
PR14 Update From Severn Trent Revised Business Plan Submission

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Context

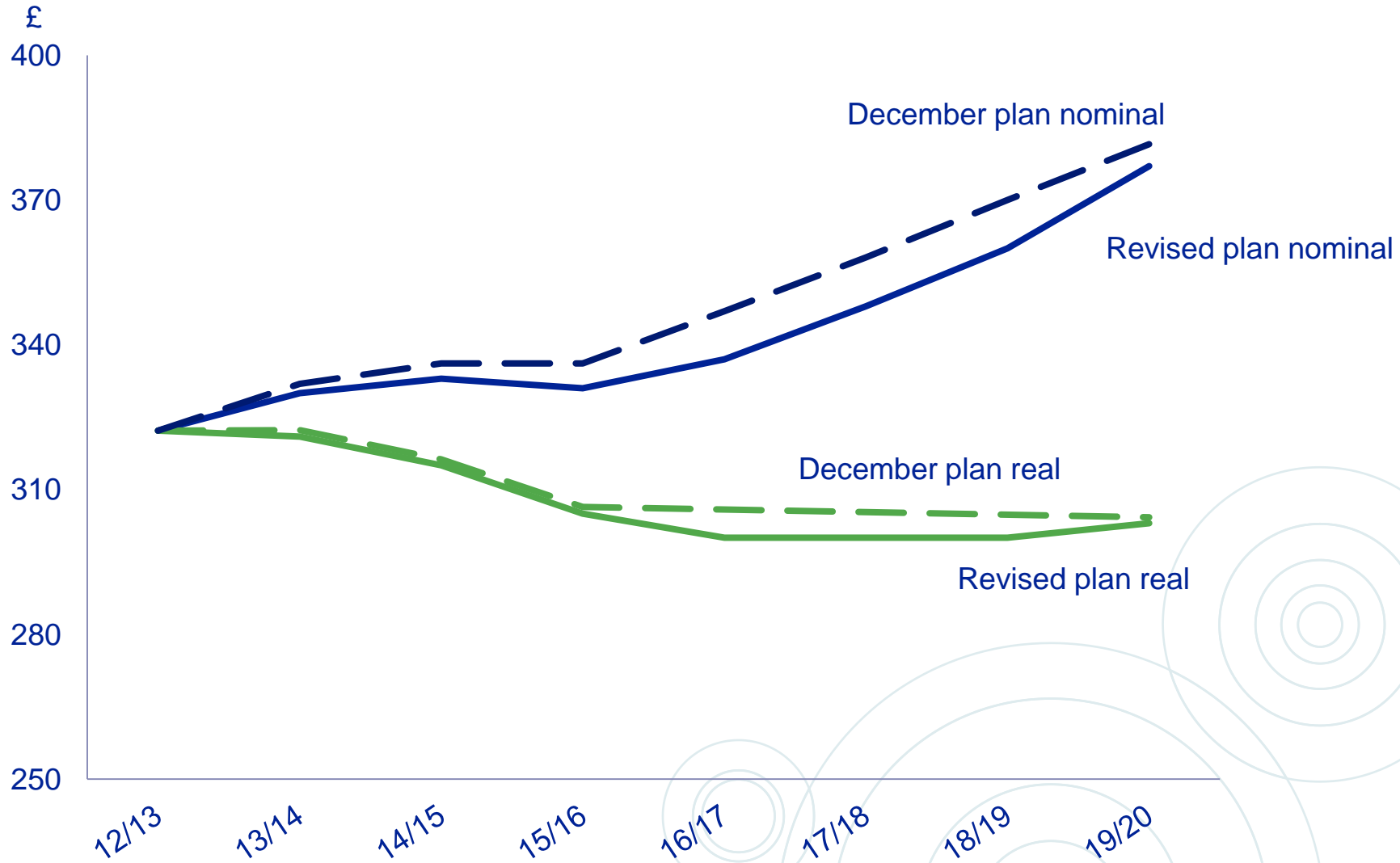
- Responded to Ofwat's guidance on risk and reward and the risk based review
- Constructive engagement with Ofwat and other stakeholders
- Discussion focused on 3 areas:
 - Birmingham resilience
 - Legacy adjustments
 - ODIs
- Main changes in revised plan:
 - Wholesale water totex (Birmingham)
 - WACC
 - Legacy adjustments
 - ODIs
- Plan is fair, balanced and financeable

Overview of our revised plan

- Bills
- Totex (opex + capex)
- Outcome Delivery Incentives (ODIs)
- Financing and WACC*

*Weighted average cost of capital

Customer Bills



Totex – 5 year period

2012/13 prices	AMP5 (£m)	AMP6 (£m)	Change £m	Change %
Capital investment	2,535	3,299	764	30%
Operational expenditure	2,996	2,894	-102	-3%
Total expenditure (totex)	5,530	6,192	662	12%

- Birmingham resilience scheme amendments
- We expect to be within the efficient cost corridor
- PAYG rate c.57% vs. c.55% in December plan

Outcome Delivery Incentives

- 27 ODI's
 - 21 with penalties and rewards (7 in December plan)
 - 4 penalty only (4 in December plan)
 - 1 reward only
 - 1 related to Birmingham
- Examples:
 - Speed of responses in repairing leaks (% fixed within 24 hours)
 - Number of pollution incidents
 - Environmental compliance
- Customers supportive of framework
- In line with Ofwat guidance
- Impact on Bills / RCV



Financing

- £2.8 billion funding requirement
 - £2.6 billion in December plan
- £1.3 billion of existing debt matures during AMP6
 - 30% of current debt portfolio
- Investment grade credit rating



WACC comparison

	Severn Trent Plan (Dec '13)	Ofwat guidance (Jan '14)	Severn Trent Revised Plan (Jun '14)
Assumed Gearing	60%	62.5%	62.5%
Cost of debt	2.54%	2.75%	2.75%
Cost of equity	6.7%	5.65%	5.65%
Appointee Vanilla WACC		3.85%	3.85%
Retail		-0.15%	-0.15%
Wholesale WACC	4.2%	3.7%	3.7%
Household retail	0.06%	0.08%	0.08%
Non household retail	0.09%	0.07%	0.07%
Effective Return on RCV	4.35%	3.85%¹	3.85%¹

1. Excludes additional 0.6% for non household retail

RoRE¹ ranges



Source: Ofwat -

www.ofwat.gov.uk/pricereview/pr14/pr14publications/prs_pre201406pr14investor.pdf

What The Water Forum said



“...the company has amended its plan in a way that responds appropriately to a number of challenges from Ofwat but still reflects customers’ priorities and willingness to pay. The Forum has spent a considerable amount of time checking this to ensure that there continues to be a clear line of sight between customers’ expectations and the proposals, and a continuing audit trail.”

Next steps

- 29 August
 - Draft determination
 - Representations for 5 weeks until 3 October
- October / November
 - Totex Menu Choices
- 12 December
 - Final Determination
- Post 12 December
 - 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](#)



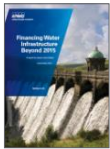
Changing Course – Through water trading
Publisher: Severn Trent
[Web Hyperlink](#)



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](#)



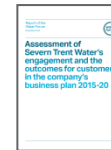
Investor Pack – June 2014
Publisher: Ofwat
[Web Hyperlink](#)



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



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

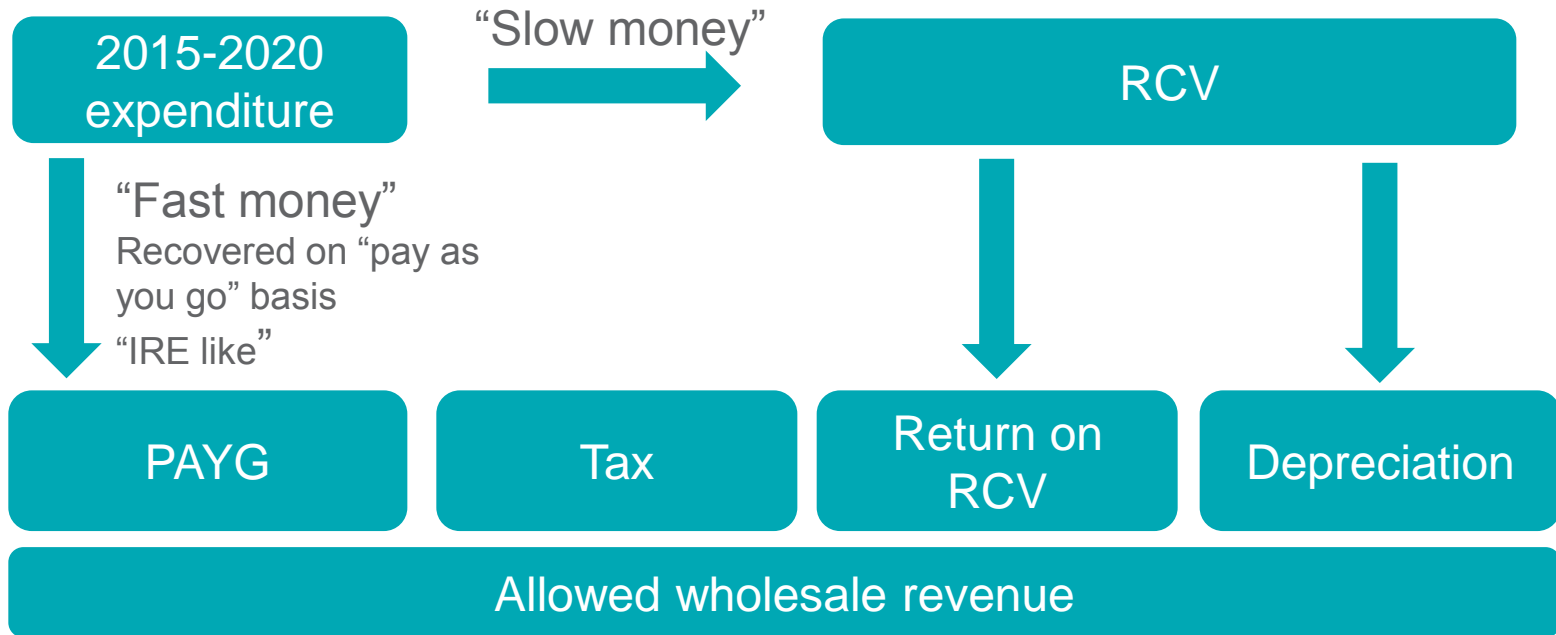


The Water Forum Report
Publisher: The Severn Trent Water Forum
[Web Hyperlink](#)



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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