OCT 17 - MAR 18 TAX REPORT

Transmission & Distribution RP6 Price Control

01 July 2022

Contents

1. LICENCE REQUIREMENT 3

2. TRANSMISSION TAX ENTITLEMENT 4

3. DISTRIBUTION TAX ENTITLEMENT 9

4. COMPARISON OF TAX ENTITLEMENT TO STATUTORY TAX 14

5. ANALYSIS OF CAPITAL ADDITIONS IN TAX RETURNS 16

6. RECONCILIATION OF REGULATORY CAPITAL ALLOWANCES TO STATUTORY TAX RETURNS 18

7. RETROSPECTIVE ADJUSTMENTS 19

1. LICENCE REQUIREMENT

Paragraph 12.35 of Annex 2 of Northern Ireland Electricity Ltd's Electricity Distribution and Participate in Transmission Licences requires NIE Networks to furnish the Utility Regulator with an annual tax report which sets out the following:

a) audited tax reports that enables a full reconciliation between:
   i. information submitted to HMRC on the Licensee's tax affairs; and
   ii. Information used for the calculation of the tax element of the Licensee's Maximum Regulated Distribution / Transmission Revenue, as calculated at paragraph 9 of Annex 2 of the Licences;
b) information submitted to HMRC on the Licensee's tax affairs;
c) information used for the calculation of the tax element of the Licensee's Maximum Regulated Distribution / Transmission Revenue, as calculated at paragraph 9 of Annex 2 of the Licences; and
d) any retrospective adjustments in respect of previous years together with any restatement of 12.35 (a), 12.35 (b) and 12.35 (c).

This audited report has been designed to fulfil this licence requirement. Sections 2 to 6 address the requirements of Paragraphs 12.35 (a), 12.35 (b) and 12.35 (c) and Section 7 addresses the requirement of Paragraph 12.35 (d).

The Licence requirements above are effective for the RP6 price control period. The RP6 price control spans six and a half years from October 2017 – March 2024.

Note that all figures in this report are in nominal prices.

2. TRANSMISSION TAX ENTITLEMENT

Oct 17 – Mar 18 Tax calculation

The following paragraphs set out the calculation of the tax amount included within Transmission Entitlement for the regulatory reporting year Oct 17 – Mar 18.

Tax Amount – TAX_t

The maximum regulated transmission revenue for NIE Networks is set out in Paragraph 3.5 of Annex 2 of the Transmission Licence. This formula is as follows:

$$RP6R_t = DEP_t + RET_t + BD_t + O_t + P_t + TAX_t + K_t$$

TAX_t is one of the components of allowed revenue and is calculated in accordance with the following formula set out in Paragraph 9.1 of Annex 2:

$$TAX_t = TR_t / (1 - TR_t) * (RET_t + DEP_t - INT_t - CA_t)$$

Tax Rate – TR_t

TR_t represents the corporation tax rate applicable in Northern Ireland as specified by HMRC which in Oct 17 – Mar 18 is 19%. The tax factor TR_t / (1 – TR_t) is therefore 23.5%.

Return Amount – RET_t

RET_t represents the return on the Regulatory Asset Base (RAB). It is calculated by taking the average value of the opening ($ORAB\_X_t$) and closing ($CRAB\_X_t$) values of the individual RABs and multiplying them by the adjusted vanilla weighted average cost of capital ($AVWACC_t$). The formula for calculating RET_t is set out in Paragraph 5.1 of Annex 2:

$$RET_t = \left(\sum_{\text{All RAB\_X}} (ORAB\_X_t + CRAB\_X_t) / 2 \right) * AVWACC_t$$

In Oct 17 – Mar 18 the average value of all Transmission RABs is £337m and the adjusted vanilla WACC is 3.092%. The RET_t value for Oct 17 – Mar 18 is therefore **£5.217m**.

Depreciation amount – DEP_t

DEP_t represents the depreciation amount and is calculated in accordance with the formula set out in Paragraph 4.43 of Annex 2:

$$DEP_t = \sum_{\text{All RAB\_X}} (DEPADD\_X_t + FDEP\_X_t)$$

$DEPADD\_X_t$ represents the depreciation amount for capex incurred on network assets from 1 October 2017 onwards.

$FDEP\_X_t$ represents the depreciation amount of capex incurred on network assets prior to 30 September 2017.

The DEP_t value for Oct 17 – Mar 18 is **£8.124m**.

Interest amount – INT_t

INT_t means an amount equal to the interest on the value of the average of all Transmission RABs calculated in accordance with the following formula set out in Paragraph 9.1 of Annex 2:

$$INT_t = \left(\sum_{\text{All RAB\_X}} (ORAB\_X_t + CRAB\_X_t) / 2 \right) * G * NCOD$$

Where: G represents notional gearing and has a value of 45%

NCOD represents a notional nominal cost of debt with a value of 4.89%.

In Oct 17 – Mar 18 the average value of all Transmission RABs is £337m which equates to an INT_t figure of **£3.715m**.

Regulatory capital allowances – CA_t

CA_t represents the value of capital allowances calculated in accordance with guidelines published by HMRC. There are three main groupings or ‘pools’ used in the calculation of capital allowances; a) a long-life asset pool, b) a general pool and c) a deferred revenue pool. There are three pools because different types of assets attract different capital allowance percentages.

Each pool is classed as follows:

Capital Allowance Pool	Useful economic life	Capital allowance rate for Oct 17 – Mar 18	Comments
Long-life asset pool	25 years or greater	8% reducing balance	This includes transmission and renewables 40-year capex and tree cutting capex.
General pool	Less than 25 years	18% reducing balance	This includes non-network IT capex.
Deferred revenue pool	N/A	2.5% straight line	This represents the proportion of capital expenditure which is classified as non-load related expenditure where we are replacing worn assets on a like-for-like basis or the nearest modern equivalent basis

The classification of capital expenditure for tax purposes across various tax pools is determined by tax legislation and HMRC working agreements.

CA_t is calculated by taking the opening written down value of the various capital allowance pools for the relevant year. Capital additions are then added to the opening value to give a total value on which capital allowances can be claimed for that year. The capital allowance figure is then deducted to give the closing written down value (WDV) which becomes the opening value for the next year.

In order to properly calculate the capital allowances for Oct 17 – Mar 18, the full 2017/18 year needs to be analysed. The opening WDVs for 2017/18 are set out in Table 4 of the 2016/17 Tax Report and shown in Table 1.

Table 1: 2017/18 Opening Written Down Values

Pool	£m
Long-life asset pool	131.827
General pool	1.360
Deferred revenue pool	35.015
Cumulative additions for Deferred Revenue Pool	42.224

Regulatory additions

The statutory capex additions for Transmission in Oct 17 – Mar 18 are £16.768m. Regulatory additions are £10.182m which includes a capex incentive adjustment of (£1.805m). The reconciliation of statutory capex additions to regulatory additions is shown in Table 2 below.

Table 2: Reconciliation of Statutory Capex to Regulatory Additions

Ref	Description	£m
A	Gross Statutory Capex per “Rec 2 – Capex” of Financial Data RIGs	16.768
	Items included in Regulatory Additions but not in Statutory Capex Additions	
B	Customer Contributions - Approved Generation Cluster Infrastructure	(4.488)
C	D5 Mechanism Costs (opex costs included within qualifying capex)	0.042
	Items in Statutory Capex additions but not included in Regulatory Additions	
D	Legacy RP5 Dt Items	(0.334)
E	**Total Regulatory Additions**	**11.987**
F	Capex Incentive Adjustment	(1.805)
G	**Total Regulatory Additions (Including Capex Incentive)**	**10.182**

This Regulatory additions figure is then adjusted for non qualifying capex items to give capital additions eligible for capital allowances of £10.114m. This is then split across the three tax pools, as shown in Table 3 in line with HMRC guidance.

Table 3: Allocation of Additions by Capital Allowance Pool

Ref	Description	Long-Life Asset Pool	General Pool	Deferred Revenue Pool	Total
		£m	£m	£m	£m
A	Regulatory Additions	10.560	0.062	1.365	**11.987**
B	Capex Incentive Adjustment	(1.907)	0.102	-	**(1.805)**
C	Adjustment for Non-Qualifying Capex	(0.067)	-	-	**(0.067)**
D	**Total Additions for TAX_t Capital Allowances**	**8.585**	**0.163**	**1.365**	**10.114**

The capex additions are then added to the opening WDV and capital allowances are calculated. Table 4 sets out the capital allowances used in the calculation of regulated revenue entitlement for Oct 17 – Mar 18.

Table 4: Oct 17 – Mar 18 Capital Allowance Calculation

Description	**Long-Life Asset Pool**	**General Pool**	**Deferred Revenue Pool**	**Total**
	£m	**£m**	**£m**	**£m**
Opening WDV @ 01/04/2017	131.827	1.360	35.015	**168.201**
Additions (Apr – Sept 17 – prior report)	13.971	0.385	1.765	**16.121**
Additions (Oct 17 – Mar 18 – Table 3)	8.585	0.163	1.365	**10.114**
Adjusted WDV	154.383	1.909	38.145	**194.436**
Capital Allowances (Apr – Mar 18)	(12.351)	(0.344)	(1.134)	**(13.828)**
Closing WDV @ 31/03/2018	**142.032**	**1.565**	**37.011**	**180.608**
Capital Allowances (Apr – Mar 18)	12.351	0.344	1.134	**13.828**
Capital Allowances (Apr – Sept 17 – prior report)	(6.391)	(0.192)	(0.572)	**(7.154)**
Capital Allowances (Oct 17 – Mar 18)	**5.960**	**0.152**	**0.562**	**6.674**
Capital Allowance Rate	8% Reducing Balance	18% Reducing Balance	2.5% Straight Line	
Deferred Revenue Pool				
Cumulative Additions to 01/04/2017			42.224	
Additions (Apr – Mar 18)			3.130	
Cumulative Additions to 31/03/2018			45.355	
Capital Allowances			**1.134**	

The CA_t amount for Oct 17 – Mar 18 is **£6.674m**.

Calculation of TAX_t

When the various components of TAX_t are inserted into the licence formula, the value of TAX_t for Oct 17 – Mar 18 is **£0.693m** as detailed in Table 5 below.

$$TAX_t = TR_t / (1 - TR_t) * (RET_t + DEP_t - INT_t - CA_t)$$

Table 5: Calculation of TAX_t

Formula	£m
Return on RAB – RET_t	5.217
RAB Depreciation – DEP_t	8.124
Less Interest – INT_t	(3.715)
Less Capital Allowances – CA_t	(6.674)
	2.953
Tax Factor – TR_t / (1 - TR_t)	23.5%
Tax Entitlement – TAX_t	**0.693**

3. DISTRIBUTION TAX ENTITLEMENT

Oct 17 – Mar 18 Tax calculation

The following paragraphs set out the calculation of the tax amount included within Distribution Entitlement for the regulatory reporting year Oct 17 – Mar 18.

Tax Amount – TAX_t

The maximum regulated distribution revenue for NIE Networks is set out in Paragraph 3.5 of Annex 2 of the Distribution Licence. This formula is as follows:

$$RP6R_t = DEP_t + RET_t + BD_t + RI_t + O_t + P_t + TAX_t - RPSI_t + K_t$$

TAX_t is one of the components of allowed revenue and is calculated in accordance with the following formula set out in Paragraph 9.1 of Annex 2:

$$TAX_t = TR_t / (1 - TR_t) * (RET_t + DEP_t - INT_t - CA_t)$$

Tax Rate – TR_t

TR_t represents the corporation tax rate applicable in Northern Ireland as specified by HMRC which in Oct 17 – Mar 18 is 19%. The tax factor TR_t / (1 – TR_t) is therefore 23.5%.

Return Amount – RET_t

RET_t represents the return on the Regulatory Asset Base (RAB). It is calculated by taking the average value of the opening ($ORAB\_X_t$) and closing ($CRAB\_X_t$) values of the individual RABs and multiplying them by the adjusted vanilla weighted average cost of capital ($AVWACC_t$). The formula for calculating RET_t is set out in Paragraph 5.1 of Annex 2:

$$RET_t = \left(\sum_{\text{All RAB\_X}} (ORAB\_X_t + CRAB\_X_t) / 2 \right) * AVWACC_t$$

In Oct 17 – Mar 18 the average value of all Distribution RABs is £1,147m and the adjusted vanilla WACC is 3.092%. The RET_t value for Oct 17 – Mar 18 is therefore **£17.727m**.

Depreciation amount – DEP_t

DEP_t represents the depreciation amount and is calculated in accordance with the formula set out in Paragraph 4.60 of Annex 2:

$$DEP_t = \sum_{\text{All RAB\_X}} (DEPADD\_X_t + FDEP\_X_t)$$

$DEPADD\_X_t$ represents the depreciation amount for capex incurred on network assets from 1 October 2017 onwards.

$FDEP\_X_t$ represents the depreciation amount of capex incurred on network assets prior to 30 September 2017.

The DEP_t value for Oct 17 – Mar 18 is **£37.020m**.

Interest amount – INT_t

INT_t means an amount equal to the interest on the value of the average of all Distribution RABs calculated in accordance with the following formula set out in Paragraph 9.1 of Annex 2:

$$INT_t = \left(\sum_{\text{All RAB\_X}} (ORAB\_X_t + CRAB\_X_t) / 2 \right) * G * NCOD$$

Where: G represents notional gearing and has a value of 45%

NCOD represents a notional nominal cost of debt with a value of 4.89%.

In Oct 17 – Mar 18 the average value of all Distribution RABs is £1,147m which equates to an INT_t figure of **£12.623m**.

Regulatory capital allowances – CA_t

CA_t represents the value of capital allowances calculated in accordance with guidelines published by HMRC. There are three main groupings or 'pools' used in the calculation of capital allowances; a) a long-life asset pool, b) a general pool and c) a deferred revenue pool. There are three pools because different types of assets attract different capital allowance percentages.

Each pool is classed as follows:

Capital Allowance Pool	Useful economic life	Capital allowance rate for Oct 17 – Mar 18	Comments
Long-life asset pool	25 years or greater	8% reducing balance	This includes distribution 40-year capex, tree cutting capex and domestic contributions.
General pool	Less than 25 years	18% reducing balance	This includes metering, market opening and IT capex.
Deferred revenue pool	N/A	2.5% straight line	This represents the proportion of capital expenditure which is classified as non-load related expenditure where we are replacing worn assets on a like-for-like basis or the nearest modern equivalent basis

The classification of capital expenditure for tax purposes across various tax pools is determined by tax legislation and HMRC working agreements.

CA_t is calculated by taking the opening written down value of the various capital allowance pools for the relevant year. Capital additions are then added to the opening value to give a total value on which capital allowances can be claimed for that year. The capital allowance figure is then deducted to give the closing written down value (WDV) which becomes the opening value for the next year.

In order to properly calculate the capital allowances for Oct 17 – Mar 18, the full 2017/18 year needs to be analysed. The opening WDVs for 2017/18 are set out in Table 4 of the 2016/17 Tax Report and shown in Table 6.

Table 6: 2017/18 Opening Written Down Values

Pool	£m
Long life asset pool	358.613
General pool	52.071
Deferred revenue pool	198.156
Cumulative additions for Deferred Revenue Pool	234.147

Regulatory additions

The statutory capex additions for Distribution in Oct 17 – Mar 18 are £65.830m. Regulatory additions are £44.987m which includes a capex incentive adjustment of £3.346m. The reconciliation of statutory capex additions to regulatory additions is shown in Table 7 below.

Table 7: Reconciliation of Statutory Capex to Regulatory Additions

Ref	Description	£m
A	Gross Statutory Capex per "Rec 2 – Capex" of Financial Data RIGs	65.830
	Items included in Regulatory Additions but not in Statutory Capex Additions	
B	Customer Contributions - Housing sites with 12 or more Domestic Premises	(2.838)
C	IT Contestability opex costs recovered through Regulatory additions	0.420
	Items in Statutory Capex additions but not included in Regulatory Additions	
D	Legacy RP5 Dt Items	(0.006)
E	Connection expenditure: Various other Connections categories	(21.765)
F	**Total Regulatory Additions**	**41.641**
G	Capex Incentive Adjustment	3.346
H	**Total Regulatory Additions (Including Capex Incentive)**	**44.987**

This Regulatory additions figure is then adjusted for items such as asset disposals and non qualifying capex to give additions that are eligible for capital allowances of £44.363m. This is then split across the three tax pools, as shown in Table 8, in line with HMRC guidance.

Table 8: Allocation of Additions by Capital Allowance Pool

Ref	Description	Long-Life Asset Pool	General Pool	Deferred Revenue Pool	Total
		£m	£m	£m	£m
A	Regulatory Additions	22.868	8.760	10.013	**41.641**
B	Capex Incentive Adjustment	1.298	2.048	-	**3.346**
C	Asset Disposals	(0.018)	-	-	**(0.018)**
D	Non-Qualifying Capex	(0.606)	-	-	**(0.606)**
E	**Total Additions for TAX_t Capital Allowances**	**23.542**	**10.808**	**10.013**	**44.363**

The capex additions are then added to the opening WDV and capital allowances are calculated.

Table 9 sets out the capital allowances used in the calculation of regulated revenue entitlement for Oct 17 – Mar 18.

Table 9: Oct 17 – Mar 18 Capital Allowance Calculation

Description	**Long-Life Asset Pool**	**General Pool**	**Deferred Revenue Pool**	**Total**
	£m	**£m**	**£m**	**£m**
Opening WDV @ 01/04/2017	358.613	52.071	198.156	**608.840**
Additions (Apr – Sept 17 – prior report)	29.996	10.845	12.942	**53.783**
Additions (Oct 17 – Mar 18 – Table 8)	23.542	10.808	10.013	**44.363**
Adjusted WDV	412.151	73.724	221.111	**706.986**
Capital Allowances (Apr – Mar 18)	(32.972)	(13.270)	(6.428)	**(52.670)**
Closing WDV @ 31/03/2018	**379.179**	**60.453**	**214.684**	**654.316**
Capital Allowances (Apr – Mar 18)	32.972	13.270	6.428	**52.670**
Capital Allowances (Apr – Sept 17 – prior report)	(16.744)	(6.638)	(3.250)	**(26.633)**
Capital Allowances (Oct 17 – Mar 18)	**16.228**	**6.632**	**3.177**	**26.037**
Capital Allowance Rate	8% Reducing Balance	18% Reducing Balance	2.5% Straight Line	
Deferred Revenue Pool				
Cumulative Additions to 01/04/2017			234.147	
Additions (Apr – Mar 18)			22.955	
Cumulative Additions to 31/03/2018			257.102	
Capital Allowances			**6.428**	

The CA_t amount for Oct 17 – Mar 18 is **£26.037m**.

Calculation of TAX_t

When the various components of TAX_t are inserted into the licence formula, the value of TAX_t for Oct 17 – Mar 18 is **£3.774m** as detailed in Table 10 below.

$$TAX_t = TR_t / (1 - TR_t) * (RET_t + DEP_t - INT_t - CA_t)$$

Table 10: Calculation of TAX_t

Formula	£m
Return on RAB – RET_t	17.727
RAB Depreciation – DEP_t	37.020
Less Interest – INT_t	(12.623)
Less Capital Allowances – CA_t	(26.037)
	16.087
Tax Factor – TR_t / (1 - TR_t)	23.5%
Tax Entitlement – TAX_t	**3.774**

4. COMPARISON OF TAX ENTITLEMENT TO STATUTORY TAX

NIE Networks submits statutory tax returns to HMRC in line with its statutory year end which is on a calendar year basis. For the regulatory period Oct 17 – Mar 18, consideration needs to be given to the tax returns filed by NIE Networks for both calendar years 2017 and 2018.

Table 11 below shows the comparison of Tax Entitlement calculated above and statutory tax paid. As the information contained within the tax returns does not specify between Transmission and Distribution the entitlement amount is collated into a combined Transmission and Distribution view.

Table 11: Comparison of Tax Entitlement and Tax Paid for RP6

Period	Oct 17 – Mar 18
	£m
Tax Entitlement – TAX_t - Transmission (Table 5)	0.693
Tax Entitlement – TAX_t - Distribution (Table 10)	3.774
Total Tax Entitlement	4.466
Tax amount per Tax computation	7.914
Variance	**(3.448)**

The total variance for the period Oct 2017 to Mar 2018 above is explained in Table 12 below.

Table 12: Reconciliation of Tax Entitlement to Statutory Tax for RP6

Period	Oct 17 – Mar 18	Comment
	£m	£m
Capital Allowances	0.245	At 1 April 2017 the opening pool figure for capital allowances was similar in the Regulatory Entitlement model and the statutory tax pool. However, in the regulatory model, the general pool was lower which has resulted in lower capital allowances which means a higher tax entitlement allowance than the statutory tax paid. This has been offset by the long-life pool being higher in the regulatory model. The differences have arisen due to the differences in the treatment of capital additions as detailed in Sections 5 and 6 of this and previous reports.
Pension Deficit	0.030	Difference due to the ERDC disallowance of Pension deficit contributions.
Income / Opex Differences	(4.195)	This mainly relates to timing differences between actual income received and regulatory entitlement.
Interest Amount	0.608	Differences between notional interest in the tax entitlement calculation and actual interest paid.
Other	(0.135)	Relates to other minor adjustments within the tax return.
Variance	**(3.448)**	

There is a seasonality to the Distribution element of NIE Networks income. This impacts the analysis above as the regulatory year 2017/18 crosses two price control periods.

Table 13 and ***Table 14*** show the comparison of Tax Entitlement calculated above and statutory tax paid including the full regulatory year Apr 17 – Mar 2018.

Table 13: Comparison of Tax Entitlement and Tax Paid (including full year 2017/18)

Period	Apr 17 – Sept 18	Oct 17 – Mar 18	Apr 17 – Mar 18
	£m	**£m**	**£m**
Tax Entitlement – TAX_t - Transmission (Table 11)[1]	0.552	0.693	**1.244**
Tax Entitlement – TAX_t - Distribution (Table 10)[1]	3.247	3.774	**7.021**
Total Tax Entitlement	3.799	4.466	**8.265**
Tax amount per Tax computation	(0.967)	7.914	**6.946**
Variance	**4.766**	**(3.448)**	**1.319**

Table 14: Reconciliation of Tax Entitlement to Statutory Tax (including full year 2017/18)

Period	Apr 17 – Mar 18
	£m
Capital Allowances	0.153
Pension Deficit	0.213
Income / Opex Differences	1.049
Interest Amount	0.214
Other	(0.310)
Variance	**1.319**

[1] Apr – Sept 17 figures come from Table 11 of Apr – Sept 17 tax report

5. ANALYSIS OF CAPITAL ADDITIONS IN TAX RETURNS

The capital additions eligible for capital allowances and the analysis across the various pools in the submitted tax returns are shown in Table 15 and Table 16 below.

Table 15: Analysis of Capital Additions in 2017 Tax Return

Ref	A	B	C
Period	Jan – Sept 17	Oct – Dec 17	Jan – Dec 17
Gross Additions	**£m**	**£m**	**£m**
Total Capex Additions per Tax Returns	163.412	41.813	205.225
Less: Total Customer Capital Contributions	(65.951)	(13.801)	(79.751)
Total Net Capex Additions	97.461	28.013	125.474
Add: Domestic Capital Contributions	1.606	0.868	2.474
Total Net Additions eligible for Capital Allowances	**99.067**	**28.881**	**127.948**
Analysis for tax purposes			
Long Life Asset Pool	63.371	19.210	82.582
General Pool	13.360	4.441	17.801
Deferred Revenue Pool	20.594	5.134	25.728
Non-Qualifying Capex	1.655	0.096	1.751
Revenue deduction for Capitalized Interest	0.088	0.000	0.088
Total	**99.067**	**28.881**	**127.948**

Table 16: Analysis of Capital Additions in 2018 Tax Return

Ref	D	E	F
Period	Jan – Mar 18	Apr – Dec 18	Jan – Dec 18
Gross Additions	**£m**	**£m**	**£m**
Total Capex Additions per Tax Returns	40.784	110.805	151.589
Less: Total Customer Capital Contributions	(14.946)	(26.303)	(41.249)
Total Net Capex Additions	25.839	84.501	110.340
Add: Domestic Capital Contributions	0.793	1.967	2.760
Total Net Additions eligible for Capital Allowances	**26.632**	**86.468**	**113.100**
Analysis for tax purposes			
Long Life Asset Pool	15.478	48.002	63.480
General Pool	4.331	15.709	20.040
Deferred Revenue Pool	6.245	18.735	24.980
Non-Qualifying Capex	0.578	4.022	4.600
Revenue deduction for Capitalized Interest	0.000	0.000	0.000
Total	**26.632**	**86.468**	**113.100**

The information in Table 15 for the 3 month period Oct to Dec 2017 and Table 16 for the 3 month period Jan – Mar 2018 is combined to show the analysis of the Regulatory period Oct 2017 – Mar 2018 in Table 17.

Table 17: Analysis of Oct 2017 to Mar 2018 per tax returns

Ref Period	Table 15 – B Oct – Dec 17	Table 16 – D Jan – Mar 18	G Oct – Mar 18
Gross Additions	**£m**	**£m**	**£m**
Total Capex Additions per Tax Returns	41.813	40.784	82.598
Less: Total Customer Capital Contributions	(13.801)	(14.946)	(28.746)
Total Net Capex Additions	28.013	25.839	53.851
Add: Domestic Capital Contributions	0.868	0.793	1.661
Total Net Additions eligible for Capital Allowances	**28.881**	**26.632**	**55.513**
Analysis for tax purposes			
Long Life Asset Pool	19.210	15.478	34.689
General Pool	4.441	4.331	8.771
Deferred Revenue Pool	5.134	6.245	11.379
Non-Qualifying Capex	0.096	0.578	0.674
Revenue deduction for Capitalized Interest	0.000	0.000	0.000
Total	**28.881**	**26.632**	**55.513**

6. RECONCILIATION OF REGULATORY CAPITAL ALLOWANCES TO STATUTORY TAX RETURNS

The information contained within the tax returns does not specify between Transmission and Distribution. Therefore, in order to reconcile the regulatory amounts to the tax returns the amounts need to be collated in a combined Transmission and Distribution view shown in Table 18 below.

Table 18: Total Regulatory additions split by Capital Allowance pool

Description	Long-Life Asset Pool	General Pool	Deferred Revenue Pool	Total
	£m	**£m**	**£m**	**£m**
Transmission (Table 3)	8.585	0.163	1.365	**10.114**
Distribution (Table 8)	23.542	10.808	10.013	**44.363**
Total Regulatory Additions	**32.127**	**10.971**	**11.379**	**54.477**

Table 19 provides a reconciliation of capital additions in each pool shown in the tax return (Table 17 – Column G) with the additions used in the calculation of regulatory entitlement for Oct 17 to Mar 18 as set out in Table 18.

Table 19: Reconciliation of Additions in Tax return to Regulatory Capital Allowances Pools

Description	Long-Life Asset Pool	General Pool	Deferred Revenue Pool	Total
	£m	**£m**	**£m**	**£m**
Capex per Tax Return (Table 17 - G)	34.689	8.771	11.379	**54.839**
Transmission Capex Incentive Adjustment (Table 3 – B)	(1.907)	0.102	-	**(1.805)**
Distribution Capex Incentive Adjustment (Table 8 – B)	1.298	2.048	-	**3.346**
Less Legacy RP5 Dt Items (Table 2 – D)	(0.334)	-	-	**(0.334)**
Less Legacy RP5 Dt Items (Table 7 – D)	(0.006)	-	-	**(0.006)**
Add IT Contestability opex costs recovered through Regulatory additions (Table 7 – C)	-	0.420	-	**0.420**
Add D5 Mechanism Costs (opex costs included within qualifying capex) (Table 2 – C)	0.042	-	-	**0.042**
Less Domestic Contributions (Table 17 – G)	(1.661)	-	-	**(1.661)**
Less Connection expenditure (Non-price control) (Table 7 – E)	(21.395)	(0.370)	-	**(21.765)**
Add Connection income (Non-price control) ((Table 17 - G less Table 2 – B & Table 7 – B)	21.420	-	-	**21.420**
Less Asset Disposals (Table 8 – C)	(0.018)	-	-	**(0.018)**
Regulatory Additions	**32.127**	**10.971**	**11.379**	**54.477**

7. RETROSPECTIVE ADJUSTMENTS

With reference to Paragraph 12.35 (d) of Annex 2 of the Licences, there are no retrospective adjustments in respect of previous years and no restatement of 12.35 (a), 12.35 (b) and 12.35 (c) is required.

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Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7DT

Tel: +44 28 9044 3500
Fax: +44 28 9044 3501
ey.com

Independent Auditors' Report to the directors of Northern Ireland Electricity Networks Limited (the Company) and Utility Regulator (the Regulator)

Audit of regulatory tax reports in accordance with Paragraph 12.35 of Annex 2 of Northern Ireland Electricity Distribution and Participate in Transmission Licences (the Licences) for RP6 covering the period 1 October 2017 to 31 March 2020.

Introduction

This report is produced in accordance with the terms of our engagement letter with the Company dated 15 January 2021.

Background

This report is made in order to meet the requirements of Paragraph 12.35 of Annex 2 of the Company's Regulatory Licences. Our audit work has been undertaken to (a) assist the Company to meet its obligation under the Regulatory Licences to procure such a report and to (b) facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed. We understand that the format and content of the tax report has been agreed with the Regulator.

For clarification, the statutory tax returns are filed on a calendar year basis and the Company's Maximum Regulated Revenue is calculated on the regulatory year April – March. The information within the tax returns is converted into regulatory periods which can cause timing differences.

Scope of work

We draw your attention to the fact that the engagement is to review the reconciliation of the information submitted to HMRC on the Company's tax affairs with the information used for the calculation of the tax element of the Company's Maximum Regulated Revenue as calculated in accordance with Paragraph 9 of Annex 2 of the Licences.

Limitation of Scope

We would specifically note the following limitations on our procedures;

- We have not audited the Company's statutory tax returns submitted to HMRC nor have we reviewed the appropriateness of the capital spend allocation to the respective capital allowance pools in each of those statutory tax returns.
- We have not audited the Financial Data RIGs submitted to the Utility Regulator which set out actual costs for the Company in accordance with the various licence terms.
- We have not audited the components of the Company's Maximum Regulated Revenue as calculated in Paragraph 3 of Annex 2 of the Licences.
- In various schedules figures reflected in either the statutory tax returns or the statutory financial statements have been allocated to regulatory periods on different bases e.g. on a specific allocation basis or on a time apportioned basis. We have not audited in detail these allocations to the regulatory period, however where appropriate, we have

compared the total of the relevant figures across the entire period from 1 October 2017 – 31 March 2020.

- We would specifically note across the entire period from 1 October 2017 – 31 March 2020 there is a difference of £98k between the corporation tax liability in the statutory tax returns compared to the tax liability calculated on a regulatory year basis. The main reason for this difference is the rate of tax for the statutory period compared to the regulatory periods will vary in 2017 due to timing differences of changes in the rate of tax. From 1 April 2017 the rate of corporation tax was consistently 19% and a hybrid rate was used in the statutory period ended 31 December 2017.We note that the total taxable profits (i.e. before applying the tax rate) did agree across the entire period.
- We note there is a difference of £3.878m between additions eligible for capital allowances in the tax returns submitted to HMRC and the regulatory reports. The differences arise in the statutory periods ended 31 December 2018 and 31 December 2019 and relates to the treatment of customer contributions. The amount of eligible additions in the tax returns are understated as a consequence of the element of capital contributions which reduce the amount of capital allowances being claimed. The regulatory reports reflect the correct position.

Approach
In order to complete this engagement, we adopted the following approach:

- Meetings were held with the Regulatory Reporting team to discuss the content of the Tax Reports and the models used to calculate the tax entitlement amount.
- Verified the calculation of the Tax Amount per Paragraph 9 of Annex 2 of the RP6 Transmission and Distribution Licences.
- Verified the underlying numbers within the tax reports to the source documents as listed below;
    - Financial Data RIGS Reporting workbook
    - RP6 Financial model

  We understand the Regulator has reviewed the numbers within the above source documents. As noted above, we have not audited the source documents.
- Verified the opening balances of the regulatory capital allowance pools. The opening values for 2017/18 reflecting the values set out in Table 4 and Table 9 of the 2016/17 Tax report which was audited previously as part of RP5 Transmission and Distribution Licences.
- Verified the allocation of capital additions (including the incentive amounts) to the appropriate regulatory capital allowance pools to ensure these reflected the same allocations as those in the Statutory Tax submission, other than differences as noted under limitations in scope.
- Checked the analysis of the tax allowance set out in the Tax Reports to the tax returns submitted to HMRC.
- Verified the allocation of capital additions per the Statutory tax return (based on a Calendar Year) to the allocation of capital additions per the regulatory reporting period (April to March), other than noted above under limitations of scope.
- Agreed the reconciliation of Tax Entitlement to Statutory Tax, subject to the timing difference as highlighted under limitations in scope above.

- Verified the reconciliation of capital additions per the statutory tax return to regulatory additions for each capital allowance pool.

Opinion

Based on our examination as above, we report that based on our findings, in our opinion the Tax Reports are consistent with the records we inspected and has been prepared, in all respects, in accordance with the requirements of the Licence.

Brendan McSparran
Tax Partner
Ernst & Young LLP
Chartered Accountants and Statutory Auditors
Belfast
4 July 2022