



Board Assurance Statement RIIO-ED2

December 2021

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As WPD Board Directors we have overseen the development of our RIIO-ED2 Business Plan and are confident that the plan sets ambitious output commitments for our stakeholders and optimises the use of resources to provide great value to our customers.

Active oversight

WPD's existing internal controls and assurance framework have been applied throughout the RIIO-ED2 plan development process. Our controls framework applies a three lines of defence model with risk assessment processes used to ensure that assurance activities are suitably targeted.

Within our Director team we have extensive experience within WPD and the electricity industry. We have worked closely with those responsible for developing our Business Plan. The governance framework has ensured that we have had involvement in key plan decisions.

We held frequent Board meetings dedicated to the Business Plan. These meetings enabled us to review and challenge detailed aspects of the plan and the development processes.

We have engaged with the Customer Engagement Group (CEG) and are confident that there has been a constructive working relationship between the CEG and the WPD management team. As a Board, we are collectively confident that all feedback provided by the Customer Engagement Group has been addressed.

We issued our first submission Business Plan in July 2021. The Board has continued to engage and ensure that stakeholders were consulted and their views were sought to help us make our final plan the best it can be. We instructed our management team to continue its positive engagement with Ofgem, Ofgem's Challenge Group, the CEG and wider stakeholder community to leverage their insights to the benefit of our plan.

We are satisfied that all views have been listened to and where appropriate, suitable enhancements were made to our plan. The Board approves the WPD final submission Business Plan. Sign-off statements are provided in section 5 of this document.

1. Meet our Board

Our Board oversees WPD's business strategy and the business operations of WPD's four licence areas.

Our group is a single purpose entity with the majority of our revenue being generated through our Distribution Network Operator (DNO) businesses. As members of the WPD Board, we are wholly focused on WPD core business. We have extensive experience of electricity distribution.

WPD's Board Members



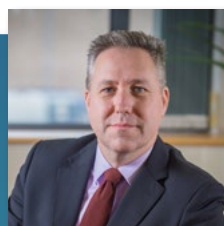
Phil Swift
Chief Executive

Phil joined WPD (then SWEB) in 1992 after graduating as an engineer and following experience in the aerospace industry.

After serving as a distribution Team Manager in Plymouth, a number of further senior management roles followed in metering and operational delivery.

These included Network Services Manager roles for WPD's South West region in 2002 and West Midlands region in 2011. This latter position followed WPD's acquisition of Central Networks operations where Phil served as a senior member of the transition team responsible for introducing WPD structures, processes and procedures into the Midlands. His work included Trade Union consultations and negotiations to establish one set of terms and conditions.

More recently, he has led the team responsible for the overall delivery of WPD's 'Well Justified Business Plan' to Ofgem as part of the RIIO-ED1 process and, in July 2013, was appointed to the Board of WPD as Operations Director. In this role, he was responsible for the business' network services, design and development, logistics and safety and training activities. In November 2018, he was appointed as Chief Executive.



Ian Williams
Finance Director

Ian joined the company in 1991 as a graduate management trainee.

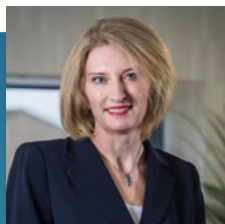
He has held the roles of Operations Financial Controller and following the successful integration of Hyder became Management Accounting Manager.

In 2001, he became the WPD Group Head of Internal Audit and led the Sarbanes Oxley Act compliance programme.

In 2006, he was seconded to the role of Treasurer. After successful refinancing of the WPD bank facilities and the additional long term debt financing of South Wales and South West, including WPD's first Index Linked issuance, he went back to the audit role.

Prior to the Midlands' acquisition, he again took on the role of Treasurer in order to undertake the required refinancing of both the long term debt and bank facilities. He was then appointed full time into the treasury role for the WPD Group.

In February 2015, he was appointed as Resources and External Affairs Director, with responsibilities include Human Resources, Payroll & Pensions, Corporate Communications and Regulation. In April 2018, he was appointed to the role of Group Finance Director.



Alison Sleightholm
Resources and External
Affairs Director

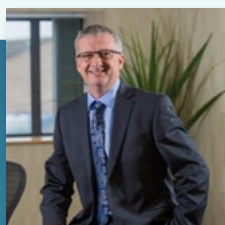
Alison joined Western Power Distribution (then SWEB) on graduation in 1985 and has had a number of engineering roles across the business.

As WPD's Regulation and Government Affairs Manager, she has played a leading role in regulatory price reviews and the development of WPD's Business Plan and stakeholder engagement programme.

She was also heavily involved in the acquisition and integration of both South Wales and more recently the Midlands distribution networks into WPD.

In April 2018, Alison became WPD's Resources and External Affairs Director.

Alison has a BSc in Electrical Engineering from Southampton University and is a Chartered Member of the Institution of Engineering and Technology.



Graham Halladay
Operations Director

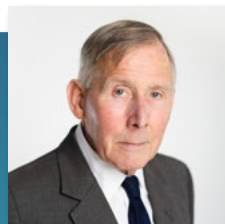
Graham is the Operations Director for Western Power Distribution.

He has responsibility for managing the distribution of electricity to eight million customers across the largest distribution network in the UK.

He joined Western Power Distribution (then SWEB) in 1983 as an apprentice. Graham has undertaken numerous operational and senior management roles within the business.

The most recent of these being Network Services Manager DSO, responsible for the company's transition from a Distribution Network Operator (DNO) to Distribution System Operator (DSO), dealing with internal business system change and external engagement with Ofgem, BEIS and the wider industry.

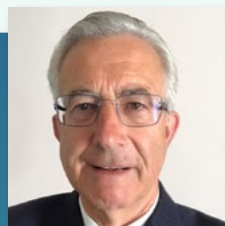
In January 2019, Graham became WPD's Operations Director.



Anthony Cardew
Non Executive Director

Anthony is one of the most respected and trusted figures in financial communication.

During more than three decades of City experience, he has advised numerous businesses and organisations on a wide range of issues encompassing M&A activity, IPOs, demergers, capital raising, corporate restructuring and crisis management. His clients have included some of the most prominent companies in the world. He launched Cardew Group in 1991.



Maurice Fletcher
Non Executive Director

Maurice Fletcher has served as a Non Executive Director on each of the Boards of WPD's four Distribution Network Operating companies since October 2011.

Following graduation from the London School of Economics, his career has included working for a number of electricity companies Eastern Electricity, Norweb, SWEB and WPD.

He had a variety of roles at operational, senior managerial and Executive Director levels across a range of activities including training and development, human resources, customer relations, external affairs and pensions management.

Following the privatisation of the UK electricity sector, Maurice was a lead player in the restructuring of pay, terms and conditions and the associated rationalisation of working practices. He also was a key member of WPD's executive team involved in the acquisition of Hyder and its subsequent restructuring, followed by the successful integration of the South Wales electricity distribution business. Following his retirement, Maurice has continued to undertake consultancy and charitable work for a range of organisations.

2. Governance and Assurance

Board engagement

Our business strategy is that our customers will receive an affordable, sustainable service fully supported by our stakeholders, which will enable them to be net zero by 2050 and aligns with WPD's values. This Business Plan sets out our strategy over the price control period and beyond. As a Board we have been closely engaged in the development of our plan to ensure that the needs of our stakeholders are recognised and addressed.

Governance arrangements for developing our plan

Our business has a well established internal controls framework which is closely monitored by our Board.

As a Board, we have been actively engaged throughout the plan development process. This has included:

- Ensuring that suitable arrangements and resources were in place to develop our plan.
- Monitoring progress against key milestones.
- Guaranteeing that there was an appropriate assurance plan in place.
- Challenging draft versions of our plan, its output commitments and how key risks were being managed.

Our Executive Council (comprising of our four executive directors) provided strategic direction and oversight for plan development. Alison Sleightholm, our Resources & External Affairs Director has provided day to day oversight of plan development.

Our plan has been developed using a highly experienced team who are integrated with the operational delivery team and who enjoy a close working relationship with our Executive team. Mark Shaw was reassigned from his role as Network Services Manager to lead our Business Plan Group and oversee the preparation of our plan.

Our two Non Executive Directors have played a key role in oversight and challenge. Access was provided to the Customer Engagement Group (CEG) chair to gain confidence in the effectiveness of the working relationship between the WPD Board and our Business Plan Group.

Our Board engagement processes have ensured we had the opportunity to provide robust challenge to our plan and steer its strategic direction. We have overseen a strong customer engagement programme and assured ourselves that it has influenced our plan. We approved a comprehensive assurance programme (described below) and reviewed and challenged the outputs from that programme.

Assuring our plan

A comprehensive assurance programme was critical to the WPD Board. We needed to be confident that the content of our plan was both accurate and met our strategic aims and we understood that a robust assurance programme helps build confidence in our plan amongst our stakeholders.

Our assurance approach applied and expanded WPD's data assurance programme, to comply with Ofgem Data Assurance Guidance. We set wide ranging assurance objectives and we ensured risk assessments were used to understand our risks. Our assurance programme was targeted to ensure the right assurance resources were applied.

We used a range of internal and external specialists to ensure that our plan assurance objectives were addressed. PricewaterhouseCoopers were engaged to assess our governance and assurance programme and identify best practice opportunities that we could apply.

Our Business Plan Group was encouraged to actively and openly engage with the CEG to leverage their skills and insights. We encouraged the same approach for engagement with Ofgem's Challenge Group.

Our business maintains a stakeholder engagement programme to ensure our business is responsive to evolving needs. As a Board, we ensured that extensive engagement was used to develop our Business Plan commitments. WPD published two early versions of our Business Plan and consulted on those drafts to assure that we had correctly interpreted and addressed stakeholder priorities. Our first submission Business Plan was then submitted to Ofgem on 1st July 2021 and further stakeholder engagement was conducted on that plan.

2. Governance and Assurance

Based on the outcomes of our assurance programme, the Board are satisfied that:

- The Business Plan has been constructed from effective stakeholder engagement programme and that feedback from our CEG has been addressed and acted upon.
- The plan has been rigorously assessed and reviewed to confirm it is accurate.
- The output commitments contained within this plan are deliverable.
- The approaches described in the plan and the associated costs are efficient.

We believe the plan is innovative and ambitious in supporting the UK’s transition to zero carbon emissions.

The diagram below ‘WPD’s Business Plan Governance Framework’ sets out the components of the governance structure supporting the development of the Business Plan.

Figure 1: Governance framework



We provide more detailed explanations of our Business Plan development governance and assurance programme within Chapter 1 of the main Business Plan document and the Supplementary Annex SA-01: Governance and Assurance.

3. Actions taken by the Board to test the plan for accuracy, efficiency and ambition

Accuracy

An extensive assurance programme has been executed to ensure that all our objectives for the Business Plan have been fulfilled. The Board is confident that WPD's assurance programme has been executed to a high standard. A range of assurance approaches and specialist expertise has been deployed to achieve a high quality plan.

Efficiency

The Board is confident that the plan is efficient. The Board has provided the challenge to ensure that resources are being deployed on the right activities, at suitable quantities and at the optimum time. We sought specialist independent scrutiny to assure the efficiency of our costs.

Ambition

The Board is proud of WPD's record of providing sector leading levels of customer service, deploying innovative solutions that have set the bar in electricity distribution and leading the way in Distribution System Operator activity to meet the needs of our changing patterns of electricity generation and use.

Our RIIO-ED2 plan builds on our legacy of achievements and commits our business to being at the forefront of the UK's transition to zero carbon emissions including our internal business carbon footprint commitment to be net zero (excluding losses) by 2028 – well ahead of the government's 2050 target.

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As an Independent Director, it is essential to me that our plan was informed by thorough engagement with our stakeholders. I am proud of our Business Plan Group's commitment to publishing early drafts of the plan and all the additional engagement that was conducted thereafter. I believe this sets a new standard for co-creation of Business Plans in the utility sector.

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Maurice Fletcher
Non Executive Director

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I am confident we have produced a strong plan that our management team will successfully deliver in the years to come. The plan is founded on a robust governance framework with a comprehensive assurance programme. As a Board, we have had close engagement with the Business Plan Group and are satisfied that the plan has been extensively challenged and reviewed.

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Anthony Cardew
Non Executive Director

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In scrutinising, challenging and questioning the elements contributing to WPD's Business Plan for 2023 - 2028, as it developed, the Customer Engagement Group (CEG) has been given access to relevant WPD personnel. The effective and robust working relationship we have developed with WPD has supported the CEG to deliver our objectives. As CEG chair, I have been invited to participate in specific company Board meeting discussions about the Business Plan. Through these, and other engagements, we have found the WPD management team to be open, receptive and responsive to the challenges made by us.

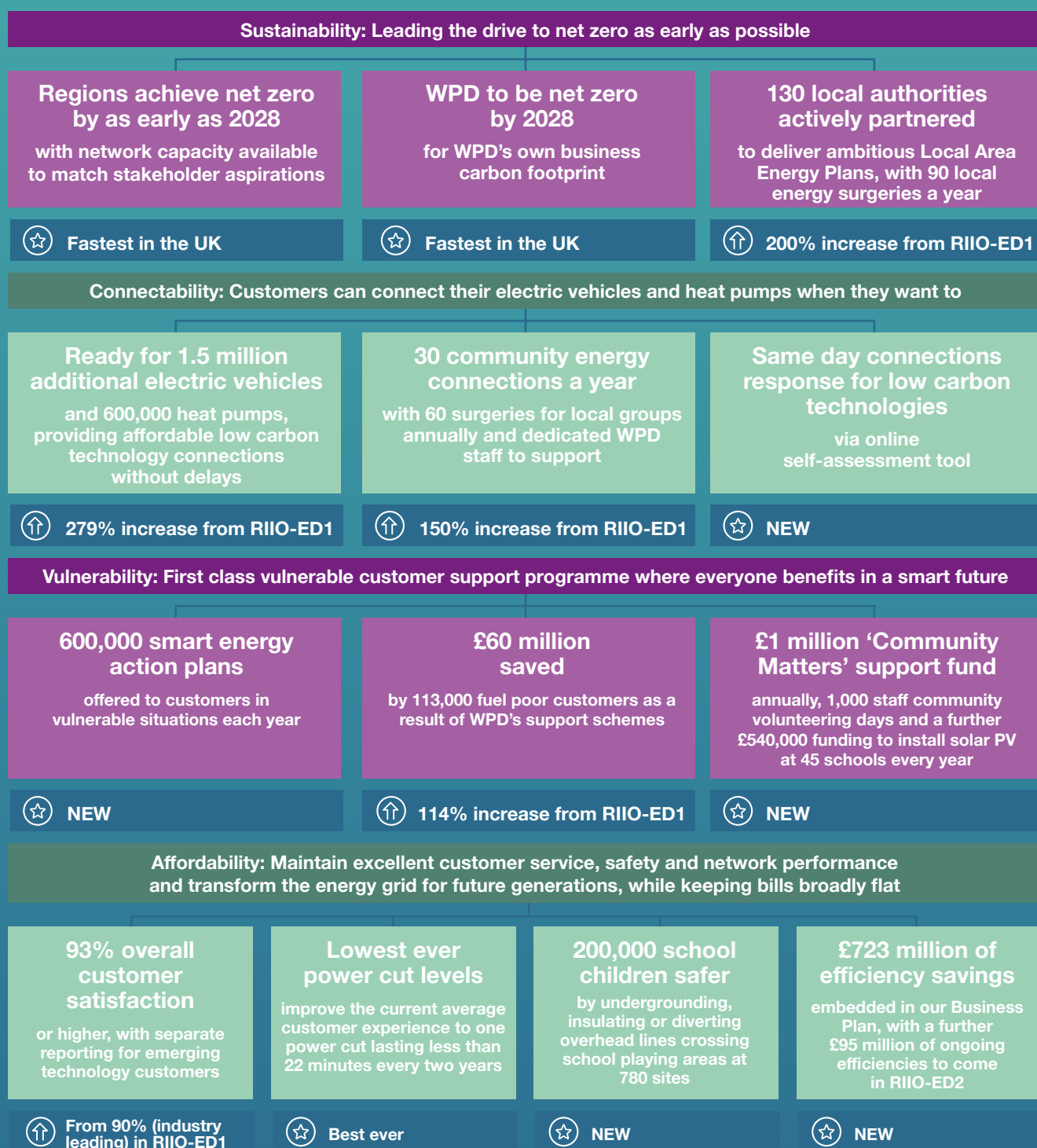
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Duncan McCombie
Chair of the Customer
Engagement Group

4. Highlights of our plan

We are proud to endorse a Business Plan that commits to investing £6.7 billion into network improvement, environmental sustainability and community energy projects in the five years to 2028.

Our plan has been co-created with stakeholders, starting from a blank sheet of paper, and is therefore aligned to the needs of our customers, both present and future. Because of this, we are confident our commitments reflect the priorities of our stakeholders, including their desire for us to focus on:



5. Board sign-off statements

We, the WPD Board, confirm that:

Our plan is ambitious

Our plan is extremely ambitious, based on challenging targets that have been co-created and revised in partnership with more than 25,000 of our stakeholders. Every core commitment in our Business Plan is based on an area of focus identified as a priority by stakeholders. Because we want our plan to be an accurate reflection of the level of ambition required by our stakeholders, we were the only DNO to consult with stakeholders on three initial drafts of our Business Plan. As a result of our early publication 60% of our core commitments increased in ambition. Following the first submission to Ofgem and its Challenge Group in July 2021 we made a number of further refinements and enhancements. This included the consolidation and merging of four core commitments to make the outcomes and benefits clearer and the addition of two entirely new commitments.

As Board members, we are proud that WPD continues to be an industry leader across all three of the high level pillars on which this Business Plan is built. As part of its central commitment to 'meet the needs of consumers and network users', WPD is setting new standards in customer service across a range of traditional and emerging communication platforms, ensuring that all customers, including the most vulnerable, receive the very highest levels of service and are not left behind as we make the transition to a smart energy future. Work to 'deliver an environmentally sustainable network' is underpinned by a vibrant culture of innovation, much of which has already been absorbed into 'Business as Usual' activity and which will continue to be crucial as we respond to the challenges of a fast changing energy landscape during RIIO-ED2. WPD is equally ambitious in its aim to 'maintain a safe and resilient network', as illustrated by its stretching target to reduce power cuts still further to their lowest ever levels.

Examples of where our plan has been made even more ambitious:

- **Net zero** - Stakeholders want us to lead the way when it comes to net zero. As a result, we are now committed to becoming a net zero company by 2028 – that is 22 years ahead of the government target.
- **Vulnerable customers** – We have upscaled our pledge to support vulnerable customers after stakeholders asked us to support 113,000 fuel poor customers to save £60 million on their energy bills over five years.
- **Connections services** – We are committed to delivering greater choice and customer satisfaction to connections customers, after feedback from stakeholders.
- **Community** – Our annual £1 million 'Community Matters' fund to support vulnerability and environmental initiatives in our communities will be funded entirely by shareholders, at no cost to the customer, in response to stakeholder feedback.
- **Ongoing efficiencies** – we increased our overall ambition on ongoing efficiency saving from £53 million to £95 million.

Our plan optimises the use of resources and is based on costs that are efficient

We strongly believe that our plan is efficient and utilises resources optimally to deliver excellent value for money for our customers. In fact, we have pledged to invest £6.7 billion in our network while keeping customer bills broadly flat. We are proposing to spend more money per year than during RIIO-ED1 to deliver the commitments outlined in this plan, including our role in supporting the transition to a net zero carbon future.

Over the course of RIIO-ED2, WPD's industry leading work to develop its DSO function will help to unlock a wealth of efficiency opportunities, as the development of flexible solutions and other innovations come on line. WPD is also committed to efficiency in its 'Business as Usual' activities.

Efficiency and value for customers is extremely important to us. However, stakeholders have told us that efficiency is about much more than the cost of delivery alone which is why we have combined our commitment to value for money with a determination not to compromise our high standards of customer service.

Our plan meets all legal and regulatory requirements

Our assurance programme utilised Data Assurance Guidance techniques to ensure all sections of the plan were evaluated to ensure legal and regulatory requirements were met, including those relating to the preparation of the Business Plan itself.

Our plan is built on effective stakeholder engagement

WPD has undertaken the most comprehensive and inclusive stakeholder engagement programme ever to arrive at the commitments we will deliver for stakeholders in RIIO-ED2. Stakeholders have helped to co-create and shape our Business Plan, as part of a rigorous engagement process that began in 2019.

Our ambitious process was a partnership with stakeholders to co-create and revise a plan that meets the diverse needs and expectations of the customers and communities we serve. We have sought to collaborate with stakeholders at every stage to develop the commitments and targets that reflect their priorities.

As part of the process, we engaged with more than 25,000 stakeholders at more than 280 events, co-created 1,000 priorities with our stakeholders, engaged with all 130 local authorities across our region and became the first DNO to establish a Customer Engagement Group, which has offered invaluable feedback and challenge throughout.

From the outset, we have worked with our stakeholders to develop our Business Plan in stages starting with a blank sheet of paper but following several principles from start to finish.

These ensured our engagement was:

- **Inclusive** – not excluding the hard to reach and seldom heard voices.
- **Transparent** – publishing all feedback and resulting actions.
- **Proactive** – reaching out to stakeholders.
- **Tailored** – using a range of engagement methods to suit different audiences.
- **Purposeful** – ensuring engagement led to action.
- **Expert led** – drawing on the expertise and experience of our staff.

Our plan is deliverable

It is important to everyone at WPD that we can build on the successes of RIIO-ED1 to deliver even more for our customers in RIIO-ED2. By delivering on our current commitments and learning from our achievements, we continue to demonstrate to stakeholders our determination to deliver on our future goals. This plan shows that we are more determined than ever to push the boundaries to deliver a first rate service, as we embrace the challenges of a rapidly changing energy landscape.

Our reputation for delivering on our commitments is well established. We were the only DNO to be fast tracked by the regulator in RIIO-ED1 and have been recognised as the leading company for customer service and for our ability to reduce costs and operate efficiently.

We will continue to harness our experience and learning across all areas of our business to ensure we continue to deliver, and go beyond, our commitments.

Our plan is financeable

Business Plans must also include licensee Board assurance that the Board is satisfied:

- That the licensee is financeable on both a notional and actual capital structure basis using Ofgem's working assumptions.
- Details of financeability challenges are identified and clearly set out.

Within Chapter 9 of our final submission Business Plan, Supplementary Annex SA-09 and associated appendices, we have provided a detailed assessment of the financial package prescribed by Ofgem in the published Business Plan Guidance document and the SSMD Finance Annex, and provided evidence to demonstrate whether our licensees are financeable on both a notional and actual capital structure basis, using the Ofgem working assumptions. As a result, we have identified that the outcome of the financeability metrics is significantly below WPD's stated ratio target and that there is a substantial downside risk on credit ratings, including the risk of sub-investment grade rating, for all of the WPD DNOs.

We have evaluated whether it is appropriate to adjust capitalisation rates, asset lives, dividends and gearing, or to refinance debt to address the financeability issues under Ofgem's working assumptions.

Our conclusion is that these measures do not provide adequate resolution to the financeability issues. A small uplift to the cost of equity and cost of debt is also appropriate. We therefore set out an alternative financing package which reflects these adjustments and we have also performed a detailed assessment of WPD's proposed alternative financial package. Full details of the outcome of our assessment of the Ofgem base case and our alternative financing package are set out in Appendices A01 and A02 of Supplementary Annex SA-09 Financing.

Given the critical importance of delivering net zero, and the level of investment our stakeholders have supported over the RIIO-ED2 period to facilitate this, our view is that Ofgem's working assumptions will not enable us to finance such a transformational plan.

Furthermore, we do not consider that Ofgem's cost of capital appropriately reflects the balance between the significant risks of underinvestment compared to the marginal impact of setting the cost of capital too high; it is this balance that has led regulators to "aim up" historically, whereas Ofgem's approach to setting the cost of equity and its outperformance adjustment has the opposite effect.

While we acknowledge that the financial ratios generated using Ofgem's BPFM under its own current working assumptions may not indicate a credit downgrade under all scenarios, it is clear that there are significant downside risks to Ofgem's working assumptions. It is also clear that there are wider considerations in any financeability assessment.

It is important that our licensees are not simply financeable, but have a robust enough financial position to withstand unforeseen shocks. For example, DNOs were expected to assist suppliers during the 2020 pandemic, and also more recently with the failure of suppliers due to the energy crisis, therefore if we are to provide support from our own balance sheet then Ofgem needs to ensure that we are financeable. One important consideration is the level of expenditure in this Business Plan that is subject to uncertainty mechanisms, which carries increased risk for our licensees and has not been considered in any of Ofgem's "Base case" financing scenarios.

It should also be recognised that in setting the RIIO-ED1 framework there was a reasonable prospect of achieving additional returns for investors through outperformance against price control incentive mechanisms. Ofgem's current limited proposals for the RIIO-ED2 incentive package do not present a range of opportunities linked to customer deliverables and are largely focused on downside adjustments to returns.

In light of the above, we do not consider that Ofgem's working assumptions are acceptable and therefore cannot provide assurance that our licensees are financeable under these assumptions.

The Board is satisfied that our licensees are financeable on both a notional and actual capital structure basis under WPD's proposed alternative financing proposals.

Our plan is accurate

As Board members, we are satisfied that an extensive assurance programme has been carried out to ensure the fulfilment of all our Business Plan objectives. Extensive resource was assigned to enable us to apply our three lines of defence model for assuring the accuracy of plan data and content. This has included a range of assurance approaches and specialist expertise to guarantee a high quality plan.

Signatories



Phil Swift
Chief Executive



Ian Williams
Finance Director



Graham Halladay
Operations Director



Alison Sleightholm
Resources & External
Affairs Director



Maurice Fletcher
Non Executive Director



Anthony Cardew
Non Executive Director





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