **Timing:** Represents the timing difference between anticipated workload at the outset of the GD2 period and actual delivery.
- **Efficiency:** an improvement in how things are being done, resulting from, for example, innovation and more efficient working practices.
- **External factors:** factors outside of the control of GDNs and unforeseeable at the time of setting the price control. This includes areas such as weather and economic conditions.
- **Change in the price control settlement:** assumptions made within the RIIO-GD2 settlement that have varied against the actual position.
- **Mixed:** are cost under/overspends having a mix of the above categories. GDNs are required to provide an estimated percentage of the categories making up the mixed figure.

Whilst our second-year position was largely been driven by timing, accounting for 75% of the underspend (as the phasing of expenditure set out in our 2019 business plan to longer to realise in practice) we can now see in year 3 that timing (i.e. major projects to be delivered later in the price control) has diminished and efficiencies that we have delivered have been overwhelmed by cost increases driven by external factors (such as contractor rates and increased repair workloads).

Changes in the price control where the significant volume driver changes (such as for connections) have not enabled the full recovery of overhead costs and change in the mix of workload (such as higher diameter repairs) have increased the cost of delivery.

For RoRE calculations, in particular for actuals year to date we have utilised Enduring Value adjustments, further listed in the appendices to partly normalise for timing differences.

Figure 1.1 – Third year Totex drivers



Further information on our regulatory financial performance can be found within our 2023-24 Stakeholder Report available [here](#).

4 RIIO-GD2 Key Operational performance measures

Below is a summary of our annual output performance:

RAG Status:

Green: Delivered Licence Obligation, reputational commitments or positive outcome on financial incentive

Amber: Marginal under-delivery on reputational commitments or marginal penalty on financial incentive (amber is not applied to Licence Obligations).

Red: Not delivering a licence obligation, significant under-delivery on reputational commitments or significant penalty on financial incentive.

Table 2: Output delivery

Outputs Summary		SC	SO	Outputs Summary		SC	SO
Meeting the needs of consumers and network users				Deliver an environmentally sustainable network			
LO	Consumer vulnerability minimum standards	Green	Green	ODI-R	Shrinkage and environmental emissions	Amber	Amber
LO	Guaranteed Standards of Performance (GSOPs)	Green	Green	ODI-R	Business Carbon Footprint (BCF) reporting	Amber	Amber
LO	Emergency response time (Uncontrolled)	Green	Green	PCD	Commercial Fleet EV PCD	Red	Red
LO	Emergency response time (Controlled)	Green	Green	PCD	Gas escape reduction	Green	Green
LO	Digitalisation Strategy and Action Plan	Green	Green	PCD	Biomethane improved access rollout	Green	Green
LO	Annual Environmental Report	Green	Green	PCD	Intermediate pressure reconfigurations	Green	Amber
LO	Holder demolition	Green	Green	PCD	Remote pressure management	Amber	Green
ODI-F	Customer satisfaction survey	Green	Green	Maintain a safe and resilient network			
ODI-F	Complaints metric	Green	Green	PCD	Repex - Tier 1 mains replacement	Green	Red
ODI-F	Unplanned interruptions	Green	Red	PCD	Repex - Tier 1 services	Green	Red
ODI-F	Network Asset Risk Metric	Green	Green	PCD	Capital projects	Green	Green
ODI-F	Deliver an environmentally sustainable network	Green	Green	PCD	NARMS	Green	Green
ODI-F	Shrinkage and environmental emissions	Green	Green	PCD	Cyber resilience Operational Technology (OT)	Green	Green
ODI-F	Collaborative streetworks	Green	Green	PCD	Cyber resilience IT	Green	Green
ODI-R	Consumer vulnerability reputational incentive	Green	Green				
ODI-R	Fuel Poor Network Extension Scheme	N/A	N/A				

Unplanned interruptions:

Our 2023/24 delivery of unplanned interruptions has moved to maximum penalty for our southern network as we have exceeded the maximum penalty threshold. This will incur a penalty of £3m. This is a reversal of the position in the 2022/23 where a single multi-occupancy buildings incident was sufficient to take Scotland above the maximum penalty threshold.

Repex Tier 1 Mains and Services:

Our Tier 1 mains and service price control deliverable (PCD) in our southern network remain on a red status for year three as we have continued to face challenges in regaining the Tier 1 mains length delivery. Since there is a direct link between mains delivery and service delivery, Tier 1 services also remain in red status.

Shrinkage and Environmental Emissions:

There are several elements to annual shrinkage reduction through the Shrinkage and Leakage Model (SLM), which can both positively and negatively impact depending on our performance in any given year. We slightly underperformed in comparison to the previous year, raising the formula year leakage volumes and putting these to amber.

Commercial Fleet EV PCD:

Our commercial fleet EV PCD continues to be on a red status due to the slow progress on transitioning our commercial fleet to electric vehicles. At the start of RIIO-GD2, we set out an ambitious target to achieve 50% transition to electric vehicles. However, the pace of technical advancements in the commercial EV market has been substantially slower than anticipated, particularly a lack of suitable vehicles for heavy payloads. As a result, we do not expect to be able to deliver our original ambition.

Business Carbon Footprint (BCF) reporting:

Our BCF outputs, although for the year 2023/24, we are on target for our scope 1 and scope 2 excluding shrinkage emissions. We are currently in an amber status due to the current risk with the commercial fleet, a key element of scope 1 (see above comment). We are currently tracking above our emissions target on the commercial fleet and will monitor this closely through the remaining years.

5 Overview of Regulatory Performance

5.1 (R1) RoRE

As shown in the table below, the cumulative operational RORE (based on notional gearing) for the first three years of GD2 is 6.4% in Scotland and 4.3% in Southern. Additional returns of 1.6% in Scotland and lower returns of -0.5% in Southern compared to the allowed equity return are driven by the respective Totex out / underperformance of the two Networks. This is post our enduring value adjustments which help normalise timing differences.

Overall output incentive performance is broadly neutral in both networks with some slight outperformance on customer satisfaction being offset by penalties on the unplanned interruptions incentive. In addition, overspends necessary to deliver the outputs of the H100 project are being funded outside of regulated Totex of approximately £40m (nominal prices). This is not included in the table below but would have an adverse 0.2% impact on the five-year RORE.

Totex over / underperformance in Scotland / Southern Networks over the whole GD2 period has driven additional returns of 0.4% in Scotland and lower returns of 1.3% in Southern against a forecast allowed cost of equity of 5.1%. Further details of the Totex performance can be found in section 3 and output performance in section 4.

Favourable debt performance for the first three years of GD2 in both networks has been primarily driven by the impact of higher inflation on the fixed-rate debt compared to the 2% long-term forecast for CPIH.

Over GD2 Debt performance averages 2.4% for Scotland and 2.6% for Southern primarily driven by higher inflation over GD2 compared to long-run forecasts.

Notional RORE	Cumulative to 2023/24			GD2 Forecast		
	Scotland	Southern	SGN	Scotland	Southern	SGN
Allowed Equity Return	4.8%	4.8%	4.8%	5.1%	5.1%	5.1%
Totex outperformance	1.6%	-0.5%	0.1%	0.4%	-1.3%	-0.8%
Customer Satisfaction Survey ODI	0.2%	0.1%	0.1%	0.1%	0.0%	0.1%
Complaints Metric ODI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unplanned Interruption ODI	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%
Shrinkage Management ODI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Collaborative Streetworks ODI	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
H100 shareholder contribution ¹	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
LTS shareholder contribution	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Penalties and fines	0.0%	-0.1%	-0.1%	0.0%	-0.1%	0.0%
NOTIONAL RORE – Operational Performance	6.4%	4.3%	4.9%	5.5%	3.8%	4.3%
Debt performance (at notional gearing)	3.7%	4.1%	4.0%	2.4%	2.6%	2.5%
Tax performance (at notional gearing)	0.0%	-0.3%	-0.2%	0.3%	0.1%	0.2%
NOTIONAL RORE – including financing and tax	10.1%	8.0%	8.7%	8.1%	6.5%	7.0%

Notes¹ SGN shareholders are forecast to make additional unregulated contributions of £41m (nominal prices) to the H100 project, which is not included above. This is equivalent to a -0.2% impact on SGN RORE over GD2.

5.2 (R2) Reconciliation to Revenue and Profit

Revenue

RIIO-GD2 revenues are set on a forecast basis, the tables below show the 2022/23 and 2023/24 allowed revenue against collected revenue. It is likely that we will incur differences in collected revenue compared to allowed revenue on a year-on-year basis due to customer number and consumption fluctuations, as well as forecasting differences. Any differences will be adjusted for in future tariff calculations

Scotland Revenue

£m nominal prices	2022/23	2023/24
Calculated Revenue [as published]	425.8	429.5
AIP Adjustment Term [as published]	10.0	-14.2
Adjusted Revenue [as published]	435.8	415.3
Legacy Allowed Revenue	20.2	0.0
K Correction Factor	3.4	0.5
Allowed Network Revenue	459.3	415.8
Collected Revenue	458.8	417.9
(Under) / Over Recovery	(0.5)	2.1

Southern Revenue

£m nominal prices	2022/23	2023/24
Calculated Revenue [as published]	915.0	915.4
AIP Adjustment Term [as published]	28.9	1.6
Adjusted Revenue [as published]	944.0	917.0
Legacy Allowed Revenue	4.4	-1.5
K Correction Factor	6.8	7.3
Allowed Network Revenue	955.2	922.7
Collected Revenue	948.2	915.0
(Under) / Over Recovery	(7.1)	(7.7)

Whilst at summary level the Calculated revenues for both years are similar, there are a few sizable movements that offset one another to show a broad alignment between the years. Most notably, material reductions in SoLR claims in 2023/24 compared to those included in 2022/23, reductions in prescribed [business] rates for 2023/24. These reductions are offset by increases in tax allowance, predominantly due to the increased tax corporation rate that came into effect in 2023/24. In addition, 2023/24 saw increases in totex spend and inflation uplift compared to 2022/23.

The AIP adjustment saw a reduction in 2023/24 when compared to 2022/23, chiefly resulting from a reduction in prior year (2021/22) true-ups for totex spend and the shrinkage costs, which were not replicated in 2023/24 true up.

Where both networks differ is within legacy allowed revenue. In Scotland, there is a material value for 2022/23, which is not present in 2023/24. This relates to a true-up of NTS cost under-recovery for 2020/21, as GD1 pass-through cost true-ups were subject to a two-year lag. This material true up results from National Grids' change in charging methodology and falls away by 2023/24.

5.3 (R3) 2023/24 Totex reconciliation

We continue to be committed to delivering our regulatory outputs and we have used the third year of RIIO-GD2 to ensure the foundations are in place for the continued transformation of SGN to deliver these outputs. We have done this through enhancing our leadership team, a strengthened frontline and ensuring a clear strategy for the future. While this has increased costs compared to earlier in the price control, this has led to improved performance and better customer outcomes.

In the third year of GD2, overall totex expenditure is 11% above allowances, as shown in table 1 below. The level of over expenditure is substantially higher in our southern licence area, (17%, £61m) than allowance, whilst in our Scotland

licence area the over expenditure was lower (2%, £3m). For both Scotland and southern our operating costs (opex) have been substantially higher than allowances. For our southern network, we have experienced both substantially higher operating costs and higher repex delivery costs. Significant factors that have influenced these costs include;

- **Strengthened frontline.** We have always focused on ensuring compliance with our core emergency standards of responding to an uncontrolled gas escape within one hour or a controlled gas escape within two hours, 97% of the time. However, we failed to meet this standard last year. Over the past year, we have implemented additional measures to ensure this doesn't happen again. To increase recruitment rates, we trialled new approaches and experimented with different techniques to attract recruits and enhance the training and onboarding process. For the more challenging uncontrolled escapes with a one-hour response time, we have achieved 99.5% in Scotland and 98.4% in the southern network over the last year.
- **Delivering Tier 1 repex.** The ability to deliver repex within allowances is divided across the country. In Scotland, repex delivery is strong; we have continued to over-deliver our annual repex workload and expenditure has been in line with allowances awarded. This is in stark contrast to the southern network, where challenges in the contractor market continued to constrain our ability to deliver against our linear profile target. The pool of contractors in the south of England has been particularly depleted as a result of Brexit, working practices post-Covid, an ageing construction workforce and high rates of competition from other utilities (telecoms, water and electricity). This has drawn resources away from a limited pool of highly skilled contractors resulting in higher rates and greater risk. To ensure focus on delivering repex, during the year we have invested in a new COO leadership team including a Director of Southern Repex Delivery. This is with the aim to getting back to expected performance, the benefits of which are already being seen.
- **Increased repair costs.** Over the last couple of years, we have seen both an increase in the number of repairs that need to be undertaken and a change in the type of repairs. We are seeing an increase in the repairs undertaken for each reported gas escape in both southern and Scotland driving costs above allowances, in addition the repairs are increasingly having to be carried out by higher tier mains (tier 2 and tier 3) which are outside of the mandatory tier 1 mains replacement programme and where the rate of replacement has not kept up with the rate of mains deterioration. These tier 2 and tier 3 repairs are more complex and expensive to deliver than the tier 1 equivalents.

The table below shows SGN's 2023/24 Totex performance, in 2018/19 prices.

	Scotland			Southern			SGN		
	Actual	Allowance	Variance	Actual	Allowance	Variance	Actual	Allowance	Variance
Opex	78	68	-14%	169	122	-38%	246	190	-30%
Repex	62	62	0%	182	158	-15%	244	220	-11%
Capex	58	64	10%	71	81	13%	129	146	11%
Totex	197	194	-2%	421	361	-17%	619	556	-11%

5.4 (R4) Incentive and Other Revenue

Incentives

The table below shows our 2023/24 performance for incentives has generated income of £1.4m for Scotland and £0.7m for Southern.

Both of our networks continue to perform strongly, achieving excellent performance for our customer service outputs. Our Scotland network remains the UK's number one gas network for customer service for the eighth year running.

£m 18/19 prices	Scotland	Southern	SGN
Output Delivery Incentives (ODI-F) - potential reward or penalty			
Shrinkage Management	0.1	0.3	0.4
Customer Satisfaction	1.4	2.2	3.6
Collaborative Streetworks	n/a	1.2	1.2
Output Delivery Incentives (ODI-F) – penalty only			
Complaints metric	0.0	0.0	0.0
Unplanned interruptions	0.0	-3.1	-3.1
Total ODIs	1.4	0.7	2.1

Shrinkage Management ODI

The ODI for Shrinkage Management is generating a small incentive allowance due to an outperformance of approximately 2.5 GWh against the pressure lower dead band volume (PLDV) in Southern. In Scotland, average system pressures (ASP) fell within the dead band (between PLDV and pressure upper dead band volume (PUDV)), neither generating a reward nor a penalty.

Also, against the gas conditioning baseline volumes (CBV), Southeast saw a very small underperformance of approximately 0.04 GWh, and Scotland had an outperformance of approximately 0.5 GWh. There are currently no low-pressure systems with active gas conditioning in the South.

Customer Satisfaction Survey ODI

For the third year of RIIO-GD2, and eight years in a row, our Scotland network retained the number 1 position for customer satisfaction. This is a great achievement as we have held this for eight years in a row. As we progress into the fourth year of this price control period, both networks are in strong positions and are maintaining healthy customer satisfaction scores. Our Southern network has increased its overall ranking position from 8th to 5th position, placing it mid-table. Specific areas we continue to prioritise to improve our service and customer satisfaction scores include:

- **Technology** - We continue to work with agility to understand the best solutions to deliver on our Customer Experience and Vulnerable customer plans. Our trials with Vyntelligence last year have now become embedded processes as we expand our capabilities in this area. All are designed to deliver efficiencies and reduce effort for our customers. We are also able to keep more customers regularly informed throughout our unplanned emergency work by utilising SMS updates.
- **People** - We continue to hold customer forums and focus sessions to understand where changes are needed across our customer journeys. We recognise our people who continue to make a difference through our 10/10 corner, give monthly awards and highlight individual stories across the business to celebrate successes and drive focus and engagement.
- **Training** - To maintain a high standard of customer service, we have ongoing refresher training courses which cover a wide range of topics such as 'Identifying vulnerability', 'How you make the difference' and 'Brilliant Basics' which is at the forefront of our induction programme for recruits. This package ensures clear expectations are set from the beginning and that they have received adequate customer training before starting their new operational role.

Our front-line teams support us by knowing our customers' needs and offering a helping hand when required. They continue to uphold their commitment to never walk away from a customer in need whilst striving for 10/10 every time.

Collaborative Streetworks ODI

The collaborative streetworks incentive is a bespoke incentive for the GDN's within the Southern and London networks, it incentivises collaboration with other utilities within the Greater London area to reduce inconvenience to members of the public. The maximum reward is generated at 10 projects per year and is subject to the Totex incentive mechanism. In 2023/24 we completed 8 projects and claimed £1.22m. We are also forecasting to complete 10 projects per year for the remaining years of RIIO-GD2.

Complaints Metric ODI

Both our networks have continued to perform well in 2023/24, remaining below penalty threshold of 5.00 (Scotland at 1.62 and Southern at 3.61). Both networks have improved their scores from the previous year, with Scotland improving from 1.71 in RIIO-GD2 Y2 to 1.62 in Y3, and Southern improving from 4.74 in RIIO-GD2 Y2 to 3.61 in Y3.

Unplanned Interruption ODI

In Scotland, we have exceeded our target with an average of 13.1 hours compared to a minimum performance level of 16.0 hours. However, this has been more challenging in Southern region, which has marginally exceeded the maximum penalty threshold at an average of 34.4 hours compared to a threshold of 33.5 hours. This issue is currently being internally investigated, but we believe the root cause has primarily been driven by the higher repair workloads and the necessity to prioritise urgent gas escapes requiring an emergency response over the work needed to reconnect a supply that was disconnected on grounds of safety.

Other Revenue

The table below shows our 2023/24 performance for other revenue, this is primarily cost recovery for customer vulnerability and innovation projects undertaken in GD2 and increased total allowances by £4.1m for Scotland and £9.1m for Southern.

£m 2018/19 prices	Scotland			Southern		
	GD2 Allowance	Expenditure to date	Percentage Used	GD2 Allowance	Expenditure to date	Percentage used
Vulnerability and Carbon Monoxide Allowance VCMA ¹	5.0	4.6	32%	11.2	6.6	21%
Additional VCMA as per updated licence June 23	9.3			20.9		
Network Innovation Allowance (NIA)	11.0	3.1	28%	24.6	6.5	27%
Net Zero and Reopener Use it or Lose it	3.3	0.9	27%	7.5	1.6	22%

All details relating to the above table can be found in our 2024 Stakeholder report.

¹ Includes both the company specific and collaborative allowance attributable to each network

5.5 (R5-6) Financing and Net Debt position

2023/24 Net Debt £m's nominal	Scotland (£m)	Southern (£m)
Opening Net Debt	1,391	3,118
Issuances	--	496
Repayments	(65)	(600)
Accretion	21	76
(Net inflow) / Net outflow of cash equivalents and short-term deposits	76	162
Closing Net Debt	1,423	3,252

The above figures are presented in nominal prices

Financing

During the financial year Southern had a £300m fixed rate public bond that matured in October 2023. In addition, Southern and Scotland prepaid £300m and £65m respectively of outstanding EIB loans in October 2023. The maturity and prepayments were part-refinanced by capital markets activity undertaken by both entities in the 2022/23 year, and by further capital markets issuance in September 2023, whereby Southern raised £500m in fixed rate public bonds. Other than the EIB loan prepayments, Scotland Gas Networks plc had no scheduled debt maturities during the financial year.

In the coming financial year, Southern has a £350m fixed rate public bond maturing in February 2025. This has been part-refinanced by £325m (equivalent) of fixed rate private placement notes that were priced in March 2024 and drawn after the balance sheet date in April and June 2024. Scotland has a £35m fixed rate loan maturing in March 2025, which has been part-refinanced by £50m of fixed rate private placement notes priced in March 2024 and drawn in April and June 2024. For a detailed list of the committed financing that are in place at both Southern and Scotland, please refer to the relevant notes to the respective financial statements.

Liquidity

A £550m committed bridge facility, arranged in June 2023, was cancelled in full in March 2024 once sufficient alternative funding was secured. In March 2024 Southern and Scotland refinanced and upsized their Revolving Credit Facilities to £450m and £150m respectively, where the borrowers are able to allocate the total commitments of £600m between themselves at their complete discretion. The initial maturity of these RCFs is March 2027, with two 1-year extension options exercisable by Southern and Scotland in the next two years.

At the year end, Southern had £60m drawn on the RCF (2023: undrawn), which was repaid in early April 2024, and Scotland was undrawn (2023: undrawn). Cash & cash equivalents, taking into account amounts owed under intercompany loan arrangements, at the year-end amounted to £12m (2023: £105m) at Scotland, of which £18m (2023: £38m) was restricted, and £45m (2023: £140m), of which £2m (2023: £3m) was restricted.

RPI and CPI impacted our index-linked debt and derivatives over the last financial year by accruing:

- At Scotland, £15m of RPI-linked accretion (2023: £47m) and £10m of CPI-linked accretion (2023: £24m)
- At Southern, £51m of RPI-linked accretion (2023: £67m) and £25m of CPI-linked accretion (2023: £57m)

Risk management

To reduce the interest rate concentration risk of its private placement issuances, in October 2022, Scotland entered into three fixed-to-floating interest rate swaps ("IRS") totalling £90m that convert a portion of the £184m fixed rate notes (as highlighted above), entered into within the same month, into floating rates based on SONIA:

- £30m of the £34m notes due 2032 converted from fixed to SONIA plus 2.115%, effective October 2022
- £30m of the £30m notes due 2035 converted from fixed to SONIA plus 2.373%, effective March 2023

- £30m of the £50m notes due 2035 converted from fixed to SONIA plus 2.2695%, effective October 2022

In February 2023, the Company entered into a single floating-to-fixed £30m IRS to 're-fix' the IRS hedging the fixed rate notes due in 2032. The new swap's floating receive leg exactly offsets the original swap's floating pay leg of SONIA plus 2.115%, resulting in a net fixed exposure. Subsequently, in May 2023 and August 2023, Scotland entered into two more floating-to-fixed £30m IRSs to re-fix the remaining two IRSs, with floating receive legs that offset the original swaps' floating pay legs of SONIA plus 2.0373% and SONIA plus 2.2695%.

In line with its hedging policy and requirements under its financing documents, the entire principal amounts and interest payments under the \$132m USD private placement notes issued in October 2022 and \$202m USD private placements issued in April and June 2024 were hedged to GBP using cross-currency swaps with effective dates matching the drawdown profile of the notes. Under these cross-currency swaps, Southern receives a USD upfront payment and fixed USD payments equal to the principal amounts and coupons under the notes respectively, and pays fixed GBP amounts:

- \$41m converted to £36m with fixed 6.2440% GBP interest payable, due 2033, effective March 2023
- \$25m converted to £22m with fixed 6.2485% GBP interest payable, due 2033, effective March 2023
- \$66m converted to £59m with fixed 6.2800% GBP interest payable, due 2035, effective March 2023
- \$20m converted to £16m with fixed 5.4960% GBP interest payable, due 2034, effective June 2024
- \$30m converted to £24m with fixed 5.4950% GBP interest payable, due 2034, effective June 2024
- \$51m converted to £40m with fixed 5.4950% GBP interest payable, due 2034, effective June 2024
- \$20m converted to £16m with fixed 5.6250% GBP interest payable, due 2036, effective April 2024
- \$30m converted to £24m with fixed 5.6270% GBP interest payable, due 2036, effective April 2024
- \$51m converted to £40m with fixed 5.6270% GBP interest payable, due 2036, effective April 2024

5.6 (R7) RAV

The table sets out the RAV for the third and final years of RIIO-GD2 (31st March 2024 and 2026, respectively):

	2023/24			2025/26		
£m's 2018/19 prices	Scotland	Southern	SGN	Scotland	Southern	SGN
Opening RAV	1,778.5	3,901.4	5,679.9	1,835.6	3,972.6	5,808.2
Net Additions	123.0	226.9	349.9	122.6	262.0	384.6
Depreciation	(96.4)	(210.5)	(306.9)	(101.9)	(220.0)	(321.9)
Closing RAV	1,805.0	3,917.8	5,722.8	1,856.3	4,014.5	5,870.8
£m's nominal						
Adjusted closing RAV	2,280.0	4,948.9	7,228.9	2,419.3	5,232.1	7,651.4

In real terms, our Regulated Asset Value (RAV) increased by 1.5% for Scotland and 0.4% for Southern in 2023/24. This is slightly higher than last year due to a step up in additions to the RAV. The real growth in Southern is expected to average 1.2% p.a. for the final two years of GD2 due to increased levels of RAV additions.

Note- Reopeners and volume drivers are capitalised at 70% for Scotland and Southern, with the remaining majority of capex and opex capitalised at 41% for Scotland and 33% for Southern. All repex is capitalised at 100%.

5.7 (R8 & R8a) Taxation and Tax Reconciliation

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 the 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 £411.8m (2023: £411.8m), these consist of the following contributions:

- Corporation tax of £41.5m (2023: £41.5m) paid on our taxable profits
- VAT of £174.0m (2023: £174.0m)
- Business rates of £121.0m (2023: £121.0m) paid to local authorities
- Employment taxes of £75.3m (2023: £75.3m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

2022/23 Tax Reconciliation

An explanation of the differences between Scotland and Southern's CT600 actual 2022/23 corporation tax liability and the calculated tax allowance in the Latest PCFM, which are detailed in tab R8a, is found in the tables and commentary below. We have aggregated all the differences in tab R8a, which drive the profits and thus corporation tax variances, into 4 categories: EBITDA (net of turnover and operating expenses), Total Interest, Capital Allowances and CT600 Adjustments. A positive variance represents higher tax payable in the CT600 versus the PCFM tax allowance and, conversely, a negative variance represents lower tax payable.

The materiality thresholds for the differences in these categories, and thus also the profits chargeable to corporation tax, are £4.9m for Scotland and £10.1m for Southern. The materiality threshold for the difference between the CT600 actual corporation tax liability and the calculated tax allowance in the Latest PCFM is £1.1m for Scotland and £2.4m for Southern. Please note that all figures in this tax reconciliation commentary are in £ms (nominal).

It is also worth noting there is inherently a timing disconnect between the regulated revenue included in the CT600 turnover and that included in the tax allowance in the latest PCFM. This is driven by the fact that;

- the CT600 regulated revenue is revenue actually received in 2022/23 and is based on the forecasted overall allowed revenue in the submitted January 2022 'Tariff PCFM' (including any Statutory Independent Undertakings), adjusted for under/over recovery in year;
- but the calculated revenue used in the tax allowance in the latest PCFM is based on the actualised input values for 2022/23 as of September 2024 (as opposed to their forecast value back in January 2022). It also doesn't include allowed revenue true-ups from previous years that are included in overall allowed revenue for 2022/23.

Scotland Summary

As shown in the table below the difference of +£0.7m between the corporation tax determined by the CT600 and the calculated tax allowance in the latest PCFM is due to a variance of +£3.4m in the profits chargeable to corporation tax. These immaterial variances are caused by differences in the 4 categories detailed above, with material differences in the EBITDA and Total Interest categories - combined with immaterial variances in the other categories - broadly offsetting each other in aggregate.

	CT600	PCFM	DIFFERENCE PCFM vs CT600	MATERIALITY CHECK
i. EBITDA	224.4	189.7	34.7	Material
ii. Total Interest	-92.9	-65.3	-27.6	Material
iii. Capital Allowances	-67.3	-66.0	-1.3	Immaterial
iv. CT600 Adjustments	-2.4	0.0	-2.4	Immaterial
Profits Chargeable to Corporation Tax	61.9	58.4	3.4	Immaterial
Corporation Tax due on PCTCT @ 19%	11.8	11.1	0.7	Immaterial

The material variance in the EBITDA category is caused mainly by a regulated revenue timing difference between the January 2022 tariff PCFM that set the forecast allowed revenue to collect in 2022/23 and the revenue in the latest September 2024 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominately relates to an over-forecast of fast money and pass through costs and inclusion of prior year allowed revenue adjustments, partially offset by an under-forecast of inflation in the January 2022 PCFM.

The material variance in the Total Interest category is predominately caused by Scotland's actual gearing being lower than Ofgem's 2022/23 notional gearing threshold for tax clawback, of 64%. This means there is no inclusion of tax clawback in the PCFM tax allowance calculation to take into account the impact of the higher level of P&L interest in the CT600 tax calculation.

Southern Summary

As shown in the table below the difference of +£8.8m between the corporation tax determined by the CT600 and the calculated tax allowance in the latest PCFM is due to a +£46.3m variance in the profits chargeable to corporation tax. These material variances are caused by differences in the 4 categories detailed above, with the only individual material difference being in the EBITDA category.

	CT600	PCFM	DIFFERENCE PCFM vs CT600	MATERIALITY CHECK
EBITDA	426.0	394.4	31.6	Material
Total Interest	-201.9	-208.1	6.2	Immaterial
Capital Allowances	-111.4	-112.7	1.3	Immaterial
CT600 Adjustments	7.2	0.0	7.2	Immaterial
Profits Chargeable to Corporation Tax	120.0	73.7	46.3	Material
Corporation Tax due on PCTCT @ 19%	22.8	14.0	8.8	Material

The material variance in the EBITDA category is caused mainly by a regulated revenue timing difference between the January 2022 PCFM that set the forecast allowed revenue to collect in 2022/23 and the revenue in the latest September 2024 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominately relates mainly to an over-forecast of pass-through costs and tax allowance, and inclusion of prior year allowed revenue adjustments, partially offset by an under-forecast of inflation in the January 2022 PCFM.

As Southern's actual gearing is higher than Ofgem's 2022/23 notional gearing threshold for tax clawback, Scotland's material variance in the Total Interest category is not replicated for Southern.

Comments on Mechanics of RFPR Tab 8a – Tax Reconciliation

Whilst completing this tab we noticed that some of the PCFM references in column G are incorrect. Where guidance allowed comments in column L, we've corrected the PCFM references there. An additional comment is that cell G97 states the inflation index in cell H97 is sourced from RFPR 'Data' cell E26, whereas its actually sourced from RFPR 'Data' tab cell G34.

5.8 (R9) Financial Resilience & Corporate Governance

Financial Resilience

Licensee covenants:

Both Southern and Scotland have a Regulated Asset Ratio ("RAR") financial covenants (net debt to RAV), also known as gearing, with a trigger at 77.5% and Event of Default ("EoD") at 95%. Consequences of breaching a trigger include limitations on distributions and further indebtedness. In addition, the Licensees are required to maintain a minimum of 75% of their debt in either fixed or inflation-linked format and must fully hedge all non-GBP denominated debt issued back to GBP.

There are no documented equity cure style remedies contemplated in Southern's and Scotland's financing documents, and there are no covenants at Southern or Scotland that obligate them to declare dividends.

Economically reliant companies:

Southern and Scotland are wholly owned subsidiaries of SGN MidCo Limited ("MidCo"), which itself has external debt totalling c.£475m raised off a whole business securitisation (WBS) type platform. Other companies within the MidCo ringfence including SGN Evolve Networks Limited and SGN Contracting Limited. We publicly provide information on the debt and interest costs at MidCo within filed annual accounts and on our investor relations website:

Original Amount Issued	Book Value at 30 June 2024 ⁽¹⁾	Maturity Value at 30 June 2024 ⁽²⁾	Issue Date	Maturity Date	Debt Type ⁽³⁾	ISIN (if applicable)	Original Coupon Type
£100.0m	£100.0m	£100.0m	14-Mar-2018	15-Mar-2030	Private Placement	-	Fixed 2.900%
£37.5m	£52.4m	£67.5m	17-Jan-2018	17-Jan-2033	Private Placement	-	RPI Linked 0.110%
£185.0m	£185.0m	£185.0m	14-Mar-2018	15-Mar-2033	Private Placement	-	Fixed 3.020%
£87.5m	£122.2m	£182.5m	17-Jan-2018	17-Jan-2038	Private Placement	-	RPI Linked 0.280%
£15.0m	£15.0m	£15.0m	14-Mar-2018	15-Mar-2038	Private Placement	-	Fixed 3.110%



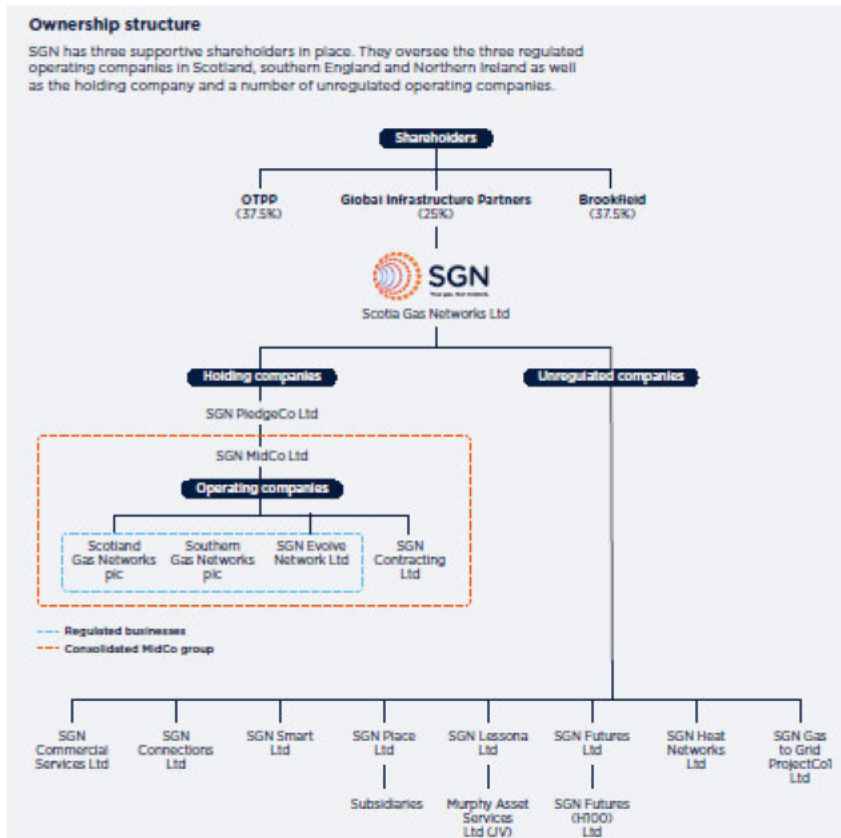
For the avoidance of doubt, Southern and Scotland are not economically reliant on one another and maintain sufficient liquidity to cover forecast requirements separately (please see Liquidity under section 6.5 above). There are also no cross-default provisions between Southern and Scotland in any of their respective financing documents.

Corporate ownership and governance Framework:

Ownership Stakes and Ownership structure

At the beginning of RIIO-GD2 the biggest ownership changes since the Group was formed some 17 years ago were completed. Two of the original three shareholders, SSE and OMERs sold their shareholdings, as did the more recent investor ADIA. This was undertaken in two separate deals and brought two new investors into our Group. The new investors are Brookfield Super-Core Infrastructure Partners (Brookfield), a Canadian global asset manager, and Global Infrastructure Partners (GIP), a US based global independent infrastructure fund manager. Brookfield has taken 37.5% share and GIP has taken a 25% share. As part of the transactions, Ontario Teachers’ Pension Plan (OTTP), our third original investor, increased its ownership from 25% to 37.5%.

This structure is set out below:



Board of Directors

The Board of Directors is comprised entirely of Non-Executive Directors and is the principal decision-making forum for the company. Directors are nominated to the Board in accordance with the terms of the Shareholders' and Governance Agreement.

The Board is collectively responsible for the long-term success of the Group and for setting a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Group to meet its business objectives while ensuring a sound system of internal control and risk management is in place. The powers and the duties of the Directors are determined by legislation and by the Company's Articles of Association. The Board has also adopted a formal schedule of matter detailing key aspects of the Company's affairs reserved to it for decision.

The Board of Directors comprises eight Non-Executive Directors. This consists of a Non-Executive Chair and seven Non-Executive Directors.

The Board of Directors is the same for the Company and each subsidiary company within the Group, except for:

- Scotland Gas Networks plc and Southern Gas Networks plc, which consist of two additional independent Non-Executive Directors; and
- Subsidiary companies of SGN Place Limited, SGN Futures Limited, SGN Lessona Limited and SGN Gas to Grid ProjectCo1, which have their own Board of Directors.
- Each of the Non-Executive Directors are chosen for their diversity of skills and experience.

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Group financial information; and ensure systems of internal control and risk management are appropriate and effective.

The full list of directors is set out below;

Name	Appointment	Date of Appointment
Nick Salmon	Chair	14 March 2019
Paul Jeffery	Statutory Independent Non-Executive Directors	28 January 2014
Joanna Whittington	Statutory Independent Non-Executive Directors	19 October 2023
Paul Trimmer	Shareholder Non-Executive Directors	23 March 2022
Rebecca Lumlock	Shareholder Non-Executive Directors	22 March 2022
Jeffrey Rosenthal	Shareholder Non-Executive Directors	24 November 2022
Charlotte Brunning	Shareholder Non-Executive Directors	2 May 2018
Christian Fingerle	Shareholder Non-Executive Directors	27 May 2022
Martin Catchpole	Shareholder Non-Executive Directors	23 March 2022
Michael Botha	Shareholder Non-Executive Directors	22 March 2022

Board Committees

During the year the Board was directly assisted in the discharge of its duties by six Board Committees whose remit, authority and composition are monitored to ensure continued and appropriate Board support.

Each of the Board Committees provides a dedicated focus on a defined area of responsibility. Board Committees act as an advisory body, with the Board retaining oversight and final decision-making, except where otherwise delegated by the Board in which case the Committee will act within their agreed authority. Board Committee membership is determined by the Board. Prior to determining membership, the Board will consider the subject matter of the Committee's purpose and duties to ensure that the membership addresses its specific needs. Membership will assess technical skills, knowledge and experience whilst recognising the benefits associated with diversity. Each Board Committee is chaired by a shareholder or independent Non-Executive Director.

There is no parent or group company that has reserved rights that would supersede the decision making of any of these companies. As set out in our annual report, the attendance of individual non-executive directors during the 2022/23 period was as follows:

Meeting attendance, April 2023 to March 2024

Directors	Board meetings	Audit Committee meetings	Finance Committee meetings	Health & Safety Committee meetings	Remuneration Committee meetings	Stakeholder, Environment, Social & Governance Committee meetings	Nomination Committee meetings
Charlotte Brunning	6/6	-	6/6	-	4/4	3/3	1/1
Michael Botha	6/6	3/3	6/6	-	-	-	1/1
Martin Catchpole	6/6	3/3	6/6	-	-	-	1/1
Christian Fingerle	6/6	-	-	-	-	-	1/1
Paul Jeffery	6/6	3/3	6/6	-	-	-	1/1
Rebecca Lumlock	6/6	-	-	5/5	4/4	2/2	1/1
Jeffrey Rosenthal	6/6	-	-	-	-	1/1	1/1
Nicholas Salmon	6/6	3/3	-	5/5	-	-	1/1
Laura Sandys*	3/3	-	-	2/2	1/1	2/2	-
Paul Trimmer	6/6	-	-	5/5	4/4	3/3	1/1
Joanna Whittington**	3/3	-	-	3/3	3/3	1/1	1/1

* Laura Sandys resigned as a Director on 31 October 2023.

** Joanna Whittington was appointed as a Director on 19 October 2023.

Executive committee

Below the Board, Executive responsibility rests with Mark Wild, Chief Executive Officer (CEO) and Simon Kilonback, Chief Financial Officer (CFO). The CEO and CFO are each employed by the Group and are not Directors of the Company although attend each Board meeting. They are supported by an Executive Management Team.

In FY 2022/23 the decision was made to split the Executive Committee into two forums, the Operational Executive Committee, and the Strategic Executive Committee. This was to ensure that the appropriate level of focus was given to Operational Performance and Strategic Planning respectively. The day-to-day management of the Company is delegated to these Committees which meet monthly and is chaired by the Chief Executive Officer and whose membership includes the Chief Financial Officer and leaders of each business unit. Both Committees are in turn supported by their own operational and assurance framework, with defined roles and responsibilities including relevant delegated authorities.

Corporate Governance Principles

For the year ended 31 March 2023, under the Companies (Miscellaneous Reporting) Regulations 2018, the SGN Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018¹.

The Wates Principles provide a framework of six principles through which the SGN Board monitors the corporate governance of the SGN Group and sees where standards can be raised to a higher level across the business. These principles are;

1. Purpose and leadership. An effective Board develops and promotes the purpose of a company, and ensures that its
2. values, strategy and culture align with that purpose.

¹ A full copy can be viewed on its website under www.frc.org.uk/directors/corporate-governance-and-stewardship/governance-of-large-private-companies.

3. Board composition. Effective Board composition requires an effective Chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.
4. Director responsibilities. The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.
5. Opportunity and risk. A Board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.
6. Remuneration. A Board should promote Executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the Company.
7. Stakeholder relationships and engagement. Directors should foster effective stakeholder relationships aligned with the Company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard for their views when making decisions.

The governance framework is set out in more detail in the SGN Annual Report and will provide the right environment for the Board to make decisions for the long-term success of the SGN Group. Throughout the remaining years of RIIO-GD2 we will continue to develop and improve our corporate governance with regular review and challenge from our Board members.

Executive Remuneration Policy

Executive Director Remuneration

The SGN board does not operate with Executive Directors.

SGN Executive Remuneration

SGN Senior Executive remuneration, including the pay of the CEO, is determined through the Remuneration Committee. This Committee is established to promote Executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the Company.

This has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practices and remuneration benchmarking.

The current members of the Remuneration Committee are Charlotte Brunning (Committee Chair), Rebecca Lumlock, Paul Trimmer and Joanna Whittington. The SGN management attendees are Chief Executive Officer, Chief People Officer and the Head of Employee Relations, Policy & Reward.

The Remuneration Committee is a sub-committee of the Board. The Remuneration Committee's role is to support the Board by ensuring that remuneration policy and practices of the Company reward fairly and responsibly, with a clear link to corporate and Executive performance, having regard to statutory and regulatory requirements; that talent and succession strategy for the Group's Executive is suitable for the Group's long-term success; that diversity and inclusion plays a key role across the Group; and employee feedback is listened to and acted on.

The primary objective is to set remuneration at a level that will enhance the Group's resources by securing and retaining quality people who can deliver our purpose, vision and values and long-term goals for its existing and future stakeholders.

Dividend Policies

The Board of Directors for Scotland Gas Networks plc and Southern Gas Networks Limited plc separately take dividend decisions on behalf of the respective entities. For each entity, two independent directors sit on the Board and therefore are part of the decision-making process. A full copy of the dividend policy has been provided in the appendix.

In deciding whether to pay a dividend, a paper is presented initially to the finance committee with an assessment of the financial resilience of the regulated entity over the long-term taking into consideration future investment requirements and the performance of the regulated entity. Any dividend paid must have accompanying certificates signed by the Board stating, amongst other things, that the company has sufficient financial and operational resources for the next 12 months as per Special Standard Condition A37: Availability of Resources

Dividend decisions for Southern and Scotland take into account the levels of committed funding available to the Licensees as well as their financial covenants, credit metrics and targets set by the Board, as well as fulfilling the Credit Rating Obligations in Special Standard Condition A38: Credit Rating of the Licensee and Related Obligations. The inherent risk in the businesses and wider economy is also considered. The performance of each Licensee against its respective standards of service is considered when determining the timing and quantum of any distribution from the Licensees.

The Board also considers dividends in the context of the Wates principles, as described in the above Corporate Governance Principles section.

During the 2024 financial year, Southern paid distributions totalling £25m (2023: £46.5m), with no further dividends declared to-date. Scotland paid distributions totalling £32.5m in 2024 (2023: £23.3m) with no further dividends declared to date. As at 31 March 2024, Southern and Scotland had distributable reserves of £1,054m (2023: £944m) and £438m (2023: £400m) respectively.

Southern and Scotland did not pay any final dividends in the 2023 year due to respective performance against their standards of service, with dividends only being paid in the 2024 year once the directors were comfortable with the performance of each Licensee against service standards and the status of the recovery programme, including the levels of new staff entering the businesses. The relative performance of Scotland and Southern with respect to their standards of service and the level of re-resourcing required were driving factors in the amounts and timing of distributions, with Scotland able to start paying out dividends from July 2023 whereas Southern waited until December 2023 to allow directors to consider further winter performance data. Over the first three years of GD2, Scotland paid £106.5m of dividends (annual return on notional equity of 4.3%) and Southern paid £137m of dividends (annual return on notional equity of 2.5%). Both of these levels are well below appropriate cost of equity levels for GD2.

5.9 (R10) Pensions and Other Activities

Pensions

The R10 template of our submission shows the movement of the pension deficit for the defined benefit scheme. No deficit repair payment was made during the last financial year as our pension scheme is currently in surplus. For the latest valuation section of the template, we have used our PDAM valuation report dated 2022 submitted at the end of August 2023 to Ofgem.

Fines and Penalties

During the third year of the price control, our Guaranteed Standards of Performance (GSOP) payments, in 2018/19 prices, were £0.22m in our Scotland Network and £1.89m in our Southern Network.



6 Data Assurance

For the new price control, the Data Assurance Guidance (DAG) requires a risk score for the reporting pack as a whole. However, as there are several new templates and reporting requirements, we have retained approval at a template level of which includes a 5-stage sign-off process. We believe this to be an appropriate measure to ensure the level of quality is maintained across all templates.

Our regulatory reporting submissions have been through the appropriate governance with our Chief Financial Officer, Chief Executive Officer, and our Board.

