

# Data Table Commentaries

## 11 Summary tables

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## 1.1. SUM1 Performance commitments

**We pick up here by exception a few notable features about the forecast and proposed performance.**

PC	Commentary
Water supply interruptions	The PR19 FD figure for 2024-25 was 05:00. While we accepted the FD in the round, this particular PCL was always going to be challenging to achieve. In recognition of the PR19 FD we have accepted 05:00 as the 'performance from base' for AMP8. <sup>1</sup>
Internal sewer flooding	Note that the performance for 2022-23 was positively affected by the relatively atypical benign conditions. <sup>2</sup>
Biodiversity	Note that we have not been able to submit targets for Biodiversity owing to the time taken to determine the suitable land nominated for the measure in accordance with guidance from NRW. <sup>3</sup>
Operational Greenhouse Gas emissions	Note that against the PC definition we made significant reductions between 2010 and 2022. <sup>4</sup>
Leakage	Following the leakage restatement we are seeking a steep reduction in leakage in the remainder of this AMP. <sup>5</sup>
Business demand	The apparent increase between 2022-23 and 2024-25 is the result of the 3 year average and the big drop in business demand during the pandemic. Our interventions in AMP8 will offset the forecast increase in baseline demand. <sup>6</sup>
River water quality (phosphorous)	Our plan is focused on reducing Phosphorous discharges in SAC rivers as agreed with the Better River Water Quality taskforce out to 2032. We have estimated the impact of that programme on this PC measure. <sup>7</sup>
Storm overflows	Our Storm Overflows strategy is focused on maximising reductions in harm and hence maximising the ecological improvement from our investment programme. We have proposed a bespoke PC to reflect this. We are not specifically seeking to maximise reductions on the spills PC, in line with the policy of the Welsh Government, the PR24 Forum and the Wales Better River Water Quality Taskforce. <sup>8</sup>

<sup>1</sup> See WSH03-PR24 Business Plan Document, Section 8.5.

<sup>2</sup> See WSH03-PR24 Business Plan Document, Section 6.9.

<sup>3</sup> See WSH03-PR24 Business Plan Document, Section 9.3.

<sup>4</sup> See WSH03-PR24 Business Plan Document, Section 9.2.

<sup>5</sup> See WSH03-PR24 Business Plan Document, Section 8.4.

<sup>6</sup> See WSH03-PR24 Business Plan Document, Section 8.4.

<sup>7</sup> See WSH03-PR24 Business Plan Document, Section 6.3.

<sup>8</sup> See WSH03-PR24 Business Plan Document, Section 6.4.

## 1.2. SUM2 Key business plan metrics

Here we only note minor issues.

<b>Line</b>	<b>Comment</b>
Residential water only customers	The increase here is a consequence of how the property forecast model allocates properties between dual and single service customers. This is in line with the forecasts in the draft WRMP.
Residential wastewater only customers	As above.
Leakage/property/day	Note formula error – should be multiplied by 1000.
Per capita consumption	Note formula error – should be multiplied by 1000.
Business demand	Note that this shows no overall reduction, in AMP8, but our business demand activities will serve to net off the forecast increase in non-household demand of around 3.6 megalitres/day. We forecast net reductions in future AMPs in line with the WRMP. <sup>9</sup>

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<sup>9</sup> See WSH03-PR24 Business Plan Document, Section 8.4.

## 1.3. SUM3 Cashflows and WACC

### **WACC<sup>10</sup>**

We have used Ofwat's 'early view' of the WACC for 2025-30 in our business plan for current purposes. For the avoidance of doubt we reserve our position on the appropriateness of the WACC to be set by Ofwat at the Draft Determination.

### **Allowed revenue**

We have set the PAYG and RCV run off rates to the 'natural' level in order to ensure intergenerational fairness in customer bills. Our rates mean that the expenditure that relates to services delivered today is recovered as incurred, and expenditure that relates to investment in the future is recovered over the lives of the assets.

The rates meet Ofwat's guidance on acceptable upper limits with the exception of the rate for Water Network Plus which is 0.2% above Ofwat's guidance of 4.5%. Other controls have headroom of between 0.4% and 1.4%. At an appointee level on a weighted average basis the rates are within the guidance.

### **Financial metrics**

The plan delivers credit rating agencies' financial metrics (Gearing, interest cover ratios, FFO/debt ratios) consistent with sustaining Baa1/BBB+ credit ratings across the period for the notional company and A3/A-/A for the actual company which benefit from a one 'notch' upgrade due to our not for shareholder model.

'Dividends' in the actual company projections are the company's contribution to social tariffs. In practice the company does not pay dividends due to its not for shareholder model. The appropriate accounting treatment of these social tariff contributions are as "revenue foregone" rather than dividends. This has an adverse effect on adjusted cash interest cover and FFO/Net debt, which are overstated in SUM3. The correct accounting treatment is shown in the company proposed alternative ratios in our Business Plan.<sup>11</sup>

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<sup>10</sup> See WSH03-PR24 Business Plan Document, Section 13.1

<sup>11</sup> See WSH03-PR24 Business Plan Document, Section 13.1.

## 1.4. SUM4 Expenditure

Since the first phase of Affordability & Acceptability research (February 2023) there have been a number of changes to what is covered by legal requirements and other obligations, notably the NEP and DWI notices. We have therefore made adjustments to what is considered 'discretionary' compared to the values reflected in the research.

There are formula errors in this table. We have completed the 'Discretionary' column with the correct figures, and ignored errors in the other columns. Note that the data lines pulled through for line 4.12 (storm overflows) are not the lines where our planned expenditure to address storm overflows is found.

### Net totex – water

For water applied the following criteria to determine what is Mandatory:

- Enhancement expenditure covered by the WRMP (including metering).<sup>12</sup>
- Enhancement expenditure covered by a DWI Regulation 28 Notice.<sup>13</sup>
- Enhancement expenditure covered by the NEP or WINEP – includes net zero carbon expenditure.
- Enhancement expenditure on our dams and reservoirs enhancement programme.<sup>14</sup>
- Resilience enhancement expenditure in Asbestos Cement mains.<sup>15</sup>
- Expenditure related to the Cwm Taf DPC project agreed at PR19.
- Cybersecurity (NIS) and site security (SEMD) expenditure.<sup>16</sup>

The main items of discretionary expenditure are as follows:

Table line	Category	Main items of discretionary spend
4.3	Resilience	<ul style="list-style-type: none"> <li>• Treatment works sludge Schemes (x2)</li> <li>• Water regulations inspections for high risk customers</li> <li>• Flood protection at water treatment works<sup>17</sup></li> <li>• Various network resilience schemes</li> <li>• Feasibility studies for future resilience schemes</li> <li>• Additional raw water resource resilience (non WRMP)</li> </ul>
4.5	Other	<ul style="list-style-type: none"> <li>• Non-NEP/WINEP component of raw water catchment programme.</li> <li>• Raw water deterioration schemes at 2 sites not subject to DWI notices.</li> <li>• Feasibility studies for disinfection by-products</li> <li>• Lead supply pipe replacement<sup>18</sup></li> </ul>

<sup>12</sup> See WSH03-PR24 Business Plan Document, Section 8.4.

<sup>13</sup> See WSH03-PR24 Business Plan Document, Section 7.1.

<sup>14</sup> See WSH03-PR24 Business Plan Document, Section 8.3.

<sup>15</sup> See WSH03-PR24 Business Plan Document, Section 8.5.

<sup>16</sup> See WSH03-PR24 Business Plan Document, Section 11.5.

<sup>17</sup> See WSH03-PR24 Business Plan Document, Section 11.3.

<sup>18</sup> See WSH03-PR24 Business Plan Document, Section 7.4.

**Net totex – wastewater**

For wastewater we applied the following criteria to determine what is Mandatory:

- Enhancement expenditure covered by the NEP or WINEP.<sup>19</sup>
- Permit obligations including growth
- First time sewerage
- Local authority odour management plans<sup>20</sup>
- NIS and SEMD expenditure.<sup>21</sup>

We have also included the scheme at Laugharne WWTW to protect the asset from landslip risk (£8.5 million). This is partially covered by an NEP UWWTD driver.

The main items of discretionary expenditure are as follows:

Table line	Category	Main items of discretionary spend
4.16	Other	Reducing flooding risk for properties – £36m <sup>22</sup> Sludge enhancement (growth) – £22m Reducing the risk of serious pollution incidents (non NEP) – £54m <sup>23</sup>

<sup>19</sup> See WSH03-PR24 Business Plan Document, Section 6.

<sup>20</sup> See WSH03-PR24 Business Plan Document, Section 6.10.

<sup>21</sup> See WSH03-PR24 Business Plan Document, Section 11.5.

<sup>22</sup> See WSH03-PR24 Business Plan Document, Section 6.9.

<sup>23</sup> See WSH03-PR24 Business Plan Document, Section 6.8

## 1.5. Whole-business plan commentary

### **How we are meeting the challenges**

#### **Meeting rising expectations**

- Our LTDS, and therefore the AMP8 plan, is focussed on delivering a step-change in our progress against rising expectations as to river water quality, storm overflows, and resilience – the key areas of concern for customers and wider stakeholders, in particular Welsh Government.
- We fully recognise the areas where our performance has been below expectations, including supply interruptions, drinking water quality, leakage, and PCC. We have adopted ambitious targets for AMP8 building on our work during the remainder of this AMP to recover these positions.
- To persuade customers to reduce consumption we have to be seen to be making substantial inroads into leakage, on which we have let ourselves down. We will also invest materially in our progressive metering strategy and business water efficiency support.

#### **Protecting and enhancing our environment**

- Working with our environmental regulators, and national and local government, our plan is integral to developing a collaborative long-term best-value approach to reduce our impact on the environment, in particular river water quality.
- In line with Welsh Government policy we have prioritised our investments in AMP8 to make the biggest contribution to reducing ecological harm. We will also complete the storm overflow assessment framework for all our 2300 SOs as the basis for subsequent AMPs.
- We will improve asset resilience where we currently threaten sites of special scientific interest.

#### **Adapting to climate change**

- Given our water resources, for us climate change adaptation principally affects wastewater, where more frequent and intense storm/rainfall events are exceeding our network capacity.
- We continue our major programme to upgrade dams to meet regulatory requirements and ensure resilience to climate change.
- We have a definitive plan with specific steps to achieve Net Zero by 2040 and we will work with our contractors and suppliers to seek to offset the impact of the capital programme in AMP8.

#### **Delivering affordable bills**

- The evidence shows that customers accept the need for investment, and most see water bills as good value for money albeit affordability remains a challenge.
- We have an in-depth AMP8 efficiency plan to keep costs down and will continue to be a lead participant in industry innovation.
- We will expand our sector leading social tariff programme to support those with the greatest difficulty paying their bills, freezing tariffs in real terms.



## **Key issues**

### **1. Divergent Welsh policies and objectives.**

There are a number of areas where Welsh policy drivers are different to England. This leads to some common PCs as defined not being well aligned with the PR24 Forum approach in Wales. Our targets for these PCs are not, therefore, directly comparable with the level of 'ambition' on these PCs in England. The key ones are:

- a) River water quality. The common PC is defined in terms of total Pkg discharges, whereas we are directed to prioritise reducing discharges to SAC rivers.
- b) Storm overflows. Reducing the number of CSO spills as per the PC is not the primary target of Welsh policy, which is focused on reducing ecological harm.
- c) GHG emissions. We are targeting total (operational and embedded) emissions rather than location-based operational emissions.

### **2. Risk and return.**

Whilst Ofwat guides to a broadly symmetrical risk/return our assessment of plausible outcomes is a strong negative asymmetry. Most PCs are inherently asymmetrical, either because they are 'one sided', or because downside risk is much higher. Whilst we have proposed stretching PCLs, we have, therefore, put forward ODI rates that are lower overall than Ofwat's indication and hence derive a more acceptable RORE range.

### **3. Bill increases and affordability.**

A 26% increase in bills (year 5 to year 5) is a significant change. We have not taken this step lightly, given the cost of living crisis and that our water bills have been falling in real terms for most customers since 2010. When one considers all the customer research on investment and bills, not just the headline 'affordability' result, while only 15% of customers said they would find the proposed bills 'easy' to afford pay, a large majority (84% of all households, and 80% of financially struggling customers) accepted the plan as a whole recognising the need for investment. Our sector leading social tariffs will help those customers who would struggle most.

### **4. Resilience.**

Against a backdrop of greater asset stress, particularly from climate change, and increased customer expectations, we may have stretched the resilience of some of our assets too far. We have, therefore, included a number of enhancement expenditure items against 'resilience', responding to Welsh Government's concerns as set out in the SPS.

### **5. Deliverability**

We have scrutinised in detail, and are assured by, the plans for the deliverability of this significant increase in activity, in particular by achieving a fast start with our capital delivery partners and early engagement with the supply chain.