

DATA TABLE COMMENTARY – PRT54 RISK & RETURN



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TABLE RR1 - Revenue Cost Recovery Inputs

Lines 1 – 6 Wholesale WACC – based on assumed structure (nominal) – Equity

The amount of 6.09% is based on the Ofwat 'early view' of the cost of equity.

Lines 7 – 8 Wholesale WACC – based on assumed structure (nominal) – Cost of Debt

The amount of 4.91% is based on the Ofwat 'early view' + small company premium of 0.25%.

Line 11 Wholesale WACC – based on assumed structure (nominal) – Cost of Debt Havant Thicket

The amount of 6.31% is based on work carried out by NERA on the WACC for Havant Thicket.

	PWL	OFWAT	H Thicket
Real Cost of Debt	2.85%	2.60%	4.23%
Real Cost of Equity	4.14%	4.14%	4.14%
Real Wholesale WACC - RPI adjusted	2.37%	2.23%	3.12%
Real Wholesale WACC - CPIH adjusted	3.37%	3.23%	4.13%
Nominal weighted cost of debt	4.91%	4.65%	6.31%
Nominal weighted cost of equity	6.22%	6.22%	6.22%
Deduction for Retail Margin	-0.06%	-0.06%	-0.06%
Nominal weighted cost of equity (post retail)	6.09%	6.09%	6.09%
Nominal WACC	5.44%	5.30%	6.21%

Supporting information explaining our rationale for our proposed WACC is outlined in our supporting documents PRT13 Aligning Risk and Return and the appendices PRT13.02 and PRT13.03 outlining the economic analysis from First Economics and NERA Economic Consulting

Our proposed wholesale WACC is in line with Ofwat PR24 final methodology guidance 'early view' and the notional company structure for a small WoC reflecting the 30bps small company premium on embedded debt. Portsmouth Water aligns to classification of small WoC in Ofwat's PR24 final methodology guidance.

WACC	Wholesale WACC	HTWSR WACC	HTWSR Sensitivity (JUNE 23 Benchmarks)
Proportion of Debt	55.00%	55.00%	55.00%
Embedded debt	2.34%	3.12%	3.41%
Small company premium (embedded debt)	0.30%		
New Debt	3.28%	3.42%	3.82%
Small company premium (new debt)	0.00%		
Issuance cost	0.10%	1.08%	1.08%
New debt %	17.00%	11.50%	11.50%
Total cost of debt	2.85%	4.23%	4.53%
Weighted Cost of Debt	1.57%	2.33%	2.49%
Cost of Equity	4.14%	4.14%	4.14%
Proportion of Equity	45%	45%	45%
Weighted Cost of Equity	1.86%	1.86%	1.86%
Deduction for Retail Margin	-0.06%	-0.06%	-0.06%
Real Wholesale WACC - CPI adjusted	3.37%	4.13%	4.30%
Nominal Cost of Capital for Wholesale	5.37%	6.31%	0.00%

Lines 13 – 17 Wholesale WACC - based on assumed structure (nominal) - Gearing – nominal

The notional gearing is set at 55%, as stated in the Ofwat Final Methodology.

Lines 19 – 23 PAYG Rate - Base PAYG rate

The PAYG rates in these lines are the natural PAYG rates, and are calculated from the forecast opex and capex in each year, for each price control.

WATER RESOURCES TOTEX	Price Base	Unit	2025/26	2026/27	2027/28	2028/29	2029/30	2025/26	2026/27	2027/28	2028/29	2029/30
			F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast
OPEX	2022/23	£000	6,711	6,496	6,287	6,152	5,892	6,176	6,103	6,027	6,027	6,027
OPEX - Enhancements	2022/23	£000	344	466	569	582	628	628	628	628	628	628
Grants and Contributions	2022/23	£000										
Renewals - Opex	2022/23	£000										
Renewals - Capex	2022/23	£000										
CAPEX - Base	2022/23	£000	828	1,306	1,293	884	955	955	955	955	955	955
CAPEX - Enhancements	2022/23	£000	1,598	1,582	1,606	265	162	162	162	162	162	162
Grants and Contributions	2022/23	£000										
TOTEX	Base Yr Avg	£000	9,481	9,850	9,755	7,883	7,637	7,921	7,848	7,772	7,772	7,772
			0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
			9,481	9,850	9,755	7,883	7,637	7,921	7,848	7,772	7,772	7,772
TOTEX	2022/23	£000			AMP8 TOTEX		44,608					
PAYG % - Natural Rate		%	74.41%	70.68%	70.28%	85.43%	85.37%	85.9%	85.8%	85.6%	85.6%	85.6%
PAYG % period average		%					77.2%					85.7%

NETWORK+ TOTEX	Price Base	Unit	2025/26	2026/27	2027/28	2028/29	2029/30	2025/26	2026/27	2027/28	2028/29	2029/30
			F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast
OPEX	2022/23	£000	20,810	20,114	19,465	18,476	17,481	17,555	17,435	17,311	17,311	17,311
OPEX - Enhancements	2022/23	£000	518	807	832	779	1,596	2,808	2,808	2,808	2,808	2,808
Grants and Contributions	2022/23	£000	(1,593)	(1,612)	(1,630)	(1,584)	(1,551)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)
Renewals - Opex	2022/23	£000	532	532	532	532	532	532	532	532	532	532
Renewals - Capex	2022/23	£000	532	532	532	532	532	532	532	532	532	532
CAPEX - Base	2022/23	£000	11,762	13,086	9,308	11,945	10,261	11,543	11,543	11,543	11,543	11,543
CAPEX - Enhancements	2022/23	£000	14,412	27,574	26,644	21,944	21,453	26,486	26,486	26,486	26,486	26,486
Grants and Contributions	2022/23	£000	(478)	(822)	(950)	(974)	(1,011)	(1,118)	(1,118)	(1,118)	(1,118)	(1,118)
TOTEX	Base Yr Avg	£000	46,495	60,212	54,733	51,651	49,294	56,762	56,642	56,518	56,518	56,518
			0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
			46,495	60,212	54,733	51,651	49,294	56,762	56,642	56,518	56,518	56,518
TOTEX	2022/23	£000			AMP8 TOTEX		262,385					
PAYG % - Natural Rate		%	47.0%	35.6%	38.1%	38.3%	39.8%	36.8%	36.7%	36.5%	36.5%	36.5%
PAYG % period average		%					39.8%					36.6%

Havant Thicket (ADDN 1)

WHOLESALE TOTEX	Price Base	Unit	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
			F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast
OPEX	2022/23	£000	27,521	26,610	25,752	24,628	23,373	23,730	23,537	23,337	23,337	23,337
OPEX - Enhancements	2022/23	£000	862	1,273	1,401	1,361	2,224	3,436	3,436	3,436	3,436	3,436
Grants and Contributions - opex	2022/23	£000	(1,593)	(1,612)	(1,630)	(1,584)	(1,551)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)
Renewals - Opex	2022/23	£000	532	532	532	532	532	532	532	532	532	532
Renewals - Capex	2022/23	£000	532	532	532	532	532	532	532	532	532	532
CAPEX - Base	2022/23	£000	12,590	14,392	10,601	12,829	11,216	12,498	12,498	12,498	12,498	12,498
CAPEX - Enhancements	2022/23	£000	16,010	29,156	28,250	22,209	21,615	26,648	26,648	26,648	26,648	26,648
HAVANT THICKET - capex	2022/23	£000	51,286	14,740	15,321	2,629	1,017	0	0	0	0	0
HAVANT THICKET - opex	2022/23	£000						2,884	2,884	2,884	2,884	2,884
Grants and Contributions - capex	2022/23	£000	(478)	(822)	(950)	(974)	(1,011)	(1,118)	(1,118)	(1,118)	(1,118)	(1,118)
TOTEX	2022/23	£000	107,262	84,802	79,810	62,164	57,948	67,566	67,373	67,173	67,173	67,173
HAVANT THICKET - natural PAYG			0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Lines 37 – 38 Pre 2025 RCV - Base run off rate

The run-off rates for Water Resources and Water Network+ are calculated from the actual/forecast maintenance capex in AMP8 as a percentage of the opening RCV in 2025/26. The maintenance capex includes infra and non-infra expenditure.

Outturn prices	2020/21	2021/22	2022/23	2023/24	2024/25	Average
<u>Maintenance capex</u>						
Water Resources	398	362	567	204	555	417
Water Network+	7,468	5,598	8,953	10,156	9,760	8,387
<u>Opening RCV 25/26</u>						
Water Resources					10,347	
Water Network+					198,384	
<u>Run-off rates</u>						
Water Resources					4.0%	
Water Network+					4.2%	

Line 41 Pre 2025 RCV - Base run off rate (ADDN1) Havant Thicket

The run-off rate is based on the calculated depreciation on the cumulative additions up to 2025/26. These have an asset life based on the remaining years of the Havant Thicket 80 year contract.

Run-off working

	Depn
Total	3,255
Cumulative additions	61,427
Midnight adjustment to RCV	<u>183,000</u>
Opening RCV 2025/26	244,427
Run-off rate	1.33%

Lines 55 – 56 Post 2025 investment RCV - Base run off rate

The run-off rates for Water Resources and Water Network+ are based on a weighted average asset life for AMP9. This equates to 22 years which is lower than for the existing RCV mainly due to the addition of smart metering.

Line 59 Post 2025 investment RCV - Base run off rate (ADDN1) Havant Thicket

The run-off rate is based on the calculated depreciation on the cumulative additions up to 2029/30. These have an asset life based on the remaining years of the Havant Thicket 80 year contract.

	2025/26	2026/27	2027/28	2028/29	2029/30
Depreciation	3,546	3,927	4,101	4,206	4,228
Cumulative additions					254,989
Run-off rate	1.39%	1.54%	1.61%	1.65%	1.66%

This is consistent with approach taken at PR19

Line 73 Long term CPIH inflation rate

This is set at 2%, and is linked to Table PD1.

Line 74 RPI-CPIH wedge for RPI index linked debt indexation rate

This is set at 1%, and is consistent with Table PD1.

TABLE RR2 - Totex Inputs to Cross Reference with CA

Company totex forecast have been developed through a single investment plans database for the LTDS and five year business plan.

Lines 1 – 5 Gross capital expenditure - real including G&C - Including cost sharing

Gross capital expenditure is before the deduction of Grants and Contributions.

The expenditure for Havant Thicket (ADDN1) is based on the Cost Adjustment Mechanism Final Decision document profile published in January 2023.

<https://www.ofwat.gov.uk/wp-content/uploads/2022/12/Havant-Thicket-CAM-final-decision-document.pdf>

Our latest internal forecast projects delays in totex due to alignment activity with Southern Water on a water recycling scheme. Further details are provided in supporting documents PRT13 Aligning risk and return.

Lines 7 – 11 Total gross operational expenditure - real - including cost sharing

Gross operational expenditure is before the deduction of Grants and Contributions.

The operating expenditure for Havant Thicket represents the operational phase of the project, after the construction of the reservoir.

Lines 13 – 17 Equity issuance costs – real

There are no equity issuance costs to report in this table. Our business plan assumes additional equity to align gearing with the notional structure, but the plan is financeable on an actual company basis based on the current capital structure. Therefore, we have not included any equity issuance costs. Further analysis is outlined in PRT13 Aligning Risk and Return.

Lines 19 – 23 IRE totex adjustment for ACICR (Ofwat) – real

There is no Infrastructure Renewals Expenditure categorised as capex, it is included in the PAYG expenditure.

Lines 25 – 29 Grants and contributions - capital expenditure - non price control – real (WN)

These are Developer Contributions to new mains and tie back to DS1e.12 Requisitioned mains.

Lines 31 – 35 Grants and contributions net of income offset - capital expenditure - price control - real (WN)

These are the Infrastructure Charges from Developers, net of the Income offset and tie back to DS1e.4 + DS1e.8 – DS1e.7.

Lines 37 – 41 Grants and contributions - operational expenditure - non price control - real (WN)

These are the Connection charges from developers and tie back to DS1e.11.

Lines 43 – 47 Grants and contributions net of income offset - operational expenditure - price control - real (WN)

These are the s185 and non-s185 diversions and tie back to DS1e.1 and DS1e.2.

TABLE RR3 - RCV opening balances

The numbers for each price control add up to the totals on Table PD11.24.

Water Resources	£10.313m
Water Network+	£198.377m
Havant Thicket	£286.926m

The split is also taken from Table PD11 lines 1 – 3, uplifted to 2022/23 prices.

Havant Thicket balance reflects the midnight adjustment to the RCV outlined in appendix 1 of the cost adjustment mechanism final decision document.

<https://www.ofwat.gov.uk/wp-content/uploads/2022/12/Havant-Thicket-CAM-final-decision-document.pdf>

Table 4: Calculation of Havant Thicket Price Control RCV midnight adjustment to be applied at PR24

£m (2017/18 CPIH deflated prices)	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030	Total
PR19 Totex	10.1	6.1	7.1	17.6	20.4	30.4	22.2	8.2	1.1	0.3	123.6
PR19 PAYG	-	-	-	-	-	-	-	-	0.3	0.3	0.6
PR19 Capex	10.1	6.1	7.1	17.6	20.4	30.4	22.2	8.2	0.8	-	123.0
Ofwat view of allowed totex	11.4	4.8	43.8	74.4	103.6	43.4	12.5	13.0	2.2	0.9	310.0
Difference	1.3	(1.4)	36.7	56.8	83.2	13.0	(9.7)	4.7	1.5	0.9	186.9
Discount factor	2.92%	2.92%	2.92%	2.92%	2.92%						
Number of years discounting	4.5	3.5	2.5	1.5	0.5						
Discounted difference	1.5	(1.5)	39.4	59.3	84.4						
RCV midnight adjustment - applied on 31 March 2025					183.0						

Table 5: Calculation of notional Havant Thicket Price Control RCV for 2020-2025

£m (2017/18 CPIH deflated prices)	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
PR19 RCV ²	10.1	16.0	22.9	40.2	60.0
CAM Discounted difference (cumulative)	1.5	(0.0)	39.4	98.7	183.0
CAM RCV - notional RCV reflecting CAM totex	11.5	16.0	62.3	138.8	243.0

TABLE RR4 - Financing financial model inputs

Lines 1 – 6

The notional target gearing is 55%, in line with the Ofwat guidance.

Line 7

The notional % of index-linked debt is 33%, in line with the Ofwat guidance.

Line 8

The proportion of RPI index-linked debt reflects the PWL actual RPI debt as a percentage of the total index linked debt, at the end of 2024/25.

Lines 9 – 14

The opening index linked debt is £221.613m, and is split between the price controls on the basis of the opening RCV.

Lines 15 – 20

The opening fixed rate debt is Debenture Stock, and is split across the price controls on the basis of opening RCV.

Lines 21 – 26

The opening floating rate debt is a Revolving Credit facility and is split across the price controls on the basis of opening RCV.

Lines 27 and 28 & lines 33 and 34

Lines 27 and 28 are the notional real interest rate for RPI linked debt.

The notional cost of debt, CPIH deflated, is 2.85% and the RPI deflated rate is 1.85%, assuming a 1% wedge to the CPIH.

The 2.85% value is made up of the Ofwat guidance amount of 2.6% + a small company premium of 0.25% (based on 30bps on embedded debt in line with small WoC notional company from PR24 final methodology)

Lines 31 and 37 – Havant Ticket

Line 31 is the notional interest rate for RPI linked debt.

The notional cost of debt, CPIH deflated, for Havant Thicket is 4.23%, which includes a small company premium of 1%. The RPI deflated rate is 3.23%, assuming a 1% wedge to the CPIH.

This aligns to the analysis undertaken by NERA Economic Consulting. Further supporting information is provided in PRT13 Aligning Risk and Return and appendices PRT13.03

Lines 39 – 44

These are the notional interest rates for fixed rate debt and are nominal values.

The notional cost of debt in nominal terms is 4.91% for the core business and 6.31% for Havant Thicket. These are part of the WACC calculations.

	PWL	OFWAT	H Thicket
Real Cost of Debt	2.85%	2.60%	4.23%
Real Cost of Equity	4.14%	4.14%	4.14%
Real Wholesale WACC - RPI adjusted	2.37%	2.23%	3.12%
Real Wholesale WACC - CPIH adjusted	3.37%	3.23%	4.13%
Nominal weighted cost of debt	4.91%	4.65%	6.31%
Nominal weighted cost of equity	6.22%	6.22%	6.22%
Deduction for Retail Margin	-0.06%	-0.06%	-0.06%
Nominal weighted cost of equity (post retail)	6.09%	6.09%	6.09%
Nominal WACC	5.44%	5.30%	6.21%

Lines 45 – 50

The opening cash balance is split across the price controls on the basis of opening RCV.

Lines 51 – 56

This is the notional nominal cash interest rate and is equal to the WACC for each price control.

Lines 57 – 62

The opening called up share capital is split across the price controls on the basis of opening RCV.

Line 63

Equity dividends paid are based on a 4% dividend yield.

Lines 64 – 70

This is additional equity to maintain the notional company structure of 55%.

Lines 71 – 76

The opening dividend creditors balance is split across the price controls on the basis of opening RCV.

Line 77 – 78

These are the actual calculated amounts of dividend based on a 4% dividend yield based on our actual company structure. This was calculated in our internal financial model prior to new equity contributions to set gearing in line with the notional gearing guidance.

	Price Base	Unit	2024/25 F'cast	2025/26 F'cast	2026/27 F'cast	2027/28 F'cast	2028/29 F'cast	2029/30 F'cast
Average Equity	Outturn	£000	66,142	102,592	211,115	212,865	215,172	217,727
Equity component of RCV (Shadow RCV)	Outturn	£000	220,702	210,950	211,280	214,450	215,895	219,559
Average Equity	Outturn	£000	239,887	215,826	211,115	212,865	215,172	217,727
Non HVT RCV %	Outturn	%	26%	60%	57%	56%	54%	52%
HT RCV %	Outturn	%	42%	40%	43%	44%	46%	48%
Dividend Yield Non HVT			4%	4%	4%	4%	4%	4%
Dividend Yield HVT			4%	4%	4%	4%	4%	4%
DIVIDEND	Outturn	£000	2,646	8,633	8,445	8,515	8,607	8,709
DIVIDEND	2022/23	£000	2,510	8,029	7,699	7,611	7,543	7,482
Intercompany Dividend	Outturn	£000	-	-	-	-	-	-

No dividend growth is included as we want the amounts in line 77 to be uploaded to the Ofwat Model.

Line 79

This is the notional dividend yield at the end of 2024/25.

Lines 80 – 85

The opening dividend cashflow balance is split across the price controls on the basis of opening RCV.

	2024	2025	2026	2027	2028	2029	2030	Total
Havant Thicket expenditure								
Construction expenditure								
Main pool - full expensing	10,864,678	20,440,666	20,419,364	-	-	-	-	51,724,708
Main pool	-	-	-	9,743,925	1,056,313	378,848	6,143	11,172,943
Special rate pool - full expensing	741,934	2,230,607	1,316,938	-	-	-	-	4,289,479
Special rate pool	-	-	-	640,704	491,026	126,593	2,053	1,256,270
Capitalised revenue	-	-	-	-	-	-	-	-
Structures and buildings allowances	21,002,493	59,588,456	34,281,950	14,151,032	6,172,031	3,197,096	51,845	138,341,214
Ineligible	3,574,199	6,133,978	3,074,720	880,114	408,430	101,965	1,653	14,171,751
Total	36,183,304	88,393,707	59,092,972	25,415,774	8,127,800	3,804,502	61,695	220,956,364
Non construction expenditure								
Main pool - full expensing	1,627,710	1,627,536	1,492,959	-	-	-	-	4,748,205
Main pool	-	-	-	1,405,254	1,194,965	1,076,147	227,848	3,904,214
Special rate pool - full expensing	102,329	102,318	93,857	-	-	-	-	298,504
Special rate pool	-	-	-	88,344	75,123	67,654	14,324	255,445
Capitalised revenue	-	-	-	-	-	-	-	-
Structures and buildings allowances	2,531,144	2,530,874	2,321,602	2,185,218	1,858,211	1,673,445	354,312	13,454,805
Ineligible	7,967,599	13,725,436	9,772,343	5,736,369	4,475,927	2,100,569	1,134,537	44,912,780
Total	12,228,781	17,986,163	13,680,762	9,415,184	7,604,227	4,917,815	1,731,021	67,563,953
Total Havant Thicket expenditure								
Main pool - full expensing	12,492,388	22,068,202	21,912,323	-	-	-	-	56,472,913
Main pool	-	-	-	11,149,180	2,251,278	1,454,995	221,705	15,077,157
Special rate pool - full expensing	844,262	2,332,925	1,410,795	-	-	-	-	4,587,982
Special rate pool	-	-	-	729,047	566,150	194,247	12,271	1,501,715
Capitalised revenue	-	-	-	-	-	-	-	-
Structures and buildings allowances	23,533,637	62,119,330	36,603,553	16,336,250	8,030,242	4,870,541	302,467	151,796,019
Ineligible	11,541,797	19,859,414	12,847,063	6,616,482	4,884,357	2,202,534	1,132,884	59,084,531
Total	48,412,084	106,379,870	72,773,734	34,830,959	15,732,027	8,722,317	1,669,326	288,520,317
Non-Havant Thicket expenditure								
Main pool - full expensing	5,744,167	5,366,520	9,080,597	-	-	-	-	20,191,285
Main pool	-	-	-	11,596,506	10,449,088	8,837,911	8,087,878	38,971,383
Special rate pool - full expensing	5,254,966	4,819,188	7,268,352	-	-	-	-	17,342,506
Special rate pool	-	-	-	12,938,508	12,540,035	9,259,251	8,681,967	43,419,760
Capitalised revenue	1,854,169	1,949,935	786,808	1,382,239	1,013,151	1,211,896	1,054,110	9,252,308
Structures and buildings allowances	4,301,875	4,456,484	2,306,939	4,068,971	3,274,526	3,368,310	2,989,797	24,766,002
Ineligible	2,868,784	2,671,400	3,679,277	6,546,556	6,291,922	4,721,108	4,413,411	31,192,457
Total	20,023,962	19,263,528	23,121,973	36,532,780	33,568,722	27,398,475	25,227,162	185,136,602

KPMG confirmed that Havant Thicket revenue, which is deferred for statutory accounting purposes, would be excluded from taxable trading profits but interest cost associate with the scheme would be deductible.

The combined impact confirms that Portsmouth Water will not pay tax in AMP8.

In line with advice, we have not taken available accelerated capital allowances in FY26 on the Havant Thicket Control.

RR5.1-RR5.6

No tax is expected to be paid in AMP7 due to scale of investment programme and available tax losses, our plan therefore assumes zero opening tax owing

RR5.7-RR5.12

£5,926k (based on the provisional tax loss at the end of the year-ended 31 March 2023 of £14,500k, reduced by the forecast profits in FY2024 (£1,529k) and the forecast profits in FY2025 (£12,515k), both reduced by the income from Southern Water of £1,063k and £1,308k in FY2024 and FY2025 respectively (this on the basis that this income is deferred under GAAP).

In addition, the loss utilised in FY2025 is restricted by £3,100k as where taxable profits exceed £5m then the use of brought forward tax losses is restricted to £5m plus 50% of the taxable profits over £5m (this means a tax liability for the year could arise, though there may be current year tax losses in other group companies which could be used against the taxable profits in PWL). Taxable profit equates to forecast accounting profit on the basis there are negligible 'permanent non-taxable or non-deductible differences').

Losses have been apportioned across price controls on basis of RCV.

RR5.13-RR5.18

Opening deferred tax balance - control - nominal – £9,047k liability (based on the deferred tax position at 31 March 2023 – with no changes in FY2024 or FY2025 on the basis that, as above, there are negligible 'permanent non-taxable or non-deductible differences').

RR5.19

Nil

RR5.20-RR5.25

Per KPMG analysis – Additional control not claiming full utilisation due to projection of tax loss due to deferral of revenue. Expenditure has been allocated to the standard main pool. This is a divergence from KPMG guidance.

RR5.26-RR5.31

Main rate pool based on draft 2022/23 tax computations assuming new additions are offset by capital allowances

RR5.32-RR5.36

Special rate pool based on draft 2022/23 tax computations

RR5.32-RR5.37

Structure & Buildings not claimed in current tax computations due to limitations on asset data - nil

RR5.44 - RR5.46

18% Main Pool, 6% Special Pool, 3% Structure & Buildings per HMRC guidance

RR5.47 - RR5.49

50% SP allowance in FY26 aligned to , otherwise as above in line with FY23 government budget statement


Guidance

Spring Budget 2023 – Full expensing

Updated 29 June 2023

Contents

1. The new Capital Allowances offer
2. Why is the government introducing full expensing?
3. What are capital allowances?
4. How does full expensing work?
5. What is plant and machinery?
6. What happens when a company sells an asset?
7. Example of full expensing and 50% first-year allowance

 [Print this page](#)

- From April 2023 until the end of March 2026, companies can claim 100% capital allowances on qualifying plant and machinery investments.
- Full expensing allows companies to write off the cost of investment in one go.
- Under full expensing, for every pound a company invests, their taxes are cut by up to 25p.
- It will ensure that the UK's capital allowances regime is world-leading.

1. The new Capital Allowances offer

As a result of measures announced at this Budget, businesses will now benefit from:

- Full expensing – which offers 100% first-year relief to companies on qualifying new main rate plant and machinery investments from 1 April 2023 until 31 March 2026
- The 50% first-year allowance (FYA) for expenditure by companies on new special rate (including long life) assets until 31 March 2026
- The Annual Investment Allowance (AIA) providing 100% first-year relief for plant and machinery investments up to £1 million, which is available for all businesses including unincorporated businesses and most partnerships.

RR5.50-RR5.97

Per KPMG Guidance - Plus FY26 adjustment for Havant Thicket (addn1) main pool from RR5.24, Capital allowance claims reduced due to available tax losses resulting in limited benefit from accelerated deduction.

Balancing figure to ensure 100% investment allocated against RR5.92-RR5.97

RR5.108

Adjust taxable revenue for Havant Thicket Bulk Supply revenue as this is treated as deferred revenue for statutory and taxation purposes. Confirmed by KPMG

Other assumptions

Other adjustments to taxable profits - control - nominal – no material adjustment noted.

RR5.110

Disallowable expenditure - Change in general provisions - control - nominal – no material adjustment expected – this is on the basis any provisions are GAAP compliant therefore tax deductible as provided.

RR5.116

Finance lease depreciation - control - nominal – depreciation on finance lease assets is tax deductible. However, no such depreciation identified in previous year's tax returns and no finance lease anticipated in PR24 plan.

RR5.122

P&L expenditure relating to renewals not allowable as a deduction from taxable trading profits - control - nominal – no such expenditure noted.

RR5.128

Tax cashflow initial balance - nominal – assume nil.

RR5.134

Tax loss allowance – nominal – assume nil.

RR5.135

Statutory Corporation tax rate – 25% in each year.

RR5.136

Adjustment to tax payment - nominal – assume nil.

RR5.142

DB scheme closed for future accrual so not cost expected.

RR5.148

The amortisation of Grants and Contributions is based on the 2024/25 forecast amount of £0.665m, but indexed up to nominal prices, using average CPIH.

PORTSMOUTH WATER LTD PROFIT & LOSS AND CASH FLOW			2020/21	2021/22	2022/23	2023/24	2024/25
PROFIT AND LOSS ACCOUNT	Price Ba:	Unit	Actual	Actual	Actual	F'cast	F'cast
TOTAL CUSTOMER REVENUE	Outturn	£000	38,288	39,107	42,660	44,811	46,297
Third Party Services	Outturn	£000	944	867	186	2,090	2,108
Bulk Supply	Outturn	£000	495	504	1,039	1,154	1,165
Havant Thicket Bulk Supply	Outturn	£000	220	588	882	1,609	2,571
Other Income (Deferred contributions)	Outturn	£000	681	630	665	665	665
Other Income (Connection Charges)	Outturn	£000	908	937	822	879	887
Other Income (Mains Diversions s185)	Outturn	£000	239	247	9		
REVENUE	Outturn	£000	41,775	42,880	46,263	51,207	53,693

RR5.154

Other taxable income - Grants and contributions taxable on receipt - control - nominal – grants and contributions (not significant) taxed in accordance with GAAP; no adjustment.

RR5.160

Allowable depreciation on capitalised revenue - control - nominal – £130k in each year – from previous year's tax returns.

TABLE RR6 - Post financeability adjustments inputs

This is the output from the Revenue Adjustments Feeder Model. The numbers are in 2022/23 prices.

For Water Resources, the overall adjustment is -£3.692m, due mainly to the end of AMP penalty for PCC, but also a negative adjustment from the Totex reconciliation model.

We have assumed that the PCC penalty is applied in each year but our plan representations argue that the penalties should be reviewed to factor in the impact of covid on household consumption during lockdown and to review the long term impact on working patterns impacting household consumption. More data is needed to fully understand the impact.

For Water Network+, the overall adjustment is £1.551m, with a number of large positive and negative adjustments. See table below.

Reconciling companies' performance in 2020-2025

Ofwat Model	Unit	Tax Uplift	Adjustments in AMP8		Revenue adjustments by price control			
			Revenue	RCV	Water Resources	Water Network+	Household Retail	Havant Thicket
Blind Year adjustment	£m		0.000					
Revenue Forecasting Incentive model	£m	0	-0.020		0.051	-0.071		
C-Mex	£m	1	0.343				0.343	
D-Mex	£m	1	0.208			0.208		
ODI performance	£m	1	-4.375		-2.856	-1.519		
WRFIM - correction from PR19 FD	£m	1	1.873			1.873		
Totex reconciliations	£m	0	-1.026	-0.227	-0.945	-0.081		
PR19 Water Trading Incentives	£m	0	0.000					
Strategic Regional W Resources model								
Developer Services	£m	0	0.614			0.614		
WINEP reconciliation	£m	0						
Cost of new debt reconciliation	£m	0	0.719		0.026	0.630		0.063
Gearing outperformance sharing mechanism	£m	1	0.000					
Tax reconciliation (Ofwat calculation)	£m	0	0.000					
RPI-CPIH wedge true-up	£m	1	0.820	3.933	0.031	0.789		
Innovation Competition	£m	0	-0.892			-0.892		
Residential Retail reconciliation	£m	0	0.202				0.202	
Land Sales	£m	0		0.000				
Havant Thicket	£m			183.033				
	£m		-1.533	186.739	-3.692	1.551	0.545	0.063

TABLE RR7 - Residential Retail

Line 1

No retained profits are allocated to the Retail business, as there have been offsetting profit and losses over the last few years.

Lines 2 – 7

The cost to serve for unmetered and metered customers has been modelled by using the Retail cost to serve and dividing by the number of properties in each category.

The cost to serve in 2022/23 prices is in Table RET1.21. This includes depreciation and all recharges from other price controls.

The number of properties for measured and unmeasured customers is from Table SUP1A.

There is a metering differential between the cost to serve for measured customers and the cost to serve for unmeasured customers. This is made up of 3 elements:

1. Meter reading costs
2. Cost of billing (based on number of bills)
3. Customer contacts

The calculation is shown on the following page.

The overall metering differential is £6.45 in outturn prices, based on actual data from 2022/23 reporting. This is £6.00 in 2022/23 prices, for 2025/26.

This is revised to an average of £5.51 in AMP9, to reflect, in particular, the reduction in meter reading costs associated with smart metering.

		2025/26	2026/27	2027/28	2028/29	2029/30
Metered cost to serve	2022/23	21.36	20.99	20.42	19.66	18.87
Unmetered cost to serve	2022/23	15.36	15.11	14.65	14.00	13.32
Metering differential		6.00	5.88	5.77	5.66	5.54

Metering Costs for ACTS Calculation

AMP7	Household £'000	
Meter Reading Costs	251	As per Accounting Separation
Additional Costs of Billing	171	
Additional Costs of Customer Contacts	266	
TOTAL	<u>689</u>	

Total Differential **6.45** Outturn prices

METER READING

Measured Differential **2.35**

CUSTOMER BILLING

Unmeasured - 1 Bill per annum	187,825	
Unmeasured - 2 Bill per annum	<u>22,598</u>	Half year reminders for customers
	210,423	

Weighted average no of bills	1.11
Total no of bills Unmeasured	210,423

Measured - 12 Bills per annum	19
Measured - 4 Bills per annum	232
Measured - 2 Bills per annum	106,447
Measured - 1 Bill per annum	<u>106,698</u>

Weighted average no of bills	2.01
Total no of bills Measured	214,050

Total no of bills	424,473	
Total Direct costs of Billing	758	As per Accounting Separation
Cost per Bill	1.79	

Unmeasured	1.98	Cost per average customer
Measured	3.58	Cost per average customer

Measured Differential **1.60**

CUSTOMER CONTACTS

Unmeasured	49,102
Measured	<u>45,982</u>
	95,084

Measured % of Contacts	48%
------------------------	-----

Cost of Customer Contacts

Unmeasured	682
Measured	<u>639</u>
	1,321

Total Query and Complaints	1,321	As per Accounting Separation
----------------------------	-------	------------------------------

Customer Numbers 2022/23

Unmeasured	195,427
Measured	<u>106,698</u>
	302,125

Unmeasured Cost per Customer	3.49
Measured Cost per Customer	5.99

Measured Differential **2.50**

Lines 8 – 13

The Households connected, measured and unmeasured tie back to Table SUP1A.

Lines 14 – 17

The number of days in these lines are an average of the actual days in the last few years. This ensures consistency in the Balance Sheet in the next 10 years.

Line 18

The measured income accrual is 25% of the total unbilled income at the year end.

Line 19

This is the closing measured income accrual at the end of 2024/25.

Line 20

This is the capital expenditure on assets principally used by residential retail. There is a programme of vehicle replacement in AMP8, which includes Retail vehicles for meter readers and visiting officers. In addition, there is provision for small plant and office equipment, as well as IT equipment for staff.

Lines 21 – 26

This is the Retail costs to serve in nominal prices, split between measured and unmeasured customers.

Cost to serve per customer HH	Outturn	18.28	18.43	18.56	18.62	18.79
Metered cost to serve	Outturn	22.97	23.02	22.84	22.43	21.96
Unmetered cost to serve	Outturn	16.52	16.57	16.39	15.98	15.51
Metering differential		6.45	6.45	6.45	6.45	6.45
Measured costs HH		2,869,312	3,015,833	3,376,278	3,883,113	4,539,828
Unmeasured costs HH		3,077,739	3,040,112	2,781,838	2,353,984	1,805,224
Total Retail HH costs	Outturn	5,947,051	6,055,945	6,158,117	6,237,097	6,345,051

Line 30

This is for trade and other payables – Retail and is taken from our own internal Balance Sheet modelling.

Lines 31 and 32

These lines are for trade receivables and are again from our own internal Balance Sheet modelling.

Line 35

The residential apportionment is 100% as there is no Business Retail at Portsmouth Water.

Line 36

There is zero in the retained cash balance for Retail, as there have been a number of year of losses to offset any profits in the last few years.

Lines 37 – 49

The proportion of the charge for each of these customer groups has been modelled by starting with the most recent actual values. These have then been modelled forward to take account of changes in property numbers in each group.

Overall, there is a shift from unmeasured to measured properties with the introduction of smart metering.

Lines 50 and 51

These amounts are taken from the internal modelling of the Balance Sheet.

Line 52

The amount of allowed depreciation reflects the existing assets not fully depreciated + new assets acquired in the next 10 years.

Line 56

There is a rate of 4.0% in this line to reflect the latest OECD interest rate forecast.

TABLE RR8 - Business Retail

Portsmouth Water has exited the Business Retail market, so this table only reflects the Wholesale side of the business.

Lines 10 – 12

The number of customers tie back to Table SUP1A.

Line 13

This is an output from the Ofwat Model, and it reflects the proportion of Wholesale that relates to Business customers.

Lines 22 – 33

The proportion of the charge for each of these customer groups has been modelled by starting with the most recent actual values. These have then been modelled forward to take account of changes in property numbers in each group. However, these percentages are fixed to reflect the very small changes in property numbers for Business customers.

Line 49

This is the amount of measured income as a percentage of total business income.

TABLE RR9 - Miscellaneous Inputs

Lines 1 – 6

There is no opening retirement benefit asset to report.

The pensions scheme was closed to accrual in 2023. The scheme is in surplus but no asset is recognised under UK GAAP. The scheme is effectively de-risked and expected to remain in surplus.

Lines 7 – 12

Portsmouth Water has not included any reprofiling of revenue in its Business Plan submission. The Board reviewed option to reprofile revenue and believe the plan has scope to smooth bill increases over the AMP to reduce the year 1 bill increase. The was discussed with Board but it was agreed that this review would be better informed at the draft determination phase of the PR24 plan.

Lines 13 – 18

The discount rates are the notional Wholesale WACC for each control, as reported in Table RR26.

Lines 19 – 24

This is the opening value of intangible assets on the Balance Sheet, and there is not Investments balance to report. The opening balance is slit between the price controls based on the opening RCV.

Line 32

This is the opening balance of Deferred Income – Grants and Contributions.
There is a small amount of £2.081m relating to other liabilities.
All of this is therefore allocated to Water Network+.

Lines 37 – 48

These opening balances are taken from our own internal modelling of the Balance Sheet and are split between the price controls based on the opening RCV.

Lines 51 – 62

These opening balances are taken from our own internal modelling of the Balance Sheet and are split between the price controls based on the opening RCV.

Lines 63 – 68

There is a relatively small amount of inventory, relating to our core business. This is assumed to remain the same over the next AMP, but to increase in value with inflation.

Lines 69 – 75

The trade creditor days and capex creditor days are based on the most recent actual data.

Lines 76 – 81

The other creditors balance is relatively small and assumed to stay at the same level in the future.

Lines 82 – 87

The other debtors balance is relatively small and assumed to stay at the same level in the future.

Lines 88 – 111

These opening balances are from our internal Balance Sheet modelling and split between the Water Resources and Water Network+ price controls based on the opening RCV.

Lines 118 – 135

Defined benefit is closed for further accrual and in surplus so all lines are zero values

Lines 136 – 177

No DPC schemes, values zero

Lines 178 – 193

Zero values

Line 185

These Bulk Supplies were in place before 1 April 2020 and are assumed to be at the same level as for 2024/25. This is reported in Table PD6, excluding Havant Thicket bulk supply.

Line 194

This is the bulk supply income relating to Havant Thicket.

The numbers from 2025/26 – 2029/30 are outputs from the Ofwat Model, and the AMP9 data is from our own internal modelling.

Lines 226 – 237

These opening balances are from our own internal modelling, which splits the assets and depreciation by price control.

Lines 238 and 239

The asset life of 35 years reflects the accounting depreciation in our own accounts. It is reduced to 30 years going forward to include the smart metering programme and the overall reduction in asset life for instrumentation.

Line 251

There is a small movement in intangible assets in the first 2 years of AMP8 and then no further intangible assets have been forecast.

Lines 262 – 263

This is the Wholesale revenue forecast for 2024/25, in 2022/23 prices.
The amount of £36.341m ties back to Table RR27.4.

TABLE RR10 - Allowed Revenue Outputs

All of the data from this table comes from the output tabs of the Ofwat Model.

TABLE RR11 - PAYG and RCV Run-off Outputs

All of the data from this table comes from the output tabs of the Ofwat Model.

TABLE RR12 - RCV by Control

Lines 1 – 2

These are taken from the RCV adjustments feeder model, by removing the midnight adjustments and taking the numbers from the 'Calc' tab. Lines 618 – 641 give the full split of the RCV in 2022/23 prices.

Lines 4 – 9

These lines are from the output tabs of the Ofwat Model.

TABLE RR13 - Annual RCV balances

All of the data from this table comes from the output tabs of the Ofwat Model.

TABLE RR14 - Bill profile for 2025-30 before inflation

The data for 2025/26 – 2029/30 are outputs from the Ofwat model, but the bill amounts for 2023/24 and 2024/25 have been manually keyed in.

The 2023/24 bill is from the tariff workings for that year, deflated to 2022/23 prices.

The 2024/25 bill is from the forecast of revenue, properties, and volumes for that year, using the same tariff model.

Reconciling tariffs between Ofwat model and business plan.

The average household bill can also be quoted in prior November prices, to coincide with the actual tariffs for customers. The bill amounts in this price base are as follows:

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Average HH Bill - 2022/23 prices	112.2	114.5	128.3	130.6	133.0	133.3	134.8
Average HH Bill - prior Nov prices	107.2	107.0	121.4	123.6	125.9	126.1	127.5

Our AAT testing and customer engagement has consistently quoted tariffs in real prices based on November CPIH. We have remained consistent with this approach in the business plan documents and customer communications.

TABLE RR15 - Retail margins 2025-30 (nominal price base)

All of the data from this table comes from the output tabs of the Ofwat Model.

TABLE RR16 - Financial Ratios

Further information on the company assessment of financeability and financial resilience is outline in PRT13 Aligning Risk and Return and PRT13.03 appendix on Board Assurance. Information is set out in sections D Financeability (Notional Company) and E Financial Resilience (Actual Company)

Key additional comments on

RR16.1 – RR16.11 are calculated within the Ofwat model

RR16.1

Opening gearing based on Havant Thicket cost adjustment mechanism is projected to be broadly in line with the notional company following £170m equity being provided in AMP7. Gearing is aligned with the notional structure within the Ofwat model by assuming new equity is deployed. Our business plan submission assumes £93m additional revenue.

RR16.3

Adjusted cash interest cover is the closest proxy to Moody's AICR metric for the notional company. Average AICR is 1.53X aligning with rating guidance for a Baa1 Moodys rating

RR16.11

Reported dividend yield is 2.41%. £170m new equity is committed in AMP7. The projected dividend have been based on 4% return on actual regulatory equity. New AMP8 equity assumed in Ofwat financial model dilutes yield to 2.41%.

RR 16.19

Notional company RORE is 4.2% broadly in line with the cost of equity as gearing is aligned to the notional company at 55%

RR16.20

Target credit rating is capped at Moody's Baa2. Metrics meet the guidance for Baa1 (<72% gearing, 1.5X AICR) but scale of RCV growth relative to the existing RCV means Moody's scorecard assesses the rating at Baa2. Moody's guidance is that the rating will remain at Baa2 until peak construction is complete, we have assumed this will be until the end of the 10-year price control on Havant Thicket.

RR16.24-RR16.38 are calculated through working in 16.47 to RR16.123

PW have an internal financial model used to populate the Ofwat financial model. This model calculates the actual company financial performance based on it's actual capital structure, current debt instruments and existing equity. All other assumption on totex, inflation and economic factors align the Ofwat regulatory model.

Finance ability of the actual company structure has been assessed before any new equity is deployed in AMP8. Our assessment is the plan is financeable based on the £170m new equity committed in AMP7 but new equity may be required to support increases to Havant Thicket scope or to support refinancing of facilities expiring in 2029.

RR16.24

Opening gearing is broadly in line with notional gearing at 57%. This is based on assumption that Havant Thicket expenditure is in line with totex allowances agreed in January 2023's cost adjustment mechanism. Average closing gearing is 69.33% with gearing increase with totex expenditure to 71.71% (within standard guidance for Baa1 ratings)

RR16.26

Interest cover is 1.5% on average for the AMP (in line with standard guidance for Baa1 rating). High level of index linked debt reduce cash interest cost resulting in stronger interest cover at higher average gearing. This offsets the higher cost of legacy debt from the 3.635% Artesian RPI link bond issued in 2002. RPI linkage mean bond accretion is faster than CPI linked growth but this is accommodate until 2030 when RPI aligns with CPI.

RR16.36

Target credit rating is capped at Moody's Baa2. Metrics meet the guidance for Baa1 (<72% gearing, 1.5X AICR) but scale of RCV growth relative to the existing RCV means Moody's scorecard assesses the rating at Baa2. Moody's guidance is that the rating will remain at Baa2 until peak construction is complete, we have assumed this will be until the end of the 10-year price control on Havant Thicket.

RR16.37 – RR16.38

Table includes key credit rating and structured financing covenant based on the company financial model

Moody's AICR is 1.5X on average through the AMP. 3 year average falls below 1.5X threshold but remains in line with PW current Baa2 rating. PW have considered rephasing revenue to smooth bill increase, this would improve AICR in later years of AMP8

Artesian interest cover is 1.4X in line with covenant. In high capex cycle the covenant allow capital expenditure to be offset by drawing equity or debt so the measure is maintained at 1.4 times.

Dividend Yield

Dividend yield has been calculated in line with Annual Performance Report which calculates dividend yield in year paid. Currently dividends are paid in 100% in arrears, no interim dividend has been paid since 2020 following deferral of dividend due to Covid.

Dividend yield in RR16.11 is based on dividend cashflow from the manual override.

ADJUSTMENT TO OFWAT TABLE:

Dividend yield in RR16.34 has been calculated on a similar basis to RR16.11

The feeding calculations in row RR16.123 and RR16.78 are fed from table RR18.15.

RR18.15 reflects dividend declared and is inconsistent with calculation in RR16.11

The formulas have been corrected to ensure the dividend reported in RR16.78 reflects dividend paid and aligns to the value in RR20.19

This means the dividend yield calculations between the notional and actual company structure are consistent.

Adjustments for actual structure metrics

RR16.56

Adjustment to reconcile FFO pre interest to internal company model calculations used for Board assurance. Adjustments reduce FFO annual by between £0.306k and £0.362k.

RR16.63

Adjustment to reconcile with internal model interest expense for financial metrics. Financial model assesses interest cover based on interest paid. This excludes accretion on index linked debt.

The adjustment is broadly in line with indexation of index linked debt reported in RR16.76. Other difference relate to other reconciling difference between calculations of working capital and interest charges in the internal model reflecting actual capital structures.

Further adjustments to interest	£m	3	-6.062	-5.995	-5.5	-6.034	-6.375	-29.97	RR16.6 3
Indexation of index linked loans	£m	3	5.917	6.079	6.245	6.415	6.591	31.247	RR16.7 6

TABLE RR17 - Financial Ratios by scenario

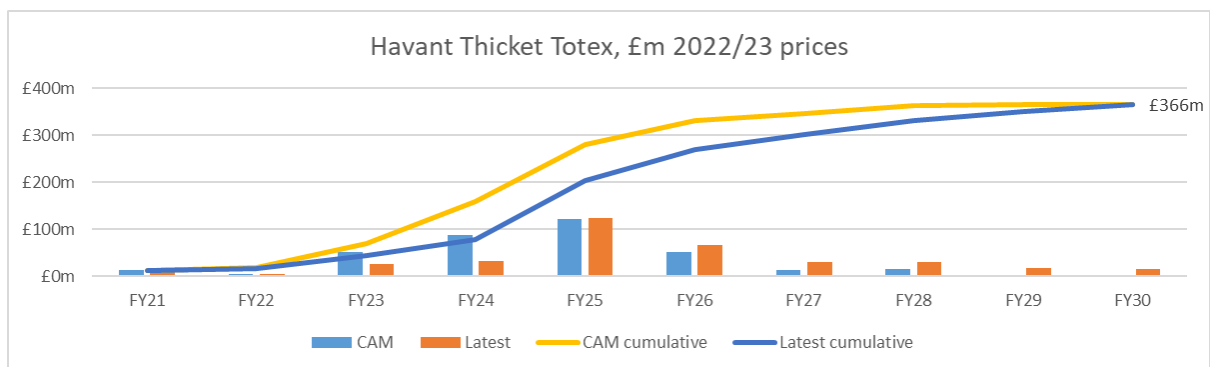
Assessing Financial Resilience: Havant Thicket Latest View

Portsmouth Water has signed a commercial agreement with Southern Water to enable the reservoir to progress works now, which will deliver significant savings to Southern Water customers and reduce the environmental impact of the works, when compared with implementing changes later. It has been agreed with Ofwat that this change in scope will be addressed through a second Cost Adjustment Mechanism to establish a new regulatory allowance for the project in 2024.

The change in scope has resulted in delays to the investment programme to incorporate changes to the design of the pipeline and reservoir infrastructure; current estimates are for a 1–2-year delay to completion of the reservoir.

Changes are subject to a successful planning application but the decision to proceed with the scope change means that the programme will be delayed by a minimum of 12 months. The resultant delay in investment will reduce gearing and improve financial headroom over AMP8.

Figure 11: Havant Thicket Totex: Cost Adjustment Mechanism vs Latest Forecast



Re-running our financial analysis for our actual company structure we see more headroom in the early years of our plan.

- Average gearing is 63.9% vs 69.3% assumed in the PR24 plan.
- Average adjusted interest cover is 1.7x vs 1.5x.
- Baa2 Moody's rating maintained.

Table 20: Havant Thicket Latest Totex Forecast Sensitivity

Financial ratios: Havant Thicket Latest Totex Profile									
Line Description	Units	DPs	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	PR24 BP reference
Actual capital structure									
Gearing - Actual capital structure	%	2	52.93%	59.48%	64.44%	68.37%	71.56%	63.94%	RR16.24
Interest cover - Actual capital structure	ratio	2	3.94	3.19	2.81	2.52	2.40	2.83	RR16.25
Adjusted cash interest cover - Actual capital structure	ratio	2	2.40	1.92	1.66	1.47	1.39	1.67	RR16.26
Adjusted cash interest cover (alternative calculation) - Actual capital structure	ratio	2	2.22	1.79	1.55	1.38	1.30	1.56	RR16.27
FFO/Net Debt - Actual capital structure	%	2	8.69%	7.33%	6.45%	5.81%	5.44%	6.53%	RR16.28
FFO/Net Debt (alternative calculation) - Actual capital structure	%	2	6.84%	5.78%	5.09%	4.56%	4.25%	5.13%	RR16.29
Dividend cover - Actual capital structure	ratio	2	1.45	1.42	1.27	1.09	0.98	1.24	RR16.30
RCF/Net Debt - Actual capital structure	ratio	2	0.06	0.05	0.05	0.04	0.04	0.05	RR16.31
RCF/Capex - Actual capital structure	ratio	2	0.17	0.24	0.27	0.34	0.38	0.26	RR16.32
Return on capital employed - Actual capital structure	%	2	5.34%	5.32%	5.23%	5.09%	1.10%	4.32%	RR16.33
Dividend yield - Actual capital structure	%	2	3.04%	3.16%	3.36%	3.64%	3.94%	3.40%	RR16.34
RORE - Actual capital structure	%	2	3.43%	3.50%	3.37%	3.78%	4.07%	0.00%	RR16.35
Target Credit Rating - Actual capital structure	text	0	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	RR16.36

We have used this sensitivity as the **base case for our further financial resilience assurance** as this reflects our best view of the likely totex funding profile.

RR17

Scenarios

We have run 11 separate sensitivities for table RR17. Our base case scenario reflects the latest view of Havant Thicket totex expenditure reflecting the delays in AMP7 due to the alignment work agreement with Southern Water. The resultant assessment of scope increase and need for a separate planning application have already delayed the project in AMP7. The cashflows in the model reflect the latest best view before adding the additional investment on the scope changes. This has been picked up through scenario 8.

1. Totex underperformance (10% of totex) over five years (Water resource / network plus)
2. ODI underperformance payment (3% RoRE) in one year.
3. Inflation 2% below the base case in the business plan in each year of the price review.
4. Deflation of -1% for two years, followed by a return to the long-term inflation target.
5. 10% spike in inflation with a 2% increase in the wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in the wedge.
6. Increase in the level of bad debt (20%) over current bad debt levels.
7. Debt refinanced as it matures, with new debt financed at 2% above the forward projections.
8. Financial penalty – equivalent to 6% of one year's Appointee turnover.
9. CAM2 additional Capex (assumes equity support) - +£70m capex, increase revenue & RCV
10. 20% CAM overspend on Havant Thicket control.

The scenarios were assessed against covenants, key rating agency gearing, and interest cover ratios based on the current capital structure and targeted to maintain a minimum of a Baa3 rating (which would assume dividend lock up).

Findings

We engaged Centrus to provide Board assurance on financeability. The sensitivities were run in our group financial model to evaluate credit rating and covenant compliance.

Centrus' analysis found that under most scenarios we could maintain a Baa2 credit rating. For two scenarios intervention was required; these are the scenarios where additional totex is required.

Scenario 1: Totex underperformance (10% of totex) over 5 years.

Scenario 9: CAM2 additional Capex (assumes equity support) - +£70m capex.

For both scenarios additional equity would be required by reducing dividends or provision of equity. For scenario 1 this can be addressed through dividends only. As outlined in PR13 Aligning risk and reward our plan assumes **new equity support will be provided to support a cost adjustment mechanism on the Havant Thicket price control**. This is outlined in section E of the supporting documents PRT13 Aligning Risk and Return.

The information formed the basis for the Board assurance and review of equity requirements for the actual company structure. The conclusion was equity support would be required in totex increased due to changes to Havant Thicket. Investor Ancala confirm equity support was available to support further growth. Ancala have committed a further £170m of equity in AMP8, £20m in 2022 and a further £120m in 2023 with £30m committed in 2024.

Reverse stress test

Following review of the scenarios we identified the main sensitivity from a financeability basis was on sustained totex overspends.

We evaluated the annual totex tolerance vs a Baa2 Moody's interest cover ratio to evaluate headroom. We applied the approach consistently for each scenario. This confirmed finding on that scenario 1 and scenario 9 would need further equity support to maintain a Baa2 rating. Both would retain a Baa3 rating without equity support but dividend lockup would be in place due to license condition P26.

Company specific credit metrics

In addition to Ofwat metric we ran the following credit metric calculations against our Baa2 credit rating and financing covenants associated with our structured financing arrangements and credit wrap from Assured Guarantee.

Metrics:

Company proposed financial ratio A:

Moody's Adjusted Interest Cover Ratio: Baa1 1.5X Baa2 1.3X Baa3 1.1X

Company proposed financial ratio B:

Covenant Interest Cover Ratio: 1.4X lock up, 1.0X default

Company proposed financial ratio C:

Covenant Net debt / RCV: 82.5% trigger 90% default

Company proposed financial ratio D:

Covenant Maturity concentration test: <45%

Scenarios

Totex underperformance (10% of totex) over 5 years.							
Scenario A; Gearing	%	2	54.00%	61.00%	66.00%	72.00%	76.00%
Scenario A; Interest cover	ratio	2	3.09	2.55	2.21	2.19	2.11
Scenario A; Adjusted cash interest cover	ratio	2	1.78	1.45	1.24	1.23	1.18
Scenario A; Adjusted cash interest cover (alternative calculation)	ratio	2	1.50	1.25	1.08	1.07	1.03
Scenario A; FFO/Net Debt	ratio	2	0.07	0.06	0.05	0.05	0.04

Scenario A; FFO/Net Debt (alternative calculation)	ratio	2	0.05	0.04	0.04	0.03	0.03
Scenario A; Moody's AICR	ratio	2	1.86	1.50	1.27	1.23	1.19
Scenario A; Artesian ICR	ratio	2	1.53	1.49	1.51	2.12	1.46
Scenario A; Net debt/RCV (senior)	ratio	2	0.54	0.61	0.66	0.72	0.76
Scenario A; Maturity Concentration	ratio	2	0.30	0.29	0.01	0.22	0.21
Scenario A; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario A; Headroom for reverse stress test against base case	£m	2	9.22	5.21	-2.33	-3.31	-5.39
Scenario A; Extent of stretch required to reach limit	%	2	8.00%	5.00%	-3.00%	-5.00%	-8.00%

Scenario assumes 10% totex overspend on Water resource and Network Plus controls (additional scenario on Havant Thicket control run separately)

Baa3 rating maintained but further equity support required to meet Baa2 in last year of AMP.

REMEDY: Withold dividend payments

ODI underperformance payment (3% RoRE) in one year							
Scenario B; Gearing	%	2	52.00%	59.00%	62.00%	66.00%	71.00%
Scenario B; Interest cover	ratio	2	3.68	2.21	2.65	2.37	2.42
Scenario B; Adjusted cash interest cover	ratio	2	2.27	1.03	1.58	1.41	1.43
Scenario B; Adjusted cash interest cover (alternative calculation)	ratio	2	2.27	1.03	1.58	1.39	1.41
Scenario B; FFO/Net Debt	ratio	2	0.09	0.04	0.06	0.06	0.06
Scenario B; FFO/Net Debt (alternative calculation)	ratio	2	0.07	0.03	0.05	0.04	0.04
Scenario A; Moody's AICR	ratio	2	2.39	1.04	1.62	1.42	1.44
Scenario A; Artesian ICR	ratio	2	1.52	1.50	1.68	2.26	1.56
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.59	0.62	0.66	0.71
Scenario A; Maturity Concentration	ratio	2	0.28	0.28	0.01	0.23	0.22
Scenario B; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario B; Headroom for reverse stress test against base case	£m	2	18.76	-9.24	11.20	4.83	5.84
Scenario B; Extent of stretch required to reach limit	%	2	16.00%	-10.00%	12.00%	7.00%	8.00%

Falls below Moodys AICR in year 2 but meets Baa2 metric on 3 year average

Inflation 2% below the base case in the business plan in each year of the price review							
Scenario C; Gearing	%	2	52.00%	58.00%	63.00%	68.00%	72.00%
Scenario C; Interest cover	ratio	2	3.69	3.02	2.57	2.44	2.42

Scenario C; Adjusted cash interest cover	ratio	2	2.27	1.83	1.53	1.45	1.43
Scenario C; Adjusted cash interest cover (alternative calculation)	ratio	2	2.27	1.83	1.53	1.43	1.41
Scenario C; FFO/Net Debt	ratio	2	0.09	0.07	0.06	0.06	0.05
Scenario C; FFO/Net Debt (alternative calculation)	ratio	2	0.07	0.07	0.06	0.05	0.05
Scenario A; Moody's AICR	ratio	2	2.39	1.89	1.57	1.45	1.42
Scenario A; Artesian ICR	ratio	2	1.64	1.53	1.64	2.32	1.66
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.58	0.63	0.68	0.72
Scenario A; Maturity concentration	ratio	2	0.30	0.30	0.00	0.25	0.25
Scenario C; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario C; Headroom for reverse stress test against base case	£m	2	18.79	18.01	9.20	6.81	5.74
Scenario C; Extent of stretch required to reach limit	%	2	16.00 %	19.00 %	10.00 %	9.00%	8.00%

Meets current Baa2 rating

Deflation of -1% for 2 years, followed by a return to the long term inflation target.

Scenario D; Gearing	%	2	52.00 %	59.00 %	64.00 %	69.00 %	72.00 %
Scenario D; Interest cover	ratio	2	3.72	3.05	2.60	2.33	2.35
Scenario D; Adjusted cash interest cover	ratio	2	2.29	1.85	1.55	1.38	1.39
Scenario D; Adjusted cash interest cover (alternative calculation)	ratio	2	2.29	1.85	1.55	1.37	1.37
Scenario D; FFO/Net Debt	ratio	2	0.09	0.07	0.06	0.05	0.05
Scenario D; FFO/Net Debt (alternative calculation)	ratio	2	0.08	0.08	0.06	0.05	0.05
Scenario A; Moody's AICR	ratio	2	2.40	1.91	1.58	1.39	1.39
Scenario A; Artesian ICR	ratio	2	1.65	1.50	1.49	2.24	1.55
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.59	0.64	0.69	0.72
Scenario A; Maturity concentration	ratio	2	0.29	0.28	0.01	0.23	0.22
Scenario D; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario D; Headroom for reverse stress test against base case	£m	2	19.16	18.48	9.94	3.77	3.91
Scenario D; Extent of stretch required to reach limit	%	2	16.00 %	19.00 %	11.00 %	5.00%	6.00%

Meets current Baa2 rating

10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.

Scenario E; Gearing	%	2	52.00 %	59.00 %	62.00 %	69.00 %	73.00 %
Scenario E; Interest cover	ratio	2	3.68	3.03	2.62	2.51	2.37
Scenario E; Adjusted cash interest cover	ratio	2	2.26	1.84	1.57	1.49	1.40
Scenario E; Adjusted cash interest cover (alternative calculation)	ratio	2	2.26	1.84	1.57	1.47	1.38
Scenario E; FFO/Net Debt	ratio	2	0.09	0.07	0.06	0.06	0.05
Scenario E; FFO/Net Debt (alternative calculation)	ratio	2	0.05	0.02	0.03	0.03	0.04
Scenario A; Moody's AICR	ratio	2	2.37	1.89	1.60	1.50	1.40
Scenario A; Artesian ICR	ratio	2	1.55	1.51	1.53	2.35	1.47
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.59	0.62	0.69	0.73
Scenario A; Maturity concentration	ratio	2	0.28	0.28	0.01	0.28	0.28
Scenario E; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario E; Headroom for reverse stress test against base case	£m	2	18.67	18.15	10.48	8.80	4.43
Scenario E; Extent of stretch required to reach limit	%	2	16.00 %	19.00 %	11.00 %	12.00 %	6.00%

Meets current Baa2 rating

Increase in the level of bad debt (20%) over current bad debt levels.							
Scenario F; Gearing	%	2	52.00 %	57.00 %	62.00 %	68.00 %	72.00 %
Scenario F; Interest cover	ratio	2	3.67	2.99	2.57	2.32	2.37
Scenario F; Adjusted cash interest cover	ratio	2	2.26	1.81	1.52	1.38	1.40
Scenario F; Adjusted cash interest cover (alternative calculation)	ratio	2	2.26	1.81	1.52	1.36	1.38
Scenario F; FFO/Net Debt	ratio	2	0.09	0.07	0.06	0.05	0.05
Scenario F; FFO/Net Debt (alternative calculation)	ratio	2	0.07	0.06	0.05	0.04	0.04
Scenario A; Moody's AICR	ratio	2	2.38	1.86	1.55	1.38	1.41
Scenario A; Artesian ICR	ratio	2	1.62	1.51	1.54	2.24	1.54
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.57	0.62	0.68	0.72
Scenario A; Maturity concentration	ratio	2	0.28	0.28	0.01	0.23	0.22
Scenario F; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario F; Headroom for reverse stress test against base case	£m	2	18.63	17.00	8.71	3.44	4.42
Scenario F; Extent of stretch required to reach limit	%	2	16.00 %	18.00 %	10.00 %	5.00%	6.00%

Meets current Baa2 rating

Debt refinanced as it matures, with new debt financed at 2% above the forward projections.

Scenario G; Gearing	%	2	52.00%	57.00%	62.00%	67.00%	70.00%
Scenario G; Interest cover	ratio	2	3.67	3.03	2.60	2.12	1.93
Scenario G; Adjusted cash interest cover	ratio	2	2.26	1.84	1.55	1.26	1.14
Scenario G; Adjusted cash interest cover (alternative calculation)	ratio	2	2.26	1.84	1.55	1.25	1.12
Scenario G; FFO/Net Debt	ratio	2	0.09	0.08	0.06	0.05	0.05
Scenario G; FFO/Net Debt (alternative calculation)	ratio	2	0.07	0.06	0.05	0.04	0.03
Scenario A; Moody's AICR	ratio	2	2.38	1.90	1.59	1.27	1.14
Scenario A; Artesian ICR	ratio	2	1.62	1.55	1.65	2.02	1.53
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.57	0.62	0.67	0.70
Scenario A; Maturity concentration	ratio	2	0.28	0.28	0.01	0.23	0.22
Scenario G; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario G; Headroom for reverse stress test against base case	£m	2	18.63	18.27	10.04	-1.79	-7.38
Scenario G; Extent of stretch required to reach limit	%	2	16.00%	19.00%	11.00%	-2.00%	-11.00%

Meets current Baa2 rating, rating metric fall below Baa2 AICR in year 4&5 but meet ratio on 3 year average. Equity requirements would be reviewed in line with assessment for PR29 and shareholder support considered.

Financial penalty – equivalent to 6% of one year of Appointee turnover

Scenario H; Gearing	%	2	52.00%	59.00%	63.00%	67.00%	72.00%
Scenario H; Interest cover	ratio	2	3.67	2.59	2.60	2.32	2.37
Scenario H; Adjusted cash interest cover	ratio	2	2.26	1.40	1.55	1.38	1.40
Scenario H; Adjusted cash interest cover (alternative calculation)	ratio	2	2.26	1.40	1.55	1.36	1.38
Scenario H; FFO/Net Debt	ratio	2	0.09	0.06	0.06	0.06	0.05
Scenario H; FFO/Net Debt (alternative calculation)	ratio	2	0.07	0.04	0.05	0.04	0.04
Scenario A; Moody's AICR	ratio	2	2.38	1.43	1.59	1.39	1.41
Scenario A; Artesian ICR	ratio	2	1.62	1.55	1.54	2.24	1.54
Scenario A; Net debt/RCV (senior)	ratio	2	0.52	0.59	0.63	0.67	0.72
Scenario A; Maturity concentration	ratio	2	0.28	0.28	0.01	0.23	0.22
Scenario H; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario H; Headroom for reverse stress test against base case	£m	2	18.63	3.33	10.04	3.51	4.49

Scenario H; Extent of stretch required to reach limit	%	2	16.00%	3.00%	11.00%	5.00%	6.00%
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Meets current Baa2 rating

Additional Investment programme (CAM 2)							
Scenario I; Gearing	%	2	63.00%	68.00%	70.00%	72.00%	73.00%
Scenario I; Interest cover	ratio	2	2.87	2.48	2.16	2.12	2.15
Scenario I; Adjusted cash interest cover	ratio	2	1.77	1.52	1.31	1.28	1.29
Scenario I; Adjusted cash interest cover (alternative calculation)	ratio	2	1.77	1.52	1.31	1.27	1.28
Scenario I; FFO/Net Debt	ratio	2	0.06	0.06	0.05	0.05	0.05
Scenario I; FFO/Net Debt (alternative calculation)	ratio	2	0.05	0.04	0.04	0.04	0.04
Scenario A; Moody's AICR	ratio	2	1.87	1.58	1.35	1.29	1.30
Scenario A; Artesian ICR	ratio	2	1.51	1.49	1.49	2.07	1.53
Scenario A; Net debt/RCV (senior)	ratio	2	0.63	0.68	0.70	0.72	0.73
Scenario A; Maturity Concentration	ratio	2	0.35	0.34	0.01	0.21	0.20
Scenario I; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario I; Headroom for reverse stress test against base case	£m	2	9.04	7.32	0.36	-0.87	-0.34
Scenario I; Extent of stretch required to reach limit	%	2	8.00%	8.00%	0.00%	-1.00%	0.00%

Limited headroom against Baa2 rating due to additional investment. New equity support envisaged in scenario (see PRT13 Aligning Risk and Reward section E) to accommodate further risk associate with changes.

20% capex increase of the HVT programme							
Scenario J; Gearing	%	2	57.00%	64.00%	69.00%	74.00%	73.00%
Scenario J; Interest cover	ratio	2	3.13	2.75	2.44	2.29	2.08
Scenario J; Adjusted cash interest cover	ratio	2	1.95	1.71	1.51	1.39	1.18
Scenario J; Adjusted cash interest cover (alternative calculation)	ratio	2	2.00	1.80	1.62	1.45	1.08
Scenario J; FFO/Net Debt	ratio	2	0.08	0.07	0.06	0.05	0.04
Scenario J; FFO/Net Debt (alternative calculation)	ratio	2	0.06	0.05	0.05	0.04	0.03
Scenario A; Moody's AICR	ratio	2	2.05	1.77	1.54	1.40	1.19
Scenario A; Artesian ICR	ratio	2	1.55	1.49	1.48	2.25	1.92
Scenario A; Net debt/RCV (senior)	ratio	2	0.57	0.64	0.69	0.74	0.73
Scenario A; Maturity Concentration	ratio	2	0.30	0.29	0.00	0.21	0.20

Scenario J; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario J; Headroom for reverse stress test against base case	£m	2	12.55	13.80	8.11	4.08	-5.32
Scenario J; Extent of stretch required to reach limit	%	2	11.00%	15.00%	9.00%	6.00%	-8.00%

Baa2 metric not met in year 5 but met on 3 year average. Equity requirement / dividend level can be reviewed with PR29 investment requirements.

REMEDY: New equity from reduction of equity dividend and new equity support (to be agreed in cost adjustment mechanism on Havant Thicket

Combined scenario 1 (-2% inflation and 20% increase of HVT)							
Scenario K; Gearing	%	2	57.00%	64.00%	69.00%	74.00%	73.00%
Scenario K; Interest cover	ratio	2	3.08	2.65	2.30	2.19	2.15
Scenario K; Adjusted cash interest cover	ratio	2	1.90	1.61	1.37	1.30	1.27
Scenario K; Adjusted cash interest cover (alternative calculation)	ratio	2	1.90	1.61	1.37	1.28	1.25
Scenario K; FFO/Net Debt	ratio	2	0.07	0.06	0.05	0.05	0.05
Scenario K; FFO/Net Debt (alternative calculation)	ratio	2	0.06	0.06	0.05	0.04	0.04
Scenario A; Moody's AICR	ratio	2	1.99	1.67	1.41	1.31	1.27
Scenario A; Artesian ICR	ratio	2	1.57	1.50	1.60	2.15	2.12
Scenario A; Net debt/RCV (senior)	ratio	2	0.57	0.64	0.69	0.74	0.73
Scenario A; Maturity Concentration	ratio	2	0.30	0.30	0.00	0.18	0.17
Scenario K; Company proposed financial ratio E	ratio	2	0.00	0.00	0.00	0.00	0.00
Scenario K; Headroom for reverse stress test against base case	£m	2	11.52	10.47	2.92	0.02	-1.51
Scenario K; Extent of stretch required to reach limit	%	2	10.00%	11.00%	3.00%	0.00%	-2.00%

Baa2 metric not met in year 5 but met on 3 year average. Equity requirement / dividend level can be reviewed with PR29 investment requirements.

TABLE RR18 - Income Statement - Actual Company Structure

Line Description	Units	DPs	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Appointed										
Revenue	£m	3	44.736	47.533	49.988	72.891	77.722	81.653	84.309	87.132
Operating costs	£m	3	-36.679	-41.932	-40.741	-46.255	-47.811	-49.570	-50.319	-51.723
Other operating income	£m	3	-0.678	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Operating profit	£m	3	7.379	5.601	9.247	26.636	29.911	32.083	33.990	35.409
Other income	£m	3	1.527	3.675	3.705	1.714	1.768	1.824	1.807	1.805
Interest income	£m	3	1.920	1.365	1.595	0.074	0.073	0.072	0.072	0.072
Interest expense	£m	3	-21.021	-19.237	-15.911	-18.697	-22.397	-25.434	-26.936	-28.299
Other interest expense	£m	3	0.427	0.200	0.200	0.000	0.000	0.000	0.000	0.000
Profit before tax and fair value movements	£m	3	-9.768	-8.396	-1.164	9.727	9.355	8.545	8.933	8.987
Fair value gains/(losses) on financial instruments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Profit before tax	£m	3	-9.768	-8.396	-1.164	9.727	9.355	8.545	8.933	8.987
UK Corporation tax	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Deferred tax	£m	3	1.462	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Profit for the year	£m	3	-8.306	-8.396	-1.164	9.727	9.355	8.545	8.933	8.987
Dividends	£m	3	-3.397	-3.715	-2.646	-8.633	-8.445	-8.515	-8.607	-8.709

We carried out a reconciliation between the Ofwat Model and the PWL model. This highlighted one difference, which was in the 'discounted average RCV'. This impacts the return on RCV element of the allowed revenue.

The data for Table RR18 comes from the PWL model and the revenue is therefore lower by the following amounts:

RECONCILIATION OF OFWAT AND PWL MODELS

	Price Base	2025/26	2026/27	2027/28	2028/29	2029/30
ALLOWED REVENUE						
<u>Water Resources</u>						
PWL model	2022/23	7.245	7.305	7.362	7.327	7.123
Ofwat model	2022/23	7.242	7.303	7.360	7.324	7.122
Difference	2022/23	0.003	0.002	0.002	0.003	0.001
<u>Water Network+</u>						
PWL model	2022/23	36.719	38.112	39.563	40.236	41.526
Ofwat model	2022/23	36.724	38.125	39.591	40.274	41.575
Difference	2022/23	-0.005	-0.013	-0.028	-0.038	-0.049
Total differences	2022/23	-0.002	-0.011	-0.026	-0.035	-0.048

We have not made adjustments in Table RR18 to add this revenue to the reported amounts due to immaterial value.

TABLE RR19 - Statement of Financial Position - Actual Company Structure

Line Description	Units	DPs	Total appointed activities								PR24 BP reference
			2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	
Non-current assets											
Fixed assets	£m	3	205.196	258.098	485.132	563.054	617.588	666.910	697.256	722.873	RR19.1
Intangible assets	£m	3	4.815	4.718	4.622	4.539	4.485	4.485	4.485	4.485	RR19.2
Investments - loans to group companies	£m	3	55.484	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.3
Investments - other	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.4
Financial instruments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.5
Retirement benefit assets	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.6
Total non-current assets	£m	3	265.495	262.816	489.754	567.593	622.073	671.395	701.741	727.358	RR19.7
Current assets											
Inventories	£m	3	0.659	0.659	0.659	0.659	0.659	0.659	0.659	0.659	RR19.8
Trade & other receivables	£m	3	15.266	15.317	15.794	18.524	19.523	20.777	22.006	23.673	RR19.9
Financial instruments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.10
Cash & cash equivalents	£m	3	53.846	99.570	2.286	2.596	2.741	2.336	2.707	2.895	RR19.11
Total current assets	£m	3	69.771	115.546	18.739	21.779	22.923	23.772	25.372	27.227	RR19.12
Current liabilities											
Trade & other payables	£m	3	-15.595	-19.978	-18.865	-26.533	-26.713	-26.901	-26.688	-26.489	RR19.13
Capex creditor	£m	3	-9.377	-9.792	-38.555	-14.241	-10.633	-10.088	-7.194	-6.607	RR19.14
Borrowings	£m	3	0.578	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.15
Financial instruments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.16
Current tax liabilities	£m	3	-0.424	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.17
Provisions	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.18
Total current liabilities	£m	3	-24.818	-29.770	-57.420	-40.774	-37.346	-36.989	-33.882	-33.096	RR19.19
Net Current assets/(liabilities)	£m	3	44.953	85.776	-38.681	-18.995	-14.423	-13.217	-8.510	-5.869	RR19.20
Non-current liabilities											
Trade & other payables	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.21
Borrowings	£m	3	-222.335	-214.597	-293.815	-389.731	-446.810	-496.055	-529.470	-556.061	RR19.22
Financial instruments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.23
Retirement benefit obligations	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.24
Provisions	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.25
Deferred income – grants & contributions	£m	3	-33.628	-31.620	-28.694	-29.208	-30.272	-31.527	-32.839	-34.229	RR19.26
Deferred income - adopted assets	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.27
Preference share capital	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR19.28
Deferred tax	£m	3	-9.047	-9.047	-9.047	-9.047	-9.047	-9.047	-9.047	-9.047	RR19.29
Total non-current liabilities	£m	3	-265.010	-255.264	-331.556	-427.986	-486.129	-536.629	-571.356	-599.337	RR19.30
Net assets	£m	3	45.438	93.328	119.517	120.612	121.521	121.549	121.875	122.152	RR19.31
Equity											
Called up share capital	£m	3	30.460	90.460	120.460	120.460	120.460	120.460	120.460	120.460	RR19.32
Retained earnings & other reserves	£m	3	14.978	2.868	-0.943	0.152	1.061	1.089	1.415	1.692	RR19.33
Total Equity	£m	3	45.438	93.328	119.517	120.612	121.521	121.549	121.875	122.152	RR19.34

TABLE RR20 - Statement of Cashflows - Actual Company Structure

Line Description	Units	DPs	Appointed							PR24 BP reference	
			2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29		2029-30
Operating activities											
Operating profit	£m	3	7.379	5.601	9.247	26.636	29.911	32.083	33.990	35.409	RR20.1
Other income	£m	3	1.527	3.675	3.705	1.714	1.768	1.824	1.807	1.805	RR20.2
Depreciation	£m	3	6.347	6.761	7.606	8.781	10.183	12.045	13.415	14.572	RR20.3
Amortisation – Grants & contributions	£m	3	-1.589	-2.274	-3.235	0.000	0.000	0.000	0.000	0.000	RR20.4
Changes in working capital	£m	3	-4.037	2.381	-0.522	-1.035	-0.614	-1.137	-1.532	-1.966	RR20.5
Pension contributions	£m	3	0.490	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR20.6
Movement in provisions	£m	3	0.820	-2.775	0.000	0.000	0.000	0.000	0.000	0.000	RR20.7
Profit on sale of fixed assets	£m	3	-0.142	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR20.8
Cash generated from operations	£m	3	10.795	13.369	16.801	36.096	41.248	44.815	47.680	49.820	RR20.9
Net interest paid	£m	3	-6.253	-5.563	-9.099	-12.706	-16.247	-19.119	-20.451	-21.637	RR20.10
Tax paid	£m	3	-0.023	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR20.11
Net cash generated from operating activities	£m	3	4.519	7.806	7.702	23.390	25.001	25.696	27.229	28.183	RR20.12
Investing activities											
Capital expenditure	£m	3	-42.390	-59.151	-205.781	-110.948	-68.287	-61.911	-46.655	-40.777	RR20.13
Grants & Contributions	£m	3	0.453	0.266	0.310	0.514	1.064	1.255	1.312	1.389	RR20.14
Disposal of fixed assets	£m	3	0.467	0.000	0.000	0.000	0.000	0.000	0.000	0.000	RR20.15
Other	£m	3	0.000	0.200	0.200	0.000	0.000	0.000	0.000	0.000	RR20.16
Net cash used in investing activities	£m	3	-41.470	-58.685	-205.271	-110.434	-67.223	-60.656	-45.343	-39.388	RR20.17
Net cash generated before financing activities	£m	3	-36.951	-50.879	-197.569	-87.044	-42.222	-34.960	-18.114	-11.205	RR20.18
Cashflows from financing activities											
Equity dividends paid	£m	3	-3.397	-3.397	-3.715	-2.646	-8.633	-8.445	-8.515	-8.607	RR20.19
Net loans received	£m	3	48.500	-20.000	74.000	90.000	51.000	43.000	27.000	20.000	RR20.20
Cash inflow from equity financing	£m	3	20.000	120.000	30.000	0.000	0.000	0.000	0.000	0.000	RR20.21
Net cash generated from financing activities	£m	3	65.103	96.603	100.285	87.354	42.367	34.555	18.485	11.393	RR20.22
Increase (decrease) in net cash	£m	3	28.152	45.724	-97.284	0.310	0.145	-0.405	0.371	0.188	RR20.23

TABLE RR21 - Net debt analysis (appointed activities), as at 31 March 2023

Gearing has been restated in the APR to take account of the CAM adjustment for Havant Thicket. This reduces the gearing from 78.39% to 64.38%.

RCV and Gearing restated

RCV	Opening 2022/23	Closing 2022/23
Water Resources	7.276	7.830
Water Network+	164.255	184.720
Havant Thicket	17.913	27.865
Total	189.444	220.415
Gearing ratio		78.39%
RCV + CAM adjustments		
Water Resources	7.276	7.830
Water Network+	164.255	184.720
Havant Thicket revised	17.913	75.826
Total	189.444	268.376
Gearing ratio		64.38%

Detail of adjustment to RCV for Havant Thicket CAM is outlined in appendix 1 of...

<https://www.ofwat.gov.uk/wp-content/uploads/2022/12/Havant-Thicket-CAM-final-decision-document.pdf>

Table 5: Calculation of notional Havant Thicket Price Control RCV for 2020-2025

£m (2017/18 CPIH deflated prices)	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
PR19 RCV ²	10.1	16.0	22.9	40.2	60.0
CAM Discounted difference (cumulative)	1.5	(0.0)	39.4	98.7	183.0
CAM RCV - notional RCV reflecting CAM totex	11.5	16.0	62.3	138.8	243.0

TABLE RR22 - Analysis of Debt

This table shows the detail of Company debt at 31 March 2023.
The numbers are consistent with Table RR21.

TABLE RR23 - Financial Derivatives

There were no financial derivatives at the end of 2022/23.

TABLE RR24 - Debt Balances and Interest Costs

Index-linked borrowing

For the RPI linked debt, we are using 3% for the calculation of indexation from 2025/26 – 2029/30.

For the CPI Bond, we are using 2% for the calculation of indexation from 2025/26 – 2029/30.

TABLE RR25 - Allowed Return on Capital for the Appointee

The only difference between the Ofwat early view of the WACC and the input to this table relates to the small company premium. The cost of embedded debt has been increased to 2.64%, compared to 2.34% in the Ofwat guidance.

The overall cost of debt in our submission is 2.85%, which is 0.25% higher than the 2.60% in the Ofwat guidance based on 30bps increase on embedded debt per PR24 guidance on small WoC notional company.

TABLE RR26 - Allowed Return on Capital by Wholesale Price Control

Havant Thicket

There is a different WACC for Havant Thicket, and this is not reflected in Table RR25. NERA have completed detailed analysis for Portsmouth Water on this, and we have used their estimates in our submission. See commentary in RR1 for breakdown of WACC.

TABLE RR27 - Revenue Analysis

2022/23

The data for this year comes from the Annual Performance Report, Table 2I.

2023/24 – 2024/25

The forecast revenue comes from the tariff workings for 2023/24 and the same tariff model rolled forward to 2024/25.

For 2024/25, all elements of revenue have been calculated in the forecast, including the RFI adjustment and the ODI adjustments from 2022/23.

2025/26 – 2029/30

The numbers in these years are the output from the Ofwat model.

TABLE RR27a - Revenue Analysis

Lines 1 – 4

The third-party revenue in the business plan is all Business use.

TABLE RR28 - Historic Cost Analysis of Tangible Fixed Assets

2022/23

The data for these columns comes from the APR for that year, Table 2D.

2023/24 – 2029/30

The data for these columns come from our own internal modelling of fixed assets and depreciation. The net book value amounts tie back to Table RR19 Statement of financial position – actual structure, but deflated to 2022/23 prices.

Lines 14 – 16

All of the depreciation relates to Principal Services.

TABLE RR29 - Asset Lives

The asset lives are calculated by matching the accounting depreciation in our own internal modelling to the Ofwat model P&L depreciation, in the tab 'FinStat Appointee'.

TABLE RR30 - RORE Analysis

RORE Analysis									
Line Description	Units	DPs						Average	PR24 BP reference
			2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	
Tolex scenarios - high case									
Wholesale water costs - high case	Em	3	2,379	2,978	2,741	2,530	2,420	2,610	RR30.1
Wholesale wastewater costs - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.2
Retail costs - high case	Em	3	0.565	0.575	0.585	0.593	0.603	0.584	RR30.3
Bioresources costs - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.4
Additional control costs - high case	Em	3	0.000	2.500	5.000	0.000	0.000	1.500	RR30.5
Tolex scenarios - high case - total	Em	3	2,944	6,053	8,326	3,123	3,023	4,694	RR30.6
Outcome Delivery Incentives scenarios - high case									
Water ODS - high case	Em	3	1,473	1,484	1,444	0.591	1,340	1,266	RR30.7
Wastewater ODS - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.8
Retail ODS - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.9
Additional control ODS - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.10
Outcome Delivery Incentives scenarios - high case - total	Em	3	1,473	1,484	1,444	0.591	1,340	1,266	RR30.11
Financing scenarios - high case									
New debt issuance - high case	Em	3	0.238	0.261	0.279	0.291	0.298	0.273	RR30.12
Inflation - high case	Em	3	0.721	1.071	1.269	1.400	1.473	1.187	RR30.13
Financing scenarios - high case - total	Em	3	0.959	1.332	1.548	1.691	1.771	1.460	RR30.14
Customer measures of experience scenarios - high case									
C-Mex - high case	Em	3	0.600	0.600	0.600	0.600	0.600	0.600	RR30.15
D-Mex - high case	Em	3	0.100	0.100	0.100	0.100	0.100	0.100	RR30.16
BR-Mex - high case	Em	3	0.110	0.110	0.110	0.110	0.110	0.110	RR30.17
Customer measures of experience scenarios - high case - total	Em	3	0.810	0.810	0.810	0.810	0.810	0.810	RR30.18
Revenue & other impacts - high case									
Revenue - high case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.19
Other - high case - Please specify	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.20
Revenue & other - high case - total	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.21
Tolex scenarios - low case									
Wholesale water costs - low case	Em	3	-2,379	-2,978	-2,741	-2,530	-2,420	-2,610	RR30.22
Wholesale wastewater costs - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.23
Retail costs - low case	Em	3	-0.297	-0.303	-0.308	-0.312	-0.317	-0.307	RR30.24
Bioresources costs - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.25
Additional control costs - low case	Em	3	-5.000	-10.000	-7.500	-2.500	-2.500	-5.500	RR30.26
Tolex scenarios - low case - total	Em	3	-7,676	-13,281	-10,549	-5,342	-5,237	-8,417	RR30.27
Outcome Delivery Incentives scenarios - low case									
Water ODS - low case	Em	3	-7,763	-2,575	-2,293	-3,133	-3,370	-3,827	RR30.28
Wastewater ODS - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.29
Retail ODS - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.30
Additional control - low case	Em	3	0.000	-0.280	-1.119	-0.839	-2.238	-0.895	RR30.31
Outcome Delivery Incentives scenario - low case - total	Em	3	-7,763	-2,855	-3,412	-3,972	-5,608	-4,722	RR30.32
Financing scenarios - low case									
New debt issuance - low case	Em	3	-0.119	-0.131	-0.139	-0.145	-0.149	-0.137	RR30.33
Inflation - low case	Em	3	-0.721	-1.071	-1.269	-1.400	-1.473	-1.187	RR30.34
Financing scenarios - low case - total	Em	3	-0.840	-1.202	-1.408	-1.545	-1.622	-1.323	RR30.35
Customer measures of experience scenarios - low case									
C-Mex - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.36
D-Mex - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.37
BR-Mex - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.38
Customer measures of experience - low case - total	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.39
Revenue & other - low case									
Revenue - low case	Em	3	-0.119	-0.131	-0.139	-0.145	-0.149	-0.137	RR30.40
Other - low case - Please specify	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.41
Revenue & other - low case - total	Em	3	-0.119	-0.131	-0.139	-0.145	-0.149	-0.137	RR30.42
Regulated Equity									
Average Regulatory Capital Value (RCV) - financial model output	Em	3	528,023	581,028	619,314	645,859	661,230	607,091	RR30.43
Notional gearing	%	2	55%	55%	55%	55%	55%	55%	RR30.44
Average regulated equity	Em	3	237,610	261,463	278,691	290,637	297,554	273,191	RR30.45
RoRE - high case									
Tolex RoRE - high case	%	2	1.24%	2.32%	2.99%	1.07%	1.02%	1.73%	RR30.46
Outcome delivery incentives RoRE - high case	%	2	0.62%	0.57%	0.52%	0.20%	0.45%	0.47%	RR30.47
Financing RoRE - high case	%	2	0.40%	0.51%	0.56%	0.58%	0.60%	0.53%	RR30.48
Customer measures of experience RoRE - high case	%	2	0.34%	0.31%	0.29%	0.28%	0.27%	0.30%	RR30.49
Revenue & other RoRE - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.50
RoRE - high case - total	%	2	2.60%	3.70%	4.35%	2.14%	2.33%	3.03%	RR30.51
RoRE - low case									
Tolex RoRE - low case	%	2	-3.23%	-5.08%	-3.79%	-1.84%	-1.76%	-3.14%	RR30.52
Outcome delivery incentives RoRE - low case	%	2	-3.27%	-1.09%	-1.22%	-1.37%	-1.88%	-1.77%	RR30.53
Financing RoRE - low case	%	2	-0.35%	-0.46%	-0.51%	-0.53%	-0.55%	-0.48%	RR30.54
Customer measures of experience RoRE - low case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.55
Revenue & other RoRE - low case	%	2	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	RR30.56
RoRE - low case - total	%	2	-6.90%	-6.68%	-5.56%	-3.79%	-4.24%	-5.43%	RR30.57
Impact of proposed uncertainty mechanisms									
Uncertainty mechanisms - High case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.58
Uncertainty mechanisms - low case	Em	3	0.000	0.000	0.000	0.000	0.000	0.000	RR30.59
RoRE - impact of proposed uncertainty mechanisms									
RoRE impact of proposed uncertainty mechanisms - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.60
RoRE impact of proposed uncertainty mechanisms - low case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.61
RoRE - total post uncertainty mechanisms									
Total RoRE post proposed uncertainty mechanisms - high case	%	2	2.60%	3.70%	4.35%	2.14%	2.33%	3.03%	RR30.62
Total RoRE post proposed uncertainty mechanisms - low case	%	2	-6.90%	-6.68%	-5.56%	-3.79%	-4.24%	-5.43%	RR30.63

Retail, Water resources, Network Plus Only

RR30 sensitivity has been run based on normal wholesale controls to review excluding the impact of Havant Thicket.

Line Description	Units	DPs						Average	PR24 BP reference
			2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	
Regulated Equity									
Average Regulatory Capital Value (RCV) - financial model output	£m	3	217.540	241.950	269.977	292.522	311.003	266.598	RR30.43
Notional gearing	%	2	55%	55%	55%	55%	55%	55%	RR30.44
Average regulated equity	£m	3	97.893	108.878	121.490	131.635	139.951	119.969	RR30.45
RoRE - high case									
Totex RoRE - high case	%	2	3.01%	3.26%	2.74%	2.37%	2.16%	2.71%	RR30.46
Outcome delivery incentives RoRE - high case	%	2	1.51%	1.36%	1.19%	0.45%	0.96%	1.09%	RR30.47
Financing RoRE - high case	%	2	0.40%	0.51%	0.56%	0.58%	0.60%	0.53%	RR30.48
Customer measures of experience RoRE - high case	%	2	0.83%	0.74%	0.67%	0.62%	0.58%	0.69%	RR30.49
Revenue & other RoRE - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.50
RoRE - high case - total	%	2	5.74%	5.88%	5.15%	4.02%	4.29%	5.02%	RR30.51
RoRE - low case									
Totex RoRE - low case	%	2	-2.73%	-3.01%	-2.51%	-2.16%	-1.96%	-2.47%	RR30.52
Outcome delivery incentives RoRE - low case	%	2	-7.93%	-2.37%	-1.89%	-2.38%	-2.41%	-3.39%	RR30.53
Financing RoRE - low case	%	2	-0.35%	-0.46%	-0.51%	-0.53%	-0.55%	-0.48%	RR30.54
Customer measures of experience RoRE - low case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.55
Revenue & other RoRE - low case	%	2	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	RR30.56
RoRE - low case - total	%	2	-11.07%	-5.89%	-4.95%	-5.12%	-4.96%	-6.40%	RR30.57

- **RORE:** We support Ofwat's common methodology but view the impact of the methodology on RoRE in our cases as an unintended consequence. Following review with our Board we have submitted our PR24 plan based on Ofwat's company-specific rates. The RoRE range on ODIs using these company-specific rates is -3.4% to 1.1% compared with the Ofwat guidance of +/- 1-3%. Using Ofwat's rates the range would be -5.4% to 2.5%.
- **Totex:** We have aligned with Ofwat guidance of +/- 8.5% variance to final determination cost allowances. This equates to roughly a 50% efficiency challenge reflected in the plan, or c.£7m a year. This has been assessed against for:
 - Additional investment to recover leakage and main repairs: +£1-£2m per annum.
 - Recover cost after major interruptions: +£1m.
 - Pollution fines.
 - Additional production costs: +£1m.
 - Efficiency risk: +£3m.
- **Financing:** We have followed Ofwat's guidance, but we have recalculated the inflation element reflecting our actual levels of index-linked debt. Our higher levels of index-linked debt reduce our sensitivity to inflation.
- **Customer measures of experience:** Our RoRE range reflects our current upper quartile position. Our low case assumes we move to average performance driven by dissatisfaction from the smart metering programme. Our high case assumes we are the frontier company but do not achieve the maximum reward.
- **Revenue and other RoRE risks:** Aligned to Ofwat's PR24 guidance.

Our estimated RoRE range for retail and wholesale controls is -6.4% to 5.0%

Havant Thicket Control Only

A separate sensitivity has been run for Havant Thickets 10 year control in isolation

Line Description	Units	DPs						Average	PR24 BP reference
			2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	
Regulated Equity									
Average Regulatory Capital Value (RCV) - financial model output	£m	3	310.483	339.078	349.337	353.337	350.227	340.492	RR30.43
Notional gearing	%	2	55%	55%	55%	55%	55%	55%	RR30.44
Average regulated equity	£m	3	139.717	152.585	157.202	159.002	157.602	153.222	RR30.45
RoRE - high case									
Totex RoRE - high case	%	2	0.00%	1.64%	3.18%	0.00%	0.00%	0.96%	RR30.46
Outcome delivery incentives RoRE - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.47
Financing RoRE - high case	%	2	0.40%	0.51%	0.56%	0.58%	0.60%	0.53%	RR30.48
Customer measures of experience RoRE - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.49
Revenue & other RoRE - high case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.50
RoRE - high case - total	%	2	0.40%	2.15%	3.74%	0.58%	0.60%	1.49%	RR30.51
RoRE - low case									
Totex RoRE - low case	%	2	-3.58%	-6.55%	-4.77%	-1.57%	-1.59%	-3.61%	RR30.52
Outcome delivery incentives RoRE - low case	%	2	0.00%	-0.18%	-0.71%	-0.53%	-1.42%	-0.57%	RR30.53
Financing RoRE - low case	%	2	-0.35%	-0.46%	-0.51%	-0.53%	-0.55%	-0.48%	RR30.54
Customer measures of experience RoRE - low case	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	RR30.55
Revenue & other RoRE - low case	%	2	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	RR30.56
RoRE - low case - total	%	2	-3.98%	-7.25%	-6.04%	-2.68%	-3.60%	-4.71%	RR30.57

Totex

TOTEX 2022/23 PRICES	2025-30						Timing						Efficiency						One offs						
	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	2025-26	2026-27	2027-28	2028-29	2029-30	2025-30	
Wholesale water costs	55.977	70.062	64.489	59.534	56.931	61.399																			
Wholesale wastewater costs						0.000																			
Retail costs	5.948	6.057	6.159	6.238	6.346	6.149																			
Bioresources costs						0.000																			
Additional control costs	51.286	14.740	15.321	2.629	1.017	16.999																			
Totex scenarios	113.210	90.859	85.968	68.401	64.293	84.546																			
Wholesale water costs - high case	60.735	76.018	69.970	64.595	61.770	66.618					0.000	4.758	5.955	5.482	5.060	4.839	5.219								0.000
Wholesale wastewater costs - high case	0.000	0.000	0.000	0.000	0.000	0.000					0.000														0.000
Retail costs - high case	7.078	7.207	7.329	7.423	7.551	7.318					0.000	1.130	1.151	1.170	1.185	1.206	1.168								0.000
Bioresources costs - high case	0.000	0.000	0.000	0.000	0.000	0.000					0.000														0.000
Additional control costs - high case	51.286	19.740	25.321	2.629	1.017	19.999					0.000		5.000	10.000											0.000
Totex scenarios - high case - total	119.098	102.965	102.620	74.647	70.338	93.934	0.000	0.000	0.000	0.000	0.000	5.888	12.106	16.652	6.246	6.045	9.387	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Wholesale water costs - low case	60.735	76.018	69.970	64.595	61.770	66.618					0.000	4.758	5.955	5.482	5.060	4.839	5.219								0.000
Wholesale wastewater costs - low case	0.000	0.000	0.000	0.000	0.000	0.000					0.000														0.000
Retail costs - low case	6.542	6.662	6.775	6.861	6.980	6.764					0.000	0.595	0.606	0.616	0.624	0.635	0.615								0.000
Bioresources costs - low case	0.000	0.000	0.000	0.000	0.000	0.000					0.000														0.000
Additional control costs - low case	61.286	34.740	30.321	7.629	6.017	27.999					0.000								10.000	20.000	15.000	5.000	5.000	11.000	0.000
Totex scenarios - low case - total	128.563	117.420	107.066	79.085	74.767	101.380	0.000	0.000	0.000	0.000	0.000	5.353	6.561	6.097	5.684	5.474	5.834	10.000	20.000	15.000	5.000	5.000	11.000	11.000	0.000
Cost sharing		50%	50%	50%	50%																				
Wholesale water costs - high case	2.379	2.978	2.741	2.530	2.420	2.609																			
Wholesale wastewater costs - high case	0.000	0.000	0.000	0.000	0.000	0.000																			
Retail costs - high case	0.565	0.575	0.585	0.593	0.603	0.584																			
Bioresources costs - high case	0.000	0.000	0.000	0.000	0.000	0.000																			
Additional control costs - high case	0.000	2.500	5.000	0.000	0.000	1.500																			
Totex scenarios - high case - total	2.944	6.053	8.326	3.123	3.022	4.694																			
Wholesale water costs - low case	-2.379	-2.978	-2.741	-2.530	-2.420	-2.609																			
Wholesale wastewater costs - low case	0.000	0.000	0.000	0.000	0.000	0.000																			
Retail costs - low case	-0.297	-0.303	-0.308	-0.312	-0.317	-0.307																			
Bioresources costs - low case	0.000	0.000	0.000	0.000	0.000	0.000																			
Additional control costs - low case	-5.000	-10.000	-7.500	-2.500	-2.500	-5.500																			
Totex scenarios - low case - total	-7.676	-13.280	-10.549	-5.342	-5.237	-8.417																			
	2.944	3.553	3.326	3.123	3.022																				

- Wholesale controls assumes +/-8.5% efficiency in line with Ofwat guidance. Benchmarks vs risk on efficiency challenge included in plan (c50% of underlying challenge applied to bottom-up cost of investment cases)
- Retail controls assume +1% /-1.9% retail costs aligned with Ofwat guidance
- Havant Thicket additional control;
 - High: Scheme delivered year early and £15m below allowed costs (broadly aligns to P10 Montecarlo analysis)
 - Low: 20% overspend and 2 year delay. 75% cost increase borne by company / SWS customer, 25% pain covered by contractors through NEC contractual arrangements. Net increase c£55m funded by PW in AMP8

ODIs / Customer Measures of experience

Expected Performance

Performance Commitment	Unit	Expected Target					Expected Performance				
		2025/26	2026/27	2027/28	2028/29	2029/30	2025/26	2026/27	2027/28	2028/29	2029/30
C-MeX	Relative Position	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
D-MeX	Relative Position	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
BR-MeX	Relative Position	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ	UQ
Interruptions	hh:mm:ss	00:04:45	00:04:30	00:04:15	00:04:00	00:03:45	00:02:11	00:02:09	00:02:08	00:02:06	00:02:06
CRI	Score	2	2	2	1.75	1.5	2.8	2.4	2	1.75	1
Water Quality Contacts	contacts/1000 pop	0.53	0.51	0.49	0.47	0.45	0.42	0.41	0.41	0.41	0.4
Biodiversity	BNG Units	0.38	0.53	0.62	0.62	0.62	0.38	0.53	0.62	0.62	0.6
Discharge Permit Compliance	% Permits	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Serious Pollution Incidents	#	0	0	0	0	0	0	0	0	0	0
Leakage WRMP	Ml/d	24.03	22.84	21.85	21.48	20.76	24.49	22.55	21.62	21.15	20.5
PCC WRMP	l/pers/d	156.92	155.40	153.26	150.20	145.95	156.92	155.40	153.26	150.20	145.9
Business Demand WRMP	Ml/d	30.20	29.24	28.55	27.73	27.31	30.20	29.24	28.55	27.73	27.3
Operational GHG	tonnes co2e	5449.44	5450.84	5261.64	6040.28	5873.38	5449.44	5450.84	5261.64	6040.28	5873.3
Mains Repairs	repairs / 1000km	66.89	65.66	64.78	63.90	63.03	48.70	77.00	48.70	77.00	62.8
Unplanned Outage	% PWPC	0.90	0.90	0.90	0.90	0.90	1.11	1.06	1.02	0.97	0.9
WRMP TOTAL											

Performance Commitment	Unit	PW ODI Rates		d marginal benefit	Expected ODI Reward/Penalty					
		Reward	Penalty		PW	2025/26	2026/27	2027/28	2028/29	2029/30
C-MeX	Relative Position	£0.400	-£0.400		£0.400	£0.400	£0.400	£0.400	£0.400	£2.000
D-MeX	Relative Position	£0.090	-£0.090		£0.090	£0.090	£0.090	£0.090	£0.090	£0.450
BR-MeX	Relative Position	£0.100	-£0.100		£0.100	£0.100	£0.100	£0.100	£0.100	£0.500
Interruptions	hh:mm:ss	£0.083	-£0.083	£0.119	£0.213	£0.195	£0.176	£0.158	£0.138	£0.880
CRI	Score	£0.000	-£0.077	£0.110	-£0.062	-£0.031	£0.000	£0.000	£0.000	-£0.093
Water Quality Contacts	contacts/1000 pop	£0.775	-£0.775	£1.108	£0.085	£0.078	£0.062	£0.047	£0.031	£0.302
Biodiversity	BNG Units		£0.000							£0.000
Discharge Permit Compliance	% Permits	£0.000	-£0.070	£0.099	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Serious Pollution Incidents	#	£0.000	-£0.420	£0.601	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Leakage WRMP	Ml/d	£0.147	-£0.147	£0.210	-£0.067	£0.042	£0.034	£0.049	£0.037	£0.095
PCC WRMP	l/pers/d	£0.108	-£0.108	£0.154	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Business Demand WRMP	Ml/d	£0.147	-£0.147	£0.210	£0.000	£0.000	£0.000	£0.000	£0.000	£0.000
Operational GHG	tonnes co2e		£0.000							£0.000
Mains Repairs	repairs / 1000km	£0.030	-£0.030	£0.042	£0.538	-£0.335	£0.475	-£0.387	£0.005	£0.296
Unplanned Outage	% PWPC	£0.337	-£0.337	£0.482	-£0.069	-£0.054	-£0.039	-£0.024	£0.001	-£0.185
WRMP TOTAL					£0.638	-£0.106	£0.708	-£0.158	£0.213	£1.295

In reviewing the RoRE range we assessed the risk range using ODI rates based on the Ofwat methodology. We identified that the averaging approach used to set the industry ODI rates had a large incidence effect on Portsmouth Water, due to our being an outlier in terms of the proportional size of our RCV.

We support Ofwat's common methodology but view the impact of the methodology on RoRE in our cases as an unintended consequence. Following review with our Board we have submitted our PR24 plan based on Ofwat's company-specific rates. The RoRE range on ODIs using these company-specific rates is -3.4% to 1.1% compared with the Ofwat guidance of +/- 1-3%. Using Ofwat's rates the range would be -5.4% to 2.5%.

Further detail is included in the supplementary document PR05: Delivering Outcomes for Our Customers.

Outcome Delivery Incentives (£m, 2022-23 prices)	P10	P50	P90	P10	P90
Interruptions	-4.1	0.9	0.9	1 significant customer interruption event	Continued sector leading performance
CRI	-0.7	-0.1	0.0	DWI notices not addressed	
Water Quality Contacts	0.1	0.3	0.4		
Biodiversity	0.0	0.0	0.0		
Discharge Permit Compliance	-5.9	0.0	0.0	1 unpermitted discharge per year	0 unpermitted discharge per year
Serious Pollution Incidents	-0.4	0.0	0.0	1 serious pollution event	0 serious pollution event
Leakage	-1.7	0.1	0.6	3 Harsh Winters	Gains for customer side leakage
PCC	-0.8	0.0	2.6	Negative reaction to smart metering	Positive impacts of smart metering
Business Demand	-1.2	0.0	0.3	Negative reaction to smart metering	Positive impacts of smart metering
Operational GHG	0.0	0.0	0.0		
Mains Repairs	-0.1	0.3	1.6	3 Harsh Winters	Favourable weather & effective maintenance
Unplanned Outage	-4.3	-0.2	0.0	3 Harsh Winters	Favourable weather & effective maintenance
Total	-19.1	1.3	6.3		
RoRE	-3.4%		1.1%		

Financing

Financing scenarios - high case									
New debt issuance - high case	£m	3	0.238	0.261	0.279	0.291	0.298	0.273	RR30.12
Inflation - high case	£m	3	0.721	1.071	1.269	1.400	1.473	1.187	RR30.13
Financing scenarios - high case ~ total	£m	3	0.958	1.332	1.548	1.691	1.771	1.460	RR30.14

Financing scenarios - low case									
New debt issuance - low case	£m	3	-0.119	-0.131	-0.139	-0.145	-0.149	-0.137	RR30.33
Inflation - low case	£m	3	-0.721	-1.071	-1.269	-1.400	-1.473	-1.187	RR30.34
Financing scenarios - low case ~ total	£m	3	-0.840	-1.201	-1.409	-1.546	-1.622	-1.323	RR30.35

RoRE - high case									
Financing RoRE - high case	%	2	0.40%	0.51%	0.56%	0.58%	0.60%	0.53%	RR30.48

RoRE - low case									
Financing RoRE - low case	%	2	-0.35%	-0.46%	-0.51%	-0.53%	-0.55%	-0.48%	RR30.54

Ofwat

	Low	High
CPIH	-1%	1%
Gearing	55%	55%
IL Debt	33%	33%
Non IL	67%	67%
CoD	2.6%	2.6%
Tax rate	25.0%	25.0%
RoRE	-0.61%	0.61%
New debt	-0.1%	0.1%
	-0.66%	0.71%

* Ranges are calculated using the following equation: Inflation variation x (1 – Proportion of non-IL c (Gearing / 1 – Gearing) x (1 – Tax rate)

Company	FY26	FY27	FY28	FY29	FY30
	Low	Low	Low	Low	Low
CPIH	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Gearing	55.0%	55.0%	55.0%	55.0%	55.0%
IL Debt	66.9%	55.3%	50.3%	47.4%	46.0%
Non IL	33.1%	44.7%	49.7%	52.6%	54.0%
CoD	2.6%	2.6%	2.6%	2.6%	2.6%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
RoRE	-0.3%	-0.4%	-0.5%	-0.5%	-0.5%
New debt	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
RoRE	-0.35%	-0.46%	-0.51%	-0.53%	-0.55%

	High	High	High	High	High
CPIH	1.0%	1.0%	1.0%	1.0%	1.0%
Gearing	55.0%	55.0%	55.0%	55.0%	55.0%
IL Debt	66.9%	55.3%	50.3%	47.4%	46.0%
Non IL	33.1%	44.7%	49.7%	52.6%	54.0%
CoD	2.6%	2.6%	2.6%	2.6%	2.6%
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
RoRE	0.3%	0.4%	0.5%	0.5%	0.5%
New debt	0.1%	0.1%	0.1%	0.1%	0.1%
RoRE	0.40%	0.51%	0.56%	0.58%	0.60%

IL	(227,529)	(233,608)	(239,853)	(246,268)	(252,859)
Debt	↗ (389,731)	↗ (446,810)	↗ (496,055)	↗ (529,470)	↗ (556,061)
%	58%	52%	48%	47%	45%
% average	67%	55%	50%	47%	46%



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