



PR24 Final Determination

20 December 2024

WONDERFUL ON TAP

SEVERN
TRENT

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PR24 FINAL DETERMINATION

1

Final Determination Update

2

Our AMP8 Plan

3

Organisational Readiness



FINAL DETERMINATION UPDATE

WHAT'S NEW IN THE FINAL DETERMINATION?

Real RCV now growing by **45%**, fully equity funded for AMP8

Improved ODI targets, in particular ESF and GHGs

Sector WACC up **31bps to 4.03%**, with increases in cost of equity and debt

FD AMP8 totex of **£14.9bn**, £3.1bn more than DD

FD Revenue **higher** than in DD representation, increasing in-AMP cash flows

Severn Trent bill remains **second lowest** in England

SIGNIFICANT SUPPORT FROM OFWAT ACROSS OUR FIVE FOCUS AREAS

1

Totex

Received **£14.9bn** of Totex, **95%** of total ask



2

ODI package

15 out of **22** performance commitments improved



3

Cash flow

c. £380m additional cash flows from energy and rates



4

Returns

Cost of equity increased **30bps** to **5.1%**



5

Cost of Debt

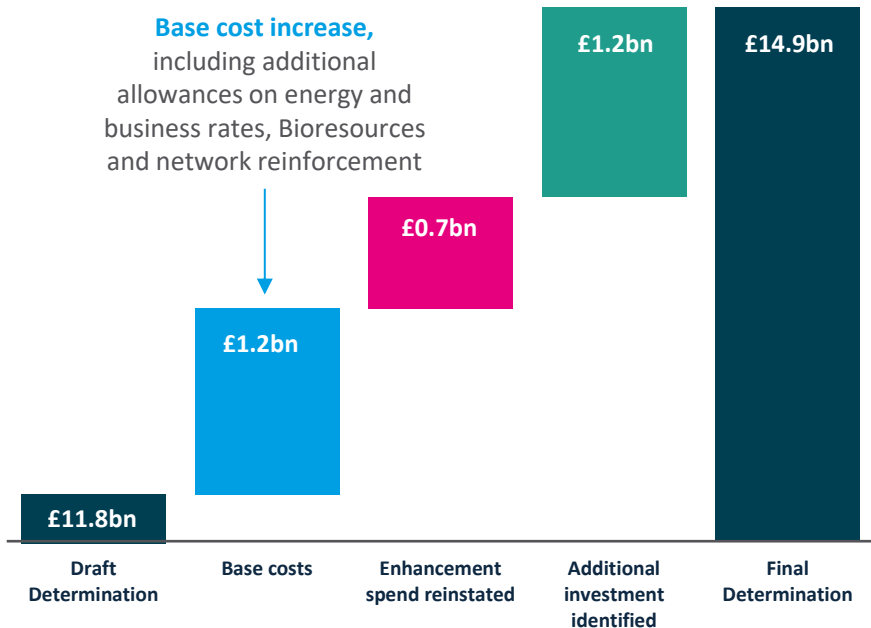
Cost of debt increased **31bps** to **3.15%**



£3.1BN ADDITIONAL TOTEX APPROVED

95% of total AMP8 funding request approved

Totex increased to £14.9bn

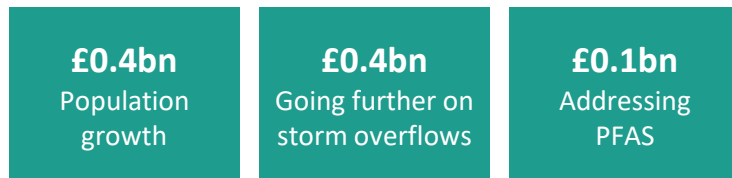


Uplift in totex enables further step change in investment

Enhancement spend reinstated



Additional investment identified



EVOLUTION OF ODI FRAMEWORK

More balanced ODI package

Key measures adjusted following DD

External Sewer Flooding 2030 target improved by more than 50%

Greenhouse Gas Emissions target uplifted to correct inconsistencies

Pollutions targets updated to reflect recent sector performance, with smoother glide path for reductions

Discharge Permit Compliance deadband introduced at 99%, aligned with Environment Agency's EPA measure

Evolution of ODIs

10 targets improved

5 deadbands added

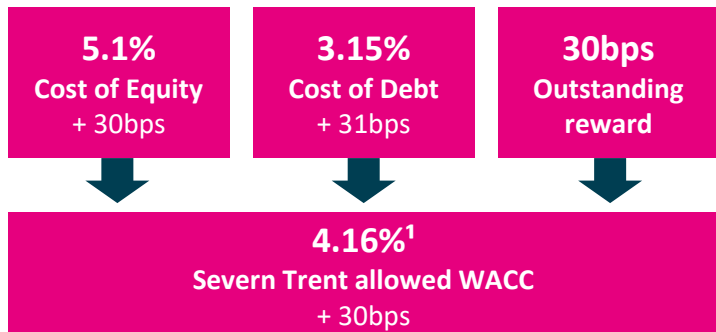
16 incentive rates amended

Capital Carbon bespoke ODI granted

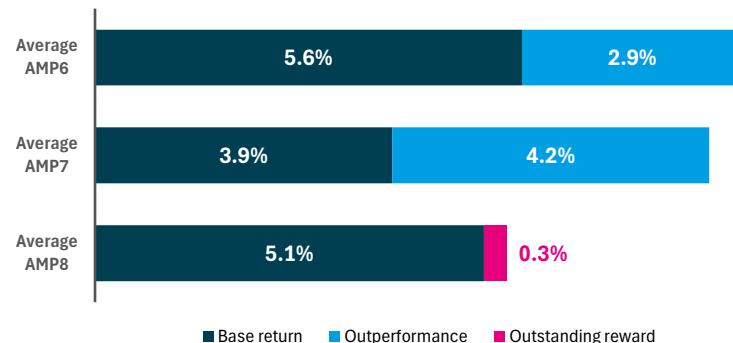
IMPROVED RETURNS

Higher base return and a track record of outperforming

Improved WACC, supported by 30bps reward...



...with a track record of outperforming the base return



Increased returns and cash flows
reduces need for financial levers

Adding 2% RCV growth

PAYG

RCV run-off

DD Representation

36%

4.5%

Final Determination

38%

4.2%

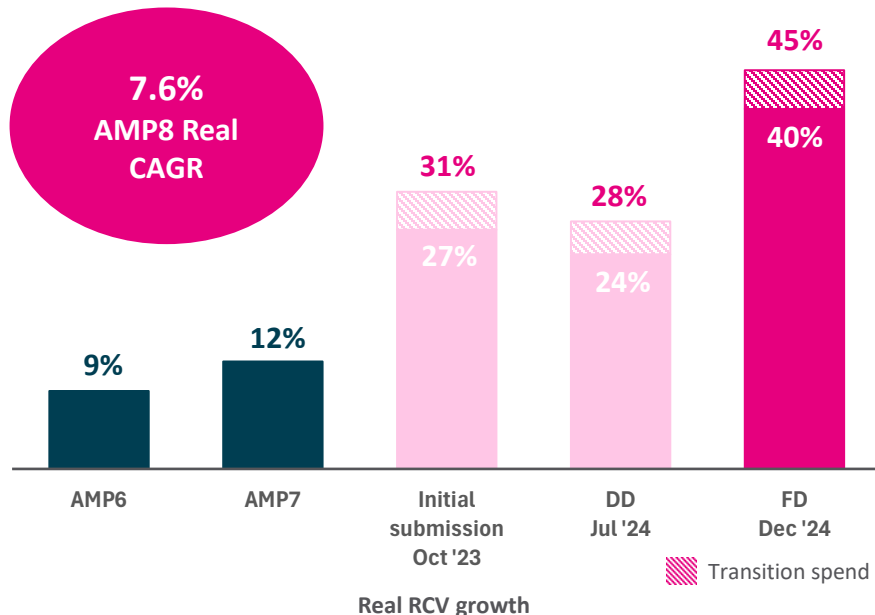
¹ Sector WACC of 4.03% adjusted for Severn Trent's Outstanding reward

OUR AMP8 PLAN

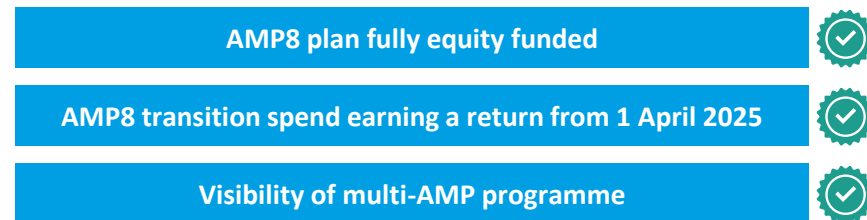
DELIVERING RECORD RCV GROWTH

Unprecedented investment driving 45% real RCV growth in AMP8

AMP8 closing RCV of **£17.2bn** in 2022/23 prices
= **£21.6bn** in nominal prices¹



Certainty of growth



AMP8 RCV growth – sector comparison²



¹ Calculated using Oxford Economics December inflation forecast.

² Transition spend excluded from AMP8 growth rates, per Ofwat's Financial Models.

INVESTING TO DELIVER FOR CUSTOMERS

Broad-ranging investment programme delivers the outcomes our customers care about most

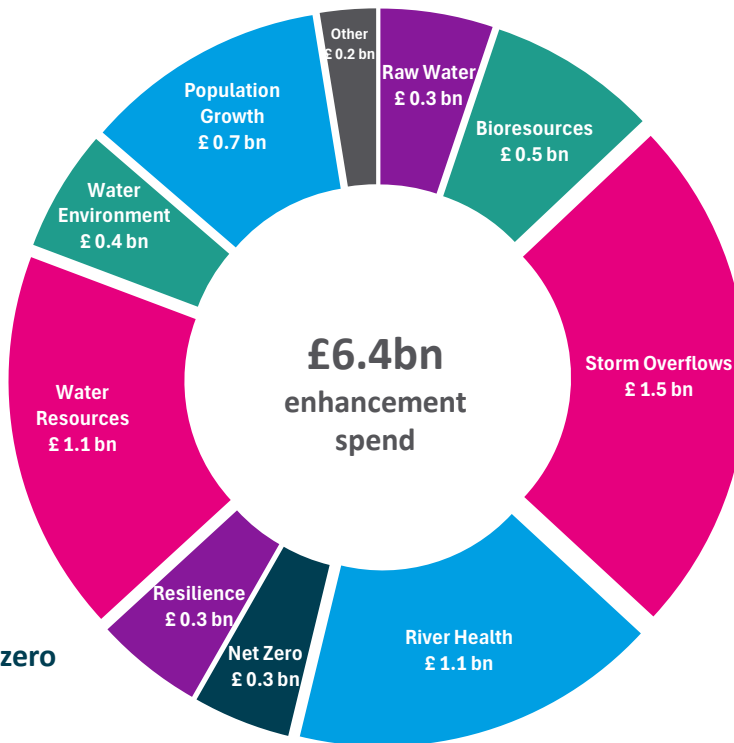
Protecting **3% of England's nature recovery network** through our Biodiversity commitments



Strengthening water resilience to ensure we can **meet customer demand** during hot weather



Delivering **operational net zero** by 2030



Scale investment into water treatment and biosolids to **address PFAS**



Halving storm overflow usage by 2030, as we strive to global best practice



Reducing impact on rivers, accounting for just 2% of RNAGS by 2030



ODI MEASURES ARE WELL UNDERSTOOD

Known measure and met target at least once during AMP7

Known measure and not met target during AMP7

Existing measures				New measures	
Unplanned outage	Compliance risk index	Customer contacts about water quality	External sewer flooding	Capital carbon - Bespoke	Storm overflows
Biodiversity	Repairs to burst mains	D-MeX	Discharge permit compliance	GHGs (Waste)	GHGs (Water)
Internal sewer flooding	Total pollution incidents	Per capita consumption ¹	Leakage	Business demand	BR-MeX
Sewer collapses	C-MeX	Serious pollution incidents	Water supply interruptions		

¹ Based on performance vs Ofwat's post-Covid recovery trajectory

SIGNIFICANT FINANCIAL PROTECTION IN PLACE

Totex

Enhanced sharing rates, reducing risk for investors

- ✓ 50:50 base costs
- ✓ 60:40 Enhancement spend
- ✓ 90:10 Business rates

Energy price true-up reducing exposure to markets

Materials and PPE enhancement costs above inflation compensated for

Financing

Cost of new debt allowance true up for movements in iBoxx, reducing interest rate exposure

30bps reverse halo introduced to better reflect current market conditions

15bps allowance for issuance and liquidity costs



ORGANISATIONAL READINESS

DELIVERABILITY DRIVING HIGHER GROWTH

Uniquely placed to deliver investment, driving guaranteed growth

Unique delivery enablers already in place...

In-house skills

Embedded in-house design team unlocks digital and automation capabilities

Delivery model

'Plug and Play' model driving speed and efficiency on critical asset types

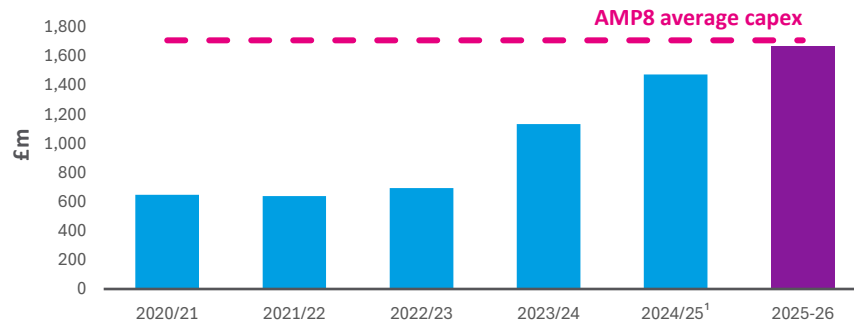
Supply chain

Broad and diverse supply chain provides resilience and flexibility

Financing

Support from shareholders enabling Green Recovery and AMP8 acceleration

... and already stepped up our run rate



Severn Trent Water capex per Ofwat's opex-capex split

Driving high growth in AMP8

Enabled original PR24 Plan, as one of Ofwat's three key pillars

Gave us confidence to request more totex in DD representation

Price Control Deliverables provide further opportunity

SUPPORTING CUSTOMERS

We remain committed to keeping bills affordable, while delivering record investment

Maintaining affordable bills throughout AMP8...



We begin and end AMP8 with the **second lowest bill** in England, reflecting our continued focus on efficiency



Severn Trent bill will be **1.4%** of disposable income by 2030

... and supporting those who can't pay

£575m affordability package available for customers

1 in 6 households supported with their bill in 2030



Good for customers

81% Highest acceptability rating in the sector¹

Good for investors

2% Consistent sector-leading bad debt performance



¹ Per CCWater's research into company Draft Determinations

OPERATIONAL OUTPERFORMANCE

Opportunity to outperform on measures customers care about most

Storm Overflows

Most ambitious improvement programme, with 1,200 interventions this year

Leakage

Six consecutive years of hitting our target

Pollutions

Top 3 performance every year of AMP7

Internal Sewer Flooding

At or above sector average across AMP7

External Sewer Flooding

Frontier performance every year in AMP7

Sector leaders on ODIs since their inception

Net ODIs earned in AMP6 and AMP7¹ (£m)



Whole organisation ready to deliver



Insourced critical skills



Targets cascaded to teams



ODI Centre of Excellence



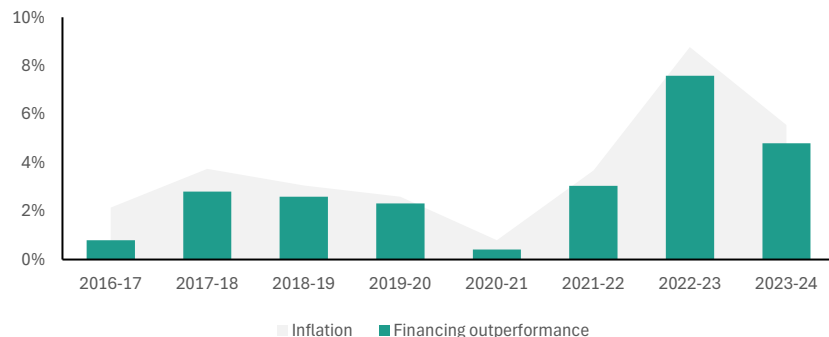
Shadow reporting for >1yr

¹ Pre-sharing, gross of tax, in 2017-18 prices.

FINANCING OUTPERFORMANCE

Allowance changes give further confidence in financing outperformance

Outperformed in high and low inflation rate environments, with agile treasury strategy



Entering AMP8 with one of the lowest costs of debt in the sector, expect to outperform embedded allowance from Day 1



Figures per Ofwat Aligning Risk and Return Appendix

Strong Balance Sheet positions us well to continue to raise finance below the new debt allowance¹

Over £2bn
liquidity, providing flexibility

Stable Baa1/BBB+
credit ratings, re-affirmed

58.6%
Economic regulated gearing

68%
debt locked in at fixed rates

Underpinned by strong track record

All debt issues this AMP at or below new debt allowance of iBoxx + 30bps reverse halo

¹ Measures stated as at 30 September 2024

SUMMARY: OUR INITIAL VIEW

1

Final Determination Update

We have seen positive movement in all key areas from Draft to Final Determination

2

Our AMP8 Plan

We will deliver record RCV growth by investing in the areas that matter most to our customers

3

Organisational Readiness

We are ready to deliver and are confident in continued outperformance

A close-up photograph of a worker in an orange high-visibility jacket and purple gloves using a wrench to adjust a blue industrial pipe. Water is spraying from the pipe. The background is blurred, showing more industrial equipment. The image is framed by dark teal curved borders on the left and right sides.

Capital Markets Day

Join us at the Severn Trent Academy

5 March 2025

Q&A



James Jesic
*Director of Capital
Delivery and
Commercial*



Liv Garfield
*Chief Executive
Officer*



Helen Miles
*Chief Financial
Officer*



Shane Anderson
*Director of Strategy
and Regulation*

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