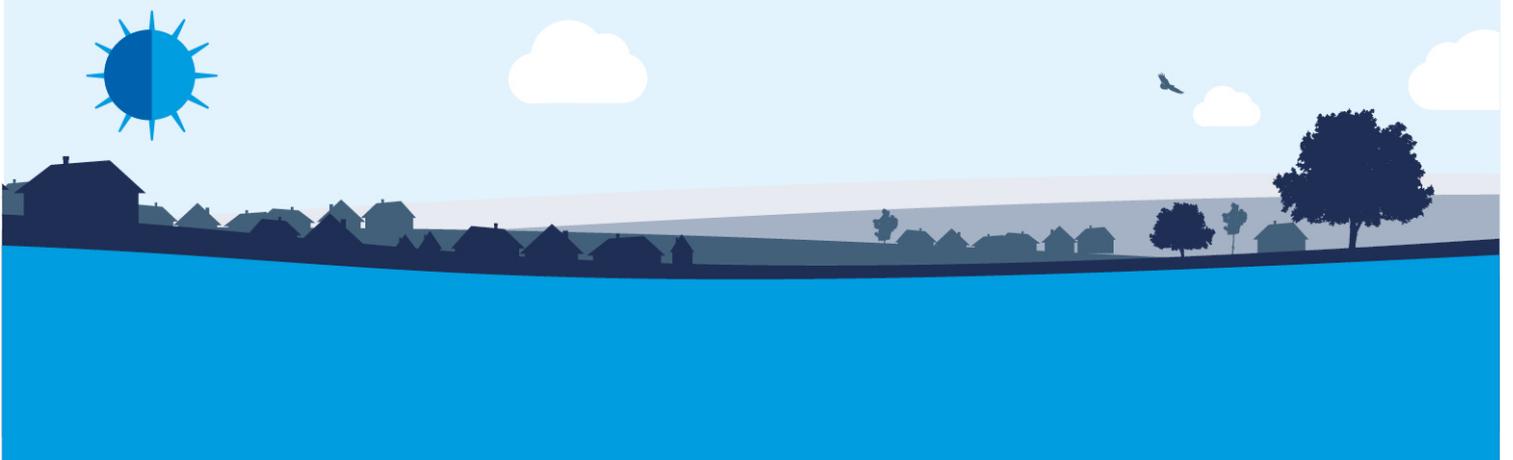


Appendix A28

Forecasting AMP 8 bills



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1. Forecasting AMP8 Average Household Bills

In order to consider whether our proposals are affordable for customers now and in the longer term, we have forecasted the average residential bills in AMP8.

Following the guidance provided in Ofwat’s Final Methodology (pg.201), we have conducted our own calculation instead of using the Ofwat financial model, to estimate average residential bills. We believe the calculation methodology principles are consistent with the Ofwat financial model.

1.1 Key Assumptions

Below are the key assumptions we made for AMP8. For components where there is high level of uncertainty, we believed it would be more appropriate to keep the assumptions close to those for AMP7.

1.1.1 Totex and PAYG ratios

We assumed that at the wholesale level, total net capex will be lower by roughly £39m (£30m of which is due to £57m of exceptionally large investment at our treatment works in AMP7 being replaced by £25m of follow up investments in AMP8).

For IRE, we assumed that net IRE will be lower by 5% compared to the AMP7 average.

For wholesale opex, we assumed that there will be a year on year real terms efficiency of 1% compared to our proposed AMP7 2024-25 wholesale opex.

To allocate the above wholesale capex/opex to the separate price controls, we used the same allocation percentage as AMP7, as it is unlikely for this proportion to fluctuate significantly.

We then calculated the natural PAYG ratio for each price control in the same manner as AMP7, which is $(\text{opex} + \text{IRE})/\text{totex}$.

AMP8 Totex Forecast (17/18 CPIH)	2025-26	2026-27	2027-28	2028-29	2029-30	REF: AMP7 avg
Wholesale net capex	36.8	36.8	36.8	36.8	36.8	44.7
Wholesale Net IRE	12.7	12.7	12.7	12.7	12.7	13.4
Wholesale Net opex	49.7	49.2	48.7	48.2	47.7	49.5
Wholesale Totex	99.2	98.7	98.2	97.8	97.3	107.6
Wholesale PAYG% (natural)	62.91%	62.73%	62.54%	62.35%	62.17%	58.94%

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WN+ net capex	33.1	33.1	33.1	33.1	33.1	41.0
WN+ Net IRE	12.7	12.7	12.7	12.7	12.7	13.4
WN+ Net opex	42.5	42.1	41.7	41.3	40.8	42.3
WN+ Net Totex	88.4	87.9	87.5	87.1	86.7	96.7
WN+ PAYG % (natural)	62.52%	62.34%	62.16%	61.98%	61.79%	58.24%
WR net capex	3.7	3.7	3.7	3.7	3.7	3.8
WR opex	7.2	7.1	7.0	7.0	6.9	7.1
WR net totex	10.9	10.8	10.7	10.7	10.6	10.9
WR PAYG % (natural)	66.13%	65.90%	65.68%	65.45%	65.22%	65.83%

1.1.2 RCV runoff rates

Consistent with our proposal for AMP7, we calculated natural runoff rates for AMP8.

For post 2025 investments in both Water Resources and Water Network Plus price controls, we assumed an average asset life of 19 yrs (slightly lower than the average asset life of around 20 yrs for AMP7, as the large treatment work spend is reduced), with 50% of asset capitalising in year.

For post 2020 investment and pre 2020 assets, we forecasted forward the current cost depreciation (CCD) for each price control, consistent with outputs from Ofwat's financial model.

We also assumed that roughly 28% of the total closing RCV figure at March 2025 will be indexed to RPI starting AMP8.

Using the April 2025 opening balances of RCV for each price control (CPIH/ RPI linked) calculated in Ofwat's financial model, we calculated the natural runoff rates as illustrated in the table below.

WN+ AMP8 Depreciation (outturn prices)	2025-26	2026-27	2027-28	2028-29	2029-30
WN+ RPI linked pre 2020 CCD	6.1	5.6	5.2	4.7	4.3
WN+ RPI linked pre 2020 RCV runoff rate	4.08%	3.77%	3.52%	3.18%	2.94%
WN+ CPIH linked pre 2020 CCD	15.8	14.5	13.4	12.0	11.1
WN+ post 2020 investment depreciation	10.8	10.8	10.8	10.8	10.8

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WN+ post 2025 investment depreciation	1.1	3.2	5.3	7.5	9.8
WN+ CPIH linked RCV runoff rate	6.84%	6.53%	6.32%	6.09%	5.97%

WR AMP8 Depreciation (outturn prices)	2025-26	2026-27	2027-28	2028-29	2029-30
WR RPI linked pre 2020 CCD	0.2	0.2	0.2	0.2	0.1
WR RPI linked pre 2020 RCV runoff rate	5.80%	5.28%	4.83%	4.19%	3.73%
WR CPIH linked pre 2020 CCD	0.6	0.5	0.5	0.4	0.4
WR CPIH linked pre 2020 RCV runoff rate	19.17%	20.51%	22.57%	24.31%	27.68%
WR post 2020 investment depreciation	0.9	0.9	0.9	0.9	0.9
WR post 2025 investment depreciation	0.1	0.4	0.6	0.8	1.1
WR post 2020 RCV runoff rate	0.49%	1.50%	2.62%	3.88%	5.37%

1.1.3 WACC

Due to the high level of uncertainty, we believed it was most appropriate to assume the same WACC as Ofwat's early view for AMP7 (i.e. real wholesale WACC of 2.3% expressed in RPI).

1.1.4 Inflation

For forecasts beyond 2025, we assumed 3% for RPI and 2% for CPIH, consistent with the long term assumptions we reported in App 23.

1.1.5 Retail margin

We assumed the same net residential retail margin of 1%. We also assumed the same cost to serve/cust as our AMP7 proposal.

1.1.6 Incentives

We assumed zero incentives for AMP8.

1.1.7 Residential customer numbers

Below is a table with our residential customer number forecasts.

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Residential Customer Number Forecasts ('000s)	2025-26	2026-27	2027-28	2028-29	2029-30
Pre-engagement measured customers	413	429	445	461	477
Pre-engagement unmeasured customers	304	295	286	277	268
Post-engagement measured customers	427	443	458	472	487
Post-engagement unmeasured customers	312	303	294	285	276

Upon more up to date information on the projected level of housing growth and meter optants over the period, we updated the customer number forecasts post customer engagement, which led to an increase in projected AMP7 customer numbers (and a consequential decrease in projected AMP7 average residential bills). This update also resulted in an increase in the AMP8 customer number forecasts. The post engagement customer numbers reported in the table above are consistent with numbers reported in table WS3.

We also assumed that 79% of wholesale revenue would be apportioned to residential customers, taking in to account the projected growth in the residential customer base.

1.2 Revenue building block and average residential bills

Using the assumptions described in the previous section, we arrived the at below revenue building blocks and average annual residential bills.

Wholesale revenue building block (outturn prices)	2025-26	2026-27	2027-28	2028-29	2029-30
PAYG (natural)	73.6	74.5	75.4	76.3	77.2
Total runoff (natural)	35.7	36.0	36.8	37.3	38.4
Return on RCV	16.7	17.5	18.2	18.9	19.7
Current tax	0.1	0.1	0.1	0.1	0.1
Incentives	0.0	0.0	0.0	0.0	0.0
Removal of other income	-2.2	-2.3	-2.3	-2.3	-2.4
Wholesale apportionment %	79%	79%	79%	79%	79%
Wholesale revenue apportioned to residential	97.9	99.4	101.3	103.0	105.3

Residential retail revenue (outturn prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Cost to serve all residential customers	12.0	12.1	12.3	12.4	12.5
Residential gross retail margin	1.3	1.4	1.4	1.4	1.4
Total residential retail revenue	13.3	13.5	13.6	13.8	14.0
Total residential retail revenue (w/cust numbers adjusted post engagement)	13.7	13.9	14.0	14.1	14.3

Average annual residential bill (£, outturn prices)	2025-26	2026-27	2027-28	2028-29	2029-30
Based on pre-engagement customer numbers	155	156	157	158	160
Based on post-engagement customer numbers	151	152	153	155	157

1.3 Customer Engagement

The AMP8 bills we presented to customers were based on the pre-engagement customer numbers. This corresponds to Option C, from the diagram below which we used in the engagement. It is important to note that the AMP7 bill of £147 shown in Option C is consistent with £144 we present in the plan. The reason for the drop is purely due to the increase in customer numbers.

Options A and B were also projected to investigate which long term bill profile customers preferred (trade-off between higher bills in AMP7, lower bills in AMP8 and vice versa). As we explain in appendix A6, more customers chose Option A, the smoothest bill profile over the period, as the most affordable option, with Option B (with the largest bill jump at 2026) the least popular.

However, there was no overwhelming support for any of the 10-year bill profile options presented to customers, so we have based our decision on what we believe is the best plan for our customers. We have also given more weight to the 2020-2025 element of the bill profile and customer's preference for a flat nominal bill from our 2019-20 position, given that there are so many unknowns over what bill profiles will actually be over the AMP8 period – such as changes to the WACC, totex, ODI RORE range and external factors like inflation. In-line with their preferences, we are committed to ensuring that we provide the

most stable bill over time as possible for our customers, whilst delivering the service levels they have said they want.



It is important to note that our final bill profile for 2020-2025 (£144) detailed in our business plan actually corresponds to Option C.

1.4 Bill profile based on RPI expressed WACC

Following Ofwat’s guidance in the PR19 Final Methodology (pg. 194), we have explored what the AMP7 bill profile would have looked like, if the switching of the index to CPIH did not take place. If we set the real WACC to 2.3%, inflated the RCV/totex by RPI and kept all other things the same, the increase in nominal PAYG and RCV will be offset by the reduction on the return on RCV, resulting in total nominal wholesale revenue which will be lower by roughly £4m across the AMP. As we have chosen a flat nominal bill profile based on customer preference, this would equate to approximately £1/yr drop in the nominal average household bill.

This scenario has a consistent bill profile impact as Option B in the figure above (keeping in mind again that the natural bill profile we chose for the final plan corresponds to Option C). As explained in this appendix as well as appendix A6, bill profile which led to a bigger drop in AMP7, with a consequential increase in AMP8 was least preferred by customers. We also observed that such volatility tended to create scepticism across the customers even when we clearly explained that the level of service improvement and investment in AMP7 is unchanged.

For this reason, we determined that the natural bill profile, with reprofiling to keep the nominal bills flat, still remained as the optimal bill we can provide for our customers.