Annex 7.5

CREDIT METRICS

The credit ratings of companies and the bonds that they issue are an important indicator of the interest rate that those bonds will attract. Companies with worse credit ratings are likely to need to pay a higher interest rate on their borrowings. Credit metrics are a significant factor in rating agency decisions over credit ratings. We have therefore given consideration to the credit metrics we would achieve under the plan assumptions and the credit ratings these would be consistent with.

We have an obligation to maintain an investment-grade credit rating, which in our case means maintaining a BBB- or higher rating with Fitch and S&P and a Baa3 or higher rating with Moody's. In practice we target a higher rating of A- and A3, because this provides the business with financial flexibility in unexpected circumstances. It also allows for potential major increases in investment requirements like those associated with decarbonisation. Targeting a lower rating would mean issuing more debt finance (and paying the proceeds as dividends) but this can be costly to reverse in future, for example because debt is more expensive to buy back in the open market once it has been issued.

Quantitative credit rating factors are likely to be more challenging in the 2023-28 period with reduced scope for operational outperformance of the settlement. This is because we expect more challenging regulatory cost allowances and output delivery incentives than in the current period, 2015-23. There is also limited opportunity for us to further reduce average cash interest costs following our financing and refinancing activities in the 2015-23 period. These have reduced average interest costs on long term debt by around 1.5-2 percentage points.

This annex:

- considers the qualitative factors that rating agencies take into account when determining credit ratings;
- considers the appropriate proportion of equity finance (and financial gearing);
- sets out our key credit metrics, and the modelling assumptions they are based on, for:
    - the "notional" company the regulatory system assumes; and
    - our actual financial structure;
- sets out our financial projections (under a notional and actual financing structure);
- presents the results of Ofgem's stress tests under a notional financing structure; and
- presents the results of these same stress tests under our actual financing structure.

Qualitative factors

As well as the key financial ratios considered in this annex, the rating agencies also consider qualitative factors when arriving at a credit rating. These include:

- The regulatory environment and asset ownership model, which covers:
    - the stability and predictability of the regulatory regime;
    - the asset ownership model;
    - cost and investment recovery; and
    - revenue risk;
- the scale and complexity of the capital programme; and
- financial policies

Northern Powergrid (Northeast) plc ('Northeast') and Northern Powergrid (Yorkshire) plc ('Yorkshire') score highly on qualitative factors with rating agencies due to our prudent financial policies, which are reflected in gearing below sector peers and regulatory assumptions. We benefit further from having a track record of strong operational performance, particularly on output delivery incentives.

Equity ratio

The proportion of equity finance used in financing the regulatory asset value (RAV) is an important determinant of the outcome of credit metric modelling. If companies make use of more equity funding they have less debt and this makes them financially more robust to risks – because debt comes with fixed interest payments that do not vary depending on company performance. Credit rating agencies will therefore assign better credit ratings, all else held constant. Indeed, the gearing ratio (which is debt to RAV, or 1 minus the equity ratio) is one metric they consider directly in their assessment.

We have considered different levels of gearing while developing this plan:

- Levels of gearing above 60 per cent could save energy customers some tax costs, because more of the overall financing cost would be in the form of debt payments, which are shielded from corporation tax. However, at higher gearing levels, equity finance becomes more expensive (reflecting the fact it is more exposed to risk), therefore there are no wider benefits from switching apparently more expensive equity finance for apparently less expensive debt finance. When the wider effect on higher equity finance costs is taken into account, we would not expect a reduction in finance costs from higher gearing (ignoring any tax effects).
- Higher gearing could limit the financial flexibility of the sector to fund investments for the net zero transition. Companies with a lot of equity finance are better able to fund investments internally, without the need to always rely on tapping markets. At higher gearing this flexibility is lost.
- Reducing equity gearing for the notional company comes at a cost, since the associated equity issuance costs need to be funded during a step change like this.

Overall we have judged that the notional assumption used by Ofgem at the recent transmission and gas distribution reviews, of an equity ratio of 40 per cent, appears at this stage to be a reasonable notional assumption for the electricity distribution sector over 2023-28. We have therefore reflected this in our credit metric modelling under Ofgem's working assumptions below. Our actual equity ratio is higher, and debt-gearing lower; reflecting our corporate decisions. Our results presented on an actual company basis, below, therefore include this different value as their starting point.

Key credit metrics (and underlying assumptions)

Below we set out the underlying assumptions we have used in our financial modelling, along with the key credit metrics that result.

We do this first for the notional company, which has the financing structure and costs in line with our regulator's working assumptions, followed by results under our actual financing structure and debt costs.

Notional financing

Ofgem's Business Plan Financial Model (BPFM) generates the ratios used by Moody's to evaluate credit ratings. We have therefore used these ratios to assess whether our plan meets the relevant credit metrics under Ofgem's working assumptions on a notional company and actual basis. Ofgem has also incorporated in the model its view of the Moody's credit rating assessment.

We have assessed ourselves against a threshold of BBB+ or Baa1 for the credit tests set out in this business plan. This allows a modest amount of clearance compared to the very bottom of the investment grade range, and helps avoid the risk of unexpected circumstances pushing metrics below acceptable levels.

For the purposes of modelling the "notional company" base case that Ofgem uses to normalise differences across companies, we have used the assumptions set out in appendix five of Ofgem's RIIO-ED2 Business Plan Guidance document which are:

Financial variable	Ofgem's guidance	Assumption used				
		2023-24	2024-25	2025-26	2026-27	2027-28
Allowed return (weighted average cost of capital (WACC))	As set out in Table 3 of the [Sector Specific Methodology Decision]() - Finance Annex.	3.199%	3.120%	3.025%	2.913%	2.803%
Equity portion of RAV	Working assumption of 40% equity. Working assumption of an additional expected returns of 0.25% of equity portion of RAV representing an earned amount for the notional company in each year over 2023-28.	Assumptions as per Ofgem's guidance.				
Totex allowances	Totex allowances are assumed to equal totex cost forecast for 2023-28.	Assumption as per Ofgem's guidance.[1]				
Net debt	Net debt is reset to the working assumption notional gearing level (60% net debt to RAV) at the start of 2023-28, with any opening de-gearing assumed to be achieved by an equity injection or re-gearing assumed to be achieved by debt issuance.	Assumption as per Ofgem's guidance.				

[1] The results presented in this annex use a slightly different forecast timing profile to the values in our plan; this does not have any implications for the conclusions of the analysis and is immaterial relative to the year-to-year variations that can arise during a price control period.

Financial variable	Ofgem's guidance	Assumption used				
Debt costs	Debt costs are assumed to be equal to the working assumption for allowances set out in Ofgem's publication sector-specific Methodology Decision for 2023-28.	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**
		2.424%	2.277%	2.108%	1.910%	1.715%
Licensee debt	25% of the licensee's debt is assumed to be inflation linked.[2]	Assumption as per Ofgem's guidance.				
Tax allowances	Tax allowances are equal to tax costs, as calculated using the BPFM.	Assumption as per Ofgem's guidance.				
WACC allowance and RAV calculations	Immediate transition to CPIH from 1st April 2023 for WACC allowance and RAV calculations.	Assumption as per Ofgem's guidance.				
Opening RAV	Opening RAV to be based on totex forecasts for the 2015-23 period as provided in business plan data template (BPDT) submission, and inclusive of any known logged-up adjustments.	Assumption as per Ofgem's guidance.				
Revenues	Lagged revenue impacts arising from the 2015-23 period are excluded.	Assumption as per Ofgem's guidance.				
Depreciation rates	Depreciation rates to be proposed by the licensee based on useful economic lives and/or evidenced justification.	45 years.				
Capitalisation rates	Capitalisation rates to be proposed by the licensee based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, financeability and customer support.	Northeast 70%. Yorkshire 72%.				
Dividend yield	Dividend yield working assumption for modelling purposes of 3%.	Assumption as per Ofgem's guidance.				
Equity issuance transaction costs	Equity issuance transaction costs working assumption of 5% of any amount forecast to be issued.	Assumption as per Ofgem's guidance.				

Table 1: Modelling notional company base case against Ofgem business plan guidance

[2] The base scenario uses CPIH inflation (i.e. inflation measured using the consumer prices index including owner occupiers' housing costs) while a sensitivity uses RPI inflation (i.e. inflation using the retail prices index)

Taking Ofgem's modelling assumptions for the notional company, the base case gives an implied rating with Moody's, as calculated within Ofgem's model, of A3 for both Northeast and Yorkshire and would therefore pass Ofgem's credit tests.

Notional company	ED2 Average	
	Northeast	Yorkshire
Opening gearing	60%	60%
Average gearing	62%	63%
Funds from operations (FFO) Interest Cover (including accretions)	3.92x	3.78x
FFO Interest Cover (cash interest)	4.45x	4.28x
Adjusted Interest Cover Ratio (AICR) or post maintenances interest coverage ratio (PMICR)	1.46x	1.45x
Nominal PMICR	2.08x	2.08x
FFO/Net Debt	11.7%	11.0%
Retained cash flow (RCF)/Net Debt	9.8%	9.1%
Ofgem-implied Moody's rating	A3	A3

Key	A	Baa	Strained

Table 2: Results for the notional company base case

The scenario test showing an alternative of 25% RPI-linked debt rather than CPIH-linked debt causes some individual metrics to become strained, however on a combined basis still would pass Ofgem's credit tests with a Moody's implied credit rating of A3 for Northeast and Baa1 for Yorkshire.

Notional company– 25% RPI linked	2015-23 average	
	Northeast	Yorkshire
Opening gearing	60%	60%
Average gearing	62%	63%
FFO Interest Cover (including accretions)	3.92x	3.78x
FFO Interest Cover (cash interest)	4.20x	4.05x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.37x	1.37x
Nominal PMICR	2.09x	2.09x
FFO/Net Debt	11.7%	11.0%
RCF/Net Debt	9.8%	9.1%
Ofgem-implied Moody's rating	A3	Baa1

Table 3: Scenario test for the notional company at 25% RPI—linked debt

Actual financing

In addition to modelling the notional company, we also set out our results based on our actual debt costs and equity structure. For the purposes of modelling the actual company base case we have used the assumptions set out in appendix five of Ofgem's RIIO-ED2 Business Plan Guidance document which are:

<table>
<tr><th rowspan="2">Financial variable</th><th rowspan="2">Ofgem's guidance</th><th colspan="5">Assumption used</th></tr>
<tr><th>2023-24</th><th>2024-25</th><th>2025-26</th><th>2026-27</th><th>2027-28</th></tr>
<tr><td>Allowed return (WACC)</td><td>Allowed return (WACC) as set out in Table 3 of the sector specific methodology decision (SSMD) Finance Annex.</td><td>3.199%</td><td>3.120%</td><td>3.025%</td><td>2.913%</td><td>2.803%</td></tr>
<tr><td>Equity portion of RAV</td><td>Equal to 1-debt ratio (see below).

Working assumption or additional expected returns of 0.25% of equity portion of RAV representing an earned amount for the actual company in each year of 2023-28.</td><td colspan="5">A "starting point" assumption of a 49% equity finance for Northeast and 51% for Yorkshire as at 1 April 2023, in line with our current financing structure. Beyond this the equity ratio is driven by the dividend yield assumed (at 3% of the equity portion of RAV in the prior year).

Additional return assumption in line with Ofgem guidance.</td></tr>
<tr><td>Totex allowances</td><td>Totex allowances are assumed to equal totex cost forecast for 2023-28.</td><td colspan="5">Assumption as per Ofgem's guidance.</td></tr>
<tr><td>Net debt</td><td>Net debt to reflect actual company forecast net debt position for each year, as completed in the finance tables of the BPDTs.</td><td colspan="5">Assumption as per Ofgem's guidance.</td></tr>
<tr><td>Debt costs</td><td>Debt costs to reflect actual company forecast for debt costs, as set out in the finance tables of BPDTs.</td><td colspan="5">As per the BPDTs – in line with actual forecast debt costs.</td></tr>
<tr><td>Inflation</td><td>Proportion of inflation linked debt and proportion of interest expense that is principal inflation accretion in each year to reflect actual company forecast, as set out in the finance tables of BPDTs.</td><td colspan="5">No inflation linked debt.</td></tr>
<tr><td>Tax costs</td><td>Modelled forecast actual tax costs, incorporating forecasted financial information.</td><td colspan="5">As per the BPDTs.</td></tr>
<tr><td>WACC allowance and RAV calculations</td><td>Immediate transition to CPIH from 1st April 2023 for WACC allowance and RAV calculations.</td><td colspan="5">Assumption as per Ofgem's guidance.</td></tr>
<tr><td>Opening RAV</td><td>Opening RAV to be based on totex forecasts for the 2015-23 period as provided in BPDT submission, and inclusive of any known logged-up</td><td colspan="5">As per the BPDTs.</td></tr>
</table>

Financial variable	Ofgem's guidance	Assumption used
	adjustments.	
Revenues	Lagged revenue impacts arising from 2015-23, where these are expected, should be included if relevant.	No lagged revenue included.
Depreciation rates	Depreciation rates to be proposed by the licensee based on useful economic lives and/or evidenced justification.	We have used Ofgem's working assumption (45 years) so that our actual company results are comparable to the notional company and to the results other companies are likely to present. We have provided extensive evidenced justification that faster depreciation (and slower RAV growth) would be justified.
Capitalisation rates	Capitalisation rates to be proposed by the licensee based on operational practice to date, consideration of expected levels of opex and capex, balance of affordability, financeability and customer support.	Northeast 70%. Yorkshire 72%.
Dividend yield	Dividend and equity issuance to reflect actual company dividend policy and forecast equity issuance, as set out in finance tables of the BPDTs.	Dividends assumed at 3% of equity portion of RAV.
Equity issuance transaction costs	Equity issuance transaction costs as forecast by licensee for forecast equity issuance.	No equity issuance is assumed as the relevant thresholds are not reached.

Table 4: Modelling credit metrics using actual financing structure against Ofgem business plan guidance

Taking Ofgem's modelling assumptions for the actual company, the base case gives an implied rating with Moody's of A2 for Northeast and A3 for Yorkshire and would therefore pass Ofgem's credit tests.

Actual company	2015-23 average	
	Northeast	Yorkshire
Gearing	54%	55%
FFO Interest Cover (including accretions)	5.95x	5.13x
FFO Interest Cover (cash interest)	5.95x	5.13x
AICR or PMICR	1.86x	1.70x
Nominal PMICR	3.10x	2.80x
FFO/Net Debt	14.6%	13.7%
RCF/Net Debt	12.3%	11.4%
Ofgem implied Moody's rating	A2	A3

Key	A	Baa	Strained

Table 5: Credit metric results for the actual financing structure base case

Financial projections

Our regulator has required us to include financial projections as part of our business plan.

On each of the four panels below, we set out these financial projections in the form of an income statement and a cashflow statement. We provide them in turn for:

- Northeast under notional regulatory financial assumptions;
- Yorkshire under notional regulatory financial assumptions;
- Northeast under its actual financing structure; and
- Yorkshire under its actual financing structure.

Notional financing – northeast

£m	2024	2025	2026	2027	2028
INCOME STATEMENT					
Operating revenue	330.1	324.7	330.5	335.0	339.2
Controllable opex	(78.7)	(81.1)	(83.4)	(85.8)	(88.2)
Non-controllable opex	(35.9)	(36.9)	(38.2)	(39.6)	(41.0)
Equity issuance cost	(3.8)	-	-	-	-
Established pension deficit repair	(5.5)	-	-	-	-
Costs associated with other revenue allowances	(2.0)	(2.0)	(2.1)	(2.1)	(2.1)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**204.2**	**204.7**	**206.8**	**207.5**	**207.9**
Depreciation (statutory)	(117.9)	(119.0)	(120.7)	(121.5)	(122.0)
Earnings before interest and taxes (EBIT)	**86.3**	**85.7**	**86.1**	**86.1**	**86.0**
Net interest paid (excluding principal inflation accretion)	(37.2)	(38.6)	(39.7)	(40.4)	(41.1)
Net interest paid (principal inflation accretion)	(4.2)	(4.9)	(5.4)	(5.9)	(6.3)
Profit before tax (PBT)	**45.0**	**42.2**	**41.0**	**39.8**	**38.6**
Tax paid	(31.3)	(28.7)	(27.4)	(25.9)	(24.3)
Profit after tax (PAT)	**13.7**	**13.5**	**13.6**	**13.9**	**14.3**
Dividends paid	(19.6)	(20.8)	(22.1)	(23.5)	(25.0)
Retained earnings for the year	**(5.9)**	**(7.3)**	**(8.5)**	**(9.6)**	**(10.7)**

Table 6: Income Statement for Northeast under notional regulatory financial assumptions

£m	2024	2025	2026	2027	2028
CASH FLOW STATEMENT					
Operating revenue	330.1	324.7	330.5	335.0	339.2
Total operating costs	(125.9)	(120.0)	(123.7)	(127.4)	(131.3)
Net cash flow from operations	204.2	204.7	206.8	207.5	207.9
Net interest paid (excluding principal inflation accretion)	(37.2)	(38.6)	(39.7)	(40.4)	(41.1)
Tax paid	(31.3)	(28.7)	(27.4)	(25.9)	(24.3)
Funds from operations (FFO)	**135.7**	**137.5**	**139.7**	**141.3**	**142.6**
Dividends paid	(19.6)	(20.8)	(22.1)	(23.5)	(25.0)
Retained cash flow (RCF)	**116.1**	**116.6**	**117.6**	**117.7**	**117.6**
Net cash flow from capex	(183.6)	(189.2)	(194.6)	(200.1)	(205.8)
RAV adjustment from previous price controls	-	-	-	-	-
Pre-vesting and post-vesting disposal proceeds	-	-	-	-	-
Net cash flow before financing	**(67.5)**	**(72.6)**	**(77.0)**	**(82.4)**	**(88.2)**
Equity issuance	76.7	-	-	-	-
Net cash flow from financing	76.7	-	-	-	-
Change in net debt	**9.3**	**(72.6)**	**(77.0)**	**(82.4)**	**(88.2)**

Table 7: Cash flow statement for Northeast under notional regulatory financial assumptions

Notional financing – Yorkshire

£m	2024	2025	2026	2027	2028
INCOME STATEMENT					
Operating revenue	456.7	456.0	463.4	470.6	491.7
Controllable opex	(119.3)	(123.0)	(126.4)	(130.1)	(133.8)
Non-controllable opex	(50.6)	(52.0)	(53.7)	(55.5)	(57.3)
Equity issuance cost	(5.2)	-	-	-	(7.3)
Established pension deficit repair	(2.7)	-	-	-	-
Costs associated with other revenue allowances	(2.6)	(2.7)	(2.7)	(2.7)	(2.8)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**276.3**	**278.4**	**280.5**	**282.3**	**290.5**
Depreciation (statutory)	(155.8)	(158.4)	(160.0)	(161.5)	(164.6)
Earnings before interest and taxes (EBIT)	**120.5**	**120.0**	**120.5**	**120.8**	**125.9**
Net interest paid (excluding principal inflation accretion)	(51.1)	(54.2)	(57.0)	(59.0)	(56.1)
Net interest paid (principal inflation accretion)	(5.7)	(6.9)	(7.8)	(8.6)	(8.6)
Profit before tax (PBT)	**63.7**	**58.9**	**55.8**	**53.2**	**61.2**
Tax paid	(45.1)	(40.8)	(37.9)	(35.2)	(37.4)
Profit after tax (PAT)	**18.6**	**18.1**	**17.9**	**18.0**	**23.8**
Dividends paid	(27.0)	(29.1)	(31.3)	(33.6)	(36.0)
Retained earnings for the year	**(8.4)**	**(11.0)**	**(13.4)**	**(15.6)**	**(12.2)**

Table 8: Income statement for Yorkshire under notional regulatory financial assumptions

£m	2024	2025	2026	2027	2028
CASH FLOW STATEMENT					
Operating revenue	456.7	456.0	463.4	470.6	491.7
Total operating costs	(180.5)	(177.6)	(182.8)	(188.3)	(201.1)
Net cash flow from operations	276.3	278.4	280.5	282.3	290.5
Net interest paid (excluding principal inflation accretion)	(51.1)	(54.2)	(57.0)	(59.0)	(56.1)
Tax paid	(45.1)	(40.8)	(37.9)	(35.2)	(37.4)
Funds from operations (FFO)	**180.1**	**183.4**	**185.6**	**188.1**	**197.0**
Dividends paid	(27.0)	(29.1)	(31.3)	(33.6)	(36.0)
Retained cash flow (RCF)	**153.1**	**154.3**	**154.4**	**154.5**	**161.0**
Net cash flow from capex	(278.3)	(286.9)	(295.0)	(303.5)	(312.2)
RAV adjustment from previous price controls	-	-	-	-	-
Pre-vesting and post-vesting disposal proceeds	-	-	-	-	-
Net cash flow before financing	**(125.2)**	**(132.6)**	**(140.7)**	**(149.0)**	**(151.2)**
Equity issuance	104.1	-	-	-	145.9
Net cash flow from financing	104.1	-	-	-	145.9
Change in net debt	**(21.1)**	**(132.6)**	**(140.7)**	**(149.0)**	**(5.2)**

Table 9: Cash flow statement for Yorkshire under notional regulatory financial assumptions

Actual financing – northeast

£m	2024	2025	2026	2027	2028
INCOME STATEMENT					
Operating revenue	328.6	323.1	330.6	335.1	339.3
Controllable opex	(78.7)	(81.1)	(83.4)	(85.8)	(88.2)
Non-controllable opex	(35.9)	(36.9)	(38.2)	(39.6)	(41.0)
Equity issuance cost	-	-	-	-	-
Established pension deficit repair	(5.5)	-	-	-	-
Costs associated with other revenue allowances	(2.0)	(2.0)	(2.1)	(2.1)	(2.1)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**206.5**	**203.0**	**207.0**	**207.7**	**208.0**
Depreciation (statutory)	(81.6)	(86.4)	(90.5)	(93.7)	(95.5)
Earnings before interest and taxes (EBIT)	**124.9**	**116.7**	**116.5**	**114.0**	**112.5**
Net interest paid (excluding principal inflation accretion)	(26.2)	(26.9)	(29.0)	(31.2)	(35.4)
Net interest paid (principal inflation accretion)	-	-	-	-	-
Profit before tax (PBT)	**98.7**	**89.7**	**87.5**	**82.7**	**77.1**
Tax paid	(35.1)	(32.8)	(31.4)	(29.6)	(27.3)
Profit after tax (PAT)	**63.6**	**56.9**	**56.1**	**53.1**	**49.8**
Dividends paid	(19.8)	(21.3)	(22.8)	(24.5)	(26.2)
Retained earnings for the year	**43.7**	**35.6**	**33.3**	**28.6**	**23.6**

Table 10: Income statement for northeast under its actual financing structure

£m	2024	2025	2026	2027	2028
CASH FLOW STATEMENT					
Operating revenue	328.6	323.1	330.6	335.1	339.3
Total operating costs	(122.1)	(120.0)	(123.7)	(127.4)	(131.3)
Net cash flow from operations	206.5	203.0	207.0	207.7	208.0
Net interest paid (excluding principal inflation accretion)	(26.2)	(26.9)	(29.0)	(31.2)	(35.4)
Tax paid	(35.1)	(32.8)	(31.4)	(29.6)	(27.3)
Funds from operations (FFO)	**145.2**	**143.3**	**146.6**	**146.8**	**145.4**
Dividends paid	(19.8)	(21.3)	(22.8)	(24.5)	(26.2)
Retained cash flow (RCF)	**125.3**	**122.0**	**123.7**	**122.4**	**119.2**
Net cash flow from capex	(183.6)	(189.2)	(194.6)	(200.1)	(205.8)
RAV adjustment from previous price controls	-	-	-	-	-
Pre-vesting and post-vesting disposal proceeds	-	-	-	-	-
Net cash flow before financing	**(58.3)**	**(67.2)**	**(70.8)**	**(77.7)**	**(86.6)**
Equity issuance	-	-	-	-	-
Net cash flow from financing	-	-	-	-	-
Change in net debt	**(58.3)**	**(67.2)**	**(70.8)**	**(77.7)**	**(86.6)**

Table 11: Cash flow statement for northeast under its actual financing structure

Actual financing – Yorkshire

£m	2024	2025	2026	2027	2028
INCOME STATEMENT					
Operating revenue	454.6	453.7	463.5	470.7	491.8
Actual controllable opex	(119.3)	(123.0)	(126.4)	(130.1)	(133.8)
Non-controllable opex	(50.6)	(52.0)	(53.7)	(55.5)	(57.3)
Equity issuance cost	-	-	-	-	-
Established pension deficit repair	(2.7)	-	-	-	-
Costs associated with other revenue allowances	(2.6)	(2.7)	(2.7)	(2.7)	(2.8)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**279.3**	**276.1**	**280.7**	**282.5**	**298.0**
Depreciation (statutory)	(95.2)	(101.4)	(108.2)	(115.1)	(122.4)
Earnings before interest and taxes (EBIT)	**184.1**	**174.7**	**172.5**	**167.4**	**175.6**
Net interest paid (excluding principal inflation accretion)	(40.0)	(41.9)	(46.7)	(51.0)	(56.9)
Net interest paid (principal inflation accretion)	-	-	-	-	-
Profit before tax (PBT)	**144.1**	**132.8**	**125.9**	**116.3**	**118.7**
Tax paid	(49.3)	(45.6)	(42.5)	(39.3)	(39.4)
Profit after tax (PAT)	**94.8**	**87.2**	**83.4**	**77.0**	**79.4**
Dividends paid	(27.4)	(29.8)	(32.4)	(35.2)	(38.0)
Retained earnings for the year	**67.4**	**57.3**	**51.0**	**41.8**	**41.4**

Table 12: Income statement for Yorkshire under its actual financing structure

£m	2024	2025	2026	2027	2028
CASH FLOW STATEMENT					
Operating revenue	454.6	453.7	463.5	470.7	491.8
Total operating costs	(175.3)	(177.6)	(182.8)	(188.3)	(193.8)
Net cash flow from operations	279.3	276.1	280.7	282.5	298.0
Net interest paid (excluding principal inflation accretion)	(40.0)	(41.9)	(46.7)	(51.0)	(56.9)
Tax paid	(49.3)	(45.6)	(42.5)	(39.3)	(39.4)
Funds from operations (FFO)	**190.1**	**188.6**	**191.6**	**192.1**	**201.8**
Dividends paid	(27.4)	(29.8)	(32.4)	(35.2)	(38.0)
Retained cash flow (RCF)	**162.7**	**158.7**	**159.2**	**156.9**	**163.7**
Net cash flow from capex	(278.3)	(286.9)	(295.0)	(303.5)	(312.2)
RAV adjustment from previous price controls	-	-	-	-	-
Pre-vesting and post-vesting disposal proceeds	-	-	-	-	-
Net cash flow before financing	**(115.7)**	**(128.1)**	**(135.9)**	**(146.5)**	**(148.4)**
Equity issuance	-	-	-	-	-
Net cash flow from financing	-	-	-	-	-
Change in net debt	**(115.7)**	**(128.1)**	**(135.9)**	**(146.5)**	**(148.4)**

Table 13: Cash flow statement for Yorkshire under its actual financing structure

Risk management scenarios

Notional financing

In support of our overall assessment of Northern Powergrid's financial risk, we stress-tested the business against short- and long-term risks using scenarios that Ofgem specified. These scenarios are set out in the table below. In line with Ofgem's guidance we have not combined any of the risk scenarios.

Scenario	Variance
Interest rate	±1% compared to forward implied rates as per the base case in each year (for risk-free rate (RFR), Libor and iBoxx inputs)
CPIH	±1% in each year
CPIH divergence	±0.5% from assumed RPI-CPIH wedge
RPI divergence	±0.5% from assumed RPI-CPIH wedge
Totex[3]	±10%
Return on regulatory equity (RoRE)	±2% compared to base assumption
Proportion of inflation linked debt	±5%

Table 14: Ofgem specified risk management scenarios

We set out below the full results of these risk management scenarios for the notional and actual company, dedicating a single page to each for clear presentation.

In summary, under all these scenarios, taking Ofgem's current working assumptions for the relevant financial parameters and our plan, our business would pass Ofgem's credit tests over 2023-28.

The stress-test scenarios for a notional financing structure result in an implied Moody's rating, under Ofgem's prescribed calculations, of A3 in all but two scenarios.

These two scenarios (underperforming the totex allowances by ten percentage points and a two percentage point decrease in RoRE) would see our financial ratios placed under relatively severe stress. Several metrics would fall in the strained, sub-investment grade, category. Overall they imply a rating of Baa2, or Baa3 in the case of the underperformance on totex for Yorkshire.

PMICR is the most strained of all the metrics, falling below the Baa range in some of the downside scenarios. Whilst a lower PMICR in itself might not lead to a ratings downgrade, additional headroom in the metrics (for example through an increased cost of equity) would provide additional confidence that Ofgem's credit metric requirements are satisfied.

[3] We have performed the credit tests using Ofgem's model. This model has a known issue which overstates the impact of the totex scenarios on the credit metrics. We have assessed this issue and concluded that it would not alter our overall conclusion that we pass Ofgem's credit tests under Ofgem's scenarios.

Interest rate

There is no impact on the implied Moody's rating of A3 of one percentage point increase or decrease in the interest rate compared to the implied rates as per the base case.

Northeast	Ofgem base case	High interest rate (+1%)	Low interest rate (-1%)
Gearing	62%	62%	63%
FFO Interest Cover (including accretions)	3.92x	3.84x	4.01x
FFO Interest Cover (cash interest)	4.45x	4.32x	4.59x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.47x	1.44x
Nominal PMICR	2.08x	2.08x	2.10x
FFO/Net Debt	11.7%	11.9%	11.5%
RCF/Net Debt	9.8%	9.9%	9.6%
Ofgem implied Moody's rating	A3	A3	A3

Table 15: Northeast results for the interest rate stress test under notional financing

Yorkshire	Ofgem base case	High interest rate (+1%)	Low interest rate (-1%)
Gearing	63%	64%	63%
FFO Interest Cover (including accretions)	3.78x	3.64x	3.87x
FFO Interest Cover (cash interest)	4.28x	4.10x	4.42x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.45x	1.44x
Nominal PMICR	2.08x	2.04x	2.10x
FFO/Net Debt	11.0%	11.0%	10.8%
RCF/Net Debt	9.1%	9.1%	8.9%
Ofgem implied Moody's rating	A3	A3	A3

Table 16: Yorkshire results for the interest rate stress test under notional financing

CPIH

There is no impact on the implied Moody's rating of A3 of one percentage point increase or decrease in CPIH in each year, for either of our licensees.

The underlying metrics are affected, but each scenario (higher or lower CPIH) tends to improve some while worsening others.

Northeast	Ofgem base case	High CPIH (+1%)	Low CPIH (-1%)
Gearing	62%	61%	63%
FFO Interest Cover (including accretions)	3.92x	3.77x	4.15x
FFO Interest Cover (cash interest)	4.45x	4.54x	4.43x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.49x	1.45x
Nominal PMICR	2.08x	2.38x	1.79x
FFO/Net Debt	11.7%	11.7%	11.8%
RCF/Net Debt	9.8%	9.8%	9.9%
Ofgem-implied Moody's rating	A3	A3	A3

Table 17: Northeast results for the CPIH stress test under notional financing

Yorkshire	Ofgem base case	High CPIH (+1%)	Low CPIH (-1%)
Gearing	63%	63%	63%
FFO Interest Cover (including accretions)	3.78x	3.57x	4.00x
FFO Interest Cover (cash interest)	4.28x	4.30x	4.27x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.46x	1.45x
Nominal PMICR	2.08x	2.34x	1.79x
FFO/Net Debt	11.0%	10.8%	11.2%
RCF/Net Debt	9.1%	8.9%	9.3%
Ofgem-implied Moody's rating	A3	A3	A3

Table 18: Yorkshire results for the CPIH stress test under notional financing

RPI-CPIH divergence (CPIH)

There is no impact on the implied Moody's rating of A3 of half a percentage point increase or decrease in CPIH from the assumed RPI-CPIH wedge, for either of our licensees. Some individual metrics can be pushed into a strained category but, as with the CPIH scenario, different metrics tend to move in opposite directions.

Northeast	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	62%	63%	62%
FFO Interest Cover (including accretions)	3.92x	4.01x	3.83x
FFO Interest Cover (cash interest)	4.45x	4.41x	4.48x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.44x	1.47x
Nominal PMICR	2.08x	1.95x	2.21x
FFO/Net Debt	11.7%	11.7%	11.7%
RCF/Net Debt	9.8%	9.8%	9.7%
Ofgem-implied Moody's rating	A3	A3	A3

Table 19: Northeast results for the RPI-CPIH divergence (CPIH) stress test under notional financing

Yorkshire	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	63%	63%	63%
FFO Interest Cover (including accretions)	3.78x	3.87x	3.63x
FFO Interest Cover (cash interest)	4.28x	4.26x	4.25x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.44x	1.44x
Nominal PMICR	2.08x	1.96x	2.17x
FFO/Net Debt	11.0%	11.0%	10.8%
RCF/Net Debt	9.1%	9.1%	8.9%
Ofgem implied Moody's rating	A3	A3	A3

Table 20: Yorkshire results for the RPI-CPIH divergence (CPIH) stress test under notional financing

RPI-CPIH divergence (RPI)

There is no impact on the implied Moody's rating of A3 of half a percentage point increase or decrease in RPI from the assumed RPI-CPIH wedge, for either of our licensees.

This scenario has a relatively small impact on the underlying metrics.

Northeast	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	62%	62%	63%
FFO Interest Cover (including accretions)	3.92x	3.93x	3.91x
FFO Interest Cover (cash interest)	4.45x	4.46x	4.44x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.46x	1.45x
Nominal PMICR	2.08x	2.11x	2.06x
FFO/Net Debt	11.7%	11.7%	11.6%
RCF/Net Debt	9.8%	9.8%	9.7%
Ofgem implied Moody's rating	A3	A3	A3

Table 21: Northeast results for the RPI-CPIH divergence (RPI) stress test under notional financing

Yorkshire	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	63%	63%	63%
FFO Interest Cover (including accretions)	3.78x	3.78x	3.77x
FFO Interest Cover (cash interest)	4.28x	4.29x	4.28x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.45x	1.45x
Nominal PMICR	2.08x	2.11x	2.06x
FFO/Net Debt	11.0%	11.0%	11.0%
RCF/Net Debt	9.1%	9.1%	9.1%
Ofgem- implied Moody's rating	A3	A3	A3

Table 22: Yorkshire results for the RPI-CPIH divergence (RPI) stress test under notional financing

Totex

A ten percentage point underperformance in totex would result in a two notch decrease in the implied Moody's rating for Northeast to Baa2, and a three notch decrease to Baa3 for Yorkshire, with particular strain being placed on the PMICR and FFO/Net Debt ratios.

A ten percentage point over performance in totex would maintain the implied Moody's rating of A3.

Northeast	Ofgem base case	Totex out-performance (-10%)	Totex under-performance (+10%)
Gearing	62%	60%	63%
FFO Interest Cover (including accretions)	3.92x	4.43x	3.58x
FFO Interest Cover (cash interest)	4.45x	5.02x	4.06x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.88x	1.11x
Nominal PMICR	2.08x	2.49x	1.78x
FFO/Net Debt	11.7%	13.8%	10.2%
RCF/Net Debt	9.8%	11.8%	8.3%
Ofgem-implied Moody's rating	A3	A3	Baa2

Table 23: Northeast results for the totex stress test under notional financing

Yorkshire	Ofgem base case	Totex out performance (-10%)	Totex under performance (+10%)
Gearing	63%	61%	64%
FFO Interest Cover (including accretions)	3.78x	4.24x	3.38x
FFO Interest Cover (cash interest)	4.28x	4.81x	3.84x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.88x	1.07x
Nominal PMICR	2.08x	2.48x	1.74x
FFO/Net Debt	11.0%	12.9%	9.4%
RCF/Net Debt	9.1%	11.0%	7.5%
Ofgem-implied Moody's rating	A3	A3	Baa3

Table 24: Yorkshire results for the totex stress test under notional financing

Return on regulated equity (RoRE)

A two percentage point decrease in RoRE would result in a two notch decrease in implied Moody's rating to Baa2 for Northeast and Yorkshire, with particular strain being placed on the PMICR and FFO/Net Debt ratios.

A two percentage point increase in RoRE would maintain the implied Moody's rating of A3.

Northeast	Ofgem base case	RoRE (+2%)	RoRE (-2%)
Gearing	62%	60%	64%
FFO Interest Cover (including accretions)	3.92x	4.37x	3.57x
FFO Interest Cover (cash interest)	4.45x	4.95x	4.05x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.87x	1.09x
Nominal PMICR	2.08x	2.47x	1.75x
FFO/Net Debt	11.7%	13.5%	10.2%
RCF/Net Debt	9.8%	11.5%	8.3%
Ofgem-implied Moody's rating	A3	A3	Baa2

Table 25: Northeast results for the RoRE stress test under notional financing

Yorkshire	Ofgem base case	RoRE (+2%)	RoRE (-2%)
Gearing	63%	62%	64%
FFO Interest Cover (including accretions)	3.78x	4.14x	3.44x
FFO Interest Cover (cash interest)	4.28x	4.70x	3.90x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.83x	1.09x
Nominal PMICR	2.08x	2.43x	1.76x
FFO/Net Debt	11.0%	12.5%	9.6%
RCF/Net Debt	9.1%	10.6%	7.7%
Ofgem-implied Moody's rating	A3	A3	Baa2

Table 26: Yorkshire results for the RoRE stress test under notional financing

Inflation-linked debt

There is no impact on the implied Moody's rating of A3 of a five percentage point increase or decrease in proportion of inflation-linked debt compared to the notional company assumption of 25%, for Northeast or Yorkshire.

This scenario has little impact on any of the underlying metrics.

Northeast	Ofgem base case	Inflation linked debt (+5%)	Inflation linked debt (-5%)
Gearing	62%	62%	62%
FFO Interest Cover (including accretions)	3.92x	3.92x	3.92x
FFO Interest Cover (cash interest)	4.45x	4.57x	4.33x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.46x	1.50x	1.42x
Nominal PMICR	2.08x	2.09x	2.08x
FFO/Net Debt	11.7%	11.7%	11.7%
RCF/Net Debt	9.8%	9.8%	9.7%
Ofgem-implied Moody's rating	A3	A3	A3

Table 27: Northeast results for the inflation linked debt stress test under notional financing

Yorkshire	Ofgem base case	Inflation linked debt (+5%)	Inflation linked debt (-5%)
Gearing	63%	63%	63%
FFO Interest Cover (including accretions)	3.78x	3.78x	3.77x
FFO Interest Cover (cash interest)	4.28x	4.41x	4.17x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.45x	1.49x	1.41x
Nominal PMICR	2.08x	2.09x	2.08x
FFO/Net Debt	11.0%	11.0%	11.0%
RCF/Net Debt	9.1%	9.1%	9.1%
Ofgem- implied Moody's rating	A3	A3	A3

Table 28: Yorkshire results for the inflation linked debt stress test under notional financing

Actual financing

As well as the financials stress tests under a notional financing structure, set out above, we have also calculated the impact on the credit metrics of each of the stress-test scenarios on the actual company for Northeast and Yorkshire. These are set out below.

In summary, the actual company stress-test scenarios for:

- Northeast result in an implied Moody's rating, under Ofgem's prescribed calculations, of A2 in all but two scenarios (a one percentage point increase in the interest rate, underperforming the totex allowances by ten percentage points and a two percentage point decrease in RoRE, would all imply a rating of A3).

- Yorkshire result in an implied Moody's rating of A3 in all but three scenarios (underperforming the totex allowances by ten percentage points would imply a rating of Baa1, outperforming the totex allowances by ten percentage points would increase the rating to A2 and a two percentage point increase in RoRE would imply a rating of A2).

PMICR is the most strained of all the metrics, falling below the Baa range in one of the downside scenarios. Whilst a lower PMICR in itself might not lead to a ratings downgrade, additional headroom in the metrics (for example through an increased cost of equity) would provide additional confidence that Ofgem's credit metric requirements are satisfied.

Interest rate

A one percentage point increase in the interest rate compared to the implied rates as per the base case would result in a one notch decrease in the implied rating from A2 to A3 for Northeast. There is no impact on the implied rating in any other case under this scenario.

Northeast	Ofgem base case	High interest rate (+1%)	Low interest rate (-1%)
Gearing	54%	54%	54%
FFO Interest Cover (including accretions)	5.95x	5.53x	6.47x
FFO Interest Cover (cash interest)	5.95x	5.53x	6.47x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	1.81x	1.92x
Nominal PMICR	3.10x	2.94x	3.30x
FFO/Net Debt	14.6%	14.7%	14.5%
RCF/Net Debt	12.3%	12.5%	12.2%
Ofgem- implied Moody's rating	A2	A3	A2

Table 29: Northeast results for the interest rate stress test under actual financing

Yorkshire	Ofgem base case	High interest rate (+1%)	Low interest rate (-1%)
Gearing	55%	55%	55%
FFO Interest Cover (including accretions)	5.13x	4.62x	5.79x
FFO Interest Cover (cash interest)	5.13x	4.62x	5.79x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	1.59x	1.82x
Nominal PMICR	2.80x	2.56x	3.10x
FFO/Net Debt	13.7%	13.5%	13.7%
RCF/Net Debt	11.4%	11.3%	11.4%
Ofgem-implied Moody's rating	A3	A3	A3

Table 30: Yorkshire results for the interest rate stress test under actual financing

CPIH

There is no impact on the implied Moody's rating of A2 for Northeast, or A3 for Yorkshire, of a one percentage point increase or decrease in CPIH in each year.

Northeast	Ofgem base case	High CPIH (+1%)	Low CPIH (-1%)
Gearing	54%	52%	56%
FFO Interest Cover (including accretions)	5.95x	6.17x	5.77x
FFO Interest Cover (cash interest)	5.95x	6.17x	5.77x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	1.91x	1.84x
Nominal PMICR	3.10x	3.82x	2.45x
FFO/Net Debt	14.6%	15.2%	14.1%
RCF/Net Debt	12.3%	13.0%	11.8%
Ofgem-implied Moody's rating	A2	A2	A2

Table 31: Northeast results for the CPIH stress test under actual financing

Yorkshire	Ofgem base case	High CPIH (+1%)	Low CPIH (-1%)
Gearing	55%	53%	57%
FFO Interest Cover (including accretions)	5.13x	5.28x	4.98x
FFO Interest Cover (cash interest)	5.13x	5.28x	4.98x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	1.71x	1.67x
Nominal PMICR	2.80x	3.40x	2.21x
FFO/Net Debt	13.7%	14.1%	13.2%
RCF/Net Debt	11.4%	11.9%	10.9%
Ofgem-implied Moody's rating	A3	A3	A3

Table 32: Yorkshire results for the CPIH stress test under actual financing

RPI-CPIH divergence (CPIH)

There is no impact on the implied Moody's rating of A2 for Northeast, or A3 for Yorkshire, of a half a percentage point increase or decrease in CPIH from the assumed RPI-CPIH wedge.

Northeast	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	54%	55%	54%
FFO Interest Cover (including accretions)	5.95x	5.90x	6.00x
FFO Interest Cover (cash interest)	5.95x	5.90x	6.00x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	1.85x	1.87x
Nominal PMICR	3.10x	2.81x	3.39x
FFO/Net Debt	14.6%	14.5%	14.8%
RCF/Net Debt	12.3%	12.2%	12.5%
Ofgem-implied Moody's rating	A2	A2	A2

Table 33: Northeast results for the RPI-CPIH divergence (CPIH) stress test under actual financing

Yorkshire	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	55%	55%	54%
FFO Interest Cover (including accretions)	5.13x	5.10x	5.14x
FFO Interest Cover (cash interest)	5.13x	5.10x	5.14x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	1.70x	1.68x
Nominal PMICR	2.80x	2.55x	3.03x
FFO/Net Debt	13.7%	13.6%	13.7%
RCF/Net Debt	11.4%	11.3%	11.4%
Ofgem-implied Moody's rating	A3	A3	A3

Table 34: Yorkshire results for the RPI-CPIH divergence (CPIH) stress test under actual financing

RPI-CPIH divergence (RPI)

There is no impact on the implied Moody's rating of A2, or A3 for Yorkshire, of a half a percentage point increase or decrease in RPI from the assumed RPI-CPIH wedge.

Northeast	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	54%	54%	55%
FFO Interest Cover (including accretions)	5.95x	6.00x	5.89x
FFO Interest Cover (cash interest)	5.95x	6.00x	5.89x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	1.88x	1.85x
Nominal PMICR	3.10x	3.16x	3.04x
FFO/Net Debt	14.6%	14.8%	14.5%
RCF/Net Debt	12.3%	12.5%	12.2%
Ofgem- implied Moody's rating	A2	A2	A2

Table 35: Northeast results for the RPI-CPIH divergence (RPI) stress test under actual financing

Yorkshire	Ofgem base case	+0.5% from assumed wedge	-0.5% from assumed wedge
Gearing	55%	54%	55%
FFO Interest Cover (including accretions)	5.13x	5.18x	5.09x
FFO Interest Cover (cash interest)	5.13x	5.18x	5.09x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	1.71x	1.69x
Nominal PMICR	2.80x	2.85x	2.75x
FFO/Net Debt	13.7%	13.8%	13.5%
RCF/Net Debt	11.4%	11.5%	11.3%
Ofgem- implied Moody's rating	A3	A3	A3

Table 36: Yorkshire results for the RPI-CPIH divergence (RPI) stress test under actual financing

Totex

A ten percentage point underperformance in totex would result in a one notch decrease in the implied Moody's rating to A3 for Northeast, and Baa1 for Yorkshire, with particular strain being placed on the PMICR ratio.

A ten percentage point over performance in totex would maintain the implied Moody's rating of A2 for Northeast, and result in a one notch increase to A2 for Yorkshire.

Northeast	Ofgem base case	Totex out performance (-10%)	Totex under performance (+10%)
Gearing	54%	51%	57%
FFO Interest Cover (including accretions)	5.95x	6.81x	5.24x
FFO Interest Cover (cash interest)	5.95x	6.81x	5.24x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	2.47x	1.37x
Nominal PMICR	3.10x	3.77x	2.56x
FFO/Net Debt	14.6%	17.3%	12.5%
RCF/Net Debt	12.3%	14.8%	10.3%
Ofgem- implied Moody's rating	A2	A2	A3

Table 37: Northeast results for the totex stress test under actual financing

Yorkshire	Ofgem base case	Totex out performance (-10%)	Totex under performance (+10%)
Gearing	55%	51%	58%
FFO Interest Cover (including accretions)	5.13x	5.92x	4.44x
FFO Interest Cover (cash interest)	5.13x	5.92x	4.44x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	2.25x	1.21x
Nominal PMICR	2.80x	3.42x	2.26x
FFO/Net Debt	13.7%	16.3%	11.4%
RCF/Net Debt	11.4%	13.9%	9.3%
Ofgem- implied Moody's rating	A3	A2	Baa1

Table 38: Northeast results for the totex stress test under actual financing

RoRE

A two percentage point decrease in RoRE would result in a one notch decrease in implied Moody's rating to A3 for Northeast, while Yorkshire would remain at A3. A two percentage point increase in RoRE would maintain the implied Moody's rating of A2 for Northeast, while implying a one notch increase to A2 for Yorkshire.

Northeast	Ofgem base case	RoRE (+2%)	RoRE (-2%)
Gearing	54%	53%	55%
FFO Interest Cover (including accretions)	5.95x	6.35x	5.61x
FFO Interest Cover (cash interest)	5.95x	6.35x	5.61x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.86x	2.21x	1.57x
Nominal PMICR	3.10x	3.46x	2.79x
FFO/Net Debt	14.6%	15.9%	13.6%
RCF/Net Debt	12.3%	13.5%	11.3%
Ofgem- implied Moody's rating	A2	A2	A3

Table 39: Northeast results for the RORE stress test under actual financing

	Ofgem base case	RoRE (+2%)	RoRE (-2%)
Gearing	55%	54%	55%
FFO Interest Cover (including accretions)	5.13x	5.45x	4.82x
FFO Interest Cover (cash interest)	5.13x	5.45x	4.82x
Adjusted Interest Cover Ratio (AICR) or PMICR	1.70x	1.97x	1.43x
Nominal PMICR	2.80x	3.09x	2.51x
FFO/Net Debt	13.7%	14.8%	12.6%
RCF/Net Debt	11.4%	12.4%	10.4%
Ofgem- implied Moody's rating	A3	A2	A3

Table 40: Yorkshire results for the RORE stress test under actual financing

Inflation-linked debt

As Northern Powergrid has no inflation-linked debt, this scenario is not relevant for the company under its actual financing structure.