

DATA TABLE COMMENTARY – RISK & RETURN



CONTENTS

TABLE RR1 - REVENUE COST RECOVERY INPUTS	3
TABLE RR2 - TOTEX INPUTS TO CROSS REFERENCE WITH CA.....	6
TABLE RR3 - RCV OPENING BALANCES	7
TABLE RR4 - FINANCING FINANCIAL MODEL INPUTS.....	8
TABLE RR5 - TAX OPENING BALANCES	10
TABLE RR6 - POST FINANCEABILITY ADJUSTMENTS INPUTS.....	11
TABLE RR9 - MISCELLANEOUS INPUTS	13
TABLES RR10 to RR16 - OUTPUT FROM OFWAT FINANCIAL MODEL	14
TABLE RR27 - REVENUE ANALYSIS	15

TABLE RR1 - REVENUE COST RECOVERY INPUTS

RR 1.1 to 1.18 - Wholesale WACC

See file: PR24-draft-determinations-Aligning-Risk-and-Return-Allowed-Return-Appendix, pages 7 – 9 and workings in PWL model (extracts below)

The Small Company Premium (SCP) was 0.25% in the Ofwat 'Early view' and 0.35% in the Ofwat 'Final.' These amounts are added to the Cost of Debt in the Ofwat published document and therefore increase the final WACC for Portsmouth Water.

	Final OFWAT	Early view OFWAT
Real Cost of Debt (inclu SCP)	3.19%	2.85%
Real Cost of Equity	4.80%	4.14%
Real Wholesale WACC - RPI adjusted	2.85%	2.37%
Real Wholesale WACC - CPIH adjusted	3.85%	3.37%
Nominal weighted cost of debt	5.25%	4.91%
Nominal weighted cost of equity	6.90%	6.22%
Deduction for Retail Margin	-0.06%	-0.06%
Nominal weighted cost of equity (post retail)	6.76%	6.09%
Nominal WACC	5.93%	5.44%

OFWAT FINAL VIEW – for Draft Determination representation model (from PWL model)

PORTSMOUTH WATER LTD WACC			
WHOLESALE WACC	Price Base	Unit	2025/26
Proportion of Debt	2022/23	%	55.0%
Small Company Premium	2022/23	%	0.35%
AMP6 Cost of Debt	2022/23	%	
AMP6 Total Cost of Debt	2022/23	%	
AMP6 Weighted Cost of Debt	2022/23	%	
AMP7 Cost of Debt	2022/23	%	
AMP7 Total Cost of Debt	2022/23	%	
AMP7 Weighted Cost of Debt	2022/23	%	
AMP8 Cost of Debt	2022/23	%	2.84%
AMP8 Total Cost of Debt	2022/23	%	3.19%
AMP8 Weighted Cost of Debt	2022/23	%	1.75%
Cost of Equity	2022/23	%	4.80%
Proportion of Equity	2022/23	%	45.0%
Weighted Cost of Equity	2022/23	%	2.16%
Deduction for Retail Margin	2022/23	%	-0.06%
Real Wholesale WACC - RPI adjusted	2022/23	%	2.85%
Real Wholesale WACC - CPI adjusted	2022/23	%	3.85%
Nominal Cost of Capital for Wholesale	Nominal	%	5.93%

RR1.1 to RR1.6 - Wholesale WACC – based on assumed structure (nominal) – Equity

The amount of 6.76% is the Ofwat ‘final view’ of the cost of equity, in nominal prices.

RR1.7 to RR1.8 - Wholesale WACC – based on assumed structure (nominal) – Cost of Debt

The amount of 5.25% is based on the Ofwat ‘final view,’ including the SCP of 0.35%, and is in nominal prices.

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

The amount of 6.38% is based on work carried out by NERA on the WACC for Havant Thicket.

DD Rep H Thicket	Ofwat DD H Thicket	Oct Sub H Thicket	
4.29%	3.63%	4.23%	Real Cost of Debt (inclu SCP)
4.80%	4.80%	4.14%	Real Cost of Equity
3.45%	3.09%	3.12%	Real Wholesale WACC - RPI adjusted
4.46%	4.10%	4.13%	Real Wholesale WACC - CPIH adjusted
6.38%	5.70%	6.31%	Nominal weighted cost of debt
6.90%	6.90%	6.22%	Nominal weighted cost of equity
-0.06%	-0.06%	-0.06%	Deduction for Retail Margin
6.76%	6.76%	6.09%	Nominal weighted cost of equity (post retail)
6.55%	6.18%	6.21%	Nominal WACC

NERA PROPOSAL

The ‘NERA Update’ column is the proposed Havant Thicket WACC for the Draft Determination representation.

Table 1.1: We Estimate HT’s Bespoke Cost of Capital for PR24 at 4.46 per cent

Parameter	PRT Business Plan Proposal ¹	Ofwat PR24 DD	NERA Update	Note
PR19 cost of new debt (PR24 embedded debt)	3.12%	2.76%	3.24%	
PR24 cost of new debt	3.42%	3.55%	3.60%	
Share of new debt	12%	43%	43%	Increase reflects new RCV profile
Issuance/Transaction costs	0.19%	0.20%	0.20%	Increase reflects new RCV profile
Liquidity costs	0.88%	0.34%	0.70%	
Cost of debt	4.23%	3.63%	4.29%	
Cost of equity	4.00%	4.80%	4.80%	Increase reflects industry cost of equity change
Notional gearing	55%	55%	55%	
Appointee WACC	4.13%	4.16%	4.52%	
Retail margin deduction	0.06%	0.06%	0.06%	
Wholesale WACC (real, CPIH)	4.07%	4.10%	4.46%	

Note: ¹ Reflects estimates under a 30 September 2022 cut-off date. These estimates match the NERA first report estimates

RR1.19 to RR1.23 - 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. This has been updated from the Business Plan calculation, which omitted the opex grants and contributions in the formula.

RR1.41 - 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. Ofwat have revised this rate slightly, from our submission, to reflect the error at PR19. We have accepted this change.

Below is an extract from the Ofwat Draft Determination model which they published in July 2024. This shows the Ofwat view of the run-off rates. ADDN1 is used for Havant Thicket.

InpS								
Model period ending	- Error chks			31 Mar 26	31 Mar 27	31 Mar 28	31 Mar 29	31 Mar 30
Timeline label	- Track chgs			PR24	PR24	PR24	PR24	PR24
Contract year				1	2	3	4	5
Model column counter	C Unit	Total		5	6	7	8	9
Ofwat - Pre 2025 RCV Run off rate (WR)	%			3.89%	3.89%	3.89%	3.89%	3.89%
Ofwat - Pre 2025 RCV Run off rate (WN)	%			4.08%	4.08%	4.08%	4.08%	4.08%
Ofwat - Pre 2025 RCV Run off rate (WWN)	%			-	-	-	-	-
Ofwat - Pre 2025 RCV Run off rate (BR)	%			-	-	-	-	-
Ofwat - Pre 2025 RCV Run off rate (ADDN1)	%			1.341%	1.341%	1.341%	1.341%	1.341%
Ofwat - Pre 2025 RCV Run off rate (ADDN2)	%			-	-	-	-	-
Ofwat - Run off rate for Post 2025 RCV (WR)	%			4.42%	4.42%	4.42%	4.42%	4.42%
Ofwat - Run off rate for Post 2025 RCV (WN)	%			4.42%	4.42%	4.42%	4.42%	4.42%
Ofwat - Run off rate for Post 2025 RCV (WWN)	%			-	-	-	-	-
Ofwat - Run off rate for Post 2025 RCV (BR)	%			-	-	-	-	-
Ofwat - Run off rate for Post 2025 RCV (ADDN1)	%			1.391%	1.540%	1.608%	1.649%	1.658%
Ofwat - Run off rate for Post 2025 RCV (ADDN2)	%			-	-	-	-	-

However, we have not accepted the Ofwat view of the run-off rates for either Water Resources or Water Network+ and have resubmitted our own calculated amounts. The Ofwat suggested rates were not based on actual calculations.

TABLE RR2 - TOTEX INPUTS TO CROSS REFERENCE WITH CA

RR2.1 to RR2.6 - Gross capital expenditure - real including g&c - Including cost sharing

Gross capital expenditure is before the deduction of Grants and Contributions and these revised amounts are from Table CW1, which has been audited by Jacobs.

The expenditure for Havant Thicket (ADDN1) is based on the CAM profile and not the latest forecast of expenditure. There is no change to this from the Business Plan submission.

RR2.7 to RR2.11 - Total gross operational expenditure - real - including cost sharing

Gross operational expenditure is before the deduction of Grants and Contributions and these revised amounts are from Table CW1, which has been audited by Jacobs.

The operating expenditure for Havant Thicket represents the operational phase of the project, after the construction of the reservoir. There is no change to this from the Business Plan submission.

RR2.17 - Equity issuance costs

We have included the equity issuance costs calculated by Ofwat in the Draft Determination financial model, using the Ofwat calculated equity for the notional structure. See active inputs tab lines 120-134 in the Ofwat Model.

Active inputs				31 Mar 26	31 Mar 27	31 Mar 28	31 Mar 29	31 Mar 30
				PR24	PR24	PR24	PR24	PR24
Model period ending	11	Error chks						
Timeline label	-	Track chgs						
Contract year				1	2	3	4	5
Model column counter		Col	Unit	5	6	7	8	9
Active - operating costs associated with equity issuance - real								
Switch - Equity issuance cost flag	1	1 = active, 0 = inactive						
Switch - Totex	1	1 = company, 2 = ofwat, 3 = c						
Company - operating costs associated with equity issuance - real (WR)	-	£m	- -	-	-	-	-	-
Company - operating costs associated with equity issuance - real (WN)	-	£m	0.663 -	0.132	0.117	0.145	-	0.269
Company - operating costs associated with equity issuance - real (WWN)	-	£m	- -	-	-	-	-	-
Company - operating costs associated with equity issuance - real (BR)	-	£m	- -	-	-	-	-	-
Company - operating costs associated with equity issuance - real (ADDN1)	-	£m	0.626 -	0.626	-	-	-	-
Company - operating costs associated with equity issuance - real (ADDN2)	-	£m	- -	-	-	-	-	-
Ofwat - Calculated equity issuance costs - real (WR)	-	£m	- -	-	-	-	-	-
Ofwat - Calculated equity issuance costs - real (WN)	-	£m	0.662 -	0.132	0.117	0.145	-	0.269
Ofwat - Calculated equity issuance costs - real (WWN)	-	£m	- -	-	-	-	-	-
Ofwat - Calculated equity issuance costs - real (BR)	-	£m	- -	-	-	-	-	-
Ofwat - Calculated equity issuance costs - real (ADDN1)	-	£m	0.626 -	0.626	-	-	-	-

TABLE RR3 - RCV OPENING BALANCES

The amounts for this table come from the RCV adjustments model, Outputs tab. See extract below, lines RR3.45 to RR3.59.

Outputs				
Table.Line	Item code	Model period ending Timeline label Contract year (year ending March) Model column counter	Constant	Unit
			-	Error chks
VALUES FOR INPUT TO PR24 FINANCIAL MODEL (IN PR24 BASE YEAR (2022-23) FYA PRICES)				
Pre 2020 RCV				
	C_PR24PD24_RR3_001WR_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (WR)	3.917	£m
	C_PR24PD24_RR3_001WN_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (WN)	139.356	£m
	C_PR24PD24_RR3_001WWN_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (WWN)	-	£m
	C_PR24PD24_RR3_001BR_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (BR)	-	£m
	C_PR24PD24_RR3_001ADDN1_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (ADDN1)	0.000	£m
	C_PR24PD24_RR3_001ADDN2_PR24	Ofwat - Pre 2020 RCV opening balance - real (2022-23 FYA) (ADDN2)	-	£m
2020-25 RCV				
	C_PR24PD24_RR3_002WR_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (WR)	6.409	£m
	C_PR24PD24_RR3_002WN_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (WN)	58.484	£m
	C_PR24PD24_RR3_002WWN_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (WWN)	-	£m
	C_PR24PD24_RR3_002BR_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (BR)	-	£m
	C_PR24PD24_RR3_002ADDN1_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (ADDN1)	286.895	£m
	C_PR24PD24_RR3_002ADDN2_PR24	Ofwat - 2020-25 RCV opening balance - real (2022-23 FYA) (ADDN2)	-	£m

TABLE RR4 - FINANCING FINANCIAL MODEL INPUTS

RR4.27 to RR4.37 - Index Linked Debt

The Interest rates on CPIH linked debt are the real cost of debt amounts from the WACC calculations. These figures are used in the Ofwat model, with the notional structure assumption.

	DD Rep H Thicket	Final OFWAT
Real Cost of Debt (inclu SCP)	4.29%	3.19%
Real Cost of Equity	4.80%	4.80%
Real Wholesale WACC - RPI adjusted	3.45%	2.85%
Real Wholesale WACC - CPIH adjusted	4.46%	3.85%

The RPI linked debt, equivalent amounts, are 1.0% lower, to reflect the forecast RPI-CPIH wedge.

RR4.39 to RR4.44 - Fixed rate debt

These are the nominal cost of debt amounts and are used in the notional structure Ofwat model.

	DD Rep H Thicket	Final OFWAT
Nominal weighted cost of debt	6.38%	5.25%
Nominal weighted cost of equity	6.90%	6.90%
Deduction for Retail Margin	-0.06%	-0.06%
Nominal weighted cost of equity (post retail)	6.76%	6.76%
Nominal WACC	6.55%	5.93%

RR4.51 to RR4.56 - Cash interest rates

These are the nominal cost of debt amounts and are used in the notional structure Ofwat model. See table above.

RR4.63 - Equity dividends paid – Wholesale – nominal

This is a 2% yield on the Regulated Equity and is paid one year in arrears, in line with the Ofwat guidelines.

RR4.64 to RR4.69 - Ordinary shares issued

These are the amounts of equity calculated by Ofwat, at the Draft Determination, to achieve the notional structure of 55% gearing. We have accepted these numbers and used them in the Draft Determination representation.

RR4.77 - Ordinary dividend (overrides any other dividend approach) – nominal

This is a 2% yield on the Regulated Equity and is reported in the month it is incurred, in line with the Ofwat guidelines.

RR4.78 - Real Dividend Growth

This is set at 0.8%, as per the Ofwat override.

RR4.79 - Dividend yield

This is set at 2%, as per the Ofwat override.

TABLE RR5 - TAX OPENING BALANCES

There are a number of lines which have been updated to reflect the Ofwat model assumptions, where they are not consistent with our October 2023 submission. These are as follows:

RR5.47 Capital expenditure writing down allowance main rate pool - first year rate

RR5.48 Capital expenditure writing down allowance special rate pool - first year rate

RR5.134 Tax loss allowance – nominal

TABLE RR6 - POST FINANCEABILITY ADJUSTMENTS INPUTS

RR6.1 to RR6.11 - Post Financeability adjustments

The numbers for this table are taken from the Revenue adjustment model. This is from the 'Output' tab, lines 265 – 279.

RR6.14 - QAA reward/(penalty) – real

Portsmouth Water were awarded a 'Standard' rating for their Business Plan submission and were given a reward amounting to £0.6m. This has been added to the adjustments to revenue in AMP8.

Overview of Portsmouth Water's PR24 draft determination

Our assessment of the quality and ambition of Portsmouth Water's business plan

Outstanding	Standard	Lacking ambition	Inadequate
Categorisation of the business plan			

Given the challenges facing the sector, companies need to strive to transform their performance. That is why we incentivised each company to give us a good quality and ambitious plan that demonstrated how it will meet these challenges, the levels of performance it will deliver and the associated costs. We assess these plans against our minimum expectations and against other companies' plan to identify those that show levels of ambition that help to push the whole sector forward. We also identify where a company's plan hasn't been prepared to the level of quality we require.

On assessing the quality and ambition of the 2025-30 business plan that Portsmouth Water submitted to us in October 2023, **overall, we categorise the plan as standard.** This is because we consider its plan met our expectations in the round and contained a reasonable level of ambition. The company will receive a reward equivalent to £0.6 million.

RR6.20 - Innovation funding – real

An amount of £1.499m has been allocated to Portsmouth Water, and this is made up of £1.199m for Innovation and £0.300m for Water Efficiency. On the next page is an extract from the Ofwat Draft Determination published model.

We have added this to line RR6.20, as instructed by Ofwat.

InpS								
Model period ending	-	<i>Error chks</i>		31 Mar 26	31 Mar 27	31 Mar 28	31 Mar 29	31 Mar 30
Timeline label	-	<i>Track chgs</i>		PR24	PR24	PR24	PR24	PR24
Contract year				1	2	3	4	5
Model column counter	Constant	Unit	Total	5	6	7	8	9
Ofwat - Innovation funding - real (WR)	£m		-	-	-	-	-	-
Ofwat - Innovation funding - real (WN)	£m		1.199	0.240	0.240	0.240	0.240	0.240
Ofwat - Innovation funding - real (WWN)	£m		-	-	-	-	-	-
Ofwat - Innovation funding - real (BR)	£m		-	-	-	-	-	-
Ofwat - Innovation funding - real (ADDN1)	£m		-	-	-	-	-	-
Ofwat - Innovation funding - real (ADDN2)	£m		-	-	-	-	-	-
Ofwat - Water efficiency funding - real (WR)	£m		-	-	-	-	-	-
Ofwat - Water efficiency funding - real (WN)	£m		0.300	0.060	0.060	0.060	0.060	0.060
Ofwat - Water efficiency funding - real (WWN)	£m		-	-	-	-	-	-
Ofwat - Water efficiency funding - real (BR)	£m		-	-	-	-	-	-
Ofwat - Water efficiency funding - real (ADDN1)	£m		-	-	-	-	-	-
Ofwat - Water efficiency funding - real (ADDN2)	£m		-	-	-	-	-	-

TABLE RR9 - MISCELLANEOUS INPUTS

RR9.13 to RR9.17 - Discount rate for reprofiling allowed revenue

This is the CPIH deflated WACC for each of the Business units.

	DD Rep H Thicket	Final OFWAT
Real Cost of Debt (including SCP)	4.29%	3.19%
Real Cost of Equity	4.80%	4.80%
Real Wholesale WACC - RPI adjusted	3.45%	2.85%
Real Wholesale WACC - CPIH adjusted	4.46%	3.85%

RR9.176 - Adjustment to Revenue Requirement

The equity issuance cost of £0.626m for Havant Thicket has been added to the revenue requirement, so that the overall allowed revenue from customers is zero.

RR9.194 - non-price control income - third party services - Bulk supplies - contract qualifying for water trading incentives - on or after 1 April 2020 - real (ADDN1)

This has been updated to reflect the revised WACC for Havant Thicket which has increased from 4.10% in the Ofwat Draft Determination to 4.46% in the Portsmouth Water representation.

The run-off element of the revenue is unchanged from the Ofwat Draft Determination published model.

HAVANT THICKET	DD REPRESENTATION					OFWAT DD				
2022/23 prices	2020/21	2021/22	2022/23	2023/24	2024/25	2020/21	2021/22	2022/23	2023/24	2024/25
PAYG	0.626					0.626				
Return on 2020-25 RCV	13.533	14.798	15.244	15.425	15.287	12.462	13.624	14.035	14.201	14.074
2020-25 RCV run off	4.204	4.694	4.910	5.019	4.984	4.207	4.696	4.912	5.021	4.986
Revenue	18.363	19.491	20.154	20.444	20.271	17.294	18.320	18.947	19.222	19.060
Post financeability adjusts	0.019	0.020	0.021	0.022	0.022	0.019	0.020	0.021	0.022	0.022
TABLE RR9.194	18.382	19.511	20.175	20.465	20.294	17.314	18.340	18.968	19.244	19.083

The Post Financeability adjustment is also unchanged.

RR9.262 to RR9.263 - Base revenue by charging year

These amounts are taken from Table PD5 line 8, including Grants and Contributions, and are the final allowed revenue amounts in AMP7.

TABLES RR10 to RR16 - OUTPUT FROM OFWAT FINANCIAL MODEL

The data from these tables is copied from the Ofwat Financial Model, which has been submitted as part of the Draft Determination Representation. There is a change in the allowed revenue for each year, and the associated average household bill.

Table RR16 only contains output data from the Ofwat Model, as requested, which contains the notional structure financial ratios.

TABLE RR27 - REVENUE ANALYSIS

This table has been partially updated. The years 2023-24 and 2024-25 are required to be updated as they link into Table PD5.

The data for 2023-24 is from the APR Table 2I, deflated to 2022-23 prices.

The data for 2024-25 reflects the tariff process for that year but retains the original Business Plan submission amounts for Third Party revenue – non-price control.



GET IN TOUCH



portsmouthwater.co.uk



pr24@portsmouthwater.co.uk



[PortsmouthWater](https://twitter.com/PortsmouthWater)



[PortsmouthWater](https://www.linkedin.com/company/PortsmouthWater)