

Severn Trent Water PR24 Final Determination

We welcome today's publication of the PR24 Final Determination, outlining our regulatory settlement for the period 2025 to 2030. We are pleased to have seen movement on the five key topics we represented on in August, following constructive collaboration with Ofwat in recent months.

Overall, Ofwat has approved £14.9 billion of totex for Severn Trent in AMP8, an increase of 3.1 billion from the Draft Determination and around twice as much as was approved in PR19. This means that we expect to generate real RCV growth¹ of 45% across the AMP, which would take our AMP8 closing RCV to around £17.2 billion in 2022/23 prices. In nominal prices² this is equivalent to 64% growth to £21.6 billion closing RCV.

Building on our strong operational and environmental track record, this scale investment will allow us to deliver significant progress in areas our customers care about most, including:

- Delivering the industry's fastest and most ambitious spills reduction programme, as we aim to halve spills by 2030 and strive towards global best practice;
- Accelerating the improvement of river health, accounting for just 2% of RNAGS³ by 2030;
- Delivering a further 16% reduction in leakage and replacing around 1,400km of water mains;
- Protecting 3% of England's nature recovery network through our work on biodiversity;
- Supporting growth in the region through investment in 70 waste treatment works; and
- Achieving operational Net Zero by 2030.

The work we have done in AMP7 puts us in a strong position to deliver this step change in investment while maintaining the second lowest bill in England and supporting around 1 in 6 customers with their bills through a £575 million affordability package.

Following Ofwat's determination, and updated to reflect recent market data, the allowed cost of capital is up 31 basis points to 4.03%, including a cost of debt of 3.15% and cost of equity of 5.1%, before taking account of Severn Trent Water's additional 30bps reward for achieving Outstanding for our PR24 Business Plan.

Our teams are busy working through the detail, and we will host a short presentation at 8:00GMT on Friday, 20 December 2024, outlining our initial analysis followed by Q&A with members of our executive team. Investors and analysts can register for live attendance via our website (www.severntrent.com), and a recording of the session will be uploaded to our website shortly afterwards.

We will carefully consider the Final Determination in full over the coming weeks and provide a further market update early in 2025.

We look forward to sharing more at our Capital Markets Day in Coventry on 5 March 2025.

Footnotes

1. RCV: Regulatory Capital Value (RCV) is used to measure the capital base of a company when setting price limits. The RCV increases each year by a proportion of totex that is set at each price review and by an adjustment for inflation. The RCV is reduced each year through the run-off mechanism (which is similar to depreciation of fixed assets). The run-off amount is recovered through revenue in the year. RCV Growth figures are stated inclusive of AMP8 transition spend, which has been accelerated into AMP7 and will be included in the AMP7 closing RCV. Excluding transition spend, real RCV growth is 40% in AMP8.
2. Using Oxford Economics December inflation forecast.
3. RNAGS: The Environment Agency's analysis of Reasons for Not Achieving Good Status (RNAGS) records the source, activity and sector involved in causing waters to be at less than 'good' status.

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