
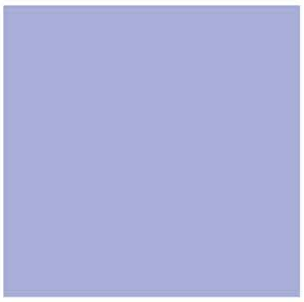








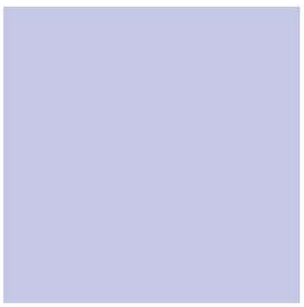


SSC04b PR24 Data tables commentary – Risk and Return

SSC04b PR24 Data tables commentary – Risk and Return

1.1 Data tables – Risk and Return

1.1.1 Table RR1 – Revenue recovery inputs

Line	Title	Commentary
RR1.1 - RR1.2	Wholesale cost of equity	This has been taken from the updated WACC estimate as set out in section 7 of our Business Plan
RR1.7 - RR1.8	Wholesale cost of debt	This has been taken from the updated WACC estimate as set out in section 7 of our Business Plan
RR1.13 - RR1.14	Notional Gearing	This is as per Ofwat's Final Methodology of 55%
RR1.19 – RR1.20	PAYG rate	These are natural run-off rates. More details are included in section 7 of our Business Plan. We have not made any adjustments to these rates and so RR1.25 and RR1.26 are blank.
RR1.37 – RR1.38	Pre 2025 RCV run-off	We have used Ofwat's upper limit of 4.5%. More details are included in section 7.
RR1.55 – RR1.56	Post 2025 RCV run-off	We have used Ofwat's upper limit of 4.5%. More details are included in section 7.
RR1.73	Long term CPIH	This is taken from table PD1. The 2% rate is aligned to the Bank of England long term target for CPIH.
RR1.74	RPI-CPIH wedge	The wedge between RPI and CPIH was 4.1% in 22-23 as a result of the significant rise in inflation. We have assumed this wedge declines in 23-24 and 24-25, returning closer to the long-term historic wedge of 1.0%.

1.1.2 Table RR2 - Totex

Line	Title	Commentary
RR2.1 – RR2.12	Gross capex and opex	These are taken from table CW1
RR2.12 – RR2.13	Equity issuance costs	This is zero. Please refer to section 7 of our main plan for more details on our considerations of an equity injection.
RR2.19 – RR2.20	IRE adjustment	We expense all our IRE and so these lines have been left blank.
RR2.25 – RR2.32	Grants and Contributions capex	In total, these lines agree to table CW1.14
RR2.37– RR2.48	Grants and Contributions opex	In total, these lines agree to table CW1.7

1.1.3 Table RR3 – RCV inputs

Data from this table is taken directly from the PR24 RCV feeder model.

1.1.4 Table RR4 – Financing inputs to financial model

Line	Title	Commentary
RR4.1 – RR4.2	Notional target gearing	This is as per Ofwat's Final Methodology of 55%
RR4.7	% of ILD	This is as per Ofwat's Final Methodology of 33%
RR4.8	Proportion of RPI ILD	We have set this at 90% based on Ofwat's assessment that approximately 10% of index-linked debt is CPI/CPIH linked. This was set out on page 46 of Ofwat's discussion paper on risk and return published in December 2021.
RR4.9 – RR4.10	Actual opening index linked debt balance	This is taken from our forecast closing position at March 2025 using our assumptions for RPI as set out in table PD1.
RR4.15 – RR4.16	Actual opening fixed debt	This is taken from our forecast closing position at March 2025 using our assumptions for debt requirements for the remainder of the current period.
RR4.21 - RR4.22	Opening floating rate debt	This is zero as we are planning to fund all new investment through fixed rate debt.
RR4.27 – RR4.28	Interest rate on RPI index-linked debt	This is equal to the overall cost of debt before the company specific adjustment to the cost of embedded debt included in the WACC, deflated by RPI.
RR4.33 – RR4.34	Interest rate on CPIH index-linked debt	This is equal to the overall cost of debt included in the WACC before the company specific adjustment to the cost of embedded debt, deflated by CPIH.
RR4.39 – RR4.40	Interest rate on fixed rate debt	This is equal to the overall cost of debt included in the WACC before the company specific adjustment to the cost of embedded debt
RR4.45 – RR4.46	Cash and cash equivalents	This is taken from our forecast closing position at March 2025.
RR4.51 – RR4.52	Cash interest rate	This is equal to the overall cost of debt included in the WACC before the company specific adjustment to the cost of embedded debt.
RR4.57 – RR4.58	Opening share capital	This is as per the reported share capital in our 2023 APR which is not expected to change by 31 March 2025.
RR4.63	Equity dividends paid	This is consistent with table RR20.19
RR4.65 – RR4.66	Ordinary shares issued	This is zero. We discuss equity injections in section 7 of our business plan.
RR4.71 – RR4.72	Opening dividend creditor	All our dividends for 2024-25 are projected to be paid in year so these lines are zero.
RR4.77 – RR4.79	Dividend	We are targeting a 4% dividend yield which is calculated in the financial model so lines 77 (dividend override) and line 78 (real dividend growth) are zero.
RR4.80 – RR4.80	Opening dividend cashflow	As our dividends are paid in year, we do not have an opening dividend cashflow.

1.1.5 Table RR5 – Tax inputs

Line	Title	Commentary
RR5.1 – RR5.2	Opening current tax liabilities	This represents the corporation tax accrual for payment to HMRC regarding an open tax enquiry for an earlier year.
RR5.7 – RR5.8	Opening tax loss balance	This is based on the actual year-end statutory accounts FY23 tax loss carry forward position, plus forecast tax losses for FY24 and FY25. A significant proportion of the tax losses are due to accelerated capital allowances.

Line	Title	Commentary
RR5.13 – RR5.14	Opening deferred tax balance	This is based on the actual year-end statutory accounts FY23 deferred tax provision, plus forecast deferred tax movement for FY24 and FY25. It predominantly relates to Accelerated Capital Allowances, less a deferred tax asset on tax losses carried forward.
RR5.19	Current tax liabilities – appointee	This represents the corporation tax accrual for payment to HMRC regarding an open tax enquiry for an earlier year.
RR5.20 – RR5. 93	Capital allowances	We engaged Chandlers KBS to review our AMP 8 plans and complete the relevant capital allowance sections of table RR5. Their full report can be found in appendix SSC30.
RR5.98 – RR5.99	P&L expenditure not allowable as a deduction	This represents non-qualifying depreciation and disallowable P&L expenditure, reduced by a transfer pricing adjustment on intercompany services received. This adjustment is included in the tax computations.
RR5.104 – RR5.123	Various other tax inputs	We are not expecting any general provisions, finance lease depreciation or non-allowable renewals to be adjusted in our tax computations and so all these lines are zero.
RR5.128 - RR5.129	Tax cashflow initial balance	We have left this zero.
RR5.134	Tax loss allowance – nominal	We have utilised carried forward losses of £5m from 2025-26 to 2029-30 as allowed by HMRC. In 2025-26 we are projecting a tax loss and so this year is zero. The Ofwat financial model automatically applies the 50% allowance of remaining taxable profits and so this is not included in this line.
RR5.136 to RR5.161	Various other tax inputs	We are not expecting any adjustments in our tax computations and so these lines are zero.

1.1.6 Table RR6 – Post-financeability inputs

Data from this table is taken directly from the PR24 revenue feeder model.

1.1.7 Table RR7 – Residential retail inputs

Line	Title	Commentary
RR7.1	Retained profit	This is the opening retained profit for retail and ensures that the opening retail net assets equal total equity and reserves.
RR7.2 – RR7.7	Cost to serve	This has been calculated as our retail costs divided by the number of customers. Consistent with our PR19 FD we have not distinguished a different cost to serve allowance between metered and unmetered customers.
RR7.8 – RR7.8	HH connected properties	This is taken from our properties forecast in Sup 1A
RR7.14	HH unmeasured trade debtors	This has been calculated from our historic debtor days and we have assume that this is consistent throughout the period.
RR7.15	HH measured trade debtors	This has been calculated from our historic debtor days and we have assume that this is consistent throughout the period.
RR7.16	HH advance receipts creditor days - unmeasured	This has been calculated from our advance receipts creditor days and we have assume that this is consistent throughout the period.
RR7.17	HH advance receipts creditor days - measured	This has been calculated from our advance receipts creditor days and we have assume that this is consistent throughout the period.

RR7.18	HH measured income accrual rate	This is based on our historic income accrual rate over the last five years. This rate has been consistent over that period and so we have assumed that the rate is unchanged throughout the period.
RR7.19	HH measured income accrual - nominal	This is based on the forecast measured revenue for 24-25 multiplied by the measured income accrual rate in RR7.18
RR7.21/RR7.23	Total residential retail costs	The total of these lines is taken from table RET1
RR7.27	Dividend creditor	As our dividends are paid in year, there is no dividend creditor
RR7.28	Wholesale creditors	This is calculated as one month of the years wholesale revenues
RR7.31	Corporation tax creditor	We have assumed that this is zero for retail
RR7.32/RR7.33	Retail trade receivables	This is based on the forecast unmeasured/measured revenues multiplied by debtor days set out in RR7.14/15 and divided by 365.
RR7.34	Retail creditor months	We have assumed that the retailer pays the wholesaler one month in arrears
RR7.35	Prior period residential apportionment	This is the proportion of wholesale residential revenue for 2024-25
RR7.36	Opening retained cash balance	This is equivalent to the opening working capital position, being the net of lines RR7.28, RR7.32, RR7.33, RR7.50 and RR7.51
RR7.37	Residential net margin	We have used 1% margin as per Ofwat's PR24 final methodology
RR7.38 – RR7.49	Residential measured/unmeasured charge apportionment	This is the proportion of wholesale revenues allocated to residential customers. We have modelled our tariffs through to 2030 using a version of our tariffs model we use to set charges each year. This provided a full split of our charges enabling us to complete these lines. The % increases over the period as the residential customer base grows with new connections added each year.
RR7.50 – RR7.51	Opening household advance receipts	This is based on the proportion of annual revenues for unmeasured and measured consistent with the advance receipt creditor days set out in RR7.16 and 17.
RR7.52	Residential retail allowed depreciation	This is consistent with table RET 1
RR7.53	Pensions contributions - Retail	This is consistent with the pension charges in 2022-23, uplifted by an assumed pay rise of 2% per annum.
RR7.54	Capex creditor – residential retail	We have assumed this is zero as the level of retail capital expenditure in 2024-25 is expected to be small.
RR7.55	% distributed as dividends - retail	We have assumed this is zero.
RR7.56	Interest rate - residential	This is consistent with RR4.51
RR7.57	Fixed asset NBV at 31 March	This is consistent with table RR28
RR7.58	Retirement benefit asset / (liability)	We do not have a retirement asset / (liability) recorded in our balance sheet and so this is zero.

1.1.8 Business Retail

The only lines populated on this table are RR.22/23 and RR28/29 which apportion out business charges between price controls and unmeasured/measured. This is used in the financial model as part of the bill calculation. The percentages decline over the period as residential income increases from new connections.

1.1.9 Miscellaneous inputs

Line	Title	Commentary
RR9.1 – RR9.2	Opening retirement benefit obligation	Under FRS102, we do not have a retirement benefit obligation recorded on our balance sheet.
RR9.7 – RR9.8	Reprofiling revenue	We have not reprofiled our revenue so these lines are zero
RR9.13 – RR9.14	Discount rate for reprofiling	Although we have not reprofiled our revenue, we have populated with our submitted WACC of 3.69%
RR9.19 – RR9.20	Opening intangible assets	This is our projected intangible assets balance at 1 April 2025.
RR9.25 – RR9.26	Opening provisions	We do not have any provisions so these lines are zero
RR9.31 – RR9.32	Opening other liabilities	We have used this line to ensure that the opening balance sheet in the Ofwat financial model balances.
RR9.37 – RR9.38	Opening non-distributable reserves	This includes the relevant reserves of share capital, share premium, capital redemption reserve, revaluation reserve and hedging reserve.
RR9.43 – RR9.44	Opening retained earnings	This is taken from our internal financial modelling projections which is consistent with our approved budgets for 23-24 and 24-25
RR9.49	Debtors other (retail)	This is taken from our internal modelling
RR9.50	Opening balance – Debtors other (retail)	This is taken from our internal modelling
RR9.50 – RR9.51	Opening inventories balance	This is taken from our internal modelling
RR9.57 – RR9.58	Opening capex creditor balance	This is taken from our internal modelling
RR9.63 – RR9.64	Inventories balance	This is taken from our internal modelling
RR9.69 – RR9.70	Trade creditor days	This is based on our historic creditor days and is assumed to be consistent over the period
RR9.75	Capex creditor days	This is based on our historic capex creditor days and is assumed to be consistent over the period
RR9.76 – RR9.77	Other creditors target balance	This is taken from our internal modelling
RR9.82 – RR9.83	Other debtors target balance	This is taken from our internal modelling
RR9.88 - RR9.89	Opening trade debtors	This is taken from our internal modelling
RR9.94 – RR.95	Opening other debtors balance	This is taken from our internal modelling
RR9.100 – RR9.101	Opening trade creditors balance	This is taken from our internal modelling
RR9.106 – RR9.107	Opening other creditors balance	This is taken from our internal modelling
RR9.112 – RR9.113	Accounting charge DC schemes	This is consistent with our contributions for DC schemes in 2022-23. We are not expecting to make any changes to our pension scheme or to significantly change the number of employees.
RR9.118 – RR9.119	Cash contributions (DB schemes)	Our DB scheme was closed to existing members in 2015 and is currently in surplus. We are not expecting to make any additional DB contributions over the period and so these lines are zero.

RR9.124 – RR9.125	Defined benefit pension deficit recovery per IN13/17	Our pensions deficit recovery allowance ends in 2025 and so these lines are zero.
RR9.130 – RR9.131	Wholesale DB pension cash excess over charge	We are not expecting to make any additional DB contributions over the period and so these lines are zero.
RR9.136 – RR9.171	Direct Procurement	Our plan does not include any DPC schemes so these lines are zero.
RR9.172 – RR9.173	Adjustment to wholesale revenue	We do not propose any adjustments so these lines are zero.
RR9.178 – RR9.179	Non-Price control income - third party services	This is consistent with RR27.30 and represents standpipe income.
RR9.184 – RR9.185	Non-Price control income - bulk supplies – not qualifying	This is consistent with RR27.26. We do not have any trades that qualify for the trading incentive
RR9.190 – RR9.191	Non-Price control income - bulk supplies – qualifying	All of our bulk supplies are pre 2020 and so non are qualifying for water trading incentives.
RR9.196 – RR9.197	Price control income - third party services, rechargeable works	This is consistent with RR27.3 and represents all rechargeable works including fluoride and third party damages.
RR9.202 – RR9.203	Non-Price control income – principal services	We do not have any income in this category so the lines are zero.
RR9.208 – RR9.209	Non-Price control income – third party services – Bulk supplies	We have classed all our bulk income in RR9.184 and so we have left these lines as zero.
RR9.214 – RR9.215	Other Price control income	We have left this as zero as all out income has been classified in one of the lines above.
RR9.220 – RR9.221	Other operating income	This is rental income received
RR9.226 – RR9.233	Fixed assets and depreciation	These balances are consistent with RR19.1
RR9.244 – RR9.261	Movement in other liabilities, intangible assets and provisions	We have assumed there are no movements in these balances and so they are zero
RR9.262 – RR9.263	Base revenue by charging year	This is taken from our projected revenues for 2024-25
RR9.267	Tonnes of dry solid	As a WoC, this line is not applicable

1.1.10 RR10 – RR15

These tables are populated directly from Ofwat's financial model.

For RR14.11, the average bills for 2023-24 and 2024-25 have been populated via our own in-house tariffs model as these are not outputs from the Ofwat financial model. See section 1.2 below for more details.

We have populated RR14.2 and RR14.3 with the regional bills for our South Staffs and Cambridge regions, again from our own in-house tariffs model.

1.1.11 RR16 Financial Ratios

The data in this table is discussed in more detail in section 7 of our main document.

For certain lines below relating to our actual structure, we have used outputs from our own internal financial model as Ofwat's model is for the notional company only. Our internal model is designed to be less complex than Ofwat's model and as such there will be small differences between the two in how metrics are calculated. However, these are not material to the outputs and the credit ratings they represent.

Line	Title	Commentary
RR16.1 – RR16.12	Notional capital structure	These ratios are outputs from Ofwat's financial model
RR16.13	Target credit rating – Notional capital structure	In line with Ofwat's guidance, we have set the target credit rating at two notches above the minimum level to maintain an investment credit rating.
RR16.24 – RR16.34	Actual capital structure	These are calculations
RR16.35	RORE – Actual structure	
RR16.36	Target credit rating – Actual capital structure	We are targeting a credit rating consistent with Baa1/BBB+
RR16.37	AICR – Moody's definition	The Moody's definition is consistent with Ofwat's definition except that it includes our non-regulated business.
RR16.38	FFO/Net Debt – S&P definition	We have calculated FFO/Net Debt consistent with S&P's definition. The main difference to Ofwat's FFO/Net Debt is that amortisation of contributions are added back in the S&P calculation resulting in a higher metric than shown in RR16.29.
RR16.47 – RR16.53	Other financial model values	These are taken from Ofwat's financial model
RR16.56	Further adjustments to FFO	We have no adjustments, so this is zero
RR16.59	Adjustments to RCV run-off	We are not proposing any adjustments to our RCV run-off and so this line is zero.
RR16.62	Changes in financing costs due to equity issuance	This line is not applicable so is zero.
RR16.63	Further adjustments to interest	This row removes the indexation of our RPI index-linked debt so that RR16.64 is cash interest only.
RR16.66	Adjustments to excess fast money	We are proposing our natural PAYG rate and so this line is zero.
RR16.69	Further adjustments to net debt	This represents the difference between the notional gearing and our actual gearing
RR16.72	Adjustment to RCV balances	We are not proposing any further adjustments to our RCV and so this line is zero.
RR16.75	Adjustment to indexation of index-linked loans	This represents the difference between the indexation within the notional company and our actual company structure.
RR16.77	Profit after tax	This is taken from RR.18.14
RR16.79	Capex	This is taken from table RR2.1 and RR2.2, uplifted to outturn prices

1.1.12 RR17 Financial metrics by scenario

To complete the scenarios under our actual structure, we have used our base internal financial model as the starting point. Our internal model is designed to be less complex than Ofwat's model and as such there will be small differences between the two outputs. However, these are not material to the outputs and the credit ratings they represent.

Further consideration of the scenario outputs are set out in section 7 of our main document.

1.1.13 RR18 Income statement – Actual structure

This data is taken from our internal financial model. As a result, there are minor differences between some lines in our model and those outputs in Ofwat's model.

1.1.14 RR19 Statement of financial position – Actual structure

This data is taken from our internal financial model. As a result, there are minor differences between some lines in our model and those outputs in Ofwat's model.

1.1.15 RR20 Statement of cashflows – Actual structure

This data is taken from our internal financial model. As a result, there are minor differences between some lines in our model and those outputs in Ofwat's model.

1.1.16 RR21 Net Debt analysis as at March 2023

This table is populated from our 2023 APR after amending for post submission Ofwat queries.

1.1.17 RR22 Analysis of debt

This table is populated from our 2023 APR after amending for post submission Ofwat queries.

1.1.18 RR23 Financial derivatives

This table is populated from our 2023 APR after amending for post submission Ofwat queries.

1.1.19 RR24 Debt balances and interest costs

For this table relating to our actual structure, we have used outputs from our own internal financial model as Ofwat's model is for the notional company only. Our internal model is designed to be less complex than Ofwat's model and as such there will be small differences between the two ouputs.

We have used an assumed RPI of 3.0% and CPIH of 2.0% for each year of the period to be consistent with the data in table PD1.

Line	Title	Commentary
RR24.1 – RR24.5	Various	These are taken from our in-house model and represent our projected debt requirements for the 2025-30 period. Our plan assumes that new funding would be raised through fixed debt.
RR24.9	Fixed rate debt repaid	We have a floating rate instrument due for repayment in March 2026. This is shown on RR22.202
RR24.13	Indexation of index-linked loans (RPI)	This represent the accretion on our index linked debt using our 2025-30 RPI assumption of 3.0%
RR24.15	Interest rate for existing fixed rate debt	This is a bended rate of our existing fixed rate debt as shown in table RR22 and new debt raised in the previous year. We have assumed that new debt raised will be at 6.00%.

RR24.16	Interest rate for new fixed rate debt	We have assumed that new debt raised will be at 6.00% across the period.
RR24.17	Interest rate for existing RPI index-linked debt	This is a blended rate of the coupon on our two index-linked debt instruments along with associated bond costs.
RR24.45	Other interest cost	In Ofwat's model, it assumes that fixed rate debt is taken out halfway through the year. In our in-house model, we assume that debt is raised at the start of the year to cover funding requirements and so this line is to ensure that a full year's interest is applied and is equal to RR24.45

1.1.20 RR25 Allowed return on capital

This table has been populated using Ofwat's Final methodology assumptions, adjusted for our view of the level of Company Specific Adjustment to the cost of embedded debt and updated market data. Details of our approach are set out in Section 7 of our main document.

1.1.21 RR26 Allowed return on capital by wholesale price control

We have applied the same return to each price control.

1.1.22 RR27 Revenue analysis

For this table we have used a tariff forecasting model to calculate the splits of income between residential/business and measured/unmeasured.

1.1.23 RR27a Revenue analysis

Third party revenue relates principally to business activities such as fluoride, damage claims and standpipe hire. We have therefore assumed it is 100% business.

1.1.24 RR28 Historic cost of tangible fixed assets

Line	Title	Commentary
RR28.3/28.10	Additions and depreciation charge for the year	These are taken from the Ofwat financial model

1.1.25 RR29 Asset lives

To complete this table we have used the implied average asset life from RR.28 for 2022-23 and assumed that this is representative for the 2025-30 period.

1.1.26 RR30 RoRE

We have used Ofwat's guidance for our initial assessment of risk ranges. We have then considered our historical performance, the type of risk and what mitigations can use. In summary, our indicative PR24 RoRE risk range for the notional company is set out below:

Component of risk	Reasonable downside (P10)	Reasonable upside (P90)
Totex	-1.34%	1.34%
Retail costs	-0.55%	0.55%

Outcome delivery incentives	-2.00%	2.00%
Financing	-0.65%	0.70%
Customer measures of experience	-1.62%	1.28%
Revenue incentive mechanisms	-0.05%	0.00%
Total	**-6.21%**	**5.88%**

We consider each of these components below in the following sections. Our detailed calculations are set out at the end of this section.

As a result of our relatively small RCV, when the potential impact of a risk component is calculated as a monetary value, it gives a higher RORE range impact than those indicated by Ofwat in their Final Methodology.

1.1.27 Totex

Ofwat indicative RORE range view: -1.0% (P10), +1.0% (P90)

Company view: -1.3% (P10), +1.3% (P90)

Key Risks: expenditure to ensure asset resilience, additional investment to reduce leakage or to ensure supply security, cyber-attacks, power costs, other relative price effects.

Mitigations considered: re-prioritising totex while maintaining service, operating cost efficiencies

Compared to Ofwat's indicative range, we have spent more closely in line with our allowances over the previous four AMP periods, ranging from 6.8% underspend to a 0.7% overspend (if we exclude Cambridge water prior to merger).

We have good track record of delivering on our capital programme. Even where there has been an unexpected investment requirement, we have been able to take mitigating actions to reprioritise our overall programme to ensure we can offset these costs and still deliver for our customers.

We do however recognise that there has been significant volatility in key costs over the last couple of years, in particular energy costs. In 2022-23 we had an underperformance of around of 4.3% of totex subject to cost sharing (as shown in table 4c of our APR). This overspend was already mitigated with a hedging arrangement in place for our energy costs.

We have therefore considered a lower range than Ofwat at +/- 5% of totex spend which gives a RoRe range of +/- 1.3%. This is close to Ofwat's estimated RORE impact of +/- 1.0%.

1.1.28 Retail costs

Ofwat indicative view: -0.3% (P10), +0.2% (P90)

Company view: -0.55% (P10), +0.55% (P90)

Key Risks: increase in bad debt, increased customer contact

Mitigations considered: Offshoring, improved debt collection processes

Household retail has only been a separate price control since 2015/16. Over the period to 2020, we made significant cost savings resulting in an outperformance against our final determination of around 14%. However, there is no automatic indexation of retail costs which makes it progressively harder to outperform allowances. In 2021-22 only three companies outperformed their allowance (2020-21 saw the industry significantly overspend as a result in bad debt costs so we have ignored for these purposes). We have therefore used a lower outperformance level compared to Ofwat's view of 10%.

During the current price control period, we have seen additional cost pressures which has led to an 18% overspend in the first three years of the period compared to our allowances. As mentioned above, part of this is as a result of the retail price control not being indexed by inflation and additional bad debt costs in relation to both Covid-19 and the current cost of living. We therefore would not expect costs in the next price control period to be impacted to the same extent at the P10 level and that Ofwat's view of 10% overspend is reasonable.

1.1.29 Outcome delivery incentives

Ofwat indicative view: -2.0% (P10), +2.0% (P90)
Company view: -2.0% (P10), +2.0% (P90)
Key Risks: Skew of incentives to penalty, weather events,
Mitigations considered: Additional investment to improve service, customer engagement (for example on water usage), innovation

We think that a RoRE risk range of +2%/-2% for ODIs is reasonable. However, this is the basis that the balance of rewards and penalties is symmetrical. We have set out in appendix SSC20 our concerns regarding the current incentive rates which are skewed to penalty. For the RORE range calculation, we have assumed that this issue is resolved for the Draft Determination such that a symmetrical RORE range is set.

1.1.29.1 Measures of experience

Ofwat indicative view: -0.65% (P10), +0.50% (P90)
Company view: -1.6% (P10), +1.3% (P90)
Key Risks: deterioration in service performance
Mitigations considered: customer insight to understand cause, additional investment frontline services, reduction in dividends

We have applied Ofwat's proposed penalty range for each Mex recognising that it is a relative measure.

1.1.29.2 Financing risk

Ofwat indicative view: -0.65% (P10), +0.70% (P90)
Company view: -0.65% (P10), +0.70% (P90)
Key Risks: Inflation, bond yields, allowed cost of debt component of the WACC
Mitigations considered: Hedging arrangements, lower dividends

We have used Ofwat's assumptions on financing risk for the notional company and used the same RORE range in our calculations.

1.1.29.3 Uncertainty mechanisms

We are proposing an uncertainty mechanism for energy which is set out in appendix SSC25. The proposed mechanism has been set to allow an adjustment where energy costs are greater than +/- 10% above CPIH. We have assumed that this represents a level beyond the P10/P90 level and so would not significantly mitigate the risk ranges set out above.

1.1.29.4 RoRE range calculations

		2025-26	2026-27	2027-28	2028-29	2029-30
Totex						
Totex	£m	142.006	151.354	158.878	157.568	131.587
High case	%	5.0%	5.0%	5.0%	5.0%	5.0%
Low case	%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
High case	£m	7.100	7.568	7.944	7.878	6.579
Low case	£m	-7.100	-7.568	-7.944	-7.878	-6.579
Cost sharing rate - High case		50.0%	50.0%	50.0%	50.0%	50.0%
Cost sharing rate - Low case		50.0%	50.0%	50.0%	50.0%	50.0%
RORE impact - High case		**3.550**	**3.784**	**3.972**	**3.939**	**3.290**
RORE impact - Low case		**-3.550**	**-3.784**	**-3.972**	**-3.939**	**-3.290**

		2025-26	2026-27	2027-28	2028-29	2029-30
Retail costs						
Retail costs		15.291	15.250	15.520	15.425	15.749
High case	%	10.0%	10.0%	10.0%	10.0%	10.0%
Low case	%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
RORE impact - High case	**£m**	**1.529**	**1.525**	**1.552**	**1.543**	**1.575**
RORE impact - Low case	**£m**	**-1.529**	**-1.525**	**-1.552**	**-1.543**	**-1.575**

ODIs		2025-26	2026-27	2027-28	2028-29	2029-30
Average RCV per financial model	£m	555.258	583.616	619.574	658.192	682.838
Notional gearing		55.0%	55.0%	55.0%	55.0%	55.0%
Regulated Equity		249.866	262.627	278.808	296.186	307.277
High case	%	2.0%	2.0%	2.0%	2.0%	2.0%
Low case	%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
RORE impact - High case	**£m**	**4.997**	**5.253**	**5.576**	**5.924**	**6.146**
RORE impact - Low case	**£m**	**-4.997**	**-5.253**	**-5.576**	**-5.924**	**-6.146**

CMEX		2025-26	2026-27	2027-28	2028-29	2029-30
Retail revenue	£m	14.934	14.658	14.637	14.302	14.323
High case	%	18.0%	18.0%	18.0%	18.0%	18.0%
Low case	%	-18.0%	-18.0%	-18.0%	-18.0%	-18.0%
RORE impact - High case	**£m**	**2.688**	**2.638**	**2.635**	**2.574**	**2.578**
RORE impact - Low case	**£m**	**-2.688**	**-2.638**	**-2.635**	**-2.574**	**-2.578**

DMEX		2025-26	2026-27	2027-28	2028-29	2029-30
Developer revenue	£m	12.804	15.114	16.051	15.941	7.734
High case	%	6.0%	6.0%	6.0%	6.0%	6.0%
Low case	%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
RORE impact - High case	**£m**	**0.768**	**0.907**	**0.963**	**0.956**	**0.464**
RORE impact - Low case	**£m**	**-1.537**	**-1.814**	**-1.926**	**-1.913**	**-0.928**

BR-Mex		2025-26	2026-27	2027-28	2028-29	2029-30
Business wholesale revenue	£m	29.424	26.891	23.297	19.560	15.634
High case	%	0.5%	0.5%	0.5%	0.5%	0.5%
Low case	%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
RORE impact - High case	**£m**	**0.147**	**0.134**	**0.116**	**0.098**	**0.078**
RORE impact - Low case	**£m**	**-0.294**	**-0.269**	**-0.233**	**-0.196**	**-0.156**

Revenues		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity	£m	249.866	262.627	278.808	296.186	307.277
High case	%	0.00%	0.00%	0.00%	0.00%	0.00%
Low case	%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%
RORE impact - High case	**£m**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
RORE impact - Low case	**£m**	**-0.125**	**-0.131**	**-0.139**	**-0.148**	**-0.154**

Financing - Inflation		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity	£m	249.866	262.627	278.808	296.186	307.277
High case	%	0.60%	0.60%	0.60%	0.60%	0.60%
Low case	%	-0.60%	-0.60%	-0.60%	-0.60%	-0.60%
RORE impact - High case	**£m**	**1.499**	**1.576**	**1.673**	**1.777**	**1.844**
RORE impact - Low case	**£m**	**-1.499**	**-1.576**	**-1.673**	**-1.777**	**-1.844**

Financing - New debt		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity	£m	249.866	262.627	278.808	296.186	307.277
High case	%	0.10%	0.10%	0.10%	0.10%	0.10%
Low case	%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%
RORE impact - High case	**£m**	**0.250**	**0.263**	**0.279**	**0.296**	**0.307**
RORE impact - Low case	**£m**	**-0.125**	**-0.131**	**-0.139**	**-0.148**	**-0.154**

1.2 Financial Model

We have used Ofwat's financial model to provide outputs for the notional company. In populating, we wish to highlight the following:

Ofwat financial model reference	Commentary
InpS tab– rows 91 and 92 (post financeability items not eligible for tax uplift)	We have set these switches to active so that the double count on tax for post financeability adjustments is removed.
Dashboard – Average bills	The Dashboard does not display average bills. Having investigated, the output is linked to WasC bills rather than WoC bills and we have not found a switch to change this. We have set out average bills underneath, linking to the relevant cells in the bill module tab.

Alongside Ofwat's financial model, we have our own internal financial model to aid internal planning and for populating tables and performing stress testing for our actual capital structure. Our internal model is designed to be less complex than Ofwat's model and as such there will be small differences between the two on outputs. However, these are not material to affect the outcome in terms of financial statements and financial metrics.