

# WSH103-PR24-Bill-Waterfall-Model-v3 Commentary

## Bill Waterfall Commentary

### Overview

This commentary provides an overview of Ofwat's PR24 bill waterfall model.

The bill waterfall model shows the changes in the average combined household bill over five years from the PR19 Final Determination (2020-25) to the equivalent for our PR24 Business Plan (2025-2030).

The PR19 bills are based on the Final Determination and do not include subsequent in-period adjustments to the bill resulting from ODIs and the RFI model.

The bill changes arising in Ofwat's bill waterfall model are:

- A £5 increase as a result of an additional £44m of base expenditure per year compared to our PR19 Final Determination reflecting, in part, additional capital maintenance.
- A £21 increase as a result of an average additional £250m of enhancement expenditure per year compared to our PR19 Final Determination to improve outcomes for the environment.
- A provisional £41 increase as a result of an increase in the wholesale WACC from 2.92% (real CPIH deflate) to 3.23% according to Ofwat's 'early view'. The increase due to the WACC in the bill waterfall model also captures the bill increase as a result of the impact of the transition of the indexation of the RCV from RPI to CPIH.
- A £9 increase for the retail cost to serve reflecting the higher operating expenditure compared to our PR19 Final Determination. This is in part driven by a higher forecast doubtful debt charge as a result of the higher forecast wholesale bill in AMP8, though this impact has been offset by a forecast improvement in our debt collection rates.
- The model reports a £14 bill reduction as a result of an increase in the customer numbers for population growth over AMP7 and AMP8.
- A £2 bill increase as a result of other wholesale items include revenue reprofiling.

### Methodology

This section provides a brief summary of the methodology for the completion of the bill waterfall model.

The PR19 data is based on the PR19 Final Determination model and the PR24 data is from the PR24 financial model.

Data for the completion of cost categories for PR24 is obtained from the business plan table SUM4.

Data for PR19 is based on the PR19 Final Determination 'WW/W4 Feeder Models' and the allowed enhancement expenditure per year by cost category. The PR19 enhancement costs have been aligned as closely as possible to the PR24 categorisation.

We note that developer services costs are included within base expenditure for both PR19 and PR24.