
PR14 Update From Severn Trent Business Plan Submission

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3rd December 2013, 12:30 GMT

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Our plan delivers

- Value for money
 - Increased investment programme
 - Bills frozen in first year of AMP6; below inflation increases thereafter
- Fair and balanced
 - Balances the interests of all our stakeholders
- Robust and reliable
 - Largest customer research and engagement exercise Severn Trent has ever undertaken
- Right thing for the long term
 - Shaped by our “Changing Course” philosophy

Context

- Customers want better value, better services and a healthier environment
- Increasing environmental standards
- Population growth
- Climate change
- Affordability
- Service improvements
- Changing financial markets

Our plan delivers against this

Engagement

- Started in December 2011
- Over 15,000 customers
- 160 stakeholders
 - representing business, households, environment and local government
- Severn Trent Water Forum
- Let's talk water
 - www.stwater.co.uk/letstalkwater



December 2011
Customers shaped our
consultation



April 2012 Customers
shaped our plan



April 2013 Customers
improved our plan



December 2013
Customers support our
final plan

What The Water Forum said



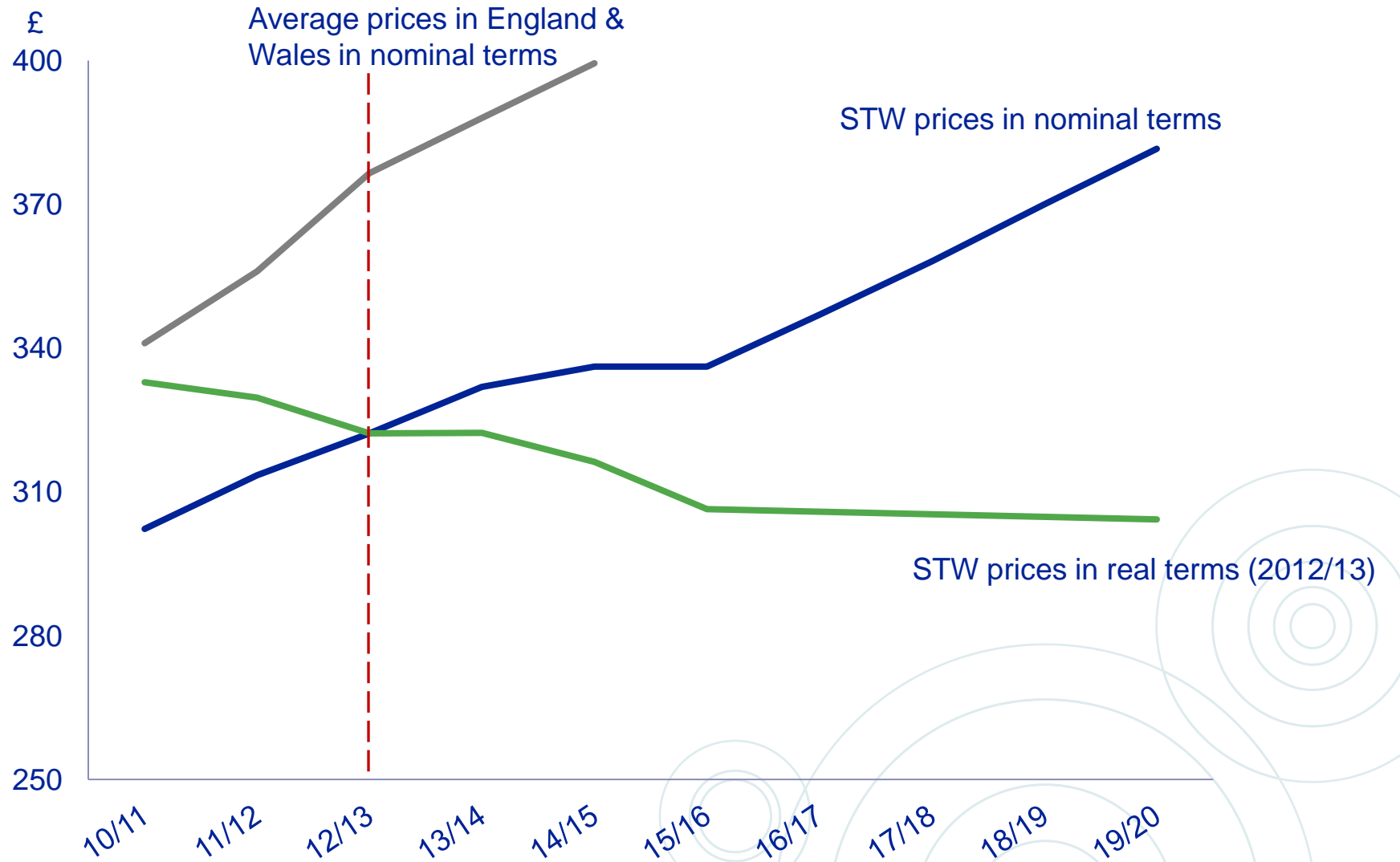
“...there is a clear line of sight between what customers wanted to see and what is being proposed in the plan. It is because, and only because, the company has significantly shifted to meet our demands for the lowest possible bills, together with the necessary investment, that we can commend the plan to you as a fair and balanced plan.”

Overview of our Plan

- Bills
- Totex (opex + capex)
- Outcomes
- Financing and WACC*
- Incentives
- RCV

*Weighted average cost of capital

Customer Bills



Totex – 5 year period

	AMP5 (£m)	AMP6 (£m)	Change £m	Change %
Capital investment	2,565	3,175	610	24%
Operational expenditure	2,854	2,845	-9	0%
Total expenditure (totex)	5,419	6,020	601	11%

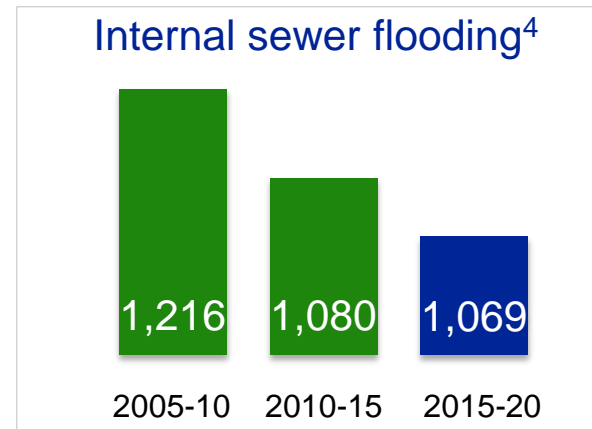
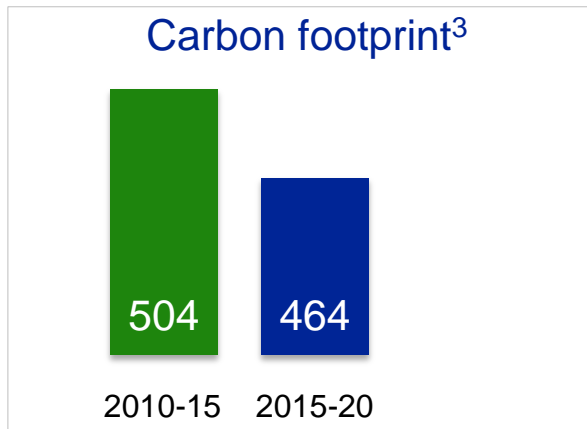
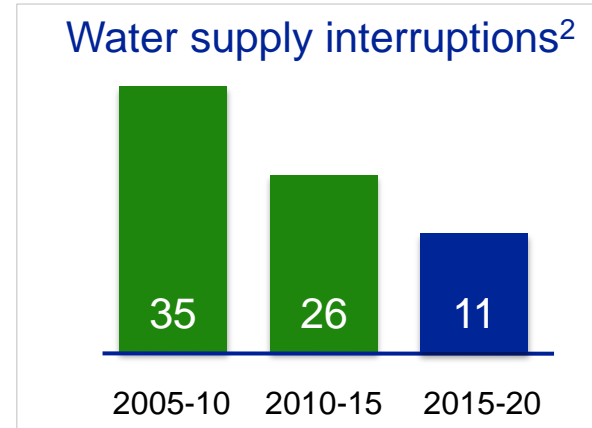
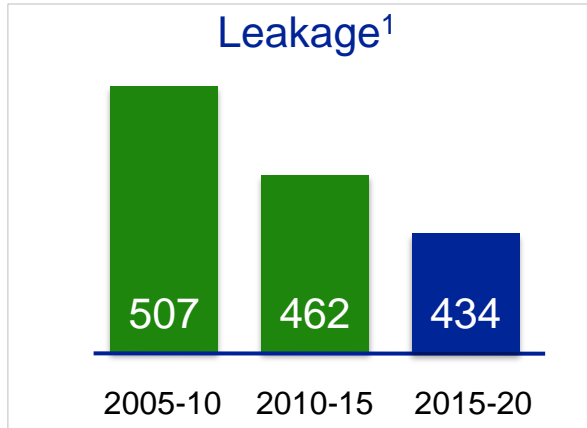
- Opex flat; capex +£610 million
- We are within the efficient cost corridor
- PAYG rate c.55%
- Change in cost base*

	% of opex AMP5	% of opex AMP6	Change AMP6 v AMP5
Directly Managed Costs	64%	62%	-6.0%
Indirectly Managed Costs	36%	38%	+3.8%

* Excludes enhancement spend and PDaS

Outcomes and KPI targets

5 year average



1. MI/d
2. Minutes per customer
3. ktCO2e
4. Number of incidents

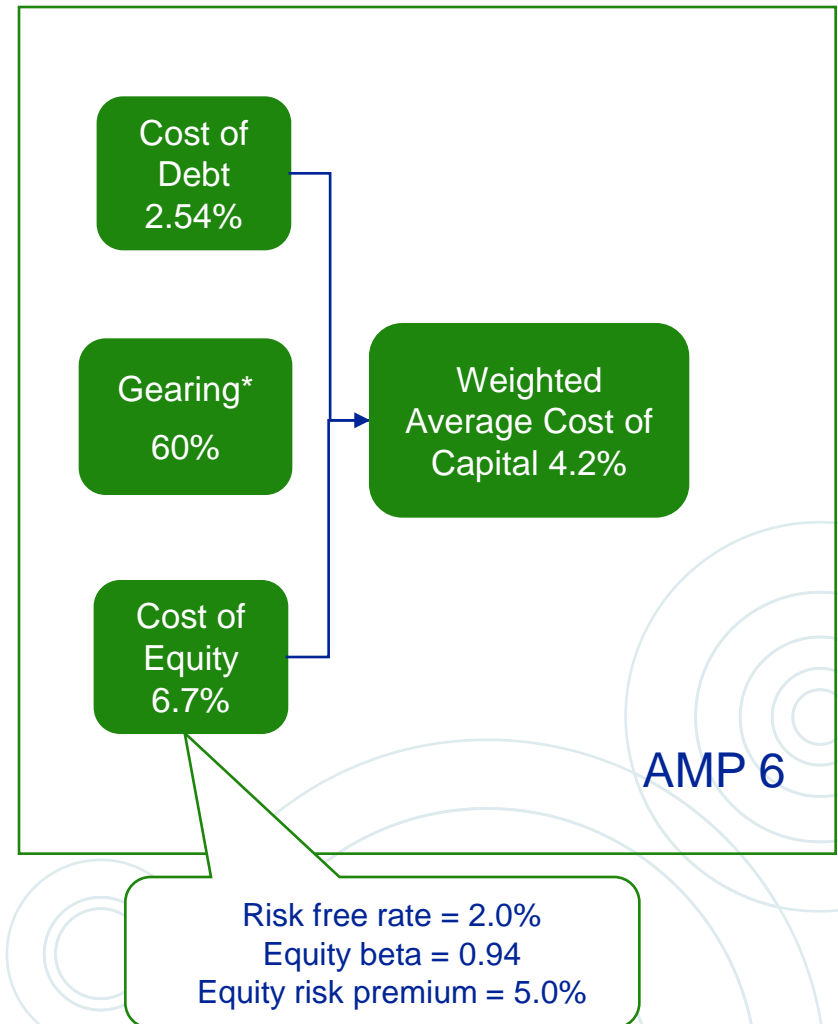
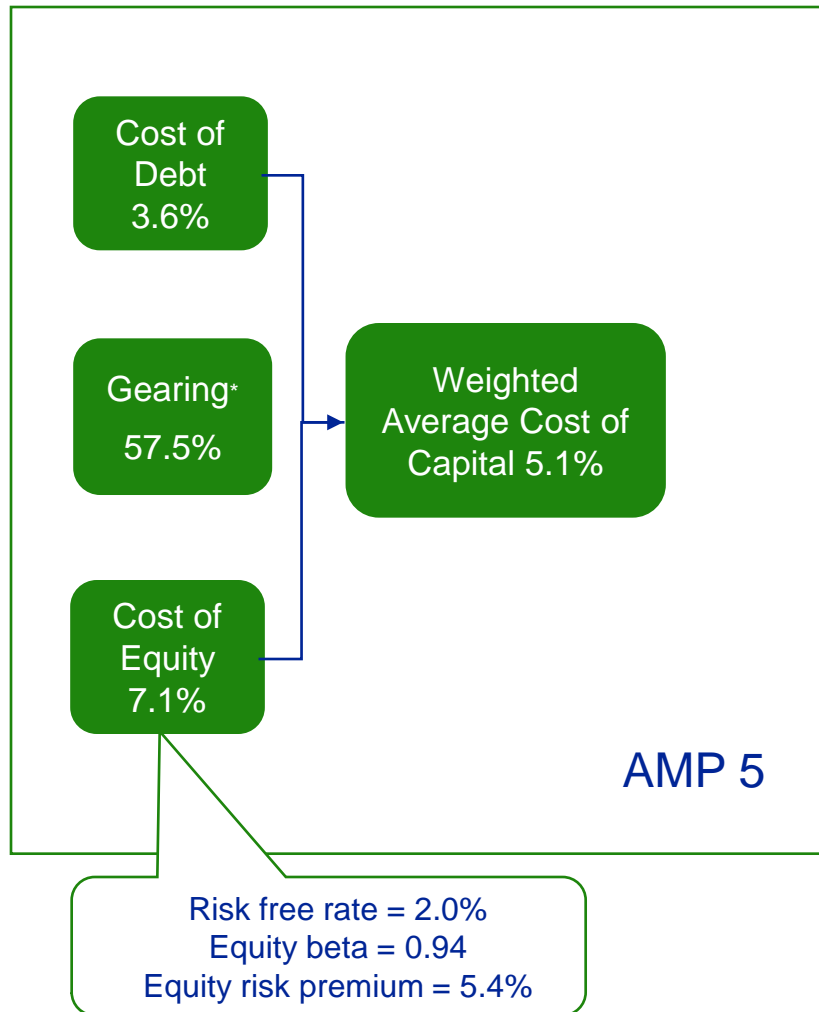
Wholesale WACC

Weighted average cost of capital

Real	PR14	PR09
Assumed RPI	3.3%	2.5%
Blended cost of debt	2.54%	3.6%
Cost of equity	6.7%	7.1%
Gearing	60%	57.5%
Vanilla WACC	4.2%	5.1%
Post-tax WACC	3.9% @ 20% tax	4.5% @ 28% tax

Wholesale cost of capital (pre tax - 'real')

AMP5 vs. AMP6



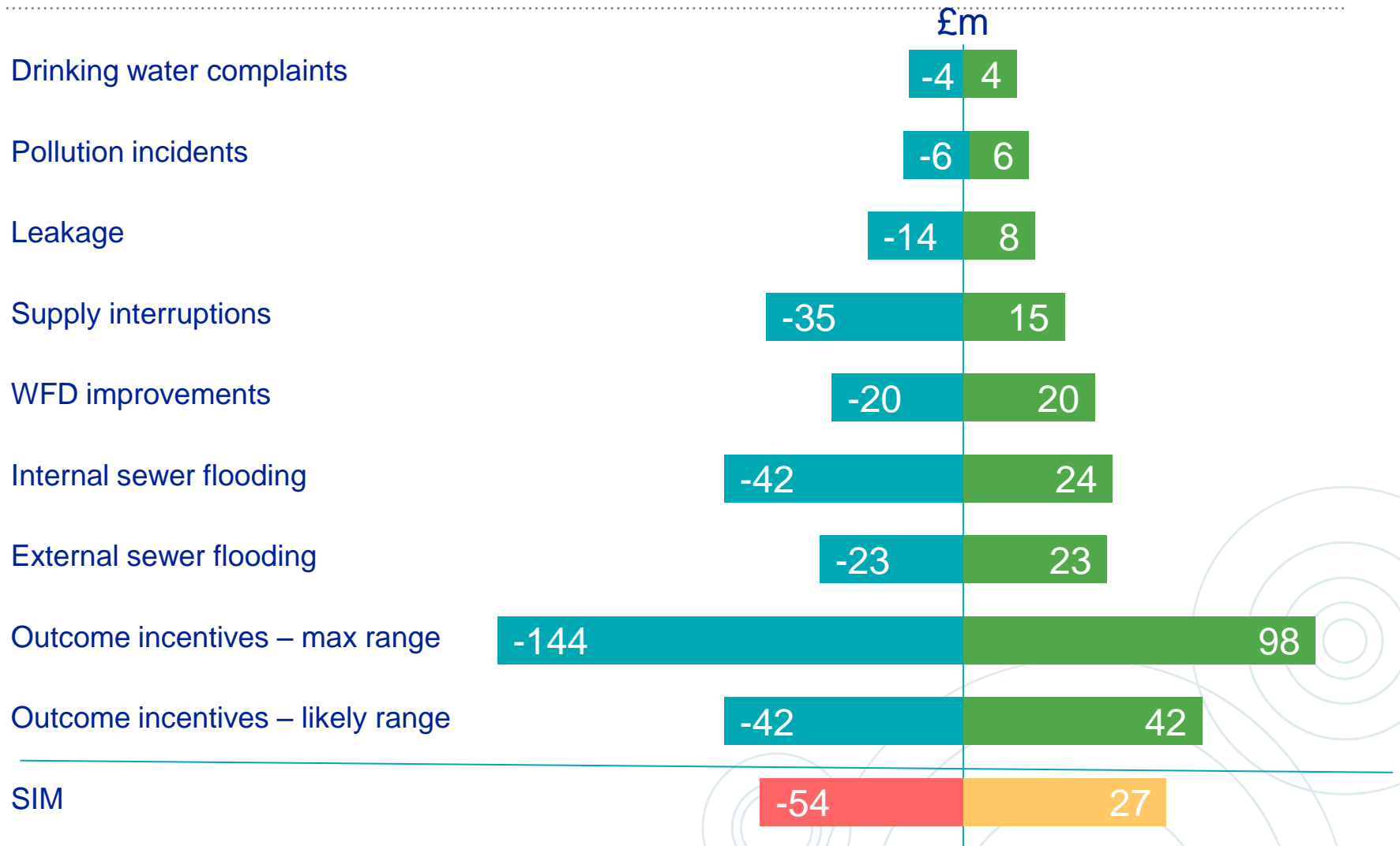
Retail

- Margin for household retail 0.7%
 - Bottom up analysis
 - Inflation and bad debt risk
- Margin for business retail 3.0%
 - Benchmark analysis
 - Comparable to Scotland, taking into account different payment terms in England
- Equivalent of +0.1% on WACC

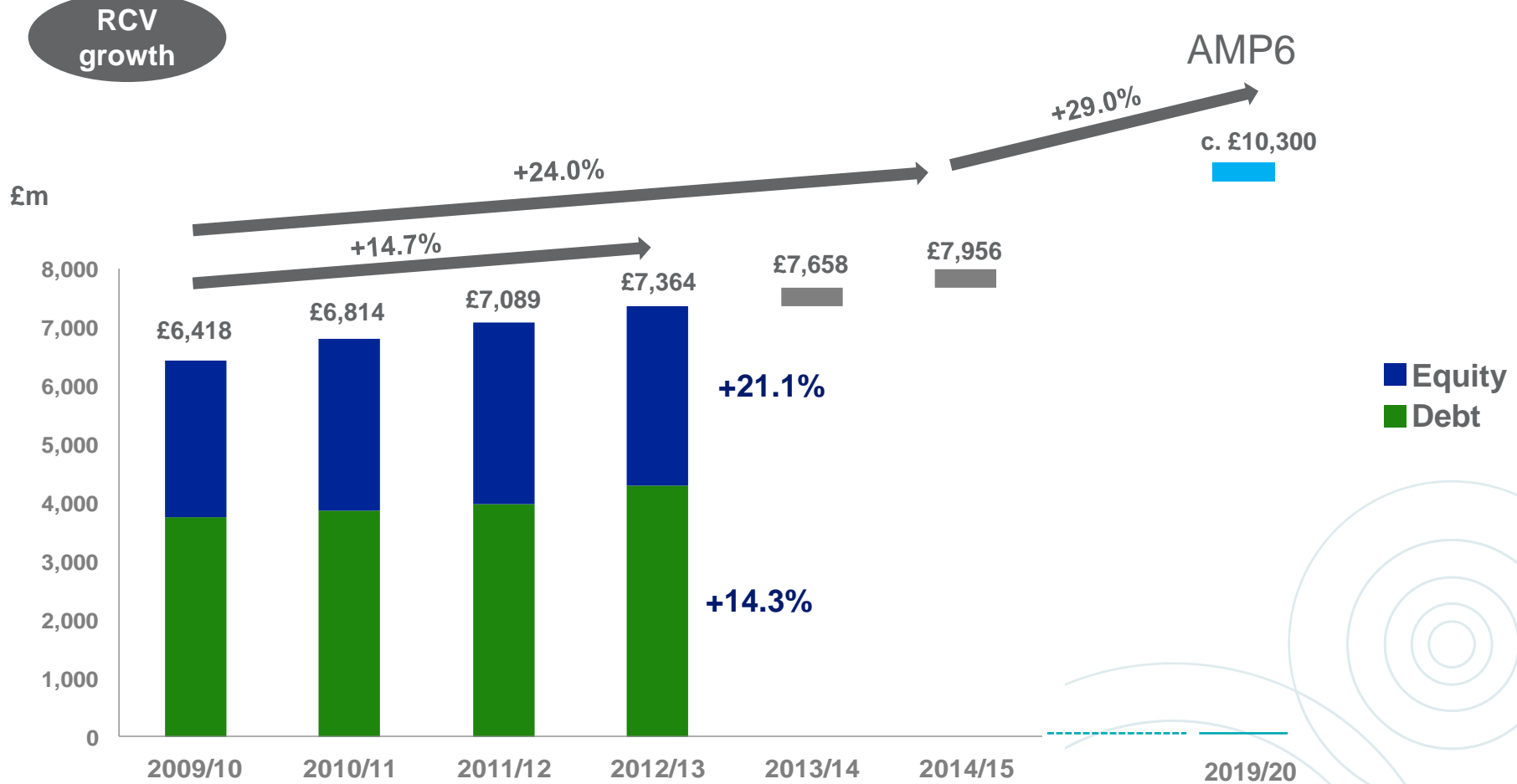
Financing

- £2.6 billion funding requirement
- £1.3 billion of existing debt matures during AMP6
 - 30% of current debt portfolio
- Already re-financed £700 million in AMP5, below rates allowed in PR09
- Investment grade credit rating

Incentives



Regulatory Capital Value (RCV)



Based on year end RPI forecast of 3.0% for 13/14 and 3.2% for 14/15. 3.3% thereafter in line with Ofwat assumption. For RCV values see: www.ofwat.gov.uk/regulating/prs_web_rcvupdates

Next steps

- Ofwat to publish plan ratings on 4 April 2014 (Enhanced; Standard; Resubmit)
- Draft determination
 - 30 April 2014 for Enhanced plans
 - August for Standard and Resubmission plans
- May – November 2014 – Totex Menu Choices (business plan rating dependant)
- January 2015 – Final Determination
 - Potentially earlier for Enhanced

Our plan delivers

- Value for money
 - Increased investment, price changes equivalent to an average of 1.2% below inflation over AMP6
- Fair and balanced
 - Plan driven by and for our customers
 - Offers balance between value for money, financeability and attractive growth for investors
- Robust and reliable
 - Full and effective engagement programme
 - Financeable
- Right thing for the long term
 - Challenging efficiencies and outcomes to deliver
 - Better value, better service, healthier environment

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Q & A



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Useful Links

Ofwat
www.ofwat.gov.uk

Defra – Department for Environment, Food and
Rural Affairs
www.defra.gov.uk

Environment Agency
www.environment-agency.gov.uk

Appendix



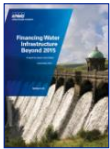
Key Publications



Changing Course – Delivering a sustainable future for the water industry in England and Wales
Publisher: Severn Trent
[Web Hyperlink](#)



Changing Course – Through sustainable financing
Publisher: Severn Trent
[Web Hyperlink](#)



Financing water infrastructure beyond 2015
Publisher: Severn Trent
[Web Hyperlink](#)



**Setting price controls for 2015-20
– final methodology and expectations for companies' business plans**
Publisher: Ofwat
[Web Hyperlink](#)



The Water Bill
Publisher: Government
[Web Hyperlink](#)



Changing Course – Through water trading
Publisher: Severn Trent
[Web Hyperlink](#)



Changing Course – Through the sustainable implementation of the Water Framework Directive
Publisher: Severn Trent
[Web Hyperlink](#)



The Water Forum Report
Publisher: The Severn Trent Water Forum
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Your Water. Your Choices
Publisher: Severn Trent
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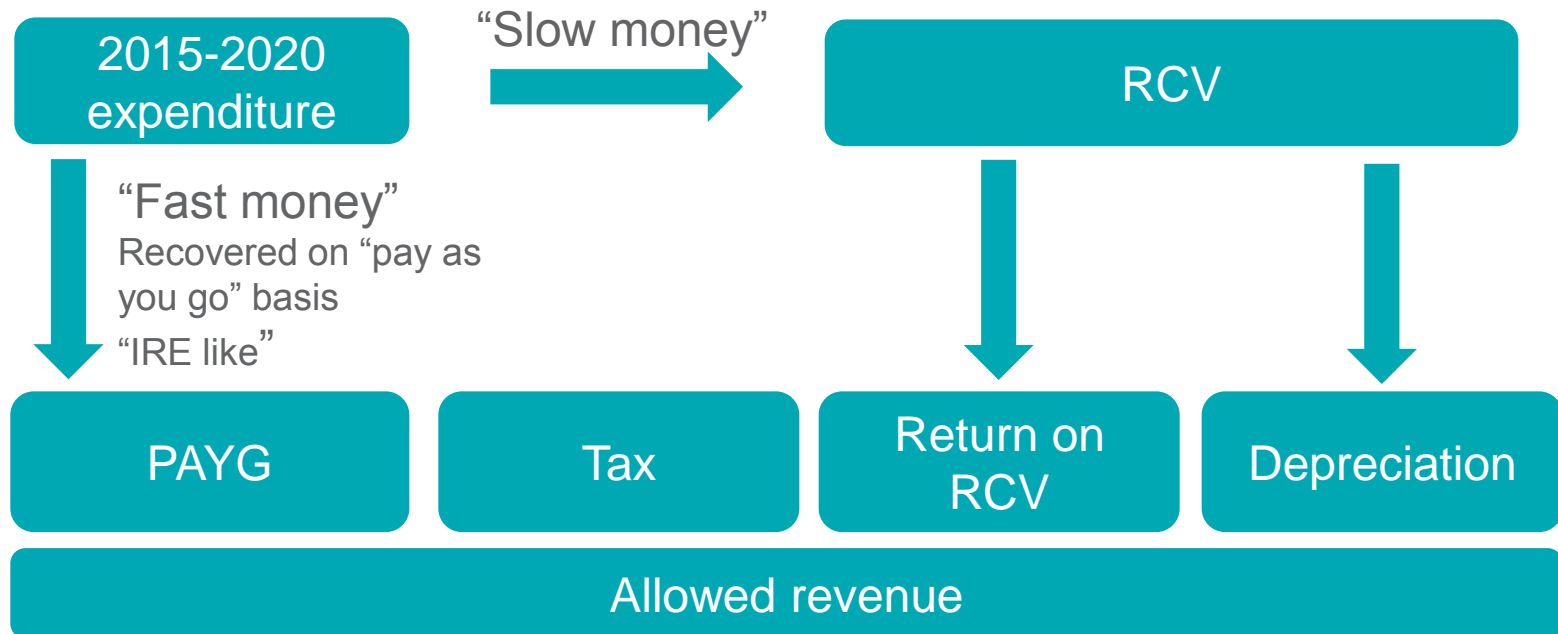


Severn Trent Water Business Plan 2015 – 20
Publisher: Severn Trent
[Web Hyperlink](#)

Totex – capex breakdown

	AMP5 (£m)	AMP6 (£m)	Change £m	Change %
Capital investment				
Maintaining existing services to customers				
Above ground assets	1,169	1,263	93	8%
Below ground assets	648	660	12	2%
Sub-total	1,817	1,923	106	6%
Improving services to customers				
Environmental improvements	187	329	142	76%
Resilience	140	311	170	122%
Private drains & pumping stations	44	107	64	143%
Other	377	506	129	34%
Sub total	748	1,253	505	68%
Capital expenditure	2,565	3,175	610	24%
Operational expenditure	2,854	2,845	-9	0%
Total expenditure (totex)	5,419	6,020	601	11%

Totex PAYG rate

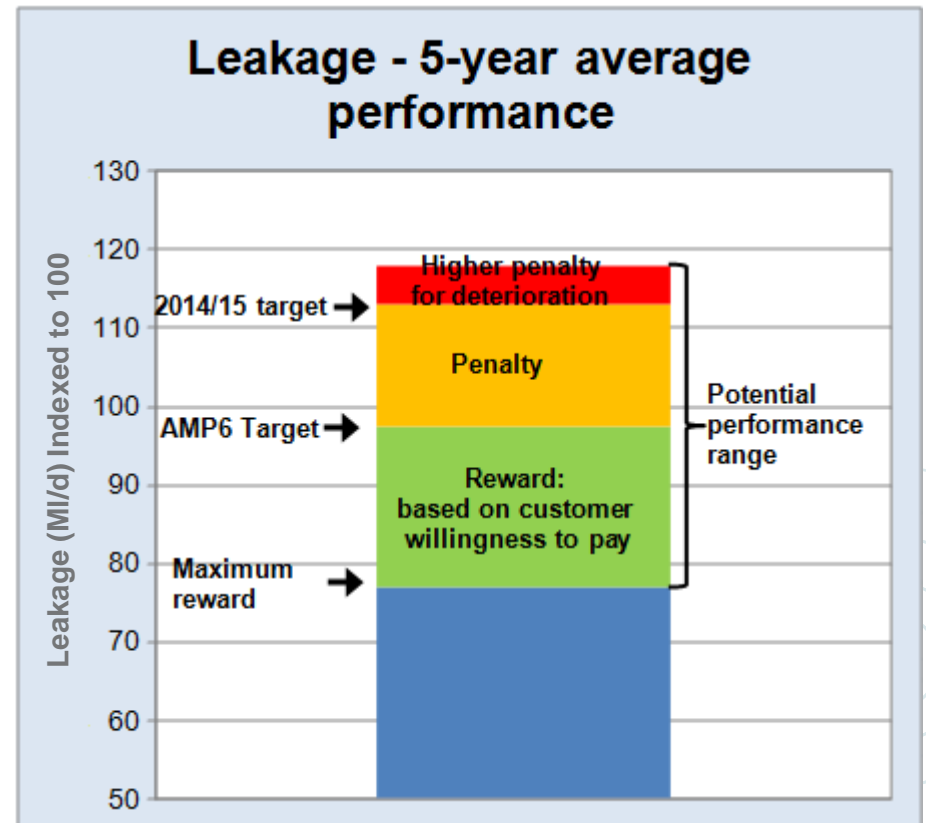


- $\text{PAYG} = \text{IRE} + \text{opex}$
- PAYG rate c. 55%

How rewards and penalties will work

Leakage example

- Rewards and penalty rates based on customer willingness to pay
- Based on performance to 2018/19
- Limit put on rewards to ensure that the overall package does not go beyond limits of customer acceptability
- Higher penalty rate for deterioration to reflect importance customers attach to this issue and desire for improvement



Efficiency



 Opex  Capex

We have set challenging efficiency targets, reducing total costs in AMP6 by £370 million.

RCV

Transition from AMP5 to AMP6

- All capex now added to RCV
- Only RCV adjustments expected are:
 - 2009/10 logging
 - Capex true up
 - Land sales
- RCV adjustments in total not expected to be significant

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