

PR24 Draft Determination

23 July 2024

WONDERFUL ON TAP

SEVERN
TRENT

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OVERVIEW

**Outstanding
status
delivers financial
upside and
increased
certainty**

**Efficient base
costs in line with
Plan, with greater
totex protection
in place**

**Draft
Determination
provides good
basis for
engagement with
Ofwat**

**Record level of
real RCV growth
of 28% in AMP8,
up from 10% in
AMP7**

**Need for all 13
enhancement
cases agreed;
opportunity to
increase allowed
costs further**

AN OUTSTANDING PLAN

Outstanding rating provides significant protection versus a standard plan

Financial reward of **£93 million**

Minimum WACC
is set

Minimum level of base costs agreed

50-50 cost sharing on base expenditure

Ofwat's asks for Outstanding

Achieve **4* EPA status at least once** in AMP8



Achieved 4* for an unprecedented four consecutive years, **on track to deliver 4* status every year of AMP7**



Capital improvements to **at least 563 CSOs** to reduce average spills to **14 at least once**



£1.2bn CSO investment plan, and delivering **interventions to around 900 sites this year alone**



£25m (5%) extra to support customers



Committed to **supporting any customer** who needs help with their bill; affordability a **key enabler of RCV growth**



DELIVERING FOR STAKEHOLDERS

Outstanding plan that addresses the issues our stakeholders care about

Customers

- **16% reduction** in leakage, on track to hit government target of 50% reduction early
- Step change in **water resilience and customer service**, supported by Kraken
- **Second lowest bill** in England and Wales
- Affordability **support for c. 1 in 6 customers**

Environment

Scale investment in transforming the environment already approved, including:

- **£2.6bn** investment through WINEP¹, dramatically improving river health
- **£887m** to meet future water needs
- **£250m** funding to support Net Zero by 2030

Investors

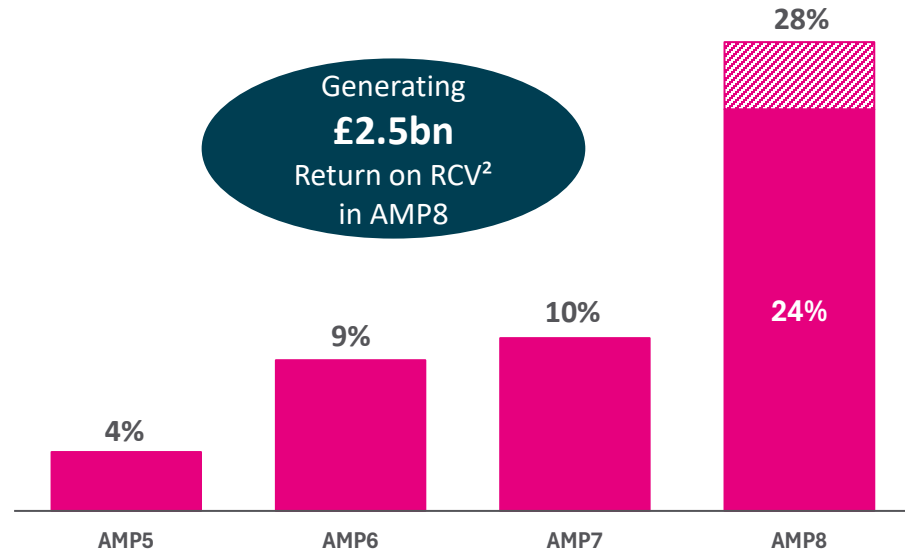
- **28% real RCV growth** based on totex approved so far
- Established need for **future multi-AMP growth**
- **Minimum WACC** locked in with 30bps boost for Outstanding plans
- **Greater cost protection** on both base and enhancement costs



RECORD RCV GROWTH

Unprecedented levels of investment driving 28% real RCV growth in AMP8

Closing AMP8 RCV¹ of £15.6bn in Draft Determination
vs £16.2bn in Business Plan



AMP8 investment accelerated into AMP7, to be added to RCV at 31 March 2025

1. Regulated Capital Value in 2022/23 prices, using Financial Year End inflation.
2. Based on Draft Determination WACC.

Unlocking growth to 2050 and beyond



The need for all 13 enhancement cases established



Unlocks multi-AMP investment programme, driving further growth to 2050, not yet reflected in value

Examples

Storm Overflows

£1.2bn in AMP8
£4.4bn 2025-50

Water Resources

£0.9bn in AMP8
£3.2bn 2025-50

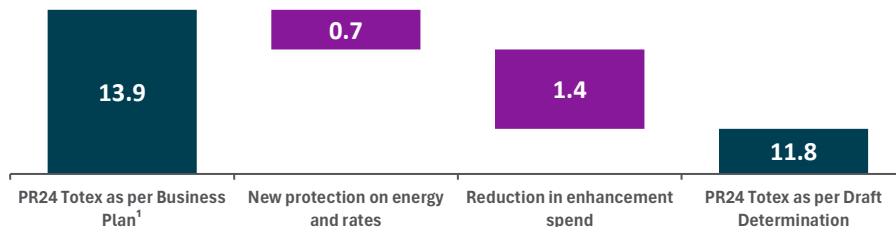


Read more on our Long-Term Delivery Strategy [HERE](#)

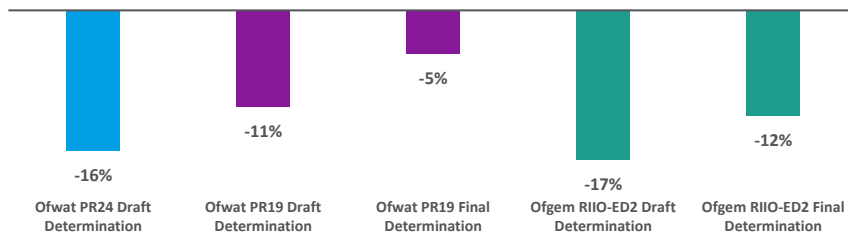
TOTEX OVERVIEW

Significant totex increase approved, and Ofwat has indicated potential for further movement

Totex increased by £4.3bn compared to PR19...



...and Ofwat has signalled scope to increase totex between DD and FD²



Comparison of relative sector cost challenges at recent price reviews

¹ Gross of grants and contributions, and including transition spend.

² Source: Ofwat Expenditure Allowances.

Greater cost protection on both base and enhancement costs

New mechanisms protect economic value but create timing gap in AMP8

Base costs

Energy prices

Reimbursed for differences between forecast and outturn energy prices

Business rates

Enhanced sharing ratio means company only takes 10% of upside/downside

Enhancement costs

Real Price Effects

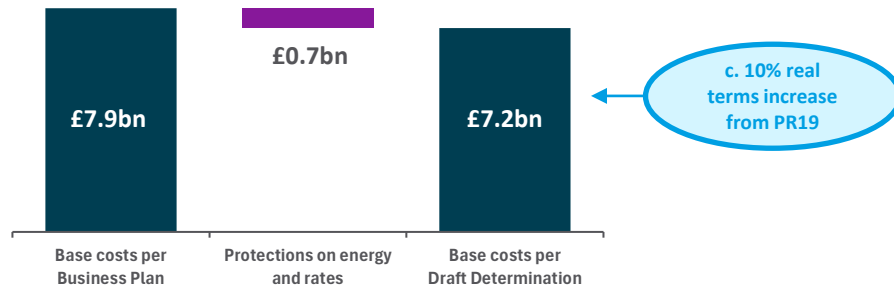
Costs reimbursed for above inflationary costs on materials, plant and equipment

Enhanced cost sharing

60:40 customer sharing means only 40% of out/underperformance borne by companies

BASE AND ENHANCEMENT COSTS

Base costs are in line with our submitted plan



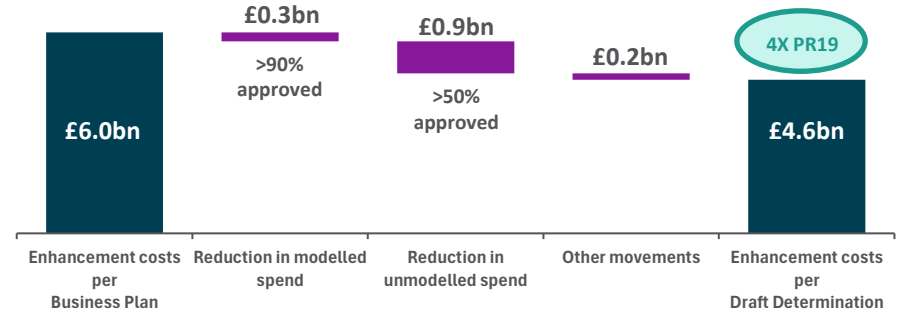
Ofwat agrees our plan is efficient

Achieving required level of base costs is essential for running our business effectively and driving operational performance

Out-turned second most efficient company on Waste, Bioresources and Retail cost models, reflecting track record of efficiency

Retail costs increased by more than £50 million compared to Business Plan, and by c. £140 million (24%) in real terms compared to PR19

Need for all 13 enhancement cases established



Opportunity to increase enhancement spend further

Enhancement spend judged on unit price or modelled basis broadly in line; focus can turn to evidencing unmodelled areas

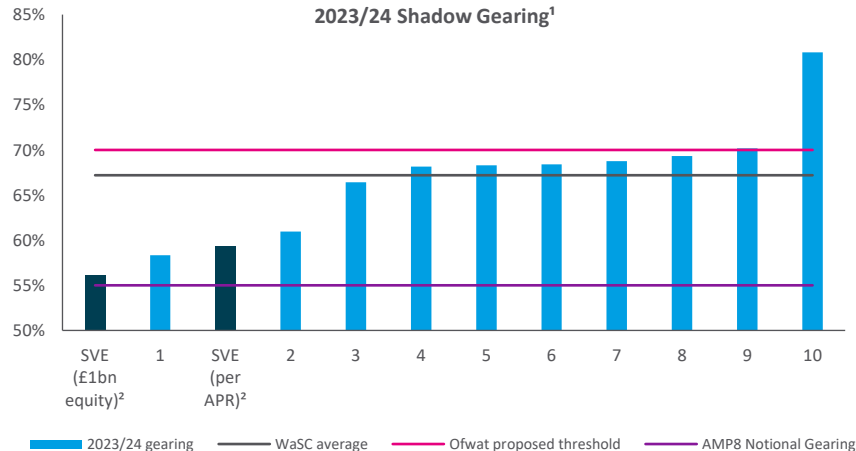
Confident we can provide robust evidence on costs based on in-house expertise, strong track record and learnings from enlarged capital programme

Where need and value for money can't be fully established, scope of programmes can be reduced

FINANCING AND RETURNS

Strong Balance Sheet ready for record investment

- ✓ Successful £1 billion equity raise supporting AMP8 investment
- ✓ Lowest gearing in the sector, after accounting for full equity raise
- ✓ Well positioned ahead of Ofwat consultation on 70% gearing threshold



Minimum return higher, but still upside potential

- ✓ Outstanding status provides additional 30bps and minimum return
- ✓ Some positive changes made to methodology so far
 - E.g. 15bps halo effect removed from new debt allowance
- ✓ Further change expected between DD and FD
 - E.g. Expect 2023/24 sector cost of debt to increase overall embedded debt allowance when included in FD

	Early View	Draft Determination
Cost of Equity	4.14%	5.10%
- Per Methodology	4.14%	4.80%
- Outstanding Reward	-	0.30%
Cost of Debt	2.60%	2.84%
- Cost of New Debt	3.28%	3.36%
- Cost of Embedded Debt	2.34%	2.46%
- Share of New Debt	17%	26%
Appointee WACC	3.29%	3.86%

1. Source: 2023/24 Annual Performance Reports. Shadow Gearing is calculated using Net Debt and Shadow RCV.
 2. Shadow Gearing as reported in the Severn Trent Water APR only includes £600m of £1bn equity raise.

AN EVOLVING ODI REGIME

Ofwat are committed to “powerful incentives to deliver better performance”

Ofwat’s ambitions

“Common performance commitments with greater comparability”

“Achievable yet stretching targets”

“Sensible yet robust risk protections”

“Powerful incentives to improve performance”

Committed to tackling totemic sector issues

Incentive rate

Track Record

Leakage

2.8 times greater
than in AMP7

11% reduction
delivered AMP7 to
date

Serious Pollutions

£1.7m per incident

No serious pollutions
since 2022

CSOs

£1.9m
per average spill
above/below target

**“Ambitious
programme”**
recognised by Ofwat

ODIs have evolved

41 ODIs in AMP7

Streamlined to 25 ODIs

10 new ODIs

Already measuring

Higher financial
incentives than in AMP7

Expect wide range of
performance across sector

AFFORDABLE BILLS

As we enter multi-AMP growth period we remain focused on keeping bills affordable for all



2030 bill **second lowest** in England and Wales

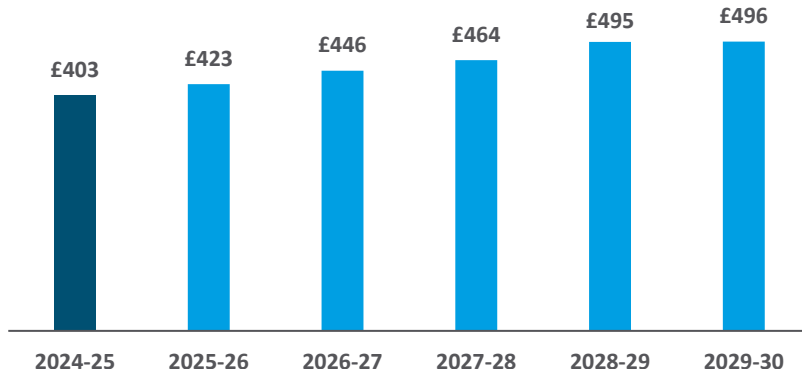


1.2% of disposable income today, **1.2%** in 2030



Committed to **eradicating water poverty** by 2030

DD average bill profile in real prices



£575m
affordability
support package
(including extra
£25m)

Supporting **1 in 6**
customers by
2030 – enough to
help anyone who
needs it

Innovative **rising**
block tariff trials,
enabled by
Kraken roll out

More support for
Community
Fund, supporting
broader societal
strategy

Delivering additional value through our Welsh business

Standard plan, + 5bps on
Cost of Equity

Over 90% enhancement
expenditure accepted

Biggest plan ever,
delivering 32% real RCV
growth

Opportunity for ODI
incentives to reflect the
size of the company

Outstanding Plan provides platform for strong AMP8 and beyond

Key elements as expected

- ✓ Good outcome on quality and ambition assessment
- ✓ Increase in WACC from early view
- ✓ Efficient base costs and need for investment established

Growth locked in

- ✓ 28% real RCV growth based on Totex approved so far
- ✓ Need for investment approved, unlocking growth to 2050
- ✓ Balance sheet well positioned to support AMP8 investment

Upside potential

- ✓ Minimum WACC and base costs locked in
- ✓ Confident in robust evidence to increase totex further
- ✓ Strong basis for engaging with Ofwat to improve package in FD

Q&A

Tuesday 23rd July
14:00 and 22:00 BST

Join Zoom Meeting [by clicking here](#)
Meeting ID: 813 1206 0140
Passcode: Wonderful!



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APPENDIX

PR24 ENHANCEMENT CASES

Need for all 13 enhancement cases established



Water resilience



Net Zero



Water WINEP



Waste WINEP



Bioresources WINEP



SEMD – physical security



SEMD – alternative supplies



Urban flooding



Meeting future water needs



Reducing lead



Cyber security



Raw water deterioration



Reservoir safety