Data Table Commentaries

2 Risk and Return

Contents

1. Introduction

These tables collect data to inform decisions in relation to the allowed return, financial modelling and an assessment of risk and return, financeability and financial resilience. Some data matches data contained in APRs, while other data are requirements specific to PR24.

The data enables:

- An understanding of the financial ratios and other relevant information that underpins the Board's Assurance of financeability on the basis of the notional capital structure, and of financial resilience of the actual company over 2025-30 and beyond.
- Running the PR24 financial model and calculate allowed revenues and RCV balances – inputs into the PR24 financial model are required to enable calculation of allowed revenue, RCV balances, indicative average household bills and financial metrics. A number of these tables have been designed to be able to be populated directly by copying and pasting output from the PR24 financial model.
- Analysis of the debt on companies' balance sheets to help inform decisions on the allowed return on capital.
- Gaining insights into the balance of risk and return contained within companies' business plans.

Tables RR1 to RR9 are used to populate the PR24 financial model. Tables RR10, RR11 and RR13 to RR15 are outputs from the PR24 financial model, the PR24 financial model includes copies of these tables to aid in the population of the business plan tables.

Tables RR12, RR16 and RR17 are partly populated using inputs from the PR24 financial model and will be used alongside tables RR18 to RR30 to help assess business plans, and selected data will be used to set the allowed return on capital.

2. RR1 Revenue Cost Recovery Inputs

RR1.1 – RR1.6 *Wholesale WACC – based on assumed structure (nominal) - Equity - Nominal*

The notional cost of equity in nominal terms, this is populated in line with Ofwat's early central view of the cost of equity published in the Final Methodology. This is calculated by deducting the retail margin (0.06% - RR25.20) from the Overall cost of equity (4.14% - RR25.11) and inflating to nominal terms.

RR1.7- RR1.12 *Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal*

The notional cost of debt in nominal terms is populated in line with Ofwat's early view of the WACC published in the Final Methodology.

RR1.13- RR1.18 *Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal*

The notional gearing is populated in line with the final methodology.

RR1.19- RR1.24 *PAYG Rate - Base PAYG rate*

This section reports the base PAYG for each price control. We choose to set the PAYG rate at the natural rate which is net opex as a proportion of net totex. For example, the natural PAYG rate for water resources is calculated as follows:

Water Resources PAYG	Line ref	25/26	26/27	27/28	28/29	29/30
A. Gross expenditure - capital	RR2.1	50.897	52.917	51.474	51.468	46.874
B. Grants and contributions - capital	RR2.25 +RR2.31	3.207	7.325	7.506	7.696	3.951
C. Gross expenditure - operational	RR2.7	36.469	35.306	34.424	33.956	34.030
D. Grants and contributions - operational	RR2.27 +RR.43	0	0	0	0	0
PAYG rate = (C-D)/(A+C-B-D)		43.31%	43.64%	43.91%	43.69%	44.22%

The PAYG rates for all price controls in all years are calculated in the same way.

We set the PAYG rate at the natural rate in order to ensure intertemporal fairness. Our natural rate divided totex into the expenditure that relates to services delivered today, to be recovered as incurred, and expenditure that relates to investment in the future to be recovered over the lives of the assets.

RR1.25- RR1.30 *PAYG Rate - Adjustment PAYG rate*

There are no proposed adjustments to the PAYG rates as we have selected the natural rates.

RR1.31- RR1.36 *PAYG Rate - Total PAYG rate*

Calculated cell.

RR1.37- RR1.42 *Pre 2025 RCV - Base run off rate*

The run off rate block (lines RR1.37 – RR1.72) proposes RCV run-off rates for each wholesale control.

We select the 'natural rate' for our RCV run off to ensure that the investment in future services is recovered over the lives of the assets created and reflects the maintenance and replacement costs of those assets.

In selecting the run-off rates we have taken into consideration the following factors:

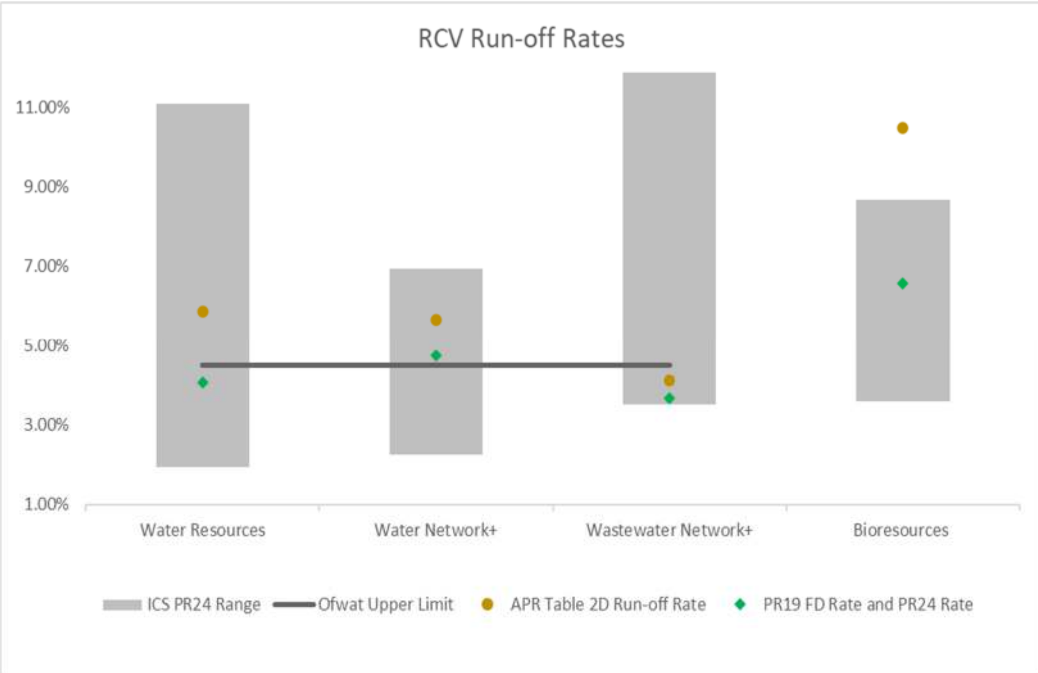
- Intertemporal fairness

  In order to ensure that the RCV is recovered fairly from each generation of customers we seek to set the run-off rate to reflect the expected useful lives of the assets created.

  We commissioned ICS to prepare an assessment of the engineering lives of each asset class by price control. The asset lives were then weighted by gross MEAV. The ICS analysis resulted in a range of reasonable run-off rates, as shown in the chart and table below.

  We also considered the remaining asset lives that can be derived from APR table 2D 'Historical cost analysis of tangible fixed assets', shown in the chart and table below.

  Our PR19 rates fall within the ICS range and below the rate implied by table 2D and therefore we consider it appropriate to maintain the rates from PR19 to maintain stability between price control periods.



	Water Resources	Water Network+	Wastewater Network+	Bioresources
PR19 FD Rate and PR24 Rate	4.07%	4.74%	3.68%	6.59%

Guidance on Upper Limits	4.50%	4.50%	4.50%	8%
APR Table 2D Rate	5.86%	5.66%	4.12%	10.48%

ICS PR24 Range min	1.95%	2.26%	3.50%	3.60%
ICS PR24 Range max	9.12%	4.69%	8.37%	5.08%

- Affordability and Financeability
  Section 12 of our Business Plan document sets out a summary of customer and stakeholder views on affordability.
  In summary customers do not wish to see investment postponed, even at the expense of higher bills. We are not proposing an adjustment to the RCV run off rate to address affordability as this would create an imbalance between generations of customers and put further pressure on the financeability of the plan. We have smoothed bills within the 2025-30 period on an NPV neutral basis, reflecting customer preferences.

- Ofwat's guidance on acceptable upper limits

The rates meet Ofwat's guidance on acceptable upper limits with the exception of the rate for Water Network plus. The PR24 rates remain unchanged from those allowed at PR19. The RCV run off rate for Water Network plus is 4.74% which is 0.24% above Ofwat's guidance of 4.5%. We consider this to be appropriate "in the round" at an appointee level due to the headroom between our proposed rates for the other three wholesale controls and the guidance on upper limit.

	Water Resources	Water network plus	Wastewater network plus	Bioresources
WSH rates	4.07%	4.74%	3.68%	6.59%
Ofwat guidance on upper limit	4.50%	4.50%	4.50%	8.00%
Headroom	0.43%	(0.24%)	0.82%	1.41%

On a weighted average basis (weighted by RCV) our RCV run off rates are below Ofwat's upper limit.

RR1.43-RR1.48 *Pre 2025 RCV - Adjustment to run off rate*

There are no proposed changes for the pre 2025 RCV run off rates.

RR1.49-RR1.54 *Pre 2025 RCV - Total run off rate*

Calculated cell.

RR1.55-RR1.60 *Post 2025 investment RCV - Base run off rate*

We propose to use the same RCV run-off rates for the pre and post 2025 RCV. The run-off rates in this block are therefore equal to those proposed in RR1.37 – RR1.42.

The proposed run off rates are within the reasonable range based on the ICS analysis of asset lives and are lower than the rates implied by historical cost analysis of tangible fixed assets. We therefore consider that the proposed PR24 rates to be appropriate on average for both the Pre and Post 2025 periods.

RR1.61-RR1.66 *Post 2025 investment RCV - Adjustment to run off rate*

There are no proposed changes for the post 2025 RCV run off rates.

RR1.67-RR1.72 *Post 2025 investment RCV - Total run off rate*

Calculated cell.

RR1.73 *Long term CPIH inflation rate*

Long term CPIH inflation rate is linked to PD1.38

RR1.74 *RPI-CPIH wedge for RPI index linked debt indexation rate*

For years 2022/23 to 2024/25, this is populated to be consistent with the values in line PD1.37. The values are the difference between the RPI and CPIH: financial year average indices year on year %.

For 2025/26 and beyond the RPI-CPIH wedge is assumed to be 0.9%. This is consistent with the assumptions made in RR4 where an RPI assumption of 2.9% and CPIH assumption of 2% has been used in the calculation of interest rates on index linked debt.

3. RR2 Totex Inputs to cross reference with CA

RR2.1-2.6 *Gross capital expenditure – real – including g&c – Including cost sharing*

Lines RR2.1-RR2.6 are the gross capital expenditure by price control. AMP8 is prepopulated from CW1 and CWW1. The expenditure for AMP9 (2030-31 to 2034-35) is informed by our long term delivery strategy core pathway. A stretching efficiency challenge for base expenditure has been set to achieve flat real expenditure over the AMP after taking into account additional enhancement opex arising from the LTDS capital expenditure. The enhancement expenditure is in line with the expenditure reported in LS3 and LS4 and our WSH01-Long Term Delivery Strategy.pdf.

RR2.7-12 *Gross operational expenditure – real – including g&c – Including cost sharing*

Lines RR2.1-RR2.6 are the gross operational expenditure by price control. AMP8 is prepopulated from CW1 and CWW1. The expenditure for AMP9 (2030-31 to 2034-35) is informed by our long term delivery strategy core pathway. A stretching efficiency challenge for base expenditure has been set to achieve flat real expenditure over the AMP after taking into account additional enhancement opex arising from the LTDS capital expenditure. The enhancement expenditure is in line with the expenditure reported in LS3 and LS4 and our WSH01-Long Term Delivery Strategy.pdf.

RR2.13-18 *Equity issuance costs - real*

We do not expect to incur any equity issuance costs.

RR2.19-24 *IRE totex adjustment for ACICR (Ofwat) - real*

This line reports the IRE that is categorised as capex but recovered through PAYG. Our PAYG rate is set at the natural rate, therefore no adjustment is required.

RR2.25-30 *Grants and Contributions – capital expenditure – non price control - real*

RR2.25 -30 reconcile with DS1w.27 “Fully netted off capex” columns

RR2.31-36 *Grants and Contributions net of income offset - capital expenditure –price control - real*

RR2.31-32 reconcile with DS1w.12 “Fully netted off capex” columns

The total of RR2.25-36 reconciles with the sum of CW1.14 and CWW.14

		2025-26	2026-27	2027-28	2028-29	2029-30
RR2.25-30	G&C - capital expenditure - non price control	5.324	5.195	5.167	5.080	4.992
RR2.31-36	G&C - capital expenditure - price control	14.275	20.625	20.767	20.765	16.841
Sum of CW1.14 and CWW1.14	Total	19.598	25.820	25.934	25.845	21.833
CWW1.14	G&C -capital expenditure	10.089	9.842	9.789	9.619	9.453
CW1.14	G&C -capital expenditure	9.509	15.978	16.145	16.226	12.380
	Total	19.598	25.820	25.934	25.845	21.833

RR2.37-42 *Grants and Contributions – operational expenditure – non price control - real*

RR2.37-42 reconcile with DS1w.27 “Fully recognised in income statement” columns.

RR2.43-48 **Grants and Contributions net of income offset – operational expenditure – non price control - real**

The total of RR2.37-48 reconciles with the sum of CW1.7 and CWW.7

		2025-26	2026-27	2027-28	2028-29	2029-30
RR2.37-42	G&C - opex - non price control	0.963	0.943	0.939	0.925	0.912
RR2.43-48	G&C - opex - price control	11.697	11.420	11.428	11.106	11.060
Sum of CW1.7 and CWW1.7	Total	12.660	12.363	12.367	12.031	11.973
CW1.7	G&C -operating expenditure	10.180	9.933	9.949	9.647	9.621
CWW1.7	G&C -operating expenditure	2.480	2.431	2.419	2.384	2.352
	Total	12.660	12.364	12.368	12.031	11.973

4. RR3 – RCV Opening Balances

This table reports the opening RCVs for PR24 after the application of the PR19 Reconciliation rulebook adjustments. The data is reported in 2022-23 FYA prices. The sum of the pre 2020 and 2020-25 RCV for each price control is £7,029.716m and is consistent with line PD11.24.

RR3.1-6 *2025 RCV opening balance- Pre 2020*

This line reports the Pre 2020 opening RCV. The data is obtained from the RCV feeder model published alongside this submission (“WSH117-PR24-RCV-adjustment-feeder-model- v2.0.xlsx”). The data is obtained from the “Outputs” tab in lines 46 to 51.

RR3.7-12 *2025 RCV opening balance- 2020-25*

This line reports the Pre 2020 opening RCV. The data is obtained from the RCV feeder model published alongside this submission (“WSH118-PR24-RCV-adjustment-feeder-model- v2.0”). The data is obtained from the “Outputs” tab in lines 54 to 59.

5. RR4 – Financing inputs to financial model

RR4.1-4.6 *Notional target gearing - control*

This line reports the notional level of gearing of 55% as set out in Ofwat's Final Methodology.

RR4.7 *% of ILD*

This line reports the notional proportion of index linked debt of 33% from Appendix 10- Aligning Risk and Return Final Methodology appendix.

RR4.8 *Proportion of RPI ILD*

This line reports the notional proportion of RPI index linked debt. It has been entered as 90% as per the default input in the Ofwat financial model. However in practise 100% of our index linked debt is RPI linked.

RR4.9-4.14 *Opening index linked debt – nominal*

These cells report the forecast 'actual' company index linked debt as at 1/4/2025. These lines are forecast within the DCWW financial model and allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Wholesale balances on RR4 total £4,116.408m, with a further £30.029m allocated to Retail. Note that there is no opportunity to enter this amount in the PR24 Retail tables, nor has it been considered appropriate to allocate the value to Wholesale since this debt has financed the purchase of Retail fixed assets (which are recorded separately in the PR24 Retail tables).

Price control	**Table ref**	**£m**
Water Resources	*RR4.9*	178.816
Water Network+	*RR4.10*	1,215.567
Wastewater Network+	*RR4.11*	2,584.083
Bioresources	*RR4.12*	137.942
Residential Retail	-	26.154
Business Retail	-	3.875
Total IL debt		4,146.437
Total fixed	*below*	762.355
Total floating	*below*	-
Total debt		4,908.792
Total debt < 1 yr	*RR19.15*	1,164.650
Total debt > 1 yr	*RR19.22*	3,744.142
Total debt		4,908.792

RR4.15-20 *Opening Fixed rate debt – nominal*

These lines report the forecast 'actual' company fixed rate debt as at 1/4/2025. These rows are forecast within the DCWW financial model and allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Wholesale balances on RR4 total £756.835m, with a further £5.521m allocated to Retail. Note that there is no opportunity to enter this amount in the PR24 Retail tables, nor has it been considered appropriate to allocate the value to Wholesale since this debt has financed the purchase of Retail fixed assets (which are recorded separately in the PR24 Retail tables).

Price control	Table ref	£m
WR	*RR4.15*	32.877
WN	*RR4.16*	223.492
WWN	*RR4.17*	475.104
BR	*RR4.18*	25.362
RRET	-	4.809
BRET	-	0.712
Total fixed rate debt	*above*	762.355

RR4.21-26 *Opening Floating rate debt – nominal*

Post hedging there is no forecast floating rate debt at 31 March 2025, and therefore all rows report a zero value.

RR4.27-32 *Interest rate on RPI linked debt*

This line reports the notional real interest rate for RPI linked debt for each price control. This is calculated as the nominal cost of debt from Ofwat's early view reported in RR1.1 deflated using an RPI assumption of 2.9% using the formula below. The RPI assumption is based on the Ofwat forecast view of CPIH of 2% and an assumed wedge of 0.9% reported in RR1.74.

$$\frac{1 + Cost\ of\ debt}{1 + RPI} - 1$$

RR4.33-38 *Interest rate on CPI(H) linked debt*

The line reports the notional real interest rate for the CPIH linked debt for each price control. The value reported of 2.6% is in line with Ofwat's early view of the WACC reported in appendix 10 of the Final Methodology.

RR4.39-44 *Interest rate on fixed rate debt*

This line reports the notional interest rate on fixed rate debt in nominal terms. This is in line with Ofwat's early view of the WACC reported in appendix 10 of the Final Methodology.

RR4.45-50 *Cash and cash equivalents initial balance – control – nominal*

These rows are forecast within the DCWW financial model and allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Wholesale balances on RR4 total £179.977m, with a further £1.313m allocated to Retail and included in RR7 and RR8:

Price control	Table ref	£m
WR	*RR4.45*	7.818
WN	*RR4.46*	53.147
WWN	*RR4.47*	112.981
BR	*RR4.48*	6.031
RRET	*RR7.36*	1.144
BRET	*RR8.48*	0.169
Total cash	*RR19.11*	181.290

RR4.51-56 *Cash interest rate*

This line reports the notional interest rate on fixed rate debt in nominal terms. This is in line with Ofwat's early view of the WACC reported in appendix 10 of the Final Methodology.

RR4.57-62 *Opening Called up share capital balance – control – nominal*

These rows are forecast within the DCWW financial model and allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Wholesale balances on RR4 total £307.656m, with a further £2.245 allocated to Retail. Note that there is no opportunity to enter this amount in the PR24 Retail tables, nor has it been considered appropriate to allocate the value to Wholesale since DCWW as the appointee has operated both the Wholesale and Retail businesses since the issue of this share capital and expects to continue to do so for the forecast period.

Price control	**Table ref**	**£m**
WR	*RR4.57*	13.364
WN	*RR4.58*	90.850
WWN	*RR4.59*	193.131
BR	*RR4.60*	10.310
RRET	-	1.955
BRET	-	0.290
Total share capital		309.900

RR4.63 *Equity dividends paid – Wholesale – nominal*

The values reported reflect the expected value of the actual company's contribution to social tariffs.

As a wholly debt-funded organisation having no ultimate shareholders, Welsh Water's contribution to social tariffs represents a return of generated value to customers and is therefore reported as a dividend distribution at appointed business level in these tables. In practice this is not a distribution to shareholders and is treated as a deduction from revenue for the calculation of financial metrics.

RR4.64 *Ordinary shares issued – control – nominal (Wholesale)*

DCWW does not expect to issue any shares during the forecast period, therefore all cells report a zero value.

RR4.65-70 *Ordinary shares issued – control – nominal*

DCWW does not expect to issue any shares during the forecast period, therefore all rows report a zero value.

RR4.71-76 *Opening dividend creditors balance – control – nominal*

DCWW does not expect to declare any Wholesale dividends and there are no unsettled creditors, therefore all rows report a zero value.

RR4.77 *Ordinary dividend (overrides any other dividend approach) (post override) - nominal*

No override required; see RR4.63 for ordinary dividends paid.

RR4.78 *Real dividend growth*

The dividend growth rate and yield are set to be consistent with allowed return on equity.

RR4.79 *Dividend yield*

The dividend growth rate and yield are set to be consistent with allowed return on equity.

RR4.80-85 *Opening dividend cashflow balance – control – nominal*

DCWW does not expect to pay any Wholesale dividends, therefore all rows report a zero value.

6. RR5 – Tax Opening Balances

The following assumptions have been made in relation to RR5:

1. The corporation tax rate will be 25% for AMP 8 & 9 (in line with currently enacted rates).
2. The capital allowances regime will continue to apply throughout AMP 8 & 9 and that this will not be replaced by an alternative system e.g. to provide relief for capital expenditure based on the depreciation included in the statutory accounts. However, in Budget 2023 the Chancellor announced that 'full expensing' will be available for plant and machinery expenditure and a 50% initial allowance for special rate pool expenditure during the 3 years to 31 March 2026. He also announced the Government's intention to move to 'full expensing' permanently, when economically feasible. We have included eligible assets for full expensing for the period 31 March 2026 (see proportion of expenditure qualifying for a high level deduction in RR5.56-61 and 68-73 for 2025/26).
3. The OFWAT financial model does not provide the option to disclaim capital allowances so that capital allowances have to be claimed in full. This results in large tax losses in some years e.g. 2025/26 when 'full expensing' is available. However, the tax model ignores these tax losses in calculating deferred taxes. Therefore, the resulting deferred tax charges are much higher than if a deferred tax asset was recognised for the tax losses. This is particularly the case for 2025/26**.**

   We expect to disclaim capital allowances in the submitted tax returns for the periods up to and including the year ending 31 March 2025 to eliminate trading losses carried forward. We have adopted this approach following the restrictions on the use of trading losses carried forward which were introduced from 1 April 2017. The opening capital allowances balances at lines RR5.26-31 have therefore been prepared on this basis. We also expect to disclaim capital allowance throughout AMP8 & AMP9 but are unable to show this in the OFWAT model. The difference between the model and the anticipated deferred tax balance at 31 March 2030 is a reduction in the model generated deferred tax of £195m.
4. We assume that the capital allowances methodology and adjustments agreed by the UK Water Industry with HMRC in relation to the treatment of expenditure on operational structures at treatment works will remain unchanged from the current position during AMP 8. Under the industry agreement this requires an adjustment to be made to certain schemes subject to the agreement to reallocate a proportion of the general pool expenditure to the special rate pool (5.6% in the case of water treatment works and 15.35% for wastewater treatment works).
5. Fixed asset additions in AMP 8 & 9 do not include any assets which are to be adopted from customers (which are required to be recognised in accordance with IFRIC 18).
6. Disposals of capital assets will be negligible, as will be any accounting profit or loss, or chargeable gain or loss for tax purposes.
7. The company has made a 'Public Benefit Infrastructure Exemption' election and assumes it will receive full relief for its interest costs under the Corporate Interest Restriction legislation.
8. We will not receive any tax credits under the R&D Expenditure Credit regime as we are unable to make an assessment as to whether any future projects will meet the detailed requirements of the regime at this stage.
9. We have assumed that disallowable expenditure will be £500k per annum (in line with the position in recently submitted tax computations).

Finance lease deductions have been profiled for the 10 years ending 31 March 2035 and relief claimed in accordance with SP 3/91. We have split the deductions across price controls based on the nature of the underlying expenditure

RR5.1-6 *Opening current tax liabilities – control - nominal*

Welsh Water does not currently pay corporation tax and therefore these lines are nil.

RR5.7-12 *Opening tax loss balance - wholesale - nominal*

The draft tax computation for 31 March 2025 has been used to derive the opening loss balance. Welsh Water has forecast brought forward losses at 1 April 2025 of £371.666m which have been apportioned across the price controls using the RCVs included in RR3.

RR5.13-18 *Opening deferred tax balance - control - nominal*

Welsh Water has a forecst deferred tax liability of £762.791m at 1 April 2025, largely made up of fixed asset timing differences, offset by deferred tax asset on trading losses. The deferred tax balances have been apportioned across the price controls based on RCV included in RR3.

RR5.19 *Current tax liabilities – Appointee b/f – nominal*

This value is nil as Welsh Water does not currently pay corporation tax.

RR5.20-25 *Proportion of new capital expenditure qualifying for a full deduction - opening*

Welsh Water does not claim all the capital allowances available each year and therefore we have entered these values as 0%.

RR5.26-31 *Opening Capital allowance balance - main rate pool - new capital expenditure - control - nominal - Balance at 1/4/2025*

We have taken the total general pool balance forecast in our tax computation at 31 March 2025 (which is for the business as a whole) and apportioned this over the 4 wholesale price controls using the RCVs at RR3.

The company has adopted a policy of disclaiming general pool capital allowances to reduce the tax losses it carries forward (whose use is now restricted following the corporate tax loss reforms). The general pool balances stated in lines 26-31 include disclaimed capital allowances (and are therefore higher than had the capital allowances been claimed).

RR5.32-37 *Opening Capital allowance balance - special rate pool - new capital expenditure - control - nominal - Balance at 1/4/2025*

We have taken the total special rate/long life asset pool balance forecast in our tax computation at 31 March and apportioned this over the 4 wholesale price controls using the RCVs at RR3.

RR5.38-43 *Opening Capital allowance balance - structures & buildings pool - new capital expenditure - control - nominal - Balance at 1/4/2025*

The SBA pool at 1 April 2025 is £1.3m and this has been apportioned over the 4 wholesale price controls using the RCVs at RR3.

RR5.44-46 *Capital expenditure writing down allowance (by pool)*

We expect the writing down allowances to continue at the current rates of 18% (general pool), 6% (long life pool) and 3% (SBA pool) and have completed these lines on this basis.

RR5.47-49 *Capital expenditure writing down allowance (by pool) – first year rate*

We note that the Budget on 15 March 2023 announced ‘full expensing’ for plant and machinery and a 50% rate for special rate pool additions and table RR5 has been populated on this basis. The Government only announced full expensing and the 50% rate for special rate pool to be in force until the period ended 31 March 2026. We have therefore included 100% and 50% respectively for these pools for the year ended 31 March 2026. All other years are nil on the basis we have no information to support first year allowances after this date.

RR5.50-97 *New capital expenditure*

In order to calculate the percentages in these lines our advisers Chandler KBS (CKBS) undertook an analysis of the capital expenditure in our business plan for AMP 8. This involved analysing the capital expenditure for each investment category and then determining a "capital allowances profile" for each i.e. the percentages which would qualify for general pool, special rate pool, a full tax deduction in the year, a tax deduction based on depreciation (deferred revenue expenditure) and non-qualifying expenditure. The capital allowances profiles were determined using CKBS' best estimates, based on the nature of the underlying work in each investment category and their previous analyses of similar schemes (by reviewing the capital allowances profile of all expenditure incurred in the 7 years to 31 March 2022).

The capital allowances profiles were applied to the forecast expenditure for each investment category for each year of AMP 8. This gives the expenditure which is forecast to qualify for each of the different categories (general pool, special rate pool etc.) by investment category for each year.

All the general pool expenditure should be eligible for a full expensing deduction in 2026 and all special rate expenditure should be eligible for a 50% first year allowance in 2026 and therefore lines RR5.56-59 and RR5.68-71 for 2025-26 are populated with 100%. All years after 2025-26 are nil as full expensing rules end on 31 March 2026. SBAs are not eligible for full expensing and hence these lines RR5.80-85 are all nil.

In practise even though DCWW is eligible to claim these capital allowances, it may choose not to do so given its tax profile and the level of brought forward losses that it has which has meant it has disclaimed capital allowances in the past.

RR5.98-103 *P&L expenditure not allowable as a deduction from taxable trading profits - control - nominal*

Welsh Water has historically incurred small amounts of expenditure which is not allowable as a deduction from trading profits. This can vary from year to year but generally does not have a significant impact on the tax calculations. We have included an estimate of £500k per annum for AMP 8 & 9 based on recently submitted tax computations, this has been apportioned over the 4 wholesale price controls using the RCVs at RR3.

RR5.104-109 *Other adjustments to taxable profits - control - nominal*

There are no other adjustments to taxable profits and therefore these lines are nil.

RR5.110-115 *Disallowable expenditure - Change in general provisions - control - nominal*

We forecast that there will be minimal movement in the company's general provisions during AMP 8 & 9 and therefore these lines are nil.

RR5.116-121 *Finance lease depreciation - control - nominal*

We have profiled our finance lease deductions available in accordance with SP 3/91 for the 10 years ending 31 March 2035 and split them by price control based on the nature of the underlying expenditure.

RR5.122-127 *P&L expenditure relating to renewals not allowable as a deduction from taxable trading profits - control - nominal*

These are nil for Welsh Water in line with Ofwat's guidance.

RR5.128-133 *Tax cashflow initial balance - nominal*

Welsh Water does not currently pay corporation tax and there does not have a tax cashflow initial balance.

RR5.134 *Tax loss allowance - nominal*

This line is for the corporation tax rules on loss relief, which allows companies to use a nominal £5m of brought forward losses without restriction before it must apply the rules restricting loss relief to 50% of the remaining profit. DCWW has brought forward tax losses that it will look to utilise through the AMP 8 & 9 periods and accordingly we have entered £5m for each year on the basis that we will disclaim capital allowances to leave taxable profits of £5m to utilise the nominal loss amount. It should be noted that the model does not have the facility to allow capital allowances disclaimers and therefore the outcome of the model is unlikely to reflect the actual tax position of Welsh Water (which we expect will be a disclaim capital allowances to utilise the nominal loss allowance of £5m in each period of AMP8)

RR5.135 *Statutory Corporation tax rate*

We expect the statutory corporation tax rate to be 25% for each of the years in AMP 8 based on currently enacted tax legislation.

RR5.136-141 *Adjustment to tax payment - nominal*

There are no adjustments to tax payments and so these lines are nil.

RR5.142-147 *Charge for DB schemes - residential retail - charge for DB schemes - control - real*

We do not expect any significant movements in respect of the DB pension scheme and so these lines are nil.

RR5.148-153 *Other taxable income - Amortisation on grants and contributions - control - nominal*

We have included an estimate of £3.4m per annum for AMP 8 & 9, this has been apportioned over the 4 wholesale price controls using the RCVs at RR3.

RR5.154-159 *Other taxable income - Grants and contributions taxable on receipt - control - nominal*

There are no adjustments for grants taxable on receipt and so these lines are nil.

RR5.160-165 *Allowable depreciation on capitalised revenue - control - nominal*

DCWW incurs significant expenditure on assets which is treated as ‘revenue’ in nature for tax purposes and receives tax relief by claiming the depreciation rather than capital allowances. We have used the information in the draft 2025 tax computation and then included the additions identified by Chandler KBS in their analysis of the capital programme. The tax deductions were then profiled by working out the eligible depreciation based on the life of these assets.

7. RR6 – Post financeability adjustment inputs

Our full commentary for our PR24 Revenue Feeder model is outlined in "WSH26- Past delivery PD1-PD12" cometnary.

RR6.1-6 *Post financeability adjustments eligible for tax uplift – real*

This line reports the post financeability adjustments for the PR19 Reconciliation Rulebook that are eligible for tax uplifts. The value for these lines are obtained from the "RR6" tab in the Revenue Feeder model. The revenue feeder model includes switches for whether the mechanisms are eligible for a tax uplift. All of the switches for the PR19 Reconciliation Rulebook mechaims are set to "No". Our PR19 Final Determination had zero tax allowance and our effective tax rate for AMP7 is expected to be zero. This approach is consistent with our 2021-22 in-period Final Determination.

RR6.7-12 *Post financeability adjustments not eligible for tax uplift - real*

This line reports the post financeability adjustments for the PR19 Reconciliation Rulebook that are not eligible for tax uplifts. The value for these lines are obtained from the "RR6" tab in the Revenue Feeder model.

RR6.13-18 *QAA reward/(penalty) - real*

The values reported for the QAA reward/(penalty) will be determined by Ofwat based on their view of our Qualtiy and Assurance Assessment. These has been set to zero for our PR24 business plan submission.

RR6.19-24 *Innovation funding - real*

The cells for the innovation fundind have been left blank inline with the business plan table gudiance.

RR6.25 *Residential retail revenue adjustment - real*

This line reports the residential retail revenue adjustment for the PR19 Reconciliation Rulebook. The value for these lines are obtained from the "RR6" tab in the Revenue Feeder model.

RR6.26 *Business retail revenue adjustment - real*

This line reports the residential business revenue adjustment for the PR19 Reconciliation Rulebook. The value for these lines are obtained from the "RR6" tab in the Revenue Feeder model.

8. RR7 – Residential retail inputs

RR7.1 *Wholesale and retail line item split – actual company structure – Retained profits – residential - nominal*

This row has been populated with outputs from the DCWW financial model as at 31 March 2025, allocated to the price controls as the balancing figure after apportioning all other balance sheet values as at 31 March 2025. In the absence of dedicated sets of financial statements for each price control, this is considered a materially reasonable means of apportionment. Total apportioned retained profits have been entered as a positive value, losses as a negative:

Price control	Table ref	£m
WR	*RR9.43*	(20.617)
WN	*RR9.44*	(65.511)
WWN	*RR9.45*	(386.383)
BR	*RR9.46*	(0.476)
RRET	*RR7.1*	(0.126)
BRET	*RR8.7*	(0.020)
Total retained deficit		(473.131)
Cap redemp reserve		166.200
Revaluation reserve		1,401.156
Ret earns/other res	*RR19.33*	1,094.225

RR7.2-7 *Cost to serve - real*

This section reports the cost to serve for each customer type. The cost per customer is the same for each customer type due to the interaction of the cost to serve and the expenditure-total residential retail costs (RR7.21-26) in the financial model. The financial model makes an adjustment to reflect the differences in the cost to serve between customer types through the use of the total residential retail expenditure in RR7.21-26.

The cost to serve is calculated as the total residential retail cost reported in RET1.21 less Pre AMP 6 depreciation (RET1.9 and RET1.11) divided by the total number of residential retail customers (sum of RR7.8 and RR7.13).

From 2029/30, total residential retail costs are assumed to stay flat therefore the cost to serve reduces as the customer base increases.

RR7.8-13 *Residential retail households connected*

Numbers of connected households are in line with figures set out in table SUP1A lines 1-4.

RR7.14-15 *Household (un)measured trade debtor days*

Household unmeasured and measured trade debtor days have been calculated using data for the year ended 31 March 2023. These values are historically stable and no improvement or deterioration has been forecast.

	Measured	Unmeasured	Total
31 March 2023	**£m**	**£m**	**£m**
Direct debtor split	44.200	37.300	81.500
Allocation of other trade debtors in same proportions	18.493	15.607	34.100
Billings in advance	-	408.100	408.100
Total	62.693	461.007	523.700[1]

[1] Source = DCC statutory FS to 31 March 2023 – "Annual Report and Accounts Dwr Cymru Cyfyngedig 31 March 2023", p48

	Non-household £m	Household £m	Total £m
Retail-only revenues[2]	7.782	39.074	46.856
Measured debtors[3] (A)	10.412	52.281	62.693
Total revenues[4] (B)	209.876	307.822	517.698
Debtor days (A/B*365)	**18**	**62**	
Table ref	*RR8.8*	*RR7.15*	

RR7.16-17 *Household (un)measured advance receipts creditor days*

Household unmeasured and measured advance receipts creditor days have been calculated using data for the year ended 31 March 2023. These values are historically stable and no improvement or deterioration has been forecast.

RR7.18 *Household measure income accrual rate*

The income accrual rate has been calculated using data for the year ended 31 March 2023. Total household measured income has been used since the accrual itself relates to total household measured billings. The rate is historically stable and no improvement or deterioration has been forecast.

31 March 2023	Non-household £m	Household £m
Income accrual (A)	68.131	13.569
Total revenues[4] (B)	307.822	209.876
Income accrual rate (A/B)	**22.13%**	**6.47%**
Table ref	*RR7.18*	*RR8.43*

RR7.19 *Household measured income accrual*

The income accrual has been calculated using data for the year ended 31 March 2023, inflated by assumed tariff basket CPIH. The rate is otherwise historically stable and no improvement or deterioration has been forecast.

RR7.20 *Capital expenditure on assets principally used by residential retail - real*

Residential retail capital expenditure has on average over the previous three years been 93% of total retail CAPEX. In line with this trend, we have assumed 93% per year of the total retail forecast CAPEX will relate to residential retail.

RR7.21-26 *Expenditure – total residential retail costs*

The total residential retail costs are calculated from the total residential retail costs reported in RET1.21, including pre AMP 6 depreciation, in line with the table guidance which states the costs should be reconcilable to the values shown in RET1.

The total residential retail costs have been apportioned to each customer type by identifying and assessing the cost drivers associated with each type of cost incurred. The cost drivers analysed are: customer contacts, payment volumes, paper output, debt write offs and average bills. Where a cost driver cannot be identified then customer numbers are used.

[2] Source = 2023 APR Table 2A – "2023 APR-Part-2.pdf" p2
[3] Allocated in proportion to Retail revenues
[4] Allocated in proportion to Retail revenues

This assessment was carried out for the prior financial year so that it correlates with the customer numbers as at 2022/23. The debt write offs are, however, assessed over the past 2 years as not to allow any large one off write offs to skew the averages.

The proportion of each cost is assigned to each customer type for 2022/23 and then forecast using the same proportions whilst adjusting for the change in the customer forecast mix.

For the period 2031-2035, the total costs are assumed to stay flat in real terms and the cost allocation calculation continued as above to take into account further growth and proportion changes in the customer mix.

This has then been inflated in line with CPIH in order to give the outturn costs and multiplied by the number of residential retail customers as per RR7.8 and RR7.13.

The total cost per category reflects the number of customers in each customer type and also that we recognise the cost to serve unmeasured dual customers is the highest predominately driven by the increased difficulty to collect and the higher average bill.

AMP8	25/26	26/27	27/28	28/29	29/30
Total retail costs including third party and pension deficit repair costs	57.085	54.221	53.459	52.390	52.348
CPIH	1.099	1.121	1.143	1.166	1.189
Outturn Retail Costs	62.710	60.756	61.100	61.076	62.247
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential unmeasured - Water only - nominal	1.447	1.294	1.224	1.142	1.095
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential unmeasured - Wastewater only - nominal	1.699	1.529	1.439	1.335	1.265
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential measured - Water only - nominal	1.081	1.181	1.352	1.491	1.678
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential measured - Wastewater only - nominal	3.136	3.156	3.347	3.479	3.710
Expenditure - Total residential retail costs - Residential unmeasured - Water and Wastewater - nominal	28.482	26.231	24.883	23.518	22.541
Expenditure - Total residential retail costs - Residential measured - Water and Wastewater - nominal	26.864	27.364	28.854	30.111	31.959

AMP9	30/31	31/32	32/33	33/34	34/35
Total retail costs including third party and pension deficit repair costs	52.348	52.348	52.348	52.348	52.348
CPIH	1.213	1.237	1.262	1.287	1.313
Outturn Retail Costs	63.492	64.762	66.057	67.378	68.726
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential unmeasured - Water only - nominal	1.044	0.993	0.944	0.896	0.849
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential unmeasured - Wastewater only - nominal	1.188	1.112	1.036	0.962	0.888
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential measured - Water only - nominal	1.861	2.046	2.230	2.414	2.597
Expenditure - Total residential retail costs (opex plus depreciation, excluding third party services) - Residential measured - Wastewater only - nominal	3.928	4.147	4.367	4.586	4.806
Expenditure - Total residential retail costs - Residential unmeasured - Water and Wastewater - nominal	21.602	20.678	19.771	18.888	18.033
Expenditure - Total residential retail costs - Residential measured - Water and Wastewater - nominal	33.869	35.786	37.709	39.632	41.553

RR7.27 *Dividend creditors wholesale retail split – Dividend creditors' residential retail – nominal*

The values reported for the forecast years at actual company level (in RR18.15) reflect the expected value of the actual company's contribution to social tariffs.

As a wholly debt-funded organisation having no ultimate shareholders, Welsh Water's contribution to social tariffs represents a return of generated value to customers and is therefore reported as a dividend distribution at appointed business level in these tables.

The dividends are recognised as a tariff reduction applicable to residential household customers and are therefore considered to impact on the Residential Retail business. However, they are considered to be settled in each year of the forecast period and therefore no related creditors are outstanding at the year-end. This row therefore reports a zero value.

RR7.28 *Trade and other payables - Wholesale creditors ~ residential retail - nominal*

Intra-company balances between the Retail and Wholesale businesses are assumed to be settled immediately and in full on recognition, therefore all rows report a zero value.

RR7.29 *Trade and other payables - Retail other payables - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Note that there is no opportunity to enter an amount for Business Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2025)	Table ref	£m
WR	*RR9.106*	0.180
WN	*RR9.107*	1.222
WWN	*RR9.108*	2.597
BR	*RR9.109*	0.139
RRET	*RR7.29*	0.026
BRET	-	0.004
Total other payables		4.167
Trade payables		60.720
Other liabilities		450.815
Receipts in advance		96.076
Trade+other payables	*RR19.13*	611.779

RR7.30 *Trade and other payables - Retail trade payables - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023). Note that there is no opportunity to enter an amount for Business Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2025)	Table ref	£m
WR	*RR9.100*	2.619
WN	*RR9.101*	17.801
WWN	*RR9.102*	37.841
BR	*RR9.103*	2.020
RRET	*RR7.30*	0.383
BRET	-	0.057
Total trade payables		60.720
Other payables		4.167
Other liabilities		450.815
Receipts in advance		96.076
Trade+other payables	*RR19.13*	611.779

RR7.31 *Retail - Corporation tax creditor b/f - nominal*

DCWW does not expect to generate any corporation tax liability over the forecast period and there are no amounts outstanding, therefore this row reports a zero value.

RR7.32-33 *Retail - Residential (un)measured trade receivables - net - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest revenues (as at 31 March 2023).

	Household		Non-HH	
	Unmeasured	**Measured**	**Measured**	**Total**
31 March 2025	**£m**	**£m**	**£m**	**£m**
Trade receivables	58.524	57.833	11.516	127.873
Table ref	*RR7.32*	*RR7.33*	*RR8.4*	
Measured inc accrual				92.942
Other debtors				43.907
Billings in advance				451.428
Trade and other recs			*RR19.9*	716.150

RR7.34 *Retail - Retail creditor months: Payment terms ~ Residential retail pays wholesaler in arrears (advance)*

Intra-company balances between the Retail and Wholesale businesses are assumed to be settled immediately and in full on recognition, therefore all rows report a zero value.

RR7.35 *Prior period company residential apportionment*

This is calculated as the residential proportion of total revenue for 24/25, as shown in table RR27 Lines 21 and 25.

Residential Revenue: £612.753m
Total Revenue £794.865m
Residential proportion: 77.09%

RR7.36 *Opening retained cash balance - Residential - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Price control	Table ref	£m
WR	*RR4.45*	7.818
WN	*RR4.46*	53.147
WWN	*RR4.47*	112.981
BR	*RR4.48*	6.031
RRET	*RR7.36*	1.144
BRET	*RR8.48*	0.169
Total cash	*RR19.11*	181.290

RR7.37 *Residential net margin for company*

This line reports the residential retail net margin. A margin of 1% is reported in line with the Final Methodology.

RR7.38-49 *Measured / Unmeasured charge – residential – real*

The percentage splits represent the percentage of total revenue for each price control each year which is allocated to this customer group. This is allocated between the measured and unmeasured lines on RR7 and RR8, so that for example the sum of RR7.38, RR7.44, RR8.22 and

RR8.28 = 100%, allocating the Water Resources revenue between household and non-household, measured and unmeasured. The same method is applied for each of the four wholesale price controls.

Total revenue for each price control in year is calculated in the financial model, and shown in table RR27. The proportions shown in RR7.38-49 and RR8.22-33 represent the allocations of revenue as shown in RR27.

The starting point for the revenue allocation calculations are the proportions of revenue used for 2023/24 charges, as derived from the company's charge setting model. This provides an allocation of revenue per customer for each price control, for measured and unmeasured.

The allocation of revenue to households is as follows, this remains the same for all years;

Water Resources 72.58%

Water Network+ 71.72%

Wastewater Network+ 81.11%

Bioresources 80.53%

As customer numbers change through the period to reflect new connections and meter switchers, the revenue per customer is applied to the unmeasured and measured charges proportionally to the numbers of customers each year, as shown in table SUP1A. These proportions are then applied to the total revenue for each price control.

This method produces the revenue figures to be reported in table RR27, and the basis of the percentages calculated for RR7 and RR8.

The proportions for 2030-35 are assumed to remain as per the 2029/30 allocations.

RR7.50-51 *Opening Household (un)measured advance receipts - nominal*

The advance receipts values have been calculated using data for the year ended 31 March 2023, inflated by assumed tariff basket CPIH. The rate is otherwise historically stable and no improvement or deterioration has been forecast.

Measured advance receipts have been split between household and non-household in proportion to related revenues.

RR7.52 *Residential Retail allowed depreciation (post efficiency challenge and adjustments) - real*

These values are aligned with the Residential Elements of RET1.10 and RET1.12.

RR7.53 *Pension contributions - Retail*

Pension contributions have been calculated based on the total value for the year ended 31 March 2023, inflated by assumed CPIH for the preceding December plus 1% (this being a proxy for the impact of the annual salary award plus progression-in-role increases). 2023/24 is an exception: the increase has been limited to 7.2%, reflecting an actual pay award of 6.2% plus PIR increments of 1%.

Contributions have been allocated to price controls based on the percentage allocations in the published accounting methodology statement Retail contributions have been further split between household and non-household in proportion to related revenues. Note that there is no opportunity to enter an amount for Business Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2026)	Table ref	£m
WR	*RR9.112*	0.906
WN	*RR9.113*	6.858
WWN	*RR9.114*	2.588
BR	*RR9.115*	0.388
RRET	*RR7.53*	1.834
BRET	-	0.365
Total pension contribs		12.939

RR7.54 *Wholesale and retail line item split - capex creditors - residential retail - nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in line with forecast capital investment (Wholesale values from the Regulation Team and Retail values from Tables RR7 and RR8).

Price control	Table ref	£m
WR	*RR9.57*	2.716
WN	*RR9.58*	18.461
WWN	*RR9.59*	39.245
BR	*RR9.60*	2.095
RRET	*RR7.54*	0.397
BRET	*RR8.42*	0.059
Capex creditor	*RR19.14*	62.972

RR7.55 *Percentage distributed as dividends at retail level*

No dividends are distributed at retail level therefore this is 0.

RR7.56 *Interest rate - residential*

This is set to be equal to the notional cost of debt, as found in RR1 as confirmed by Ofwat in the tables query process

RR7.57 *Fixed asset net book value at 31 March ~ residential retail - nominal*

This is the residential retail NBV stated in nominal prices.

RR7.58 *Retirement benefit asset/(liability) balance – residential – nominal*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan. It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. These rows therefore report a zero value.

9. RR8 – Business retail inputs

RR8.1-2 *Business retail; non-residential advance receipts creditor days (un)measured*

The unmeasured value has been reported as zero as there are assumed to be no unmetered non-residential supplies (in practise a small number does exist but the impact is immaterial).

Measured advance receipts creditor days have been calculated using data for the year ended 31 March 2023. These values are historically stable and no improvement or deterioration has been forecast.

31 March 2023	Unmeas £m	Household Measured £m	Non-HH Measured £m	Total £m
Receipts in advance (A)	23.365	50.944	10.146	84.455
Total revenues (B)	311.504	307.822	209.876	829.202
Ad rec cr day (A/B*365)	27	60	**18**	

RR8.3-4 *Business retail; opening business debtors (un)measured - nominal - Balance at 1/4/2025*

The unmeasured value has been reported as zero as there are assumed to be no unmetered non-residential supplies (in practise a small number does exist but the impact is immaterial).

These rows are populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest revenues (as at 31 March 2023).

31 March 2023	Unmeas £m	Household Measured £m	Non-HH Measured £m	Total £m
Trade receivables	58.524	57.833	11.516	127.873
Table ref	*RR7.32*	*RR7.33*	*RR8.4*	
Measured inc accrual				92.942
Other debtors				43.907
Billings in advance				451.428
Trade and other recs			*RR19.9*	716.150

RR8.5 *Opening Measured income accrual balance - Business - nominal - Balance at 1/4/2025*

The income accrual has been calculated using data for the year ended 31 March 2023, inflated by assumed tariff basket CPIH. The rate is otherwise historically stable and no improvement or deterioration has been forecast.

RR8.6 *Opening Fixed asset balance - Business - nominal - Balance at 1/4/2025*

This row is populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023) and as supplemented by movements in accordance with planned capital investment and apportioned depreciation charges.

Note that there is no opportunity to enter an amount for Residential Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control	Table ref	Cost £m	Dep'n £m	NBV £m
WR	RR9.232/214	**392.008**	**(78.185)**	313.823
WN	RR9.233/215	**3,666.191**	**(1,451.633)**	2,214.558
WWN	RR9.234/216	**4,478.013**	**(39.202)**	4,438.811
BR	RR9.235/217	**509.393**	**(250.513)**	258.880
RRET	-	61.919	(18.932)	42.987
BRET	RR8.6	9.228	(2.860)	**6.368**
Total fixed assets	RR19.1	9,116.752	(1,841.325)	**7,275.427**

RR8.7 *Opening retained earnings balance - Business - Balance at 1/4/2025*

This row has been populated with outputs from the DCWW financial model as at 31 March 2025, allocated to the price controls as the balancing figure after apportioning all other balance sheet values as at 31 March 2025. In the absence of dedicated sets of financial statements for each price control, this is considered a materially reasonable means of apportionment. Total apportioned retained profits have been entered as a positive value, losses as a negative:

Price control	Table ref	£m
WR	RR9.43	(20.617)
WN	RR9.44	(65.511)
WWN	RR9.45	(386.383)
BR	RR9.46	(0.476)
RRET	RR7.1	(0.126)
BRET	RR8.7	(0.020)
Total retained deficit		(473.131)
Cap redemp reserve		166.200
Revaluation reserve		1,401.156
Ret earns/other res	RR19.33	1,094.225

RR8.8 *Business retail; weighted average debtor days*

Business Retail trade debtor days have been calculated using data for the year ended 31 March 2023. These values are historically stable and no improvement or deterioration has been forecast.

31 March 2023	**Measured £m**	**Unmeasured £m**	**Total £m**
Direct debtor split	44.200	37.300	81.500
Allocation of other trade debtors in same proportions	18.493	15.607	34.100
Billings in advance	-	408.100	408.100
Total	62.693	461.007	523.700[5]

	Non-household £m	**Household £m**	**Total £m**
Retail-only revenues	7.782	39.074	46.856
Measured debtors (A)	10.412	52.281	62.693
Total revenues (B)	209.876	307.822	517.698
Debtor days (A/B*365)	**18**	**62**	
Table ref	RR8.8	RR7.15	

RR8.9 *Business retail; creditor months: Payment terms ~ Business retail pays wholesaler in arrears (advance)*

Intra-company balances between the Retail and Wholesale businesses are assumed to be settled immediately and in full on recognition, therefore all rows report a zero value.

RR8.10-12 *Business retail; Number of customers – Tariff Band*

Numbers of business customers reconcile to total business customers shown in SUP1A

RR8.13-15 *Business retail – Forecast allocated wholesale charge – nominal – Tariff Band*

We have calculated the Business retail forecast allocated charge for the 3 tariff bands by multiplying the wholesale revenue proportions from the 22-23 APR (see above) by the "Apportioned wholesale charge for Business retail (in millions) -– nominal" from the financial model (Retail Business row 281).

RR8.16-18 *Business retail; Net margin percentage – Tariff Band*

This is set as 1% for tariff bands 1 and 3 to align with Ofwat's "early view" as set out in the PR24 Final Methodology. At PR19 a gross margin of 3.3% was allowed for customers in tariff band 2. We propose that the same gross margin is applied at PR24. For the purpose of the submission we have calculated the equivalent net margin to reflect a gross margin of 3.3%, which produces a net margin of 3.19%.

RR8.19-21 *Business retail; Retail average cost per customer – real – Tariff Band*
Tariff Band 1 –

The cost per customer for these customers is derived from the business retail costs as shown in RET 1, excluding pre-AMP 6 depreciation. This cost will correlate to RET 3 bands 1-4.

Tariff Band 2 -

The "in the market" customers (only those customers who use more than 50Ml) are managed by a separate team within Welsh Water to ensure that the requirements of competition law are met. Due to the additional costs associated with operating a separate team and the small number of customers eligible in Wales, the cost per customer is significantly higher than that of the non-household retail functions.

This cost correlates to RET 3 band 5.

Tariff Band 3 – See Tariff Band 1.

This cost will correlate to RET 3 bands 6-10.

RR8.22-33 *Business retail; Measured / Unmeasured charge*

The percentage splits represent the percentage of total revenue for each price control each year which is allocated to this customer group. This is allocated between the measured and unmeasured lines on RR7 and RR8, so that for example the sum of RR7.38, RR7.44, RR8.22 and RR8.28 = 100%, allocating the Water Resources revenue between household and non-household, measured and unmeasured. The same method is applied for each of the four wholesale price controls.

Total revenue for each price control in year is calculated in the financial model, and shown in table RR27. The proportions shown in RR7.38-49 and RR8.22-33 represent the allocations of revenue as shown in RR27.

The starting point for the revenue allocation calculations are the proportions of revenue used for 2023/24 charges, as derived from the company's charge setting model. This provides an allocation of revenue per customer for each price control, for measured and unmeasured.

The allocations of revenue to non-households is as follows, this remains the same for all years;

Water Resources 27.42%

Water Network+ 28.28%

Wastewater Network+ 18.89%

Bioresources 19.47%

As customer numbers change through the period to reflect new connections and meter switchers, the revenue per customer is applied to the unmeasured and measured charges proportionally to the numbers of customers each year, as shown in table SUP1A. These proportions are then applied to the total revenue for each price control.

This method produces the revenue figures to be reported in table RR27, and the basis of the percentages calculated for RR7 and RR8.

The proportions for 2030-35 are assumed to remain as per the 2029/30 allocations.

RR8.34-35 *Business retail; (Un)Measured advance receipts - nominal*

The advance receipts values have been calculated using data for the year ended 31 March 2023, inflated by assumed tariff basket CPIH. The rate is otherwise historically stable and no improvement or deterioration has been forecast.

The unmeasured value has been reported as zero as there are assumed to be no unmetered non-residential supplies (in practise a small number does exist but the impact is immaterial).

Measured advance receipts have been split between household and non-household in proportion to related revenues.

RR8.36 *Business retail; Advance Receipts Weighting - Unmeasured*

This value has been reported as zero as there are assumed to be no unmetered non-residential supplies (in practise a small number does exist but the impact is immaterial).

RR8.37 *Business retail; Dividend creditors wholesale retail split*

DCWW does not expect to declare any Business Retail dividends during the forecast period and there are no unsettled creditors, therefore all rows report a zero value.

RR8.38 *Business retail; Dividends due – nominal*

DCWW does not expect to declare any Business Retail dividends during the forecast period and there are no unsettled creditors, therefore all rows report a zero value.

RR8.39 *Business retail; Interest rate*

Following our query, Ofwat confirmed that this is equal to the notional cost of debt, as found in RR1.

RR8.40 *Business retail; Movement in trade debtor – nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited revenues (as at 31 March 2023).

RR8.41 *Business retail; Opening Trade and other payables - Wholesale creditors - nominal*

Intra-company balances between the Retail and Wholesale businesses are assumed to be settled immediately and in full on recognition, therefore all rows report a zero value.

RR8.42 *Business retail; Wholesale and retail line item split - Capex creditor - nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in line with forecast capital investment (Wholesale values from the Regulation Team and Retail values from Tables RR7 and RR8).

Price control	Table ref	£m
WR	*RR9.57*	2.716
WN	*RR9.58*	18.461
WWN	*RR9.59*	39.245
BR	*RR9.60*	2.095
RRET	*RR7.53*	0.397
BRET	*RR8.42*	0.059
Capex creditor	*RR19.14*	62.972

RR8.43 *Business retail; Measured income accrual rate*

The income accrual rate has been calculated using data for the year ended 31 March 2023. Total household measured income has been used since the accrual itself relates to total household measured billings. The rate is historically stable and no improvement or deterioration has been forecast.

31 March 2023	**Non-household £m**	**Household £m**
Income accrual (A)	68.133	13.567
Total revenues(B)	307.822	209.876
Income accrual rate (A/B)	**22.13%**	**6.46%**
Table ref	*RR7.18*	*RR8.43*

RR8.44 *Business retail revenue override - nominal*

This line is blank as we do not need to override the business retail revenue.

RR8.45 *Business retail margin – Override*

This line is blank as we do not need to override the business retail margin.

RR8.46 *Business retail total allowed depreciation - real*

These values are aligned with the Business Elements of RET1.10 and RET1.12.

RR8.47 *Capital expenditure on assets principally used by business retail - real*

Business retail capital expenditure has on average over the previous three years been 7% of total retail CAPEX. In line with this trend, we have assumed 7% per year of the total retail forecast CAPEX will relate to business retail.

RR8.48 *Wholesale and retail line item split ~ actual company structure - Cash and cash equivalents ~ business retail - nominal*

This row is populated with outputs from the DCWW financial model as at 31 March 2025, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023):

Price control	Table ref	£m
WR	*RR4.45*	7.818
WN	*RR4.46*	53.147
WWN	*RR4.47*	112.981
BR	*RR4.48*	6.031
RRET	*RR7.36*	1.144
BRET	*RR8.48*	0.169
Total cash	*RR19.11*	181.290

RR8.49 *Business measured income proportion of total Business income*

This is calculated from the forecast revenues, using the method set out to calculate revenues for table RR27. Note that due to the order of our process for updating the tables and the financial model outputs these percentages show slight differences against the percentages which would be calculated from the revenue figures shown in RR27.

RR8.50 *Retirement benefit asset / (liability) balance - Business - nominal*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan. It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. These rows therefore report a zero value.

10. RR9 Miscellaneous inputs

General Comment: Throughout this table there are rows for ADDN1 and ADDN2, for additional price controls applicable to specific companies. These additional price controls do not apply to Welsh Water and as such these lines are shown as zeros.

RR9.1-6 *Opening retirement benefit asset/obligation balance - control - nominal*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan. It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. These rows therefore report a zero value.

RR9.7-12 *Reprofiling revenue – real*

We have reprofiled allowed revenue on an NPV neutral basis. The resulting bill profile combines an initial increase driven by the increase in the WACC from PR19 and thereafter broadly smooth real terms increases. This is in line with customer preferences as evidenced in Section 12 of the Main Business Plan document "WSH03-PR24 Business Plan Document.pdf".

RR9.13-18 *Discount rate for reprofiling allowed revenue*

This is equal to the wholesale WACC as reported in RR26.17.

RR9.19-24 *Opening intangible asset and investments balance - control - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025. The values reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast capital investment and amortisation to 31 March 2025 (no disposals are anticipated).

Note that the appointee held no investments as at 31 March 2023 and does not expect to hold any during the period of the forecast. Note that there is no opportunity to enter an amount for Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2025)	Table ref	£m
WR	*RR9.19*	7.673
WN	*RR9.20*	71.757
WWN	*RR9.21*	87.646
BR	*RR9.22*	9.970
RRET	-	1.212
BRET	-	0.181
Total intangible assets	*RR19.2*	178.438

RR9.25-30 *Opening Provisions balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Total forecast provisions as at 31 March 2025 amount to £20.434m. Note that there is no opportunity to enter values in the PR24 Retail tables, therefore the full balance has been allocated to Wholesale. A majority of the balance relates to the Wholesale business (IFRIC 18 deferred income and uninsured loss provision) therefore this approach is considered materially correct:

Price control	Table ref	£m
WR	*RR9.25*	0.888
WN	*RR9.26*	6.034
WWN	*RR9.27*	12.827
BR	*RR9.28*	0.685
RRET	-	-
BRET	-	-
Total provisions		20.434
< 1 year	*RR19.18*	1.184
> 1 year	*RR19.25*	19.250
		20.434

Type of provision	£m
IFRIC 18 deferred income < 1 year	14.790
Uninsured loss provision	4.684
Other provisions	0.960
Total provisions	20.434

RR9.31-36 *Opening Other liabilities balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Total forecast provisions as at 31 March 2025 amount to £450.815m. Note that there is no opportunity to enter values in the PR24 Retail tables; since the value is not significant the amounts allocated to Retail have been left as an exclusion.

Price control	Table ref	£m
WR	*RR9.31*	19.441
WN	*RR9.32*	132.161
WWN	*RR9.33*	280.951
BR	*RR9.34*	14.998
RRET	-	2.844
BRET	-	0.421
Total other liabilities		450.815
Trade payables		60.720
Other creditors		4.167
Receipts in advance		96.076
Trade/other payables	*RR9.13*	611.779

Type of liability	£m
Accruals and deferred income	446.648
Interest accruals	9.084
Total other liabilities	450.815

RR9.37-42 *Opening Non-distributable reserves balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).
Total forecast non-distributable reserves as at 31 March 2025 amount to £1,567.356m. Note that there is no opportunity to enter values in the PR24 Retail tables; since the value is not significant the amounts allocated to Retail have been left as an exclusion.

Price control	Table ref	£m
WR	*RR9.37*	68.033
WN	*RR9.38*	462.482
WWN	*RR9.39*	983.155
BR	*RR9.40*	52.482
RRET	-	1.048
BRET	-	0.155
Total non-dist res		1,567.356
Retained earnings		(473.131)
Total reserves	*RR19.33*	1,094.225

Type of reserve	£m
Capital redemption reserve	166.200
Revaluation reserve	1,401.156
Total non-dist res	1,567.356

RR9.43-48 *Opening retained earnings balance - control - nominal*

This row has been populated with outputs from the DCWW financial model, allocated to the price controls as the balancing figure after apportioning all other balance sheet values as at 31 March 2025. In the absence of dedicated sets of financial statements for each price control, this is considered a materially reasonable means of apportionment. Total apportioned retained losses have been entered as a negative value, profits as a positive:

Price control	Table ref	£m
WR	*RR9.43*	(20.617)
WN	*RR9.44*	(65.511)
WWN	*RR9.45*	(386.383)
BR	*RR9.46*	(0.476)
RRET	*RR7.1*	(0.126)
BRET	*RR8.7*	(0.020)
Total retained deficit		(473.131)
Cap redemp reserve		166.200
Revaluation reserve		1,401.156
Ret earns/other res	*RR19.33*	1,094.225

RR9.49 *Debtors other (retail) - nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

There is no opportunity to enter Residential and Business Retail values separately, therefore this row reports the combined total for both price controls.

Note that despite the line description stating 'brought forward', this row reports balances 'carried forward' at the end of the year, since RR9.50 captures the opening balance.

Price control	Table ref	£m
WR	*RR9.82*	1.920
WN	*RR9.83*	13.055
WWN	*RR9.84*	27.752
BR	*RR9.85*	1.481
RRET	-	0.281
BRET	-	0.042
Retail	*RR9.49*	0.323
Debtors (other)		44.531

RR9.50 *Opening balance - Debtors other (retail) – nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

There is no opportunity to enter Residential and Business Retail values separately, therefore this row reports the combined total for both price controls.

Price control	Table ref	£m
WR	*RR9.94*	1.894
WN	*RR9.95*	12.872
WWN	*RR9.96*	27.363
BR	*RR9.97*	1.461
RRET	-	0.277
BRET	-	0.041
Retail	*RR9.50*	0.318
Debtors (other)		43.907
Trade debtors (net)		579.301
Measured inc accrual		92.942
Trade and other rec	*RR19.9*	716.150

Type of debtor	£m
Prepayments and accrued income	29.374
Other debtors	14.533
Debtors (other)	43.907

RR9.51-56 *Opening inventories balance - control – nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Inventories comprise items principally relating to the operational business and therefore the values have been wholly allocated to Wholesale.

Price control	Table ref	£m
WR	*RR9.51*	0.258
WN	*RR9.52*	1.754
WWN	*RR9.53*	3.729
BR	*RR9.54*	0.199
RRET	-	-
BRET	-	-
Inventories	*RR19.8*	5.940

RR9.57-62 *Opening Capex creditors balance - control - nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in line with forecast capital investment (Wholesale values from Tables RR7 and RR8).

Price control	Table ref	£m
WR	*RR9.57*	2.716
WN	*RR9.58*	18.461
WWN	*RR9.59*	39.245
BR	*RR9.60*	2.095
RRET	-[6]	0.397
BRET	-[1]	0.059
Capex creditor	*RR19.14*	62.972

RR9.63-68 *Inventories balance - control – nominal*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Inventories comprise items principally relating to the operational business and therefore the values have been wholly allocated to Wholesale (cf RR9.51 to RR9.56).

RR9.69-74 *Wholesale - Trade creditor days (WR)*

Welsh Water is a signatory to the Prompt Payment Code and aims to pay substantively all suppliers within 30 days, therefore all rows in this section report that value.

RR9.75 *Capex creditor days*

Welsh Water is a signatory to the Prompt Payment Code and aims to pay substantively all suppliers within 30 days, therefore this row reports that value.

RR9.76-81 *Other creditors target balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Total forecast other creditors as at 31 March 2025 amount to £4.313m. Note that there is no opportunity to enter a Business Retail value in the PR24 Retail tables; since the value is not significant the amounts allocated to Business Retail have been left as an exclusion.

[6] No table ref as these are shown as at 31 March 2026 on RR7.53 and RR8.42 respectively.

Price control	Table ref	£m
WR	*RR9.76*	0.186
WN	*RR9.77*	1.264
WWN	*RR9.78*	2.688
BR	*RR9.79*	0.143
RRET	*RR7.29*	0.027
BRET	-	0.004
Total other creditors		4.313

RR9.82-87 *Other debtors target balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Total forecast other debtors as at 31 March 2025 amount to £44.531m. Note that there is no opportunity to enter values in the PR24 Retail tables; since the value is not significant the amounts allocated to Retail have been left as an exclusion.

Price control	Table ref	£m
WR	*RR9.82*	1.920
WN	*RR9.83*	13.055
WWN	*RR9.84*	27.752
BR	*RR9.85*	1.481
RRET	-	0.281
BRET	-	0.042
Retail		44.531

RR9.88-93 *Opening Trade debtors balance - control - nominal*

For the purpose of financial modelling all trade debtors are deemed to be held within the Retail business.

Intra-company balances between the Retail and Wholesale businesses are assumed to be settled immediately and in full on recognition, therefore all rows report a zero value.

RR9.94-99 *Opening Other debtors balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Total forecast other debtors as at 31 March 2025 amount to £43.907m. Note that there is no opportunity to enter values in the PR24 Retail tables; since the value is not significant the amounts allocated to Retail have been left as an exclusion.

Price control	Table ref	£m
WR	*RR9.94*	1.894
WN	*RR9.95*	12.872
WWN	*RR9.96*	27.363
BR	*RR9.97*	1.461
RRET	-	0.277
BRET	-	0.041
Retail	*RR9.50*	0.318
Debtors (other)		43.907
Trade debtors (net)		579.301
Measured inc accrual		92.942
Trade and other rec	*RR19.9*	716.150

Type of debtor	£m
Prepayments and accrued income	29.374
Other debtors	14.533
Debtors (other)	43.907

RR9.100-105 *Opening trade creditors balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023). Note that there is no opportunity to enter an amount for Business Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2025)	Table ref	£m
WR	*RR9.100*	2.619
WN	*RR9.101*	17.801
WWN	*RR9.102*	37.841
BR	*RR9.103*	2.020
RRET	*RR7.30*	0.383
BRET	-	0.057
Total trade payables		60.720
Other payables		4.167
Other liabilities		450.815
Receipts in advance		96.076
Trade+other payables	*RR19.13*	611.779

RR9.106-111 *Opening Other creditors balance - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023). Total forecast other creditors as at 31 March 2025 amount to £4.167m. Note that there is no opportunity to enter a Business Retail value in the PR24 Retail tables; since the value is not significant the amounts allocated to Business Retail have been left as an exclusion.

Price control	Table ref	£m
WR	*RR9.76*	0.180
WN	*RR9.77*	1.222
WWN	*RR9.78*	2.597
BR	*RR9.79*	0.139
RRET	*RR7.29*	0.026
BRET	-	0.004
Total other creditors		4.167
Total trade payables		61.720
Other liabilities		450.815
Receipts in advance		96.076
Trade+other payables	*RR19.13*	611.779

RR9.112-117 *Accounting charge included in regulatory accounts for Defined Contribution schemes - charge for DC schemes - control - real*

Pension contributions have been calculated based on the total value for the year ended 31 March 2023, inflated by assumed CPIH for the preceding December plus 1% (this being a proxy for the impact of the annual salary award plus progression-in-role (PIR) increases). 2023-24 is an exception: the increase has been limited to 7.2%, reflecting an actual pay award of 6.2% plus PIR increments of 1%.

Contributions have been allocated to price controls based on the percentage allocations in the published accounting methodology statement (NB this is for 2022 as the allocations are not stated in the 2023 document – material changes are considered unlikely). There is one exception: Retail contributions have been further split between household and non-household in proportion to related revenues.

Note that there is no opportunity to enter an amount for Business Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

Price control (2026)	Table ref	£m
WR	*RR9.112*	0.906
WN	*RR9.113*	6.858
WWN	*RR9.114*	2.588
BR	*RR9.115*	0.388
RRET	*RR7.53*	1.834
BRET	-	0.365
Total pension contribs		12.939

RR9.118-123 *Cash contributions (DB schemes, ongoing) ~ actual and forecast - control - real*

Welsh Water's defined benefit scheme, the DCWW Pension Scheme, is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan. These rows therefore report a zero value.

RR9.124-129 *Defined benefit pension deficit recovery per IN13/17 - real*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan. It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. No deficit recovery payments are anticipated, therefore these rows therefore report a zero value.

RR9.130-135 *Wholesale DB pension cash excess over charge - real - control*

As noted in the commentary above, no ongoing DB scheme contributions or deficit recovery payments are anticipated, therefore these rows also report a zero value.

RR9.136-171 *Total direct procurement from customers - infrastructure cost – real*

No new DPC schemes are included within our PR24 plan, so these lines are blank. Expenditure in relation to the Cwm Taf DPC scheme is included within tables CW1,1a,3 and 9.

RR9.172-177 *Adjustment to Wholesale revenue requirement - real*

We do not need to make any adjustment to the wholesale revenue requirements, therefore we have inputted zeros.

RR9.178-183 *Non-price control income - third party services - other non-price control third party services - real*

The WR line represents income received from Reservoir Operating Agreements from Natural Resources Wales. Forecast income is based on the three -year average income received 19/20 – 21/22.

The WN represents income received from hire of standpipes and water tankers. Forecast income is based on the three- year average income received 19/20 – 21/22.

RR9.184 *Non-price control income - third party services - Bulk supplies - contract not qualifying for water trading incentives - signed before 1 April 2020 – real (WR)*

This line represents income received from bulk exports of water. Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.185 *Non-price control income - third party services - Bulk supplies - contract not qualifying for water trading incentives - signed before 1 April 2020 – real (WN)*

This line represents income received from bulk exports of water. Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.186 *Non-price control income - third party services - Bulk supplies - contract not qualifying for water trading incentives - signed before 1 April 2020 – real (WWN)*

This line represents income received from bulk exports of wastewater. Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.187 *Non-price control income - third party services - Bulk supplies - contract not qualifying for water trading incentives - signed before 1 April 2020 – real (BR)*

This line represents income received from bulk exports of wastewater. Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.190-195 *Non-price control income - third party services - Bulk supplies - contract qualifying for water trading incentives - on or after 1 April 2020 - real*

All current bulk supplies pre-date 1 April 2020, and we have no forecast new bulk supplies that would qualify for water trading incentives, so these lines are reported as nil.

RR9.196 *Price control income - third party services - Rechargeable works – real (WR)*

There is no applicable income from rechargeable works allocated to Water Resources, so this line is reported as nil.

RR9.197 *Price control income - third party services - Rechargeable works – real (WN)*

This line represents income received in relation to:

- Plan Sales
- Searches
- Written Advice
- Fire hydrants
- Repair of damage to Company apparatus
- Provision of plan information of underground assets (sewer location survey)
- Meter testing, including loggers
- Relocating household meter
- Non-primary charges from wholesale service centre

Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.198 *Price control income - third party services - Rechargeable works – real (WWN)*

This line represents income received in relation to the following activities:

- BOS
- Plan Sales
- Searches
- Written Advice
- Provision of plan information of underground assets (sewer location survey)
- Repair of damage to Co apparatus
- Provision of plan information of underground assets
- Trade effluent consent revision

Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.199 *Price control income - third party services - Rechargeable works – real (BR)*

There is no applicable income from rechargeable works allocated to Bioresources, so this line is reported as nil.

RR9.202-205 *Non-price control income - principal services – real*

These lines represent income received in relation to Rental income from mobile phone masts, wind turbines and solar panels. 25% of the total income is allocated to each price control. Forecast income is based on the three year average income received 19/20 – 21/22.

RR9.208-213 *Non-price control income - third party services - Bulk supplies - General - real*

These lines show the forecast income in relation to a new bulk supply to a NAV, expected to be charged from 24/25. The forecast income is allocated between price controls in line with our approach to income allocation in the APR.

Other price control income - Third party revenue - real

RR9.214-219 RR9.214 and RR9.215 show income receivable in respect of the non-potable special agreement WSHNONPOT10a, allocated between the Water Resources and Water Network+ price controls in line with our approach to income allocation in the APR.

There is no applicable wastewater income so lines 216 and 217 are shown as nil.

RR9.220-225 *Other operating income - real*

There is no applicable other operating income so these lines are shown as nil.

RR9.226-231 *Fixed assets b/f - control - active - nominal*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025. The values by price control reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast capital investment to 31 March 2025 (no disposals are anticipated).

RR9.232-237 *Depreciation b/f - control - active - nominal (WR)*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025. The values by price control reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast depreciation and revaluation adjustments to 31 March 2025 (no disposals are anticipated).

RR9.238-243 *Wholesale fixed asset life (post override) – control*

Asset lives for AMP8 are copied from RR29.1 to RR29.6. Asset lives for AMP9 are assumed to remain the same as in the last year of AMP8.

RR9.244-RR9.249 *Movement in other liabilities - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Note that there is no opportunity to enter values in the PR24 Retail tables; since the value is not significant the amounts allocated to Retail have been left as an exclusion.

RR9.250-255 *Movement in intangible asset and investments balance - control - nominal*

These rows are populated with outputs from the DCWW financial model. The values reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast capital investment and amortisation to 31 March 2025 (no disposals are anticipated). Note that there is no opportunity to enter an amount for Retail in the PR24 Retail tables; since the value is not significant it has been left as an exclusion.

RR9.256-261 *Movement in provisions - control - nominal*

These rows are populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Note that there is no opportunity to enter values in the PR24 Retail tables, therefore the full balance has been allocated to Wholesale. A majority of the balance relates to the Wholesale business (IFRIC 18 deferred income and uninsured loss provision) therefore this approach is considered materially correct.

Base Revenue by charging year - real

RR9.262-266 These lines are equal to the forecast revenue by wholesale price control as shown in table PD5.3.

RR9.267 *Tonnes of dry solid*

Historic data is used to understand historic ttds/year over time. The current reporting year 2022-23 is calculated by summing BIO 1.1 & BIO 1.2. A trendline is used to provide an understanding of the average growth for that period. The trendline is then used to forecast ahead to 2035 on the understanding that growth at a similar rate is expected, taking account of population increase and greater solids capture via delivery of Phosphorous Schemes, which are expected to increase ttds at a similar level to the last 5 years.

RR9.268 *Include accumulated depreciation in financial model*

The RR9 fixed asset inputs are (gross) cost and depreciation. So to include the net value in the PR24 financial model, this switch is set to 1 (i.e. yes).

11. RR10 Allowed Revenue Outputs

This table reports the allowed revenue outputs. The table is populated from the PR24 populated financial model and is copied from the “Output RR10” tab.

12. RR11 PAYG and RCV run-off outputs

This table reports the allowed revenue outputs. The table is populated from our PR24 populated financial model and is copied from the “Output RR11” tab.

13. RR12 RCV by control

RR12.1-3 *Closing RCV by wholesale control for each component of RCV, 31 March 2025 (£ million)*

This line reports the closing RCV by wholesale price control for 31 March 2025. The closing RCV is reported in PD11.1-4 in 2017-18 prices. The RCV is inflated to 2022-23 FYA prices.

RR12.1	**Water resources**	**Water Network+**	**Wastewater Network+**	**Bioresources**	**Total**
Pre 2020 RCV - Closing RCV at 31 March 2025 in 2017-18 FYA RPI prices (from PR19 FD as updated by the CMA redetermination and IDoKs) - RPI inflated RCV, *PD11.1*	83.006	678.202	1561.880	81.874	2,404.962
Pre 2020 RCV - Closing RCV at 31 March 2025 in 2017-18 FYA prices (from PR19 FD as updated by the CMA redetermination and IDoKs) - CPI inflated RCV, *PD11.2*	79.309	647.999	1,492.362	78.227	2,297.861
Total Pre 2020 Closing RCV at 31 March 2025 in 2017-18 FYA prices, *calc*	162.315	1,326.201	3,054.206	160.101	4,702.823
Indexation, *calc*	*$\frac{123.0}{104.2}$	*$\frac{123.0}{104.2}$	*$\frac{123.0}{104.2}$	*$\frac{123.0}{104.2}$	*$\frac{123.0}{104.2}$
Closing RCV; Pre 2020 RCV, *RR12.1*	191.634	1,565.757	3,605.897	189.021	5,552.309

RR12.2	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
2020-25 RCV - Closing RCV at 31 March 2025 in 2017-18 FYA prices (from PR19 FD as updated by the CMA redetermination and IDoKs) - Post 2020 investment RCV, *PD11.3*	122.135	443.443	511.416	38.974	1,115.968
Indexation, *calc*	*123.0 / 104.2	*123.0 / 104.2	*123.0 / 104.2	*123.0 / 104.2	*123.0 / 104.2
Closing RCV; Pre 2020 RCV, *RR12.2*	144.197	523.544	603.795	46.014	1,317.550

RR12.4-6 *Opening RCV by wholesale control for each component of RCV, 1 April 2025 (£ million)*

This section reports the opening RCV which is calculated as the closing RCV plus the PR19 Reconciliation Rulebook Midnight adjustments. The table is populated from the PR24 RCV feeder model and the data is aligned to PD11.24

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
Closing RCV at 31 March 2025, *RR12.3*	335.831	2,089.301	4,209.692	235.035	6,869.859
Total RCV midnight Adjustment, [Back calculate]	5.945	57.526	91.663	4.722	159.856
Opening RCV at 1 April 2025 in 2022-23 FYA (CPIH) prices post midnight adjustments, *RR12.6/PD11.24*	341.776	2,146.827	4,301.355	239.757	7,029.715

RR12.7-10 *Return on capital by wholesale control for each component of RCV, 2025-30 (£ million)*

This section reports the return on capital calculated from the financial model, this table is populated from the 'Output RR12' tab in the PR24 Financial Model.

14. RR13 Annual RCV balances

This table reports the annual RCV balances calculated from the PR24 financial model. The data is populated from the PR24 Financial Model and is copied from the "Output RR13" tab.

15. RR14 Bill profile for 2025-30 before inflation

RR14.1 *Bill profile for 2025-30 before inflation – From financial model*

This table reports the bill profile for 2023-24 to 2029-30 before inflation, i.e. in 2022-23 prices. The data for 2025-26 to 2029-30 is populated from the PR24 Financial model and is obtained from the "Output RR14" tab.

The data for 2023-24 to 2024-25 is in line with our internal charging model. The bills reported in this table are Gross of social tariff contributions – that is the average bill shown here is higher than the actual average bill because the company contribution to social tariffs has been added back. This ensures that the AMP7 bills are consistent with AMP8 which are calculated in the financial model where there is no functionality to include the company's contribution to social tariffs as revenue foregone. Note that this differs from the figures submitted within the Annual Household Bill submission each year which are net of social tariff contributions.

The company social tariff contribution is £11m per annum in 2017-18 prices. The table below outlines the average household bill gross and net of social tariffs in 2022-23 prices.

	Ref	2022-23	2023-24	2024-25
Average Household Bill Gross of Social Tariffs (£)	RR14.1	£474	£484	£463
Average Household Bill Net of social Tariffs (£)		£465	£475	£454

RR14.2-3 *Company's bill profile for 2025-30 before inflation (region A and B)*

These cells are blank as we do not have different bills for different regions.

16. RR15 Retail margins 2025-30 (nominal price base)

This table reports the retail revenue and margins. The table is populated from the PR24 Financial Model and is copied from the "Output RR15" tab.

17. RR16 Financial ratios

RR16.1-12 *Notional capital structure – Financial ratios*

The PR24 financial model creates this table as an output and these lines are populated from the tab "Output RR16". The values have been rounded to two decimal places.

RR16.7

We have identified issues with the deferred tax calculation in Ofwat's financial model. These lead to the deferred tax charges in Ofwat's financial model being significantly overstated. Ofwat's model does not recognise a deferred tax asset in respect of tax losses, resulting in the deferred tax charge being overstated by the tax losses not recognised x 17%. Further details are set out in the commentary for RR5.

This has an impact on RR16.7 Dividend cover – notional capital structure as shown in the table below.

Movement in deferred tax provision:

	25-26 £m	26-27 £m	27-28 £m	28-29 £m	29-30 £m
Ofwat calculation	102.414	33.794	30.778	28.172	23.249
Corrected	6.418	8.760	4.290	2.036	2.022

RR16.7 Dividend cover:

	25-26 ratio	26-27 ratio	27-28 ratio	28-29 ratio	29-30 ratio	2025-30 ratio
Ofwat model	(0.25)	0.42	0.34	0.28	0.34	0.24
Corrected	0.65	0.64	0.55	0.48	0.50	0.56

RR16.13 *Target Credit Rating – Notional capital structure*

The target credit rating is BBB+/Baa1 for the notional company.

RR16.14-23 *Company proposed ratios – Notional capital structure*

We do not propose any financial ratios for the notional capital structure, so these cells are left blank.

RR16.24 *Gearing – Actual capital structure*

Calculated cells. Actual company gearing is forecast to remain broadly consistent over the period, reducing by 0.7% overall. This is distinct from a 3.1% increase in the notional company projections. The difference is mainly a result of the assumed debt mix, with the level of index-linked debt in the actual company forecast to fall over the period as existing IL borrowings mature and are assumed replaced by fixed rate debt.

RR16.25 *Interest cover – Actual capital structure*

Calculated cells. Projected interest cover is consistently >4x and adjusted ICR around 1.8x, both slightly higher than the notional company forecasts as a result of slightly higher FFO and lower cash interest.

RR16.26 *Adjusted cash interest cover – Actual capital structure*

Calculated cells. Projected interest cover is consistently >4x and adjusted ICR around 1.8x, both slightly higher than the notional company forecasts as a result of slightly higher FFO and lower cash interest.

RR16.27 *Adjusted cash interest cover (alternative calculation) – Actual capital structure*

Calculated cells. Projected interest cover is consistently >4x and adjusted ICR around 1.8x, both slightly higher than the notional company forecasts as a result of slightly higher FFO and lower cash interest.

RR16.28 *FFO/Net debt – Actual capital structure*

Calculated cells.

RR16.29 *FFO/Net debt (alternative calculation) – actual capital structure*

Calculated cells. The alternative FFO/debt calculation drops relative to the notional company modelling as a result of including indexation charges in the calculation, these being higher in the actual company forecasts.

RR16.30 *Dividend cover – actual capital structure*

Calculated cells.

The actual company's dividend cover metric is not meaningful since "dividends" in this case are actually the company's contribution to social tariffs which will be realised by way of revenue deductions rather than distributions. Apparent illegal dividends will therefore not occur.

The actual company metric underperforms the notional company primarily due to a larger depreciation charge.

RR16.31 *RCF/Net Debt – Actual capital structure*

Calculated cells.

RR16.32 *Return on capital employed – Actual capital structure*

Calculated cells.

RR16.33 *Return on capital employed – actual capital structure*

Calculated cells.

RR16.34 *Dividend yield – actual capital structure*

Calculated cells.

RR16.35 *RORE – Actual capital structure*

The outperformance of the notional company RoRE projected by the actual company metrics arises due to a sizeable proportion of the company's existing debt maturing during the period and the assumption that all refinancing and other new borrowings will be secured at fixed rates which are below the assumed combined new and embedded cost of debt allowance, and the actual company having a greater proportion of index linked debt than the notional company:

				AMP8		
	Table ref	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
New debt	*RR24.5*	£1,265m	£450m	£855m	£240m	£765m
Fixed rate	*RR24.16*[7]	4.00%	4.00%	3.50%	3.50%	3.50%
PR24 CoD		4.65%	4.65%	4.65%	4.65%	4.65%
Notional		4.18%	4.18%	4.17%	4.17%	4.17%
Actual co		4.54%	4.68%	4.79%	4.99%	4.98%

[7] RR24.16 reports rates that are double these values owing to the way they are used to calculate data in other parts of the table; see commentary to RR24.

RoRE has been calculated to mirror its presentation in the APR Table 4H, to which end it is expressed as the forecast actual return on notional regulated equity. This calculation therefore adjusts the notional return to take into account the actual company's financing structure:

	AMP8				
	25/26	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**
a) Net actual interest paid per income statement (Table RR18 / APR 1A)					
Interest income	(45.306)	(30.432)	(39.925)	(20.922)	(41.594)
Interest expense	256.055	246.651	264.777	248.912	276.534
Net interest	210.749	216.219	224.852	227.990	234.940
b) Divided by average net debt					
Opening net debt					
RR19 (APR 1E) PY	4,736.024	4,940.505	5,249.937	5,605.271	5,851.623
Closing net debt					
RR19 (APR 1E) CY	4,940.505	5,249.937	5,605.271	5,851.623	5,934.719
Average net debt	4,838.265	5,095.221	5,427.604	5,728.447	5,893.171
Divided by b)	4.36%	4.24%	4.14%	3.98%	3.99%
Less: assumed CoD	4.65%	4.65%	4.65%	4.65%	4.65%
CoD outperformance	0.29%	0.41%	0.51%	0.67%	0.66%
c) Multiplying b) by the average RCV for the period					
Avg RCV (Ofwat model)	7,840.910	8,299.136	8,850.489	9,385.667	9,796.818
c) multiply by avg RCV	23.062	33.731	44.894	62.888	64.987
d) Multiplying c) by the notional gearing ratio					
Notional gearing ratio	55.00%	55.00%	55.00%	55.00%	55.00%
Impact of act co struct	12.684	18.552	24.692	34.588	35.743
RoRE: notional co	147.573	156.074	166.261	176.146	183.787
Actual company adj	12.684	18.552	24.692	34.588	35.743
RoRE: actual company	160.256	174.626	190.953	210.734	219.530

RR16.36 *Target credit rating – Actual capital structure*

The target credit rating is A3/A-/A for the actual company.

RR16.37 *Gearing – alternative calculation*

This line reflects our gearing calculation as set out in the Common Terms Agreement governing Glas Cymru's whole business securitisation.

The value is presented to 2DP but is calculated to 4DP in order to be comparable to RR16.24.

In this calculation, net debt differs from Ofwat's measure (RR16.70) in that it includes interest accruals, unamortised issue costs and non-appointed values:

	AMP8				
	25/26	**26/27**	**27/28**	**28/09**	**29/30**
Debt per Ofwat calc (RR16.70)	4,940,505	5,249,937	5,605,271	5,851,623	5,934,719
+ Interest accruals	4,193	3,652	3,152	2,769	2,470
+ Issue costs	(7,931)	(7,319)	(6,506)	(5,541)	(4,585)
+ non-appointed	(55,490)	(56,093)	(56,897)	(57,851)	(58,795)
Glas Group debt	4,881,277	5,190,177	5,545,020	5,791,000	5,873,808
RCV	7,959,343	8,479,742	9,051,641	9,538,659	9,864,204
Gearing	61.33%	61.21%	61.26%	60.71%	59.55%

RR16.38 *Adjusted interest cover – alternative calculation*

This line reflects our adjusted interest cover as calculated for the purpose of assessing our credit rating.

It comprises the following main elements:

	AMP8				
	25/26	**26/27**	**27/28**	**28/09**	**29/30**
Standardised pre-int FFO	608,410	637,890	701,863	725,423	789,126
Reg cap charges	(330,381)	(350,058)	(373,790)	(396,883)	(414,481)
	278,029	287,832	328,073	328,541	374,644
Adj gross interest	166,470	164,464	186,178	169,103	195,598
Adj interest cover	1.67x	1.75x	1.76x	1.94x	1.92x

RR16.39 *FFO/net debt – alternative calculation*

This line reflects our FFO/net debt as calculated for the purpose of assessing our credit rating. The value is presented to 2DP but is calculated to 3DP in order to provide the level of granularity used by our rating agencies.

It comprises the following main elements:

	AMP8				
	25/26	**26/27**	**27/28**	**28/09**	**29/30**
Adjusted EBITDA	563,081	607,434	661,913	704,476	747,506
Less: cash interest	(143,529)	(149,429)	(170,467)	(168,342)	(194,776)
Less: indexation	(112,113)	(96,952)	(93,808)	(79,809)	(80,936)
Adjusted FFO	307,439	361,053	397,638	456,325	471,793
Borrowings, inc bond swap indexation	4,441,942	4,698,540	5,180,299	5,379,796	5,430,354
FFO/net debt	6.9%	7.7%	7.7%	8.5%	8.7%

RR16.47-53 *Other financial model values*

These are outputs from the Ofwat financial model.

RR16.54 *FFO Pre interest*

Calculated cells.

RR16.55 *Adjustments for post financeability reconciliations*

Calculated cells.

RR16.56 *Further adjustments to FFO*

There are two differences between FFO as calculated in the Ofwat model and in the DCWW financing model, namely working capital movements and tax payments.

<u>Working capital</u>

Ofwat's model includes adjustments for net working capital outflows in respect of provisions and other liabilities which are higher than those built into the DCWW model (the latter are broadly neutral). Part of the adjustment below aligns FFO with the outputs from the DCWW financing model, being the actual company projections.

<u>Tax paid</u>

No tax payments are forecast in respect of the actual company, therefore this is the second element of the FFO difference.

		AMP8				
		25/26	**26/27**	**27/28**	**28/09**	**29/30**
FFO adj	**Table ref**	**£m**	**£m**	**£m**	**£m**	**£m**
FFO per Ofwat model	*RR16.54*	575.992	624.689	666.308	708.912	751.797
Post financeability	*RR16.55*	(8.835)	(8.572)	4.426	4.660	4.908
FFO pre-adjustment		567.157	616.117	670.734	713.572	756.705
Working capital adjs		7.379	2.900	2.862	2.734	2.784
Tax paid		2.838	2.995	3.188	3.337	3.489
FFO adjustments	*RR16.56*	10.217	5.895	6.050	6.071	6.273
FFO post-adjustment	*RR16.57*	577.374	622.012	676.784	719.643	762.978

RR16.57 *FFO Pre interest – for financial metrics*

Calculated cells.

RR16.58 *RCV run-off*

Calculated cells.

RR16.59 *Adjustments to RCV run-off*

None.

RR16.60 *RCV run-off – for financial metrics*

Calculated cells.

RR16.61 *Interest Income/(Expense)*

Calculated cells.

The title of this line suggests that a positive value represents income and a negative expenditure. However, the cells are pre-populated and pick up from values in Table RR24 (debt) where Ofwat's guidance states that debt values should be entered as a positive – thereby driving out interest payable values also as a positive. Treatment in this table, RR16, of expenditure as a positive appears to be correct based on the ratio calculations and outputs in other parts of the table.

RR16.62 *Changes in financing costs due to equity issuance*

None.

RR16.63 *Further adjustments to interest*

The interest value reported in RR16.61 is automatically populated, being the total that appears in the P&L, Table RR18, and which also agrees to Table RR24. This includes non-cash items, not least the indexation accretion on index-linked debt.

We make adjustments to remove non-cash items in order to ensure that:

1. The interest cover ratios are calculated on a cash basis (as noted specifically in the titles of lines RR16.26 and RR16.27 – and while not noted on line RR16.25 the pre-populated calculation uses the same underlying data); and

2. to ensure consistency with the interest cover ratios reported in the Annual Performance Report (Table 4H).

A summary reconciliation is provided below:

				AMP8		
Int adj	**Table ref**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
Interest expense	*RR16.61*	256.055	246.651	264.777	248.912	276.534
Non-cash index'n		(122.113)	(96.152)	(93.908)	(79.809)	(80.936)
Issue costs amort		(0.591)	(0.612)	(0.813)	(0.965)	(0.956)
Other non-cash		0.177	0.342	0.311	0.204	0.134
Int adjs	*RR16.63*	(122.525)	(97.222)	(94.310)	(80.570)	(81.758)
Cash interest	*RR16.64*	143.530	149.429	170.467	168.342	194.776

Other non-cash items include rounding differences between interest charges calculated in the DCWW financing model and their equivalents calculated in RR24. This is the result of using rates rounded to two decimal places in RR24.

RR16.64 *Interest – for financial metrics*

Calculated cells.

RR16.65 *Excess Fast money*

Calculated cells.

RR16.66 *Adjustments to excess fast money*

None.

RR16.67 *Excess fast money – for financial metrics*

Calculated cells.

RR16.68 *Net debt*

Calculated cells.

RR16.69 *Further adjustments to net debt*

These adjustments are made to align the net debt values for actual company financial metrics with the actual company net debt outputs from the DCWW financing model.

At the start of the period the actual company's net debt is higher than the equivalent in the notional company modelling, however this shifts over the course of AMP8 as maturing index-linked debt is assumed to be replaced by fixed rate borrowings – reducing the level of indexation accretion on the balance sheet.

RR16.70 *Net debt – for financial metrics*

Calculated cells.

RR16.71 *RCV balance*

Calculated cells.

RR16.72 *Adjustments to RCV balances*

None.

RR16.73 *RCV balance – for financial metrics*

Calculated cells.

RR16.74 *Indexation of index linked loans*

Calculated cells.

RR16.75 *Adjustments to indexation of index linked loans*

These adjustments are made to align the indexation values for actual company financial metrics with the actual company indexation outputs from the DCWW financing model.

At the start of the period the actual company's indexation charges are much higher than the equivalent in the notional company modelling as a result of both a higher proportion of index-linked debt and this being linked to RPI rather than CPIH. The differential does reduce over the course of AMP8 as maturing index-linked debt is assumed to be replaced by fixed rate borrowings – reducing the level of indexation charges.

RR16.76 *Indexation of index linked loans – for financial metrics*

Calculated cells

RR16.77 *Profit after tax*

Agreed to profit for the year (RR18.14).

RR16.78 *Dividends*

Calculated cells.

Forecast annual value of company's contribution to social tariffs.

RR16.79 *Capex*

RR16.80 *EBIT less tax charge*

Operating profit (RR18.4) plus other income (RR18.5) less UK corporation tax (RR18.12).

RR16.81-123 *Actual structure metric calculations*

Calculated cells.

18. RR17 Financial metrics by scenario

We have used a process of scenario testing to demonstrate that the company's actual capital structure provides sufficient headroom to enable it to continue to deliver its commitments under a range of stressed conditions, and is financially resilient over the 2025-2030 period and beyond. In this commentary we show financial metrics to 2030 as required by the Business Plan tables.

In addition to these projections, the Board considered projections to 2035 to support it's assurance of the financeability of the plan and the financial resilience of the company.

We expect to maintain an investment grade rating even under stressed scenarios. We interpret this requirement as at least a BBB/Baa2 rating (one notch above the minimum investment grade) for two of the three credit rating agencies.

	Company Proposed Financial ratios
RR17.7 *RR17.20* *RR17.33* *RR17.46* *RR17.59* *RR17.72* *RR17.85* *RR17.98* *RR17.111* *RR17.124*	**Gearing – alternative calculation** This line reflects our gearing calculation as set out in the Common Terms Agreement governing Glas Cymru's whole business securitisation. In this calculation, net debt differs from Ofwat's measure (RR17.1) in that it includes interest accruals, unamortised issue costs and non-appointed values. See commentary to RR16.37 for more details.
RR17.8 *RR17.21* *RR17.34* *RR17.47* *RR17.60* *RR17.73* *RR17.86* *RR17.99* *RR17.112* *RR17.125*	**Adjusted interest cover – alternative calculation** These lines reflects our adjusted interest cover as calculated for the purpose of assessing our credit rating. See the commentary for RR16.38 for more details.
RR17.9 *RR17.22* *RR17.35* *RR17.48* *RR17.61* *RR17.74* *RR17.87* *RR17.100* *RR17.113* *RR17.126*	**FFO/net debt – alternative calculation** These lines reflect our FFO/net debt as calculated for the purpose of assessing our credit rating. See the commentary for RR16.39 for more details.

RR17.12-13
RR17.25-26
RR17.38-39
RR17.51-52
RR17.64-65
RR17.77-78
RR17.90-91
RR17.103-104
RR17.116-117
RR17.129-130

Limits for reverse stress tests

The headroom values in RR17 are calculated on a formulaic basis, representing the additional level of reduction in operating cash flows needed before any one of the metric thresholds is breached – whichever is first.

The extent of stretch required is expressed as a percentage, being the amount of headroom in a given scenario as a proportion of the equivalent headroom in the core plan.

The reverse stress test headroom is calculated as the projected value in GBP millions by which operating cash flows could deteriorate in each scenario before the key credit metrics used by rating agencies (Company proposed financial ratios) reached the following threshold levels:

Company Proposed Ratio B - AICR	<1.3x
Company Proposed Ratio C- FFO/net debt	<5.0%
Company Proposed Ratio A - Gearing	>80%

In practise, rating agencies will take a more holistic approach in assessing the company's creditworthiness and will consider a range of metrics and performance measures as well as other factors (e.g. financing structure and overall sector risk). We have seen this recently during a period of high inflation which has damaged interest cover metrics; low gearing and strong liquidity have helped to preserve our ratings at their current levels.

The stress tests indicate that in most adverse scenarios AICR is first to come under pressure, while the gearing threshold is unlikely to be breached – a ratings-positive element if other metrics fell below par.

AICR and FFO/debt headroom for each scenario is set out below, along with the gearing levels when both the AICR and FFO/debt thresholds are breached.

In the most adverse scenarios, the headroom when calculated on a formulaic basis is reduced to nil, implying that the credit rating could fall to BBB-/Baa3. However, in all instances gearing remains below 70%, significantly lower than the rating threshold and therefore the company is considered financially resilient.

	25/26	**26/27**	**27/28**	**28/29**	**29/30**
Core plan					
Pre-financing cash flows	(106.798)	(227.103)	(249.225)	(154.571)	34.270
AICR headroom to 1.3x	60.441	70.026	79.573	98.674	106.115
Gearing @ headroom breach	62.1%	62.8%	63.7%	64.2%	64.1%
FFO/debt headroom to 5.0%	80.486	115.774	121.626	160.639	164.203
Gearing @ headroom breach	62.4%	63.6%	65.0%	66.1%	66.6%

Scenario A	25/26	26/27	27/28	28/29	29/30
Pre-financing cash flows	(213.014)	(352.549)	(387.207)	(291.320)	(93.535)
AICR headroom to 1.3x	10.777	16.340	20.215	34.319	36.716
Gearing @ headroom breach	62.6%	64.1%	65.7%	66.8%	67.1%
FFO/debt headroom to 5.0%	26.214	52.429	51.077	82.329	77.973
Gearing @ headroom breach	62.8%	64.7%	66.7%	68.2%	69.0%
Headroom for reverse stress test	10.777	16.340	20.215	34.319	36.716
Stretch %	17.83%	23.33%	25.40%	34.78%	34.60%

Scenario B	25/26	26/27	27/28	28/29	29/30
Pre-financing cash flows	(106.798)	(343.958)	(253.956)	(159.464)	29.184
AICR headroom to 1.3x	60.441	-	76.096	95.268	102.652
Gearing @ headroom breach	62.1%	63.3%	64.2%	64.6%	64.5%
FFO/debt headroom to 5.0%	80.486	-	117.004	156.289	159.735
Gearing @ headroom breach	62.4%	63.6%	64.9%	66.0%	66.5%
Headroom for reverse stress test	60.441	0.000	76.096	95.268	102.652
Stretch %	100.00%	0.00%	95.63%	96.55%	96.74%

Scenario C	25/26	26/27	27/28	28/29	29/30
Pre-financing cash flows	(98.284)	(212.747)	(230.907)	(141.210)	30.037
AICR headroom to 1.3x	86.129	85.214	90.407	91.072	92.753
Gearing @ headroom breach	62.6%	63.7%	65.1%	66.1%	66.6%
FFO/debt headroom to 5.0%	153.802	167.859	162.752	179.470	172.375
Gearing @ headroom breach	63.5%	65.7%	67.9%	69.9%	71.4%
Headroom for reverse stress test	86.129	85.214	90.407	91.072	92.753
Stretch %	142.50%	121.69%	113.62%	92.30%	87.41%

	25/26	26/27	27/28	28/29	29/30
Scenario D					
Pre-financing cash flows	(89.840)	(200.876)	(235.275)	(146.028)	31.810
AICR headroom to 1.3x	114.017	104.251	71.264	89.186	96.393
Gearing @ headroom breach	62.6%	63.7%	64.3%	64.7%	64.7%
FFO/debt headroom to 5.0%	230.021	227.012	100.732	138.319	142.277
Gearing @ headroom breach	64.1%	66.8%	67.7%	68.6%	69.1%
Headroom for reverse stress test	114.017	104.251	71.264	89.186	96.393
Stretch %	188.64%	148.87%	89.56%	90.38%	90.84%

	25/26	26/27	27/28	28/29	29/30
Scenario E					
Pre-financing cash flows	(148.833)	(264.140)	(294.118)	(173.419)	42.661
AICR headroom to 1.3x	-	37.689	53.168	121.649	129.749
Gearing @ headroom breach	61.4%	62.0%	62.5%	63.2%	63.2%
FFO/debt headroom to 5.0%	-	-	12.507	205.263	208.181
Gearing @ headroom breach	61.4%	61.6%	61.7%	63.3%	63.9%
Headroom for reverse stress test	0.000	0.000	12.507	121.649	129.749
Stretch %	0.00%	0.00%	10.28%	123.28%	122.27%

	25/26	26/27	27/28	28/29	29/30
Scenario F					
Pre-financing cash flows	(106.818)	(231.467)	(253.834)	(154.929)	33.897
AICR headroom to 1.3x	60.421	65.681	75.078	98.548	105.991
Gearing @ headroom breach	62.1%	62.8%	63.7%	64.2%	64.1%
FFO/debt headroom to 5.0%	80.827	111.375	116.984	160.290	163.871
Gearing @ headroom breach	62.4%	63.6%	65.0%	66.1%	66.6%
Headroom for reverse stress test	60.421	65.681	75.078	98.548	105.991
Stretch %	99.97%	93.80%	94.35%	99.87%	99.88%

	25/26	26/27	27/28	28/29	29/30
Scenario G					
Pre-financing cash flows	(133.009)	(264.174)	(306.135)	(219.661)	(50.296)
AICR headroom to 1.3x	26.755	23.865	9.486	20.827	6.377
Gearing @ headroom breach	62.0%	62.6%	63.3%	63.6%	63.3%
FFO/debt headroom to 5.0%	52.429	77.723	63.948	95.332	79.723
Gearing @ headroom breach	62.3%	63.5%	64.9%	65.9%	66.4%
Headroom for reverse stress test	26.755	23.865	9.486	20.827	6.377
Stretch %	44.27%	34.08%	11.92%	21.11%	6.01%

	25/26	26/27	27/28	28/29	29/30
Scenario H					
Pre-financing cash flows	(106.798)	(293.049)	(251.840)	(157.268)	31.468
AICR headroom to 1.3x	60.441	4.692	78.663	97.811	105.226
Gearing @ headroom breach	62.1%	62.7%	63.7%	64.2%	64.1%
FFO/debt headroom to 5.0%	80.846	49.137	119.163	158.325	161.842
Gearing @ headroom breach	62.4%	63.5%	64.9%	66.0%	66.5%
Headroom for reverse stress test	60.441	4.692	78.663	97.811	105.226
Stretch %	100.00%	6.70%	98.86%	99.13%	99.16%

	25/26	26/27	27/28	28/29	29/30
Scenario I - Combined 1a					
Pre-financing cash flows	(187.326)	(331.140)	(352.086)	(259.689)	(68.790)
AICR headroom to 1.3x	8.389	3.030	18.022	32.710	36.285
Gearing @ headroom breach	62.4%	63.4%	64.7%	65.4%	65.6%
FFO/debt headroom to 5.0%	26.214	43.127	52.167	84.928	82.456
Gearing @ headroom breach	62.6%	64.1%	65.8%	67.0%	67.7%
Headroom for reverse stress test	8.389	3.030	18.022	32.710	36.285
Stretch %	13.88%	4.33%	22.65%	33.15%	34.19%

	25/26	26/27	27/28	28/29	29/30
Scenario J - Combined 1b					
Pre-financing cash flows	(182.280)	(321.947)	(339.992)	(249.116)	(66.449)
AICR headroom to 1.3x	21.733	11.983	25.191	31.204	32.503
Gearing @ headroom breach	62.6%	63.9%	65.4%	66.4%	66.8%
FFO/debt headroom to 5.0%	63.805	71.505	75.388	97.478	90.441
Gearing @ headroom breach	63.2%	65.1%	67.2%	68.9%	70.0%
Headroom for reverse stress test	21.733	11.983	25.191	31.204	32.503
Stretch %	35.96%	17.11%	31.66%	31.62%	30.63%

RR17.105 – RR17.117

Combined scenarios

In addition to the scenarios prescribed by the PR24 Final Methodology, we have considered two o further combined stress scenarios, which we consider are sever but plausible. The first (scenario I) involves a combination of totex underperformance and ODI penalties throughout the period, set at levels which are more appropriate for the RORE ranges put forward in our Business Plan. In the second (scenario J), these ongoing stresses are combined with a low inflation scenario to 2030.

Scenario I

Welsh Water Combined Scenario – Totex underperformance of 5% of totex in each year of the price control along with an ODI penalty equivalent to 0.75% of RORE in each year and a financial penalty equivalent to 1% of revneue in one year.

Scenario J

As per Scenario I, combined with low inflation 1% below central case.

Mitigating actions

The credit metric scenarios do not assume any in-year adjustments for the impact of regulatory cost sharing mechanisms or other mitigating effects. An end of AMP8 true-up of 50% of the assumed Totex overspend (in the water resources, and network plus price controls) is applied on 1 April 2030 in all relevant scenarios.

In addition to the regulatory true-up mechanisms, there are a number of mitigating actions that could be taken to address the pressure the severe scenarios create on the financial resilience of the company.

Options for addressing financeability issues include:

- **restriction of social tariff subsidies** - the actual company financial projections assume revenue foregone to fund social tariffs, in extreme stress scenarios social tariff subsidies could be managed down;
- **issuing a higher proportion of index linked debt** – our plans have been built on the assumption that all new debt is raise on a fixed rate. In practice, we operate a hedging strategy and a proportion of our new debt could be raised on an index linked basis. Issuing index linked debt would improve the interest paid during the stress period reducing interest payable with a lower cash coupon and indexation building up alongside the principal on the balance sheet and deferred until the principal is re-paid or re-financed;

Conclusion of financial resilience assessment

For both the actual and notional companies, our analysis gives a reasonable expectation that the company would remain financially viable to 2035, meeting in the round the minimum requirements in the round for retaining an investment grade credit rating:

- we comfortably outperform the benchmark for gearing under all stress scenarios;
- after mitigating actions and the impact of regulatory mechanisms are taken into account, we meet our judgement of the required benchmarks for the key credit metrics in the round; and
- interest cover metrics improve in AMP9, demonstrating that our PR24 plan is not storing up financeability risks for future periods.

19. RR18 Income statement - actual structure

RR18.1 *Revenue*

Revenues are reported in line with the table guidance, grossed up for the impact of forecast actual company contributions to social tariffs. These have been reported as a dividend outflow in the actual company modelling for the whole of the forecast period.

Note that this row reports values for the appointed business only.

Revenues (2025/26)	**Table ref**	**£m**
Revenues		1,036.241
Post financeability adjs		(8.835)
Other income[8]		29.133
Revenues	*RR18.1*	1,056.539
Less: social tariffs	*RR18.15*	(14.269)
Less: other income		-
Total revenues (IFRS)		1,042.270

Note also that the value reported for 2022/23 is £842.102m. This is £12.900m higher than the value of £829.202m reported in the 2022/23 Annual Performance Report Table 1a. This is the impact of grossing up for the assumed dividend as noted above. The £12.900m 'dividend' value is then deducted in row RR8.15.

RR18.2 *Operating costs*

Forecast operating costs are reported in the same format as the Annual Performance Report, including any profit on disposal of fixed assets (other operating income) and exceptional items:

Opex (2025/26)	**Table ref**	**£m**
Operating costs		390.324
Other operating inc		-
Exceptional item		-
Infra renewals (IRE)		102.773
Depreciation		434.622
Operating costs	*RR18.2*	927.719

RR18.3 *Other operating income*

This row reports the profit on sale of fixed assets for the 2022/23 report year. No similar profits or losses, or exceptional items, are anticipated during the forecast period, therefore this row otherwise reports a zero value.

RR18.4 *Operating profit*

Pre-populated; calculation is in line with guidance.

RR18.5 *Other income*

This row reports grants and contributions income related to infrastructure renewals expenditure (IRE) and the release of deferred income in respect of IFRIC 18 asset adoptions, consistent with the treatment in the 2022/23 Annual Performance Report.

[8] Other income is described as such in the Regulation team's modelling. This represents revenues outside of the price control but which still form part of regulated activities. This is distinct from 'other income' per RR18.5. Reported in RR.18 in line with the treatment in the APR.

Other income (2025/26)	**Table ref**	**£m**
IRE G&C		13.908
Deferred income release – adopted assets		14.790
Operating costs	*RR18.5*	28.698

RR18.6 *Interest income*

Funding is generally assumed to be drawn on 1 April in any given year, 12 months in advance of maturing debt requiring refinancing on the subsequent 31 March. Interest income therefore fluctuates in line with the value of cash on deposit and is offset by the related cost-to-carry of the new debt raised.

The yield on cash deposits is assumed to be 20 basis points higher than the relevant SONIA overnight rate over the forecast period, similar to deposit yields during 2022/23.

	AMP7		**AMP8**				
	23/24	**24/25**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
SONIA	4.5%	4.5%	4.0%	4.0%	3.5%	3.5%	3.5%
+20bps	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Total	4.7%	4.7%	4.2%	4.2%	3.7%	3.7%	3.7%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Interest	21.4	16.2	45.3	30.4	39.9	20.9	41.6
New debt	-	460[9]	1,265	450	855	240	765

RR18.7 *Interest expense*

All new borrowings are assumed to be at a fixed rate of interest. The proportion of index-linked debt held is forecast to fall from around 85% as at 31 March 2023 to around 60% by the end of AMP8.

	AMP7		**AMP8**				
	23/24	**24/25**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Bond indexation	119.7	64.7	53.8	46.4	42.8	44.1	45.4
Swap indexation	101.0	67.8	52.9	46.1	47.4	33.2	34.2
Bond interest	101.0	103.6	156.0	159.1	183.1	171.6	199.7
Bond wrap fees	5.2	5.4	5.6	5.7	5.8	4.2	4.4
Issue cost amort	0.7	0.7	0.6	0.6	0.8	1.0	1.0
Loan indexation	13.6	6.4	5.4	4.5	3.5	2.5	1.3
Loan interest	18.7	16.8	12.8	10.4	8.1	6.5	5.2
Lease interest	24.9	24.7	6.4	4.6	4.1	4.0	3.9
Swap coupons	(29.2)	(38.8)	(40.2)	(32.5)	(32.9)	(20.3)	(20.7)
RCF fees	0.3	1.4	1.4	0.3	0.3	0.3	0.3
Other interest	2.3	1.5	1.5	1.5	1.8	1.9	1.9
	358.0	254.3	256.1	246.7	264.8	248.9	276.5

Indexation on bonds, swaps and loans fluctuates in line with assumed RPI movements (cf PD1).

Bond interest rises over the period predominantly due to assumed new borrowings; the modelled actual company funding required for AMP8 is all assumed to be generated from the issue of fixed rate bonds.

Loan and lease interest fall as instruments mature over the forecast period.

[9] Temporary drawing on revolving credit facilities.

The total value of swap coupons reflects cash receipts on index-linked swaps, while RPI accrues on the principal balance and is payable at maturity.

RR18.8 Other interest expense

The value in 2022/23 is the net DB scheme interest cost as reported in the Annual Performance report. No similar values are forecast, therefore all other years report a zero value.

RR18.9 Profit before tax and fair value movements

Pre-populated; calculation is in line with guidance.

RR18.10 Fair value gains/(losses) on financial instruments

The value in 2022/23 is the fair value movement as reported in the Annual Performance report. It is difficult to forecast movements in market values over the forecast period, therefore the projections report the unwinding of opening fair values on maturity.

RR18.11 Profit before tax

Calculated cells.

RR18.12 UK Corporation tax

Pre-populated; calculation is in line with guidance.

RR18.13 Deferred tax

This is the current year movement in the deferred tax balances broadly calculated as set out in the RR5 detailed methodology with the following exceptions:

- We have used the income statement entries on RR18 to calculate the tax balances and not the numbers calculated by Ofwat's financial model.
- Capital allowances have been disclaimed so that the nominal loss allowance (of £5m) can be utilised each year, and so further tax losses are not created. The effect of disclaiming capital allowances is to reduce the amount of losses carried forward and to increase the tax written down value of the capital allowances pools carried forward.
- We have incorporated the pension movements entered in the data tables in line with the output for pension tax movements in the model.
- We have included an adjustment to fixed asset timing difference to reflect the expected movement in non-qualifying fixed assets. Based on previous years non-qualifying movements this has been estimated at £13.5m.
- The closing deferred tax balance includes a tax charge of 25% on the revaluation movement (as set out in RR28.9). The revaluation movement does not go through the income statement but is booked directly to reserves. Accordingly, the deferred tax charge on the revaluation movement is also booked to reserves rather than through the income statement tax charge.

RR18.14 Profit for the year

Pre-populated; calculation is in line with guidance.

RR18.15 Dividends

The values reported for the forecast years reflect the expected value of the actual company's contribution to social tariffs.

As a wholly debt-funded organisation having no ultimate shareholders, Welsh Water's contribution to social tariffs represents a return of generated value to customers and is therefore reported as a dividend distribution in these tables.

RR18.16-18 *Appointed – Tax analysis*

Based on the projected RR18 income statement we do not anticipate any current tax charge/credit to arise, and this is in line with RR5. There is a very small entry on these lines for 2023 which nets to £0.054m and reflects the amounts in the final 2023 APR accounts.

20. RR19 Statement of financial position - actual structure

RR19.1 *Fixed assets*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025. The values by reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast capital investment to 31 March 2025 (no disposals are anticipated), less depreciation and revaluation adjustments.

This row agrees to RR28.12.

RR19.2 *Intangible assets*

These rows are populated with outputs from the DCWW financial model as at 31 March 2025. The values by reflect those reported in the Annual Performance Report as at 31 March 2023 plus forecast capital investment to 31 March 2025 (no disposals are anticipated), less depreciation and revaluation adjustments.

RR19.3 *Investments – loans to group companies*

No loans to group companies are anticipated during the forecast period, therefore this row reports a zero value.

RR19.4 *Investments - other*

No balances of this nature are anticipated during the forecast period, therefore this row reports a zero value.

RR19.5 *Financial instruments*

Contrary to the definition, this row does not reflect the difference between the book value and fair value of financial instruments. It is hard to imagine why that would be reported on a company's balance sheet. The row provides a forecast estimate of the fair value of financial instruments, as would ordinarily be reported in both the statutory accounts and the Annual Performance Report.

This row is populated with outputs from the DCWW financial model. It is difficult to forecast movements in market value, therefore the projected values reflect those reported in the Annual Performance Report as at 31 March 2023 plus unwinding of those fair values on the maturity of each instrument.

The only swaps expected to mature during the forecast period are existing power hedges. The other swaps held are floating-to-index-linked (RPI) swaps on which the RPI element is paid down annually (hence no indexation value movement) and a floating-to-fixed interest rate swap.

	Table ref	AMP7 23/24	24/25	AMP8 25/26	26/27	27/28	28/09	29/30
Assets								
Non-current	*RR19.5*	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Current	*RR19.10*	2.0	-	-	-	-	-	-
Liabilities								
Current	*RR19.16*	-	-	-	-	-	-	-
Non-current	*RR19.23*	(84.6)	(84.6)	(84.6)	(84.6)	(84.6)	(84.6)	(84.6)
Total		(73.5)	(75.5)	(75.5)	(75.5)	(75.5)	(75.5)	(75.5)

RR19.6 *Retirement benefit assets*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report).

The scheme is closed to new members and future accruals, all staff instead having the opportunity to be members of the defined contribution scheme, the DCWW Group Personal Pension Plan.

It is not possible to predict the future impact of market movements on the defined benefit valuation, however it has been considered prudent to assume that the IAS 19 valuation will not be an asset for the period of the forecast. This row therefore reports a zero value.

RR19.7 *Total non-current assets*

Pre-populated; calculation is as expected although the line definition above – referring to fixed assets – is incorrect and has been ignored.

RR19.8 *Inventories*

This row is populated with outputs from the DCWW financial model, allocated to price controls in proportion to the latest audited net book value of tangible fixed assets (as at 31 March 2023).

Inventories comprise items principally relating to the operational business and therefore the values have been wholly allocated to Wholesale.

Price control	Table ref	£m
WR	*RR9.51*	0.258
WN	*RR9.52*	1.754
WWN	*RR9.53*	3.729
BR	*RR9.54*	0.199
RRET	-	-
BRET	-	-
Inventories	*RR19.8*	5.940

RR19.9 *Trade and other receivables*

This row is populated with outputs from the DCWW financial model as at 31 March 2025. In addition to trade receivables and the measured income accrual, the total includes other debtors which consist mainly of prepayments and miscellaneous other debtors.

31 March 2025	Unmeas £m	Household Measured £m	Non-HH Measured £m	Total £m
Trade receivables	58.524	57.832	11.518	127.873
Table ref	*RR7.32*	*RR7.33*	*RR8.4*	
Measured inc accrual				92.942
Other debtors				43.907
Billings in advance				451.428
Trade and other recs			*RR19.9*	716.150

RR19.10 *Financial instruments*

See RR19.5.

RR19.11 *Cash and cash equivalents*

This row is populated with outputs from the DCWW financial model. No overdraft is forecast, however a revolving credit facility is assumed to be used for a short period in 2024/25 and 2025/26; this has been included within current borrowings.

RR19.12 *Total current assets*

Pre-populated; calculation is in line with guidance.

RR19.13 *Trade and other payables*

This row is populated with outputs from the DCWW financial model and comprises the following items:

31 March 2025	Table ref	£m
Trade payables		60.720
Total other payables[10]		4.167
Other liabilities[11]		450.815
Receipts in advance		96.076
Trade+other payables	*RR19.13*	611.779

RR19.14 *Capex creditor*

This row is populated with outputs from the DCWW financial model and movements reflect forecast changes in working capital depending on the level of capital programme investment.

RR19.15 *Borrowings*

This row is populated with outputs from the DCWW financial model. The balances comprise the elements shown below, with new borrowings forecast to ensure that cash balances are held at around £250m.

[10] Principally employment liabilities.
[11] Principally deferred income.

Per the guidance; accrued interest on borrowings is not included in this balance.

	AMP7		AMP8				
	23/24	24/25	25/26	26/27	27/28	28/09	29/30
	£m	£m	£m	£m	£m	£m	£m
Loans due to group	3,775.4	3,891.1	4,694.6	5,034.2	5,450.5	5,761.3	5,910.8
Term loans	498.8	431.3	360.8	303.5	244.1	182.5	118.6
Lease liabilities	377.2	126.4	95.9	94.7	93.4	91.9	90.3
RCF	-	460.0	-	-	-	-	-
Total borrowings	4,651.4	4,908.8	5,121.3	5,432.4	5,788.0	6,035.7	6,119.7
Fixed	492.0	762.4	1,494.6	1,928.2	2,769.9	2,999.1	2,356.1
Floating	102.6	-	-	-	-	-	-
Index-linked	4,056.8	4,146.4	3,626.7	3,504.2	3,018.1	3,036.6	3,763.6
Total borrowings	4,651.4	4,908.8	5,121.3	5,432.4	5,788.0	6,035.7	6,119.7
RR19.15	341.5	1,164.7	235.8	593.2	72.1	792.0	248.7
RR19.22	4,309.9	3,744.1	4,885.5	4,839.2	5,715.9	5,273.7	5,871.0
Total borrowings	4,651.4	4,908.8	5,121.3	5,432.4	5,788.0	6,035.7	6,119.7

RR19.16 *Financial instruments*

See RR19.5.

RR19.17 *Current tax liabilities*

No corporation tax liability is anticipated during the forecast period, therefore this row reports a zero value.

RR19.18 *Provisions*

This row is populated with outputs from the DCWW financial model. The balances comprise the elements shown below.

The balance includes IFRIC 18 deferred income due within one year, in line with the 2023 Annual Performance Report. The balance of IFRIC 18 deferred income due after more than one year is reported separately on row RR19.27.

	AMP7		AMP8				
	23/24	24/25	25/26	26/27	27/28	28/09	29/30
	£m	£m	£m	£m	£m	£m	£m
Restructuring	1.7	-	-	-	-	-	-
Uninsured losses	4.7	4.7	4.7	4.7	4.8	4.8	4.8
Other	0.5	0.5	0.5	0.5	0.5	0.5	0.5
IFRIC 18 < 1 yr	15.6	15.2	14.9	14.5	14.2	13.7	13.4
Total provisions	22.5	20.4	20.1	19.7	19.5	19.0	18.7
RR19.18	2.9	1.2	1.2	1.2	1.3	1.3	1.3
RR19.25	19.6	19.2	18.9	18.5	18.2	17.7	17.4
Total provisions	22.5	20.4	20.1	19.7	19.5	19.0	18.7

RR19.19 *Total current liabilities*

Pre-populated; calculation is in line with guidance.

RR19.20 *Net current assets/(liabilities)*

Pre-populated; calculation is in line with guidance.

RR19.21 *Trade and other payables*

The forecast does not include and trade and other payables due after more than one year, therefore this row reports a zero value.

RR19.22 *Borrowings*

See RR19.15.

RR19.23 *Financial instruments*

See RR19.5.

RR19.24 *Retirement benefit obligations*

See RR19.6.

RR19.25 *Provisions*

See RR19.18.

RR19.26 *Deferred income – grants and contributions*
This row is populated with outputs from the DCWW financial model. The balance as at 31 March 2023 is as reported in the 2022/23 Annual Performance Report and no movements are projected during the forecast period.

RR19.27 *Deferred income – adopted assets*

This row is populated with outputs from the DCWW financial model. The balance includes IFRIC 18 deferred income due after more than one year, in line with the 2023 Annual Performance Report. The balance of IFRIC 18 deferred income due within one year is reported within provisions due within one year on row RR19.18 (see above).

RR19.28 *Preference share capital*

No preference share capital is held or forecast to be held, therefore this row reports a zero value.

RR19.29 *Deferred tax*

This row is populated with outputs from the DCWW financial model. The balance includes deferred tax in line with the 2023 Annual Performance Report. Forecast deferred tax balances have been calculated as set out in the commentary to Table RR18 and in the detailed working paper supporting the tax entries.

RR19.30 *Total non-current liabilities*

Pre-populated; calculation is in line with guidance.

RR19.31 *Net assets*

Pre-populated; calculation is in line with guidance.

RR19.32 *Called up share capital*

The value as at 31 March is as reported in the 2022/23 Annual Performance Report. No changed to share capital are anticipated during the forecast period, therefore the balance is static over the period.

RR19.33 *Retained earnings & other reserves*

This row is populated with outputs from the DCWW financial model. The balances comprise the elements shown below.

The revaluation reserve grows in line with the revaluation of fixed and intangible assets to the forecast Regulatory Capital Value. (This is forecast on an IFRS basis, taking into account the capitalisation of borrowing costs, and so the balances in this submission will not reconcile exactly to the forecast RCV values reported herein.)

Retained earnings moves in line with the forecast reported results for the year.

	AMP7		**AMP8**				
	23/24	**24/25**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Capital redemption	166.2	166.2	166.2	166.2	166.2	166.2	166.2
Revaluation	1,255.2	1,401.2	1,408.4	1,465.3	1,525.2	1,595.0	1,676.2
Retained earnings	(447.8)	(473.1)	(418.6)	(347.8)	(258.7)	(157.5)	(45.1)
Ret earn + other	973.6	1,094.2	1,156.0	1,283.7	1,432.7	1,603.7	1,797.2

RR19.34 *Total equity*

Pre-populated; calculation is in line with guidance.

21. RR20 Statement of cashflows - actual structure

All in nominal prices and £m to 3DP unless otherwise stated.

RR20.1 *Operating profit*

Pre-populated; calculation is in line with guidance.

RR20.2 *Other income*

Pre-populated; calculation is in line with guidance.

Note that the 2022/23 value differs from the published balance in the 2022/23 Annual Performance Report (APR). The difference has been included in RR20.4 "Amortisation – grants & contributions" in line with the guidance for that row (see below) and in order that RR20.9 "Cash generated from operations" agrees to the 2022/23 APR.

RR20.3 *Depreciation*

This row is populated with outputs from the DCWW financial model and is in line with the guidance.

RR20.4 *Amortisation – Grant and contributions*

This row is populated with outputs from the DCWW financial model. Note the treatment of the 2022/23 balance (see commentary to RR20.2).

RR20.5 *Changes in working capital*

This row is populated with outputs from the DCWW financial model. The spike in 23/24 is the impact of November 2022 CPIH on debt balances with no corresponding increase in trade creditors (this already having been built into most of the cost base).

RR20.6 *Pension contributions*

As at 31 March 2023 the IAS 19 accounting valuation of the DCWW Pension Scheme, Welsh Water's defined benefit scheme, was an asset of £12.010m, having taken into account a £30.800m exceptional charge for awards of pension increases above a 5% cap (see 2022/23 Annual Performance report). This gave rise to the £29.6m value on RR20.6 for that year.

No similar movements are forecast and therefore the remainder of the row reports a zero balance.

RR20.7 *Movement in provisions*

This row is populated with outputs from the DCWW financial model. Note that a positive value recognises a (net) increase in provisions while a negative value reflects the (net) use of provisions (cf commentary to RR19.18).

Significant movements relate to the establishment of a £15m provision against income in 2022/23, representing a £10 rebate per customer following the identification of historical leakage underperformance. That provision is utilised in 2023/24 and gives rise to a negative movement of similar size. The movement in 2024/25 reflects the utilisation of remaining AMP7 restructuring provision. Other movements are immaterial.

RR20.8 *Profit on sale of fixed assets*

No profits or losses are forecast on asset disposal beyond the small profit reported in 2022/23.

RR20.9 *Cash generated from operations*

Pre-populated; calculation is in line with guidance.

RR20.10 *Net interest paid*

This row is populated with outputs from the DCWW financial model and comprises the elements shown below.

	AMP7		AMP8				
	23/24	24/25	25/26	26/27	27/28	28/09	29/30
	£m	£m	£m	£m	£m	£m	£m
Bond interest	101.0	103.6	105.4	90.5	84.6	64.7	66.0
Bond wrap fees	5.2	5.4	5.6	5.7	5.8	4.2	4.4
New bond interest	-	-	50.6	68.5	98.5	106.9	133.6
Loan interest	18.0	17.6	13.5	10.9	8.6	6.8	5.4
RCF interest	0.3	1.4	1.4	0.3	0.3	0.3	0.3
Other debt costs	2.3	1.4	1.5	1.6	1.7	1.9	2.0
Lease interest	19.2	19.2	5.8	4.4	3.9	3.8	3.8
Swap coupons	(29.3)	(38.7)	(40.3)	(32.4)	(33.0)	(20.3)	(20.7)
Interest received	(21.4)	(16.2)	(45.3)	(30.5)	(39.9)	(20.9)	(41.6)
Net interest	95.3	93.7	98.2	119.0	130.5	147.4	153.2

RR20.11 *Tax paid*

This row is populated with outputs from the DCWW financial model. A tax rebate was received during 2022/23. There is no forecast liability to corporation tax during the forecast period, therefore all other balances report a zero value.

RR20.12 *Net cash generated from operating activities*

Pre-populated; calculation is in line with guidance.

RR20.13 *Capital expenditure*

This row is populated with outputs from the DCWW financial model, grossed-up for the grants and contributions values in RR20.14.

RR20.14 *Grants and contributions*

For 2022/23 the value is as reported in the Annual Performance Report. The remaining AMP7 values are taken from the 2023 Financial Plan (June update) as presented to the Board on 7 June (paper ref GCH/2023.06.07/2). AMP8 forecasts are as provided by the Regulation Team.

RR20.15 *Disposal of fixed assets*

No disposals are anticipated over the forecast period, therefore with the exception of the 2022/23 value as reported in the Annual Performance Report this row returns a zero value.

RR20.16 *Other*

No other movements have been identified, therefore this row reports a zero value.

RR20.17 *Net cash used in investing activities*

Pre-populated; calculation is in line with guidance.

RR20.18 *Net cash generated before financing activities*

Pre-populated; calculation is in line with guidance.

RR20.19 *Equity dividends paid*

The values reported for the forecast years reflect the expected value of the actual company's contribution to social tariffs.

As a wholly debt-funded organisation having no ultimate shareholders, Welsh Water's contribution to social tariffs represents a return of generated value to customers and is therefore reported as a dividend distribution in these tables.

RR20.20 *Net loans received*

This row is populated with outputs from the DCWW financial model and comprises the elements shown below. A negative value indicates that the total of repayments is higher than the proceeds from new borrowings.

	AMP7		AMP8				
	23/24	**24/25**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Repayments							
Term loans	(65.4)	(91.4)	(93.4)	(70.6)	(70.5)	(71.6)	(65.2)
Leases	(8.7)	(295.4)	(35.2)	(1.4)	(1.5)	(1.7)	(1.8)
Intra-group loan	-	-	(581.4)	(164.6)	(522.2)	-	(696.1)
New borrowings							
Fixed-rate bonds[12]	-	-	1,265.0	450.0	855.0	240.0	765.0
Facility movements							
RCF	-	460.0	(460.0)	-	-	-	-
Net loans received	(74.1)	73.2	95.0	213.4	260.8	166.7	1.9

RR20.21 *Cash inflow from equity financing*

No changes to existing share capital are forecast, therefore this row reports a zero value.

RR20.22 *Net generated from financing activities*

Pre-populated; calculation is in line with guidance.

RR20.23 *Increase (decrease) in net cash*

Pre-populated; calculation is in line with guidance.

This reconciles to RR.19, the balance sheet table, as follows:

	AMP7		AMP8				
	23/24	**24/25**	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
RR19.11							
Opening cash	320.3	160.2	181.3	188.7	189.8	189.3	189.7
Closing cash	160.2	181.3	188.7	189.8	189.3	189.7	189.6
Movement	(160.1)	21.1	7.4	1.1	(0.5)	0.4	(0.1)
RR20.23	(160.1)	21.1	7.4	1.1	(0.5)	0.4	(0.1)

12 Anticipated to be issued by Dwr Cymru (Financing) UK Ltd, the Glas Group's financing arm, therefore in practise this will form part of a net movement in the intra-group loan. Shown separately for clarity.

22. RR21 Net debt analysis (appointed activities)

Ofwat expect Table RR21 to be a replica of 2023 APR Table 1E and we have completed it on that basis. This commentary identifies any areas of the Ofwat guidance which require further details, e.g. reconciliation to other PR24 tables or explanation of variances therefrom.

RR21.1 *Borrowings (excluding preference shares)*

There is a difference of £9.815m between RR21.1 and the sum of lines RR19.15 and RR19.22. This is the net value of unamortised bond issue costs/premium which are excluded from Table RR21 but included in Table RR19:

31 March 2023		**£m**	**£m**
RR21.1			4,492.572
Unamortised issue costs			(9.815)
RR21 total borrowings			**4,482.757**
RR19.15	Borrowings (current)	65.588	
RR19.22	Borrowings (non-current)	4,417.169	
RR19 total borrowings			**4,482.757**

This difference is identical to that in the 2023 APR, between Tables 1E and 1C. A similar reconciliation was reported alongside Table 1C.

RR21.2 *Preference share capital*

This value is £nil in both tables.

Cost of debt

31 March 2023	**RR21**	**RR22**
Indicative weighted average nominal interest rate	13.89%	13.89%
Indicative weighted average cash interest rate	2.32%	2.19%

There is no variation between the values for nominal interest rates.

The cash interest rates differ by 0.127% (£5.584m) due to prepopulated calculations in 4B, a consequence of showing separately each leg of the finance lease inflation swaps.

This difference is identical to that in the 2023 APR, between tables 4B and 1E. A similar reconciling narrative was provided in the commentary to Table 4B.

Gearing

The gearing ratio used by the Company includes accrued interest as well as all cash held within the whole business securitisation structure.

The Ofwat measure of gearing excludes accrued interest and uses cash allocated to the appointed business only.

Net debt RCV Gearing £m £m % Gearing 4,172 7,161 58.27% Accrued interest 50 Loan from parent (3) Non-appointed cash (42) 5 Adjusted gearing 4,177 7,161 58.33%:

31 March 2023	Net debt £m	RCV £m	Gearing %
Gearing	4,172	7,161	58.27%
Accrued interest	50		
Loan from parent	(3)		
Non-appointed cash	(42)		
	5		
Adjusted gearing	4,177	7,161	58.33%

This is identical to the difference in 2023 APR Table 1C and this reconciliation was reported alongside that table.

23. RR22 Analysis of debt

Ofwat expect Table RR22 to be a replica of 2023 APR Table 4B and we have completed it on that basis. This commentary identifies any areas of the Ofwat guidance which require further details, e.g. reconciliation to other PR24 tables or explanation of variances therefrom.

RR22.7 *Fixed rate instruments*

The maturity date of the intercompany loan was reported as "N/A" in the equivalent 2023 APR table, 4B. In RR22.7 this has been left blank as text fields are not permitted (the loan being potentially in perpetuity, there is no maturity date).

Cost of debt

31 March 2023	RR21	RR22
Indicative weighted average nominal interest rate	13.89%	13.89%
Indicative weighted average cash interest rate	2.32%	2.19%

There is no variation between the values for nominal interest rates.

The cash interest rates differ by 0.127% (£5.584m) due to prepopulated calculations in 4B, a consequence of showing separately each leg of the finance lease inflation swaps.

This difference is identical to that in the 2023 APR, between tables 4B and 1E. A similar reconciling narrative was provided in the commentary to Table 4B.

24. RR23 Financial derivatives

Ofwat expect Table RR22 to be a replica of the summary section of 2023 APR Table 4B and we have completed it on that basis.

Additional notes:

RR23 Commentary requirement: Companies should flag instances of derivatives which do not fit the reporting categories in this table.

No such instances noted.

25. RR24 Debt balances and interest costs

RR24.1-4 *Fixed, floating and index linked debt (opening)*

This row is populated with outputs from the DCWW financial model. The balances are split between fixed, floating and index-linked debt based on the post-hedge position.

RR24.5-8 *Fixed, floating and index-linked issues*

These rows are populated with outputs from the DCWW financial model.

All new debt is assumed to be issued at a fixed rate. These are assumed to be fixed rate bonds with a 10-year tenor save for £460m in 2024/25 which relates to an assumed revolving credit facility drawing which is repaid the following year (see RR24.9 below).

RR24.9-12 *Fixed, floating and index-linked repayments*

These rows are populated with outputs from the DCWW financial model.

Repayments relate to existing rate debt only, save for the 2025/26 value which includes an assumed repayment of £460m revolving credit facilities (see also RR24.5 above).

RR24.13-14 *Indexation of index-linked loans (RPI/CPIH)*

These rows are populated with outputs from the DCWW financial model. The company holds only RPI-linked debt and no new index-linked debt is forecast during AMP7 or AMP8.

RR24.15-24 *Interest rates for existing and new debt*

These values are the interest rates required in order to recalculate the existing and new debt charges calculated in the DCWW actual company financing model.

Note that this approach generates rates that look high for new fixed rate debt (RR24.16) and CPI-linked debt (RR24.20) since the DCWW model assumes debt is raised on 1 April while Ofwat's calculation in RR24.34 applies only a half-year's interest to the year of issue. The rates in RR24.16 and RR24.20 are therefore doubled in order to generate the correct forecast interest charge in the year of issue.

RR24.25 *Floating rate debt interest paid*

Post hedging arrangements, there is not forecast to be any floating rate debt therefore this row reports a zero value.

RR24.26 *Bank interest rate (receivable)*

Interest receivable is forecast at 20 basis points above assumed overnight SONIA, in line with cash deposit yields experienced during 2022/23. See also commentary to RR18.6.

RR24.27 *Interest receivable (other)*

Other interest receivable reflects forecast income from the Elan Valley Trust Fund.

RR24.28 *Bank overdraft interest rate*

A notional fixed rate of 3.00% has been input as an assumed bank overdraft rate, however note that cash is not anticipated to be overdrawn during the forecast period. (3.00% is also the assumed rate for drawing on revolving credit facilities, used briefly in the forecast between 2024/25 and 2025/26.)

RR24.29-30 *Residential and business retail working capital financing cost rates*

Working capital financing cost rates reflect the overall nominal cost of debt for the appointed business for each year of the forecast period.

RR24.31-32 *Indexation rate for RPI and CPIH index linked debt percentage increase*

Calculated cells. From PD1.27 and PD1.28
The indexation rate for RPI index linked debt is derived from outputs of the DCWW financial model, this works in a similar way to other debt financing models. The model is dependent on assumptions of monthly RPI and CPIH year-on-year % values.
The % value is calculated based on the actual forecast indexation charge as a proportion of opening index-linked debt and may therefore be distorted by new borrowings/repayments during the year. The relevant RPI period for any given year's indexation is dependent on the individual instrument and in all cases predates the annual average for that year.

RR24.33-44 *Interest for financial metrics*

Calculated cells.

RR24.45 *Other interest costs*

This row reports the value of miscellaneous other borrowing costs, including rating agency fees.

It also includes rounding differences between the DCWW financing model and the PR24 tables generated from completion of the tables to two decimal places. An adjustment has been made within this row in order to ensure that the total interest cost reported on row RR24.46 agreed to the interest cost in the income statement table RR18 (row 15).

	AMP7	AMP8				
	24/25	**25/26**	**26/27**	**27/28**	**28/09**	**29/30**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Miscellaneous	1.482	1.501	1.609	1.726	1.853	1.990
Rounding diffs	(0.241)	0.203	(0.004)	0.152	(0.084)	(0.211)
Other interest cost	1.241	1.704	1.605	1.878	1.769	1.779

RR24.46 *Total interest costs*

Calculated cells.

26. RR25 Weighted average cost of capital for the Appointee

This table has been populated using the notional capital structure and the initial view of the appointee and wholesale allowed return in Appendix 11, table 2.1 of the final methodology, see screenshot below. Where ranges were provided, we have used the midpoint, with the exception of RR25.8.

Our use of Ofwat's early view of the WACC in our Business Plan tables does not mean that we accept that it is appropriate.

Given the significant movements in underlying market information since the 'early view' WACC was announced we expect Ofwat's view of the WACC to change significantly at the Draft Determinations stage in July 2024.

We have made representations on Ofwat's approach to calculating the WACC as part of our response to the consultation on the Draft Methodology for PR24.

It is crucial that the WACC is ultimately set at the appropriate level based on all relevant information taken in the round, including the overall risk and return balance in the Draft and Final Determinations, and the need for the water sector to raise additional capital in order to deliver on its ambitions for AMP8 and beyond. This may not necessarily be the level that results from the CAPM methodology, which is itself sensitive to decisions around which historic input data is deemed to be appropriate.

We have a general concern that is relevant to all components of the calculations of the WACC namely the role played by different price indices. At PR19 Ofwat relied on a number of relatively uncontroversial assumptions, e.g. that the CPIH would broadly track the CPI that is targeted by the Bank of England's Monetary Policy Committee, and that the CPIH could be assumed to grow 1% slower than the RPI. These were necessary, for example, to derive a forward-looking estimate of the real (CPIH) risk-free rate on the basis of historical data on RPI-linked gilts. In the current inflationary environment these assumptions have broken down. The RPI-CPIH wedge is currently running at around 3%, and even CPI and CPIH have diverged significantly. Navigating the conversions from one basis to another in deriving the components of the WACC is likely to involve methodological choices at a detailed level on which the PR24 methodology is largely silent.

Table 2.1: Our 'early view' allowed return on capital for PR24 (real, CPIH)

	PR24 range / central view	Notes
Notional gearing	**55%**	The percentage share of debt in the capital structure of the notional company. We explain our reasoning in Appendix 10 – Aligning risk and return.
Total Market Return	**6.00% - 6.92%**	The return expected by the market for being invested in a well-diversified benchmark index of equities. We discuss TMR in section 3.4.
Risk-free rate	**0.47%**	We set the RFR by reference to 20 year index-linked gilts as a reasonable proxy. We discuss the RFR in section 3.3.
Equity risk premium	**5.53% - 6.45%**	Calculated as the difference between the Total Market Return and the risk-free rate.
Raw beta	**0.58 – 0.60**	The direct econometric estimate of beta derived for our composite of United Utilities and Severn Trent. We discuss betas in section 3.5
Unlevered beta	**0.26 – 0.29**	A measure of undiversifiable risk faced by ungeared investors in water and reflecting a zero debt beta. We discuss betas in section 3.5.
Debt beta	**0.15 – 0.05**	A measure of undiversifiable risk faced by debt investors in water. We discuss debt beta in section 3.5.5.
Listed comparator gearing	**55.3% - 51.4%**	The enterprise value gearing of the composite of United Utilities and Severn Trent.
Asset beta	**0.34 – 0.32**	A measure of undiversifiable risk faced by ungeared investors in water and reflecting a non-zero debt beta. We discuss betas in section 3.5.
Re-levered equity beta	**0.58 – 0.64**	A measure of undiversifiable risk faced by geared investors in water, assuming a 55% gearing level.
Allowed return on equity	**3.67% - 4.60% (4.14% - central view)**	An estimate of the return required by equity investors in the notional company, derived using the CAPM.
Cost of embedded debt	**2.34%**	An estimate of the average interest rate for outstanding debt over 2025-30. We discuss embedded debt in section 4.2
Cost of new debt	**3.28%**	An estimate of the average interest rate for debt which will be raised over 2025-30. We discuss new debt in section 4.3
Share of new debt	**17%**	The average share of new debt over 2020-25. We discuss the share of new debt in section 4.4.
Issuance and liquidity costs	**0.10%**	Non-interest costs associated with debt financing. We discuss issuance & liquidity costs in section 4.5.
Allowed return on debt	**2.60%**	Weighted average of new and embedded debt costs using the share of new debt to inform weights.
Appointee WACC	**3.29%**	Weighted average of the cost of debt and cost of equity, using 55% gearing to inform weights.
Retail margin deduction	**0.06%**	Deduction to avoid double counting systematic retail risks which are funded via the retail margin. We discuss retail margin in chapter 5.
Wholesale WACC	**3.23%**	Allowed return to be applied to the wholesale controls.

RR25.1 *Notional gearing*

This has been populated with the notional gearing level as per the final methodology and the table above.

RR25.2 *Total Market Return (TMR)*

In the final methodology table above, Ofwat provided a range for the TMR. As per Ofwat's response to query 468, this line is populated with the midpoint of the range. To comply with the table requirement, it has then been rounded to 2dp.

RR25.3 *Risk free rate (RFR)*

This has been populated with the risk free rate as per the table above in the final methodology.

RR25.4 *Equity risk premium*

Calculated cell, within the range provided above.

RR25.5 *Debt beta*

In the final methodology table above, Ofwat provided a range for the "debt beta". As per Ofwat's response to query 468, this line is populated with the midpoint of the range.

RR25.6 *Raw equity beta for listed company comparator*

In the final methodology table above, Ofwat provided a range for the "raw beta". As per Ofwat's response to query 468, this line is populated with the midpoint of the range.

RR25.7 *Actual gearing of listed company comparator*

In the final methodology table above, Ofwat provided a range for the listed comparator gearing. As per Ofwat's response to query 468, this line is populated with the midpoint of the range.

RR25.8 *Unlevered beta*

Following Ofwat's proposal in response to query 468, this is populated with 0.2775 and not rounded to 2dp. This is to ensure that the cost of equity matches Ofwat's central view.

RR25.9 *Asset beta*

Calculated cell, within the range provided above.

RR25.10 *Re-levered equity beta*

Calculated cell, within the range provided above.

RR25.11 *Overall cost of equity (used in WACC)*

Calculated cell, aligning with the central view provided in the table above.

RR25.12 *Cost of embedded debt*

This has been populated with the "cost of embedded debt" figure as per the table above in the final methodology.

RR25.13 *Cost of new debt*

This has been populated with the "cost of new debt" figure as per the table above in the final methodology.

RR25.14 *Ratio of embedded to new debt*

This has been populated with the 100% minus the "Share of new" debt provided in the table above in the final methodology.

RR25.15 *Issuance and liquidity costs*

This has been populated with the issuance and liquidity costs as per the table above in the final methodology.

RR25.16 *Overall cost of debt (used in WACC)*

Calculated cell, matching the "Allowed return on debt" figure provided in the table above.

RR25.17 *WACC – vanilla (pre-tax cost of debt and post-tax costs of equity)*

Calculated cell, matching the "Appointee WACC" figure provided in the table above.

RR25.18 *Tax (marginal rate of corporation tax)*

The tax rate has been set equal to the current rate of corporation tax.

RR25.19 *WACC – fully post-tax*

Calculated cell.

RR25.20 *Retail margin deduction*

This has been populated with the risk free rate as per the table above in the final methodology.

RR25.21 *Wholesale WACC*

Calculated cell, matching the "Wholesale WACC" figure provided in the table above.

27. RR26 Weighted average cost of capital by wholesale price control

This table has been populated similarly to RR25, using the notional capital structure and the initial view of the appointee and wholesale allowed return in Appendix 11, table 2.1 of the final methodology, see commentary for RR25. Where ranges were provided, we have used the midpoint, with the exception of RR26.8. This table does not include the retail margin, therefore in order to ensure the final WACC – RR26.17 to matches the final Wholesale WACC in RR25.12, the overall cost of equity has been adjusted by flexing the unlevered beta in RR26.8. The same values are used for all price controls.

RR26.1 *Notional gearing*

This has been populated with the notional gearing level as per the final methodology and the table above.

RR26.2 *Total Market Return (TMR)*

In the final methodology table above, Ofwat provided a range for the TMR. As per Ofwat's response to query 468, this line is populated with the midpoint of the range. To comply with the table requirement, it has then been rounded to 2dp.

RR26.3 *Risk free rate (RFR)*

This has been populated with the risk free rate as per the table above in the final methodology.

RR26.4 *Equity risk premium*

Calculated cell, within the range provided above.

RR26.5 *Debt beta*

In the final methodology table above, Ofwat provided a range for the "debt beta". As per Ofwat's response to query 468, this line is populated with the midpoint of the range.

RR26.6 *Raw equity beta for listed company comparator*

In the final methodology table above, Ofwat provided a range for the “raw beta”. As per Ofwat’s response to query 468, this line is populated with the midpoint of the range.

RR26.7 *Actual gearing of listed company comparator*

In the final methodology table above, Ofwat provided a range for the listed comparator gearing. As per Ofwat’s response to query 468, this line is populated with the midpoint of the range.

RR26.8 *Unlevered beta*

Following Ofwat’s proposal in response to query 469, this is populated with 0.267 and not rounded to 2dp. This is to ensure that the cost of equity matches Ofwat’s wholesale WACC (4.00% = (3.23% - 55%*2.6%)/45%), therefore the Wholesale WACC in RR26.17 matches RR25.21.

RR26.9 *Asset beta*

Calculated cell, within the range provided above.

RR26.10 *Re-levered equity beta*

Calculated cell, within the range provided above.

RR26.11 *Overall cost of equity (used in WACC)*

Calculated cell, aligning with the wholesale WACC provided in the table above. (4.00% = (3.23% - 55%*2.6%)/45%)

RR26.12 *Cost of embedded debt*

This has been populated with the “cost of embedded debt” figure as per the table above in the final methodology.

RR26.13 *Cost of new debt*

This has been populated with the “cost of new debt” figure as per the table above in the final methodology.

RR26.14 *Ratio of embedded to new debt*

This has been populated with the 100% minus the “Share of new” debt provided in the table above in the final methodology.

RR26.15 *Issuance and liquidity costs*

This has been populated with the issuance and liquidity costs as per the table above in the final methodology.

RR26.16 *Overall cost of debt (used in WACC)*

Calculated cell, matching the “Allowed return on debt” figure provided in the table above.

RR26.17 *Wholesale WACC*

Calculated cell, matching the "wholesale WACC" figure provided in the table above and RR25.21.

28. RR27 Revenue analysis

Revenue for 22/23 is as reported in the APR table 2i.

Revenue forecasts for 23/24 and 24/25 reflect the latest forecast revenues for these years, based on charge setting for 23/24 and the anticipated values to be used for 24/25.

2023/24 - In setting tariffs for 2023/24, we targeted recovery of the remaining RFI allowance. No adjustment was made in respect of ODI performance. Our forecast for 2023/24 assumes that the targeted level of revenue is recovered. This will result in a large over recovery compared to the calculated revenue cap for this year, which will be adjusted for through the PR24 reconciliation calculation. A reconciliation of forecast wholesale revenue against the allowance is set out in the commentary for table PD5.

2024/25 - Tariffs for 2024/25 have not yet been set. In the forecast we assume that revenue will be collected in line with the allowed cap, taking into account expected ODI performance from 2022/23 in line with our in-period submission. We have also adjusted our 2024/25 forecast revenue to take account of the calculated RFI correction arising from 2022/23 performance.

The values for 25/26 – 29/30 in this table are set to reconcile to the total wholesale water revenue, total wholesale wastewater revenue and total retail revenue for every year of AMP8, as calculated through the financial model. These are allocated between unmeasured, measured and 3rd party and between residential and business in line with the expected movements in customer numbers, as set out in table SUP1A.

29. RR27a Revenue analysis

RR27a.1-4 **Residential: Business split**

All third party revenue is allocated to business, therefore the Residential column is shown as 0.00% and the Business column is shown as 0.00%.

RR27a.5-7 **Wastewater Charges Split**

These lines represent the proportion of revenue from each type of charge recoverable between the three categories of wastewater charge. These are calculated based on the forecast revenues shown in table RR27 lines 5-7 for unmeasured and 8-10 for measured.

30. RR28 Historic cost analysis of tangible fixed assets

RR28.1 *Cost – At 1 April*

The values as at 1 April 2022 are from the 2022/23 Annual Performance Report. Subsequent years' values are aligned to RR28.6.

RR28.2 *Cost - Disposals*

The values for 2022/23 are from the 2022/23 Annual Performance Report. No disposals are forecast for subsequent years, therefore this row reports a zero value.

RR28.3 *Cost - Additions*

The values for 2022/23 are from the 2022/23 Annual Performance Report.

AMP8 Wholesale additions have been allocated to price controls in line with the expenditure plans. Retail additions have been allocated in line with tables RR7 and RR8.

RR28.4 *Costs - Adjustments*

Except for 2022/23 which has been populated in line with the Annual Performance Report, no adjustments have been made to cost and therefore this row otherwise reports a zero value. Revaluation adjustments have been made to accumulated depreciation and these are reported in RR28.9.

RR28.5 *Cost – Assets adopted at nil cost*

It is difficult to forecast the value of adopted assets in any given year and this row reports a zero value. Any forecast assets would be offset by a related deferred income creditor of the same value, i.e. £nil impact on the balance sheet. On amortisation of the asset values, the creditor would be released at the same time resulting in a £nil impact on the income statement.

RR28.6 *Cost – At 31 March*

Pre-populated; calculation is in line with guidance.

RR28.7 *Depreciation – At 1 April*

The values as at 1 April 2022 are from the 2022/23 Annual Performance Report. Subsequent years' values are aligned with RR28.11.

RR28.8 *Depreciation - Disposals*

The values for 2022/23 are from the 2022/23 Annual Performance Report. No disposals are forecast for subsequent years, therefore this row reports a zero value.

RR28.9 *Depreciation - Adjustments*

This row includes the impact of revaluation adjustments. These are applied to operational assets (fixed assets used in the wholesale business) in order to bring the total IFRS book value of fixed and intangible assets in line with the forecast Regulatory Capital Value. This is forecast on an IFRS basis, taking into account the capitalisation of borrowing costs, and so the balances in this submission will not reconcile exactly to the forecast RCV values reported.

RR28.10 *Depreciation – Charge for year*

The values for 2022/23 are from the 2022/23 Annual Performance Report.

Depreciation for subsequent years has been calculated within the DCWW financing model, allocated to price controls in line with projected cost/valuation balances. These values may differ from the charges reported in price control-specific tables as they are an apportionment of the appointee-level depreciation charge.

RR28.11 *Depreciation – At 31 March*

Pre-populated; calculation is in line with guidance.

RR28.12 *Net book amount at 31 March*

Calculated cells.

RR28.13 *Net book amount at 1 April*

Calculated cells.

RR28.14 *Depreciation charge for year – principal services*

The values for 2022/23 are from the 2022/23 Annual Performance Report.

The entries for subsequent years have been allocated in proportion to the 2022/23 values.

RR28.15 *Third party services*

The values for 2022/23 are from the 2022/23 Annual Performance Report.

The entries for subsequent years have been allocated in proportion to the 2022/23 values.

RR28.16 *Total*

Calculated cells.

31. RR29 Asset lives

RR29.1-8 *Average asset lives for all fixed assets (by wholesale and retail price control)*

These are calculated as the closing asset cost divided by the annual depreciation charge as reported in RR28.

RR29.9 *Total average asset lives for all fixed assets – legacy assets plus new additions*

This is calculated as the total closing asset cost divided by the annual depreciation charge as reported in RR28.

32. RR30 RORE Analysis

Return on regulatory equity (RORE) is the financial return on regulated equity expected to be achieved by the equity holder in an appointee company during a price control period, from its performance under the price control.

The return is expressed as a percentage of the notional equity in the business. The notional equity is the proportion of the regulatory capital value (RCV) assumed to be funded by equity in the notional capital structure. For the period 2025-30, regulatory equity is assumed to be 45% of RCV.

The base level of RORE is derived from the allowed cost of equity and expected retail earnings. However, the actual return earned in practice will depend on our actual performance. We have used RoRE scenario analysis to assess the impact of risk on the delivery of the business plan.

The following commentary explains how each high and low scenario has been calculated for each component of RoRE.

RR30.1-6 **Totex scenarios**

RR30.22-27

There are two components to the Totex scenarios as shown in the table below.

	P10- WSH	P90- WSH
Wholesale Totex	(1.39%)	0.56%
Retail expenditure	(0.34%)	0.04%
Total	**(1.73%)**	**0.60%**

Wholesale Totex

Ofwat considers a P10 and P90 of +/-8.5% for totex over/underspend based on historical analysis, resulting in a RoRE range of +/-1% of regulatory equity.

The analysis is based on performance from 2015-20 across the sector. The data shows that historically we have overspent our allowance over the last three AMP periods and are currently 1.8% overspend for AMP7 and are forecasting an overspend of 6.2% for AMP7 as a whole. On this basis we consider the risk to be more skewed to the downside for Welsh Water than suggested by the historic industry analysis. The PR19 Final Determination set stretching cost allowances and performance targets, AMP7 overspends result from covid related expenditure, capital programme price pressures over and above the rate of inflation and additional performance improvement focussed expenditure.

Our PR24 plan is also ambitious and sets stretching performance commitment levels and ambitious operating and maintenance cost efficiency targets of 11% by the end of the AMP. Failure to deliver the full extent of the cost savings is one of the largest risks to the delivery of our PR24 plan. There is significantly more downside risk than upside risk associated with delivering these cost saving programmes. Given the already stretching nature of the programme the scale of outperformance opportunities in limited.

Having reviewed our historical performance for totex overspend over the last 3 AMPs and the extend of stretch in our AMP8 plans we consider there to be a P10 downside risk of 10% of Totex expenditure and the potential upside of no more than 4% of Totex expenditure. We have used this and an assumption of 50/50 sharing rates to calculate a wholesale totex RoRE range of between -1.4% to 0.5%.

Retail expenditure

Our assessment of the downside retail cost risk is based on the average outturn expenditure in AMP7 to date which shows a -20% overspend. We note that this includes the impact of higher than planned inflation during AMP7 on our actual retail costs. Given that Ofwat have not committed to the indexation of retail allowances this risk continues into AMP8. Based on the stretching nature of the planned efficiency savings we consider there to be no more than 4% potential upside on retail expenditure. We have used this range of -20% to 4% to calculate a retail RORE range of -0.34% to 0.04%.

RR30.7-11 **Outcome Delivery Incentive (ODIs) scenarios**

RR30.28-32

Full detail of Welsh Water's ODI package is available in the "WSH31-ODI rates" document. The ODI document sets out to calculating the RORE including the approach to deriving the ODI rate and P10 and P90s.

The RORE analysis in RR30 is based on our proposed ODI rates and not Ofwat's 'indicative' rates. Using Ofwat's indicative rates results in the ODI component of the RORE range being -5.54% to 2.97%, and the overall RORE range becoming -9.13% to 4.96%.

RR30.12-14 **Financing scenarios**

RR30.33-35

Financing outperformance and underperformance can be driven through inflationary impacts including the impact of the RPI-CPIH wedge and new debt issuance outperformance. The financing RORE range is wider than Ofwat's due to our inclusion of a component for risk of changes to the RPI-CPHI 'wedge'.

PR24 determination will be indexed by CPIH, however the majority of index linked debt is linked to RPI. Ofwat assumes a 1% 'wedge' between RPI and CPIH. We model a 2% widening and 1% narrowing in the wedge based on current market conditions.

	P10- WSH	P90- WSH
Inflation- Fixed Rate Debt	(0.60%)	0.60%
Inflation Impact- RPI- CPIH Wedge	(0.61%)	0.30%
Performance on New Debt	(0.05%)	0.10%
Total	**(1.26%)**	**1.00%**

Inflation Impact

The inflation impact in the high and low case is as a result of the impact of inflation on fixed and index linked debt and the impact of changes to the RPI-CPIH wedge.

Inflationary Impacts- Fixed Rate Debt

The first inflation impact on financing costs is through the proportion of fixed rate debt. This is because the component of the RCV that is financed by fixed rate debt increases with inflation, whilst the fixed-rate debt stays constant. Our approach to calculating the risk is aligned to Ofwat's approach outlined in the PR4 final methodology appendix 10- Aligning risk and return,

Ofwat's 'early view' allowed return uses the Bank of England's 2.0% CPI target. An inflation risk of +/- 1% is examined within the RORE scenario. The RoRE impact is calculated based on the notional capital structure using a 33% split of index linked debt (as a portion of the entire debt portfolio of the notional company) and 55% notional gearing level.

$$\frac{Gearing}{1 - Gearing} * ILD\ Prop * Inflation\ Variance * (1 - tax\ rate)$$

This results in an inflation RoRE impact of between -0.6% and 0.6%.

Inflationary impacts- RPI- CPIH Wedge

The second inflation impact on RoRE is as a result of the deviation in the RPI-CPIH wedge assumed in the price review. The RCV is indexed by CPIH, however the vast majority of industry indexed linked debt is (and is expected to continue to be) RPI linked. This mismatch poses a significant financeability risk to companies.

An increase or the decrease in the RPI-CPIH wedge will result in an underperformance or outperformance of the financing costs respectively. Ofwat's inflation assumptions for PR24 assume that the wedge will return to 1.00% by 2025 and remain there throughout the AMP8 period. However, inflation data in June 2023 shows the wedge at 3.3% and whilst this closed to 2.6% in July, August data saw the wedge widen again to 2.9%.

If the wedge persists at around 3% this is 2 percentage points higher than Ofwat's assumption. We consider this to be a plausible P10 scenario. At P90 the wedge could narrow to 0%, driven by convergence of RPI and CPIH by 2030. The impact on RORE is calculated based on the notional company, assuming 55% notional gearing and 33% of the debt is index linked.

$$\frac{Gearing}{1-Gearing} * ILD\ Prop * Wedge\ Variance * (1\text{-tax})$$

This results in a RoRE impact of +0.3% to (0.61%).

Performance on Raising New Debt

The cost of new debt included in the business plan for the notional company is inline with Ofwat's 'early view' of the WACC. The cost of new debt will be indexed with reference to a benchmark index. The scope for financing outperformance is therefore limited to our ability or otherwise to beat the selected index for the cost of new debt. Ofwat's historical analysis indicates a P10 and P90 range between -0.7% and 0.3% compared with the allowed return on new debt. Converting this into RoRE gives a range between -0.05% and 0.10%.

RR30.15-18 **Customer Measures of Experience scenarios**

RR30.36-39

These lines in include the RORE impact of C-MeX and D-MeX. BR-MeX is not included as it does not apply in Wales.

	P10- WSH	P90- WSH
C-MeX	(0.10%)	0.07%
D-MeX	(0.12%)	0.00%
Total	**(0.22%)**	**0.07%**

C-MeX

Our approach to assessing the RORE risk for C-MeX is based Ofwat's preferred approach in the "Consultation on the measures of experience performance commitment at PR24[13]". The final methodology and consultation outline an indicative change to the strength of the C-MeX incentives from +/-12% of retail revenues to +/-18%. The consultation proposes a change to the calculation of

[13] https://www.ofwat.gov.uk/wp-content/uploads/2023/07/Consultation-measures-of-experience-at-pr24.pdf

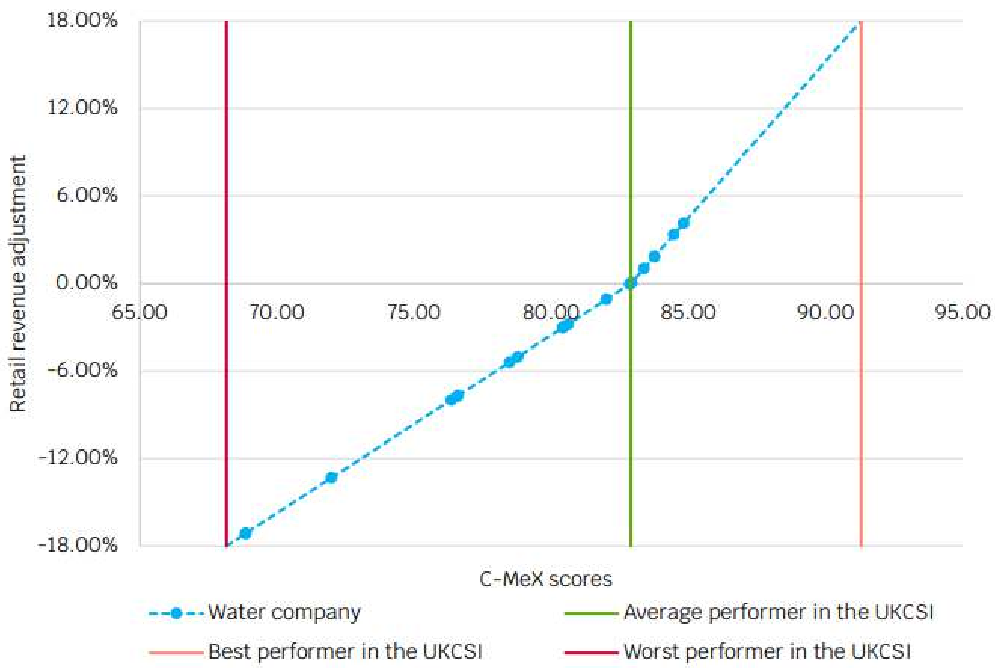
incentive payments, moving to a proportion of regulatory equity. However, the consultation does not consult on the level of return at risk.

Our calculations of RORE for the business plan submission has been calculated based on a proportion of retail revenue. As set out in our response to the Draft P24 Methodology and the consultation on measures of experience we do not agree with the proposed changes to the strength of the incentive or the switch to a proportion of regulatory equity.

Historically we have performed well on C-MeX ranking 4th in 2020/21 and 2022/23 and 5th in 2021/22. At PR19 our RORE range for C-MeX is based on achieving rewards of 0% to 6% or retail revenue. This is based on a P10 of being an average performer and a P90 of being the best performer within the industry, whilst not achieving the higher outperformance payments.

The consultation on C-MeX proposes a change to the calculation of the incentives. The proposed changes move C-MeX from being a relative measure between water companies to one that looks at performance against the wider economy through the use of the UKCSI. The revised incentives are to be based on performance relative to the benchmark. Figure 2.4 from the consultation shows the industry 2021-22 performance and the approach to the calculation of underperformance outperformance.

Figure 2.4 – C-MeX scores in 2021-22 under our preferred option



Based on our historical performance and Ofwat's propose changes to the framework, we estimate that our RORE range at PR24 for C-MeX is -6% to 4% of retail revenue.

The move to examining performance relative to the UKCSI reduces the opportunities to earn high outperformance payments. The nature of the service provided, and the nature of the relationship between the company and its customers, is quite different for utilities, particularly where customers are unable to choose their service provider. Furthermore, the service provided is a 'background' service which is largely taken for granted day to day by customers. It may not therefore be realistic to expect even the best performing water company to be able to achieve the highest scores on UKCSI as customers are more difficult to 'impress' for such a service. We select 4% of retail revenue at P90 as being reflective of the current best in sector performance. We select -6% of retail revenue at P10 being reflective of the current average sector performance. This is equivalent to +0.07% to -0.1% of RoRE.

		2025-26	2026-27	2027-28	2028-29	2029-30
Residential Retail Allowed Revenue	£m	61.871	59.083	56.148	55.185	55.263
P90 Proportion of Revenue	%	4%	4%	4%	4%	4%
P10 Proportion of Revenue	%	(6%)	(6%)	(6%)	(6%)	(6%)
C-MeX P90	£m	2.475	2.363	2.246	2.207	2.211
C-MeX P10	£m	(3.712)	(3.545)	(3.369)	(3.311)	(3.316)

2022-23 prices

D-MeX

Our approach to assessing RORE risk for D-MeX is based on the PR24 final methodology which set out that the maximum incentive payments would remain at +6% to -12% of a company's annual developer services revenue. The "Consultation on the measures of experience performance commitment at PR24[14]" proposes a change to the calculation of incentive payments, moving to a proportion of regulatory equity. However, the consultation does not consult on the level of return at risk.

Based on the evidence set out in our response to the consultation on customer measures of experience, legislative differences in Wales mean that the divergence in both legislation and regulations between Wales and England has a major impact on our D-MeX scores, and precludes an equitable comparison between companies in Wales and England. Without changes to account for these differences we expect at P90 to be no higher than the average performer and at P10 we expect that we could incur the maximum penalty. Our RORE analysis therefore assumes D-MeX outperformance payments of 0% and underperformance payments of 12% of developer service revenues. Developer services revenue in the price control is the sum of lines DS1w.8 and DS1w.19. The RoRE range of +0% to -12% of developer services revenue is equivalent to +0% and -0.10% of RoRE.

		2025-26	2026-27	2027-28	2028-29	2029-30
Water Price Control developer Services revenue before deduction of income offset (£m)	DS1w.8	24.92	31.017	31.225	30.923	26.972
Wastewater Price Control developer Services revenue before deduction of income offset (£m)	DS1w.19	6.594	6.438	6.404	6.295	6.191
Total DS Revenue for D-MeX		31.514	37.455	37.629	37.218	33.163
P90 Proportion of Revenue	%	0%	0%	0%	0%	0%
P10 Proportion of Revenue	%	(12%)	(12%)	(12%)	(12%)	(12%)
D-MeX P90	£m	0.000	0.000	0.000	0.000	0.000
D-MeX P10	£m	(3.782)	(4.495)	(4.515)	(4.466)	(3.980)

2022-23 Prices

[14] https://www.ofwat.gov.uk/wp-content/uploads/2023/07/Consultation-measures-of-experience-at-pr24.pdf

BR-MeX

BR-MeX is the measure of business customer and retail experience in England, the measure does not apply in Wales.

RR30.19-21 **Revenue and other impact scenarios**

RR30.40-42

	P10- WSH	P90- WSH
Revenue:		
Revenue Forecasting Incentive mechanism	(0.05%)	0.0%
Developer Services Revenue Adjustment	(0.02%)	0.02%
Other:		
Quality and Ambition assessment (QAA)	(0.30%)	0.30%
Total	**(0.37%)**	**0.32%**

Revenue Forecasting Incentive mechanism

At PR24 Ofwat propose a series of reconciliation mechanisms to protect companies from revenue risk. Ofwat's Revenue Forecasting Incentive mechanism applies penalties for deviations in revenue collection beyond the deadband. A small RORE impact of (0.05%) is included inline with the assumptions made in the PR24 final methodology.

Developer Services Revenue Adjustment (DSRA)

The final methodology does not propose an automatic reconciliation mechanism for water site specific developer services. The methodology states that Ofwat will consider an adjustment based on the size of the deviation. We consider this to be necessary. The change in the volume or mix of developer services activities can result in changes to the revenue requirement. We have considered a P10 and P90 outcome of +/-10% deviation in developer services site specific costs from our business plan. For any over or underspend 50% will be trued-up through the cost sharing mechanism, therefore the P10 and P90 revenue at risk considered is +/-5% of the water site specific developer services costs.

	2025-26	2026-27	2027-28	2028-29	2029-30
Water Site Specific Costs (£m) (DS2w1- DS2w.5)	15.68	15.42	15.47	15.21	15.13
P10/P90 Deviation after cost sharing	5%	5%	5%	5%	5%

P90 Revenue (£m)	0.78	0.77	0.77	0.76	0.76
P10 Revenue (£m)	(0.78)	(0.77)	(0.77)	(0.76)	(0.76)
Regulatory Equity (£m)	3,211.89	3,332.93	3,484.66	3,622.92	3,707.47

RoRE (%)	0.02%	0.02%	0.02%	0.02%	0.02%

Other

Other impacts include the Quality and Ambition Assessment (QAA) RoRE impact of +/-0.30% in line with the PR24 final methodology.

RR30.43 **Average Regulatory Capital Value (RCV)**

This is an output from the Ofwat Financial Model.

RR30.44 **Notional Gearing**

This is set to 55% in line with the PR24 Final Methodology

RR30.45 **Average regulated equity**

Calculated cells.

RR30.46-57 **RoRE high and low cases**

Calculated cells.

RR30.58-59 **Impact of proposed uncertainty mechanisms**

We are not proposing any bespoke uncertainty mechanisms and therefore these cells are blank.

However, we argue that Ofwat should include mechanisms for the following in the Final Determination:

RPI-CPIH wedge

Ofwat's early view on WACC assumes a return to a stable 2% inflation environment. The previously stable relationships between movements in the RPI, the CPI, and the CPIH have broken down in the current inflationary environment. This has implications for the calculation of components of the WACC, but the PR24 Final Methodology is largely silent on this. Ofwat should consider the risk that the relationship between inflation indices and the overall inflationary environment do not return to historic averages when setting the WACC for PR24. Consideration should also be given to a RPI-CPIH wedge true-up to address the basis risk in the notional company created by the indexation of returns and RCV by CPIH and most sector index linked debt being RPI linked.

Developer services revenue

The removal of site-specific developer services from the price control for English companies results in an automatic true-up of revenues for any changes in the volume and mix of work delivered. It is unclear why the mechanism and the risk (for both customers and companies) should differ in Wales due to differences the design of the price control. We propose that a formal mechanism is introduced to address the additional risk that companies in Wales will bear as a result of water-site specific developer services costs remaining within the price control for PR24.

Business Rates

There is considerable uncertainty associated with the two rates revaluations in AMP 8 (2026 and 2029) and the changes to the regime requiring ratepayers to inform the VOA of any physical changes to their properties which is expected to apply from 1 April 2026. We consider that a cost sharing rate of 10:90 should apply to Business Rates in line with the Competition and Markets Authority's findings in relation to PR19 referrals.

RR30.60-63 **RoRE – total post uncertainty mechanisms**

Calculated cells.