
PR14 Update From Severn Trent

Draft Determination

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Context

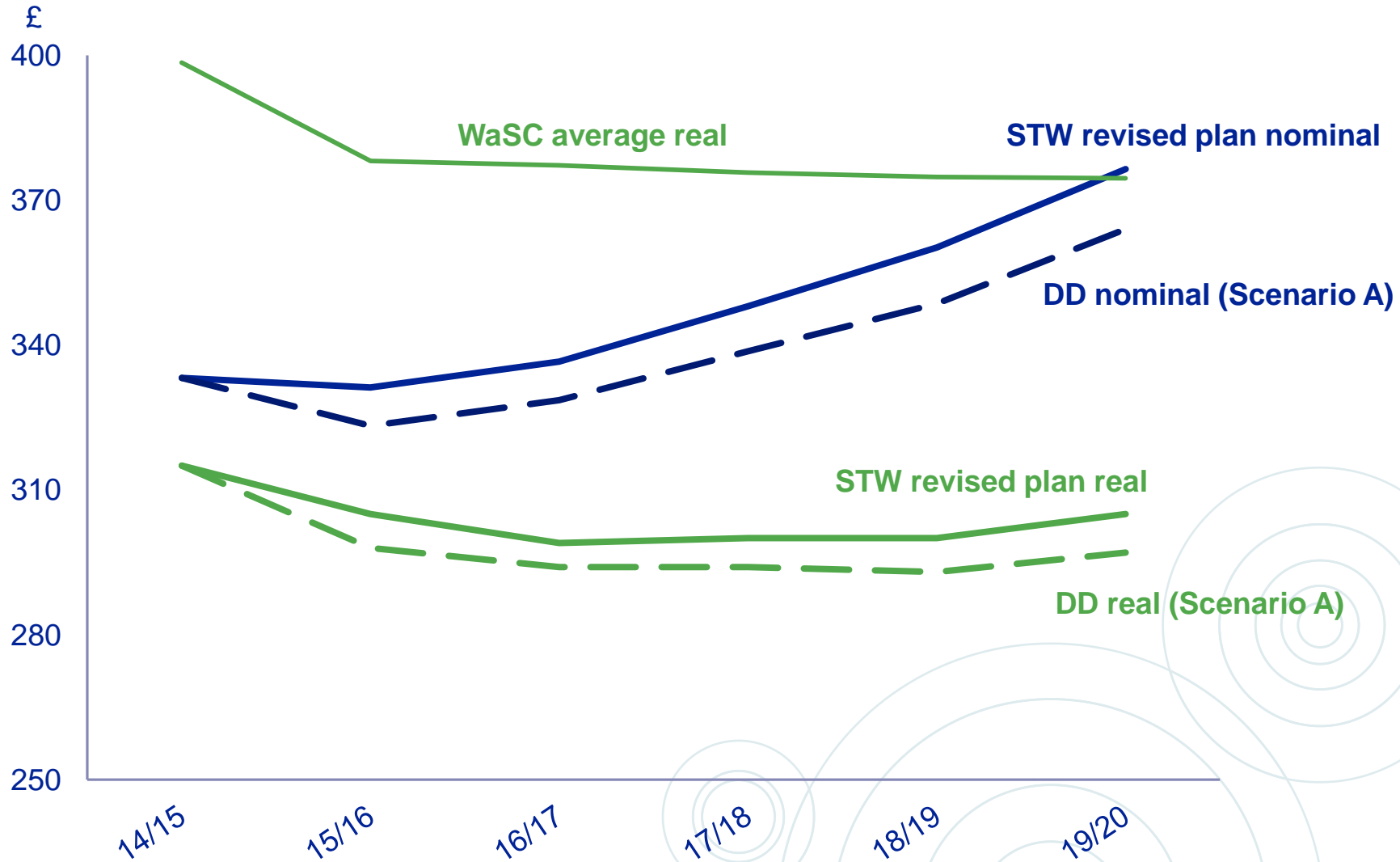
- Responded to Ofwat's guidance on risk and reward and the risk based review
- Discussion focused on 3 areas:
 - Birmingham resilience
 - ODIs
 - Legacy adjustments
- Draft Determination:
 - Wholesale totex – 2 scenarios around Birmingham
 - ODIs – two thirds accepted by Ofwat
 - Legacy adjustments –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

Overview of draft determination

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

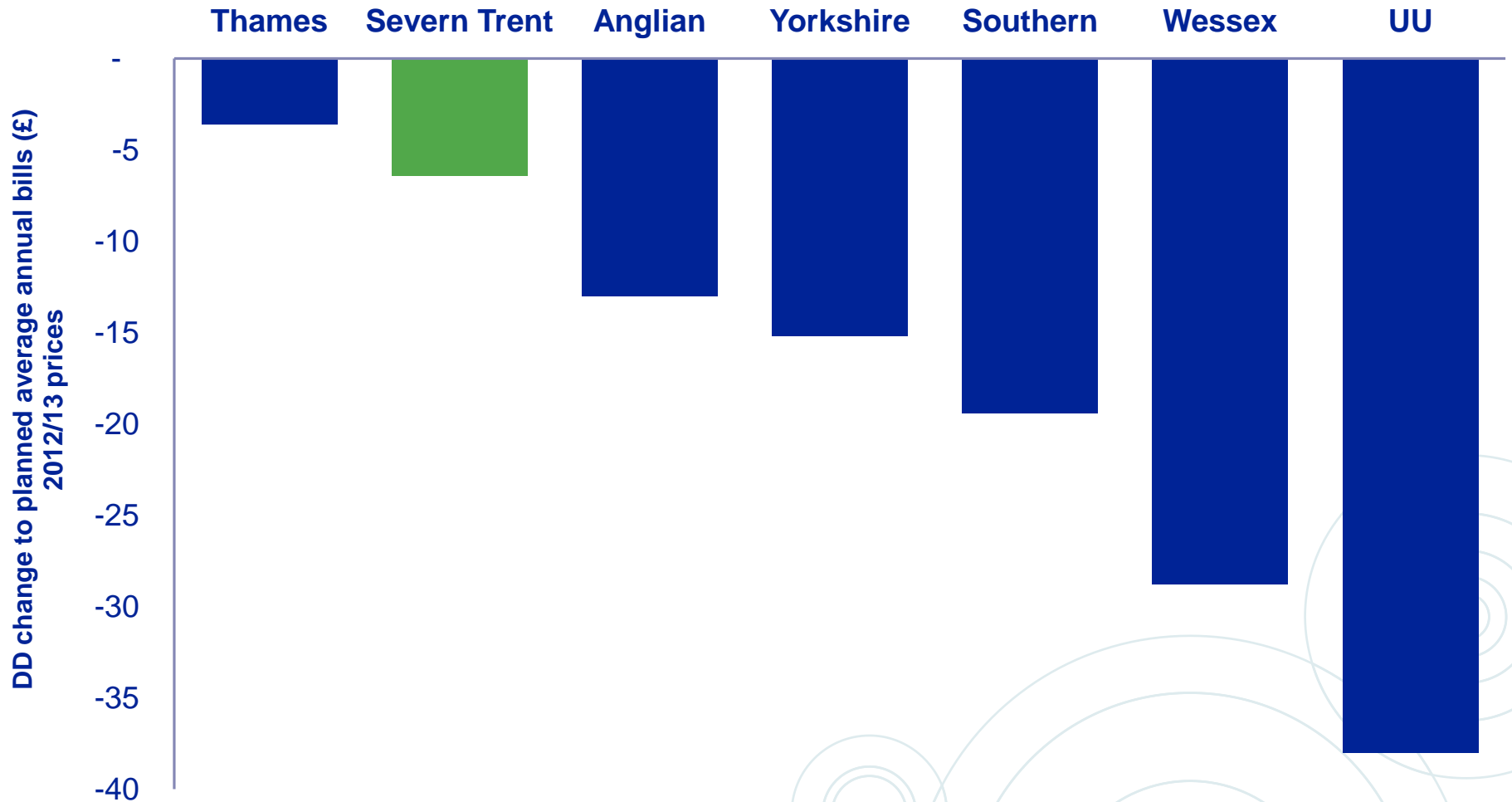


Customer Bills



STW = Severn Trent Water
DD = Ofwat draft determination

Change to average annual bills



Totex – 5 year period

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

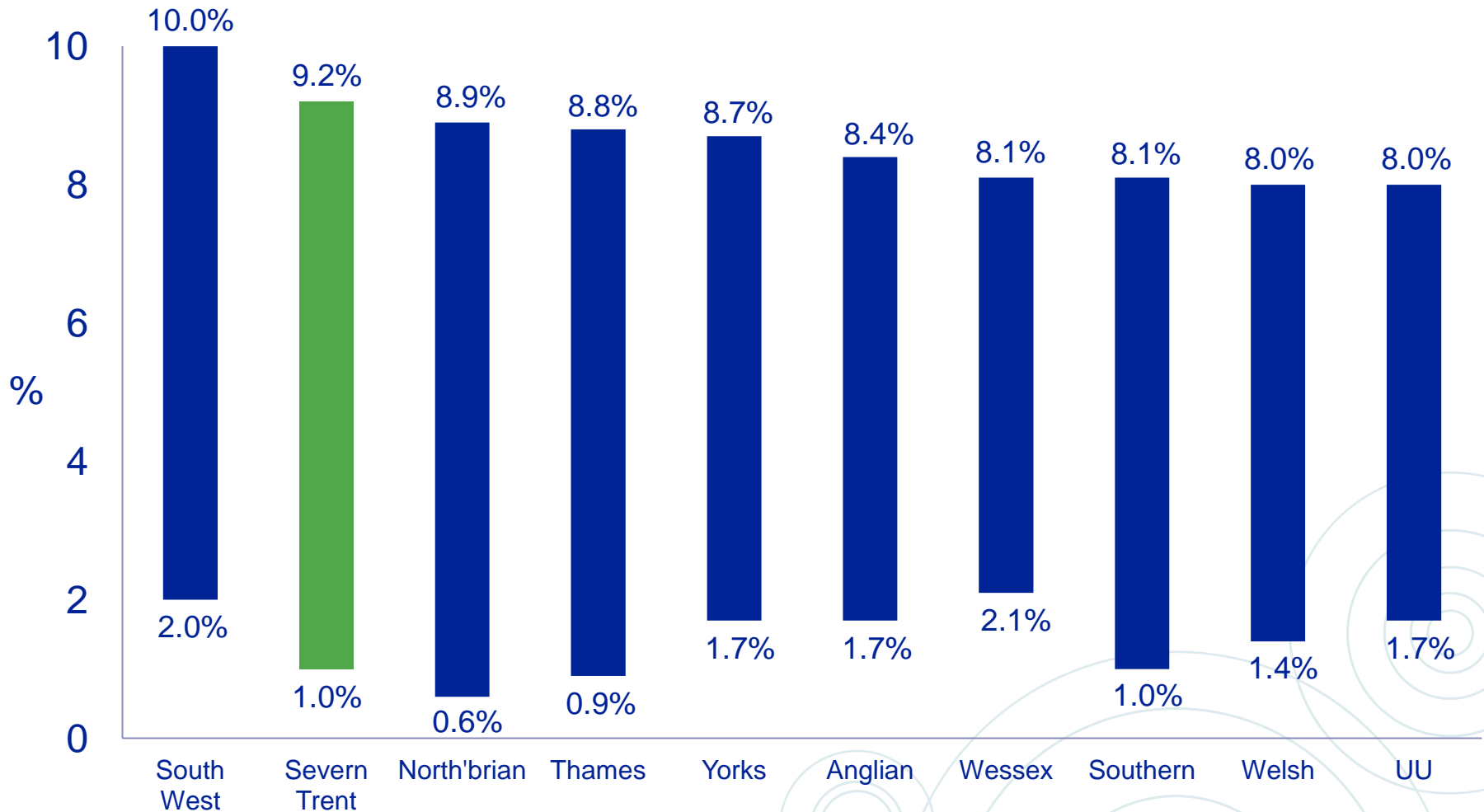
- Scenarios A and B for Birmingham resilience scheme
- Under Scenario A Ofwat allowance in line with revised plan
- PAYG rate c.57% accepted
 - natural level of c.55%

Outcome Delivery Incentives

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

RoRE¹ ranges

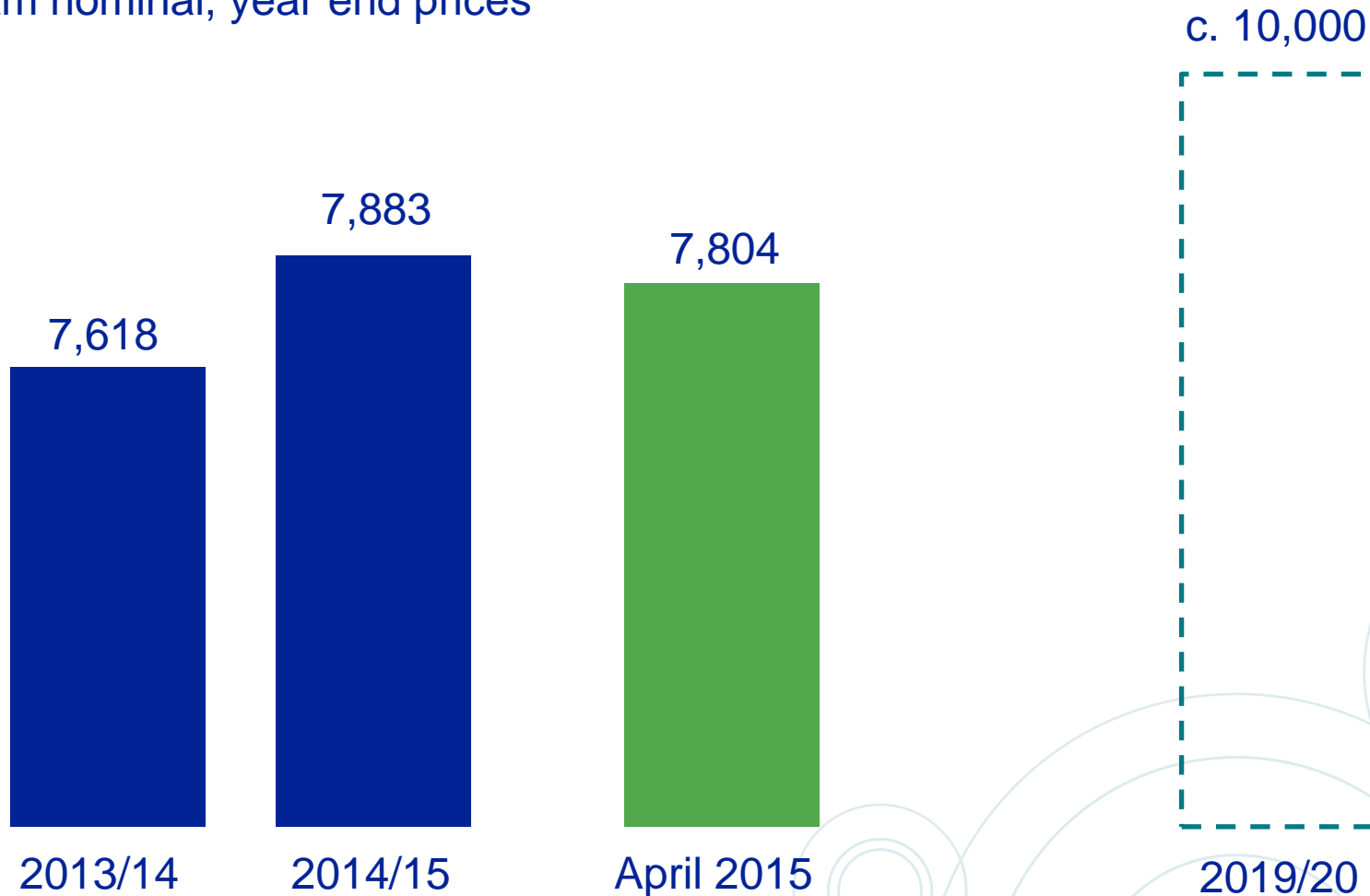


Source: Ofwat

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

- 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



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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](#)



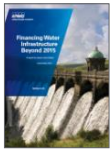
Changing Course – Through water trading
Publisher: Severn Trent
[Web Hyperlink](#)



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



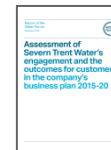
Changing Course – Through the sustainable implementation of the Water Framework Directive
Publisher: Severn Trent
[Web Hyperlink](#)



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](#)

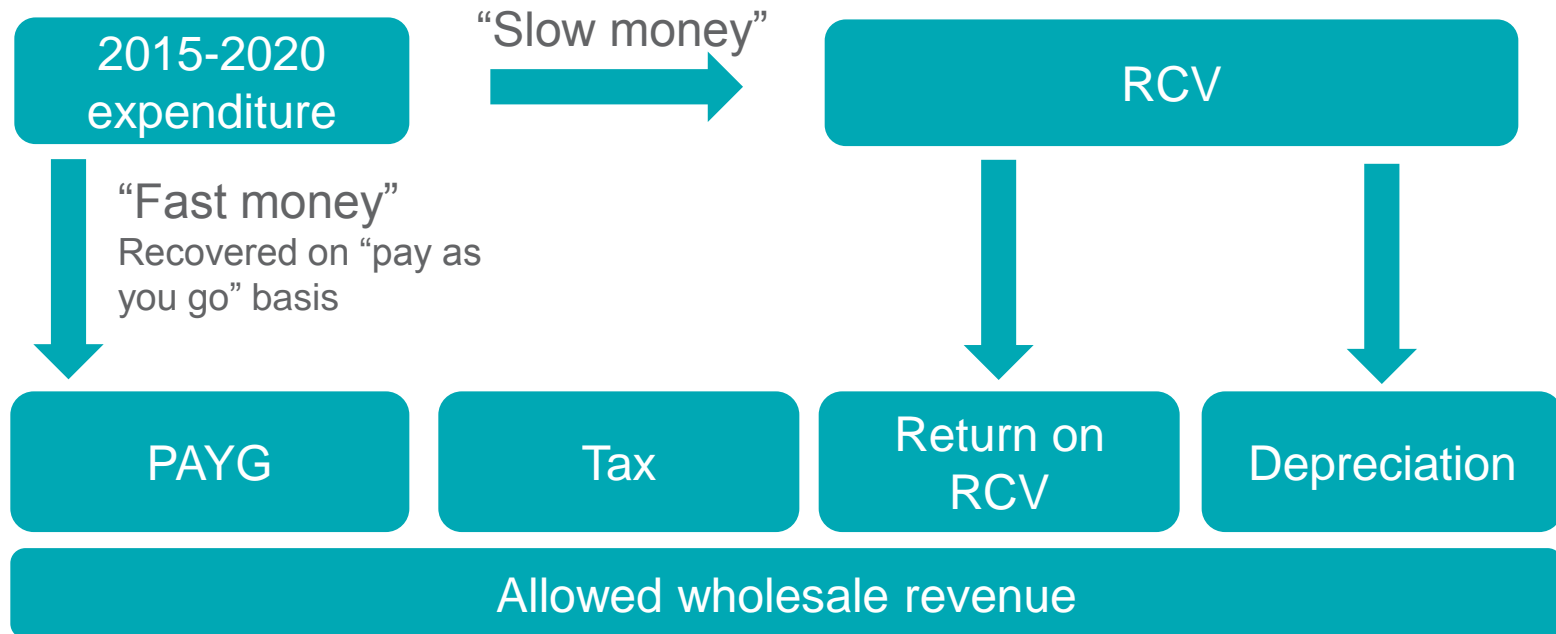


PR14 Publications
Publisher: Ofwat
[Web Hyperlink](#)



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

Totex PAYG rate



+ retail allowed costs and margin

- PAYG = IRE + opex
- PAYG rate c. 57%

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