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# PR14 Update From Severn Trent

## Draft Determination

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4<sup>th</sup> September 2014

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# Context

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- Responded to Ofwat's guidance on risk and reward and the risk based review
- Discussion focused on 3 areas:
  - Birmingham resilience
  - ODIs
  - Legacy adjustments
- Draft Determination:
  - Wholesale totex – 2 scenarios around Birmingham
  - ODIs – two thirds accepted by Ofwat
  - Legacy adjustments – additional adjustment by Ofwat



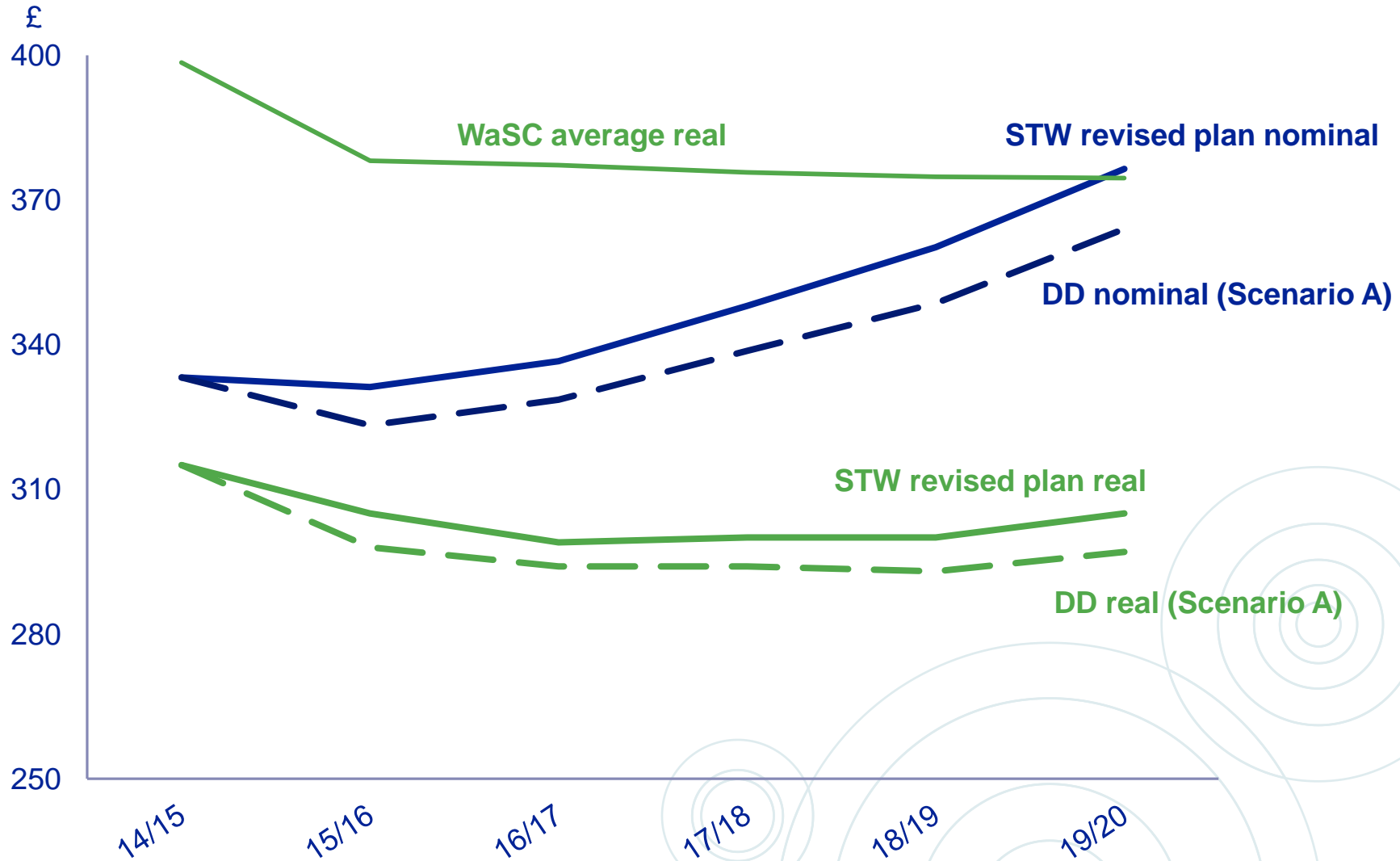
# Overview of draft determination

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- Bills
- Totex
- Outcome Delivery Incentives (ODIs)
- RoRE ranges
- Legacy adjustments



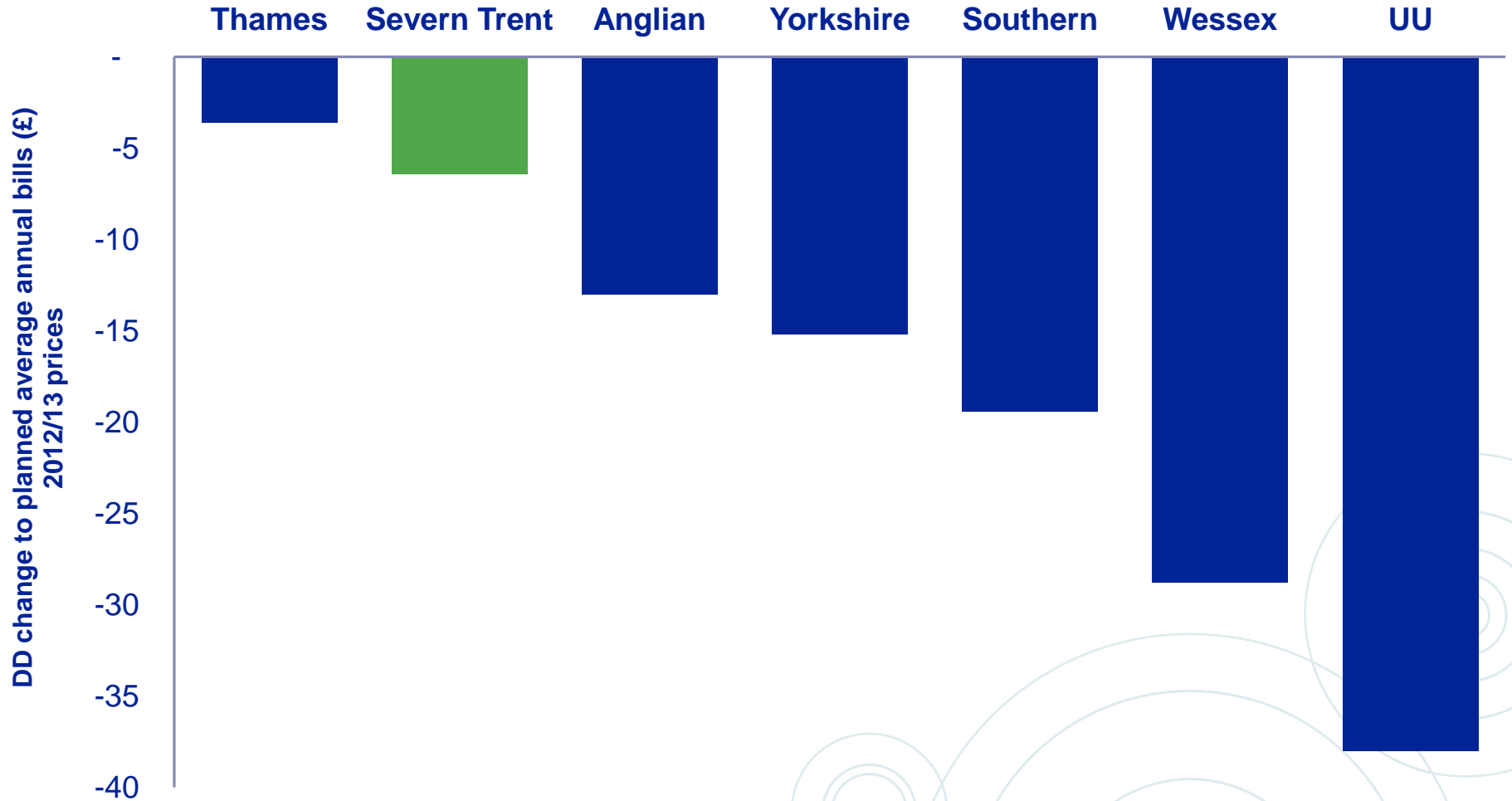
# Customer Bills



STW = Severn Trent Water  
DD = Ofwat draft determination

# Change to average annual bills

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# Totex – 5 year period

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2012/13 prices (£m)	Revised plan (inc. cost reallocations)	Draft Determination Scenario A	Change £m	Change %
Wholesale total expenditure (totex) inc. pensions	5,606	5,586	20	-0.4

- Scenarios A and B for Birmingham resilience scheme
- Under Scenario A Ofwat allowance in line with revised plan
- PAYG rate c.57% accepted
  - natural level of c.55%

# Outcome Delivery Incentives

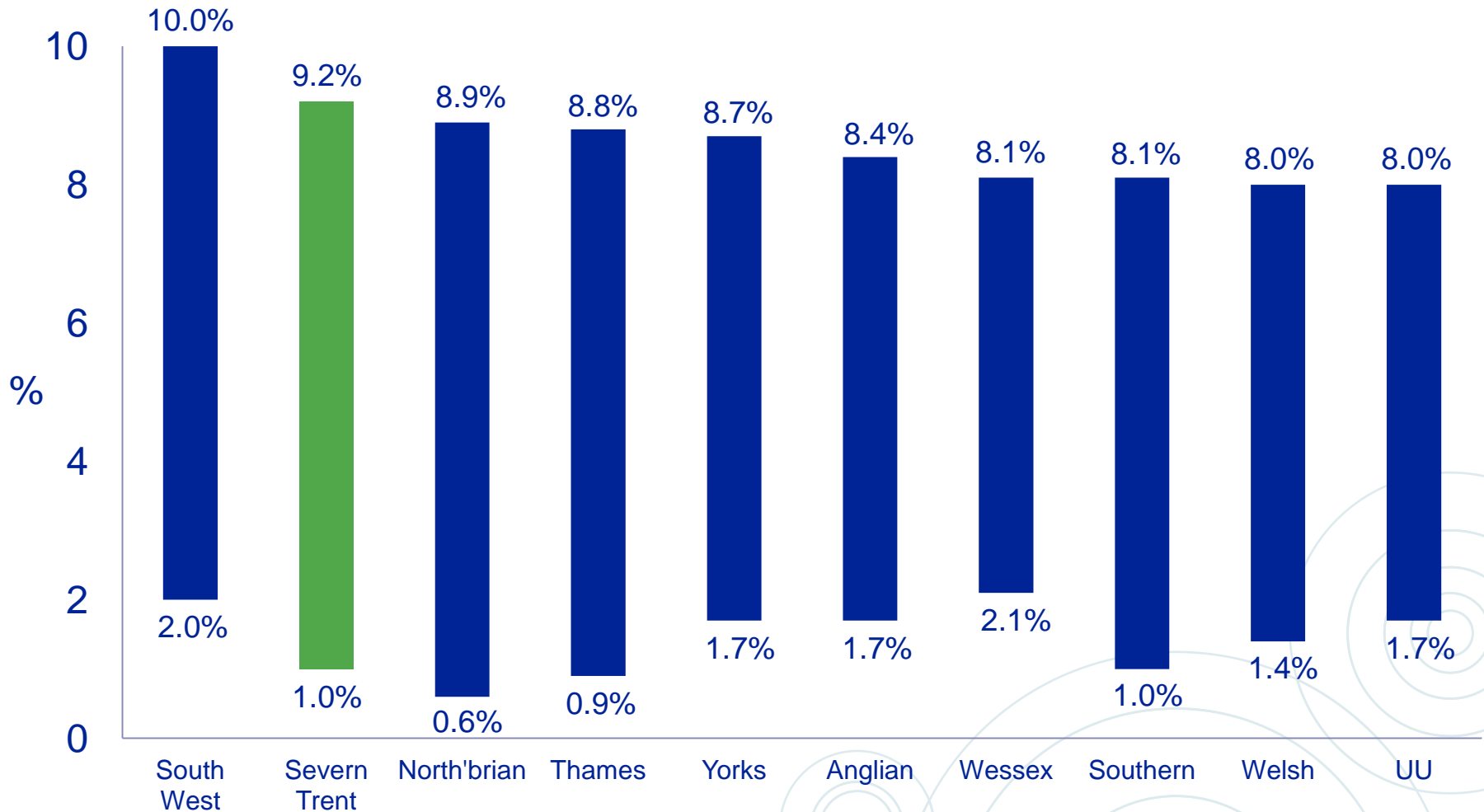
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27 ODIs proposed

- 17 accepted
- 4 changed due to industry wide changes
  - horizontal comparison
  - mainly related to water
- 6 changes specific to Severn Trent
  - bottom up analysis
  - additional Birmingham resilience ODI added
  - community risks removed
- Reward for performance at an upper quartile or equivalent level
- Impact on Bills / RCV



# RoRE<sup>1</sup> ranges

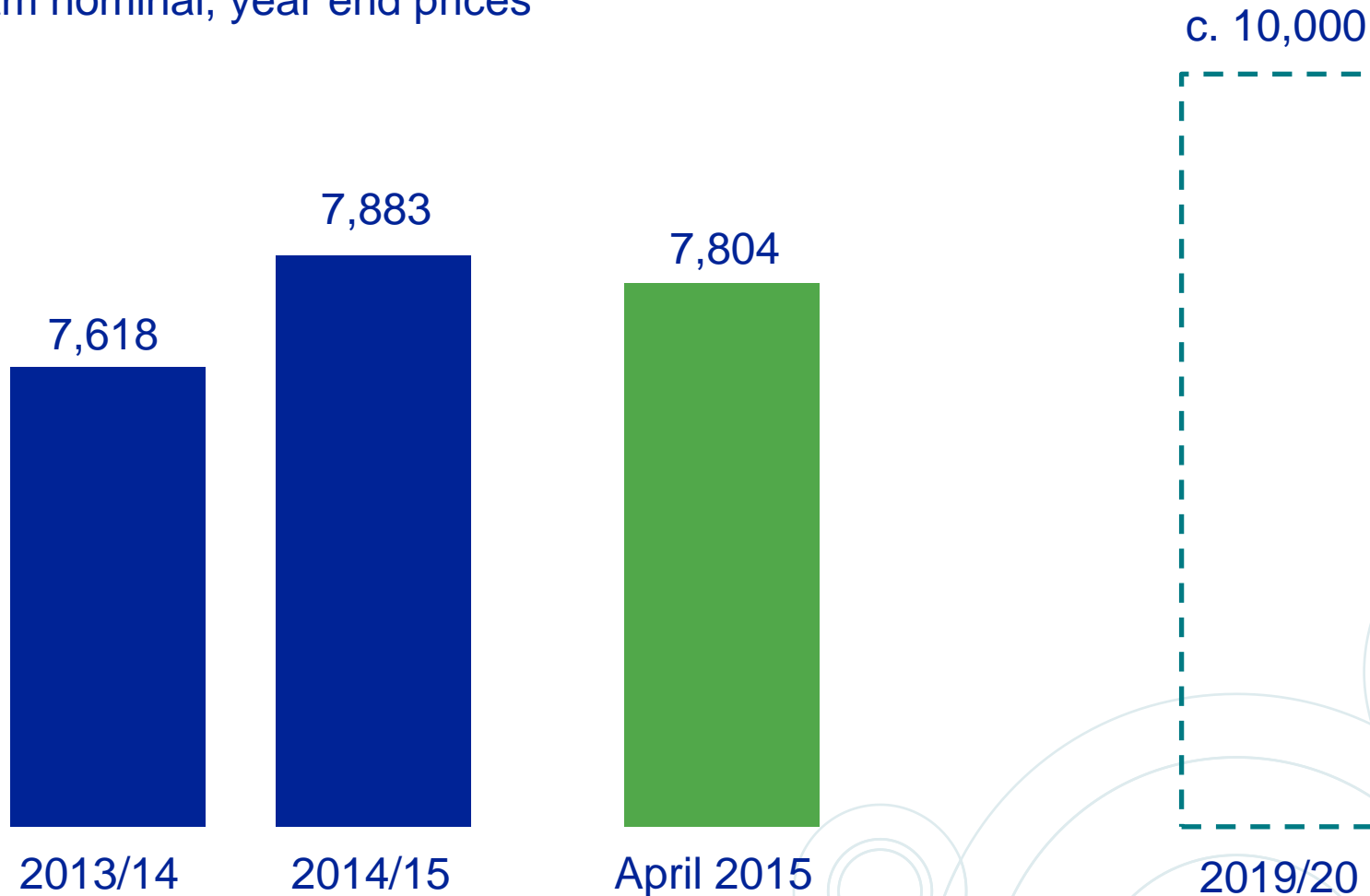


Source: Ofwat

1. Return on regulated equity

# Legacy adjustments

£m nominal, year end prices



Assumes year end 2.8% RPI for 14/15 and an average of 3.3% year end RPI for 2015-2020

# Next steps

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- Representations for 5 weeks until 3 October
- 12 December
  - Final Determination
- Post 12 December
  - Final totex menu choice
  - Decision to refer to CMA, or not
  - Decision on dividend



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**Q & A**



# Contact details

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[www.severntrentservices.com](http://www.severntrentservices.com)

## Useful Links

Ofwat

[www.ofwat.gov.uk](http://www.ofwat.gov.uk)

Defra – Department for Environment, Food and

Rural Affairs

[www.defra.gov.uk](http://www.defra.gov.uk)

Environment Agency

[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)

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# Appendix



# Key Publications



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



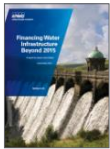
**Changing Course – Through water trading**  
Publisher: Severn Trent  
[Web Hyperlink](#)



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



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



**Ofwat city briefing 29 August 2014**  
Publisher: Ofwat  
[Web Hyperlink](#)



**The Water Forum Report**  
Publisher: The Severn Trent Water Forum  
[Web Hyperlink](#)



**Severn Trent Water draft determination**  
Publisher: Ofwat  
[Web Hyperlink](#)



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

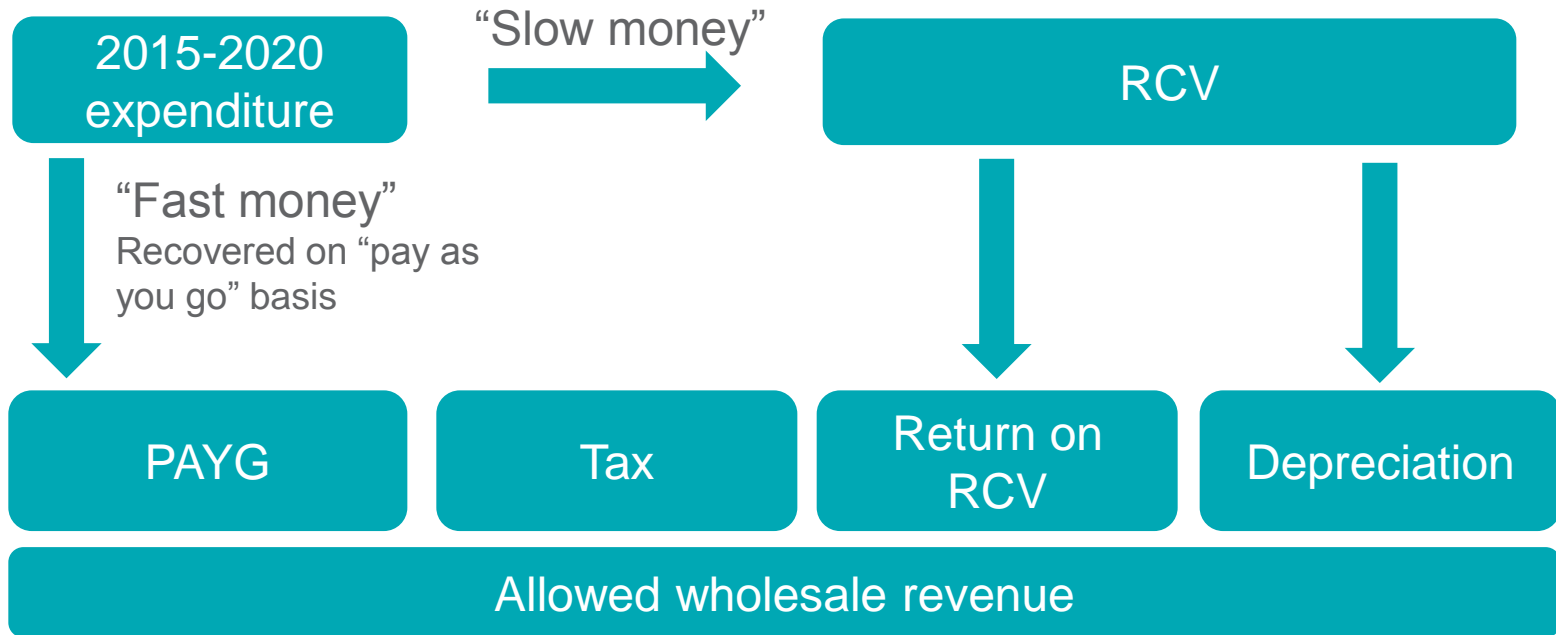


**PR14 Publications**  
Publisher: Ofwat  
[Web Hyperlink](#)



**The Water Act 2014**  
Publisher: UK Government  
[Web Hyperlink](#)

# Totex PAYG rate



+ retail allowed costs and margin

- $\text{PAYG} = \text{IRE} + \text{opex}$
- PAYG rate c. 57%



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