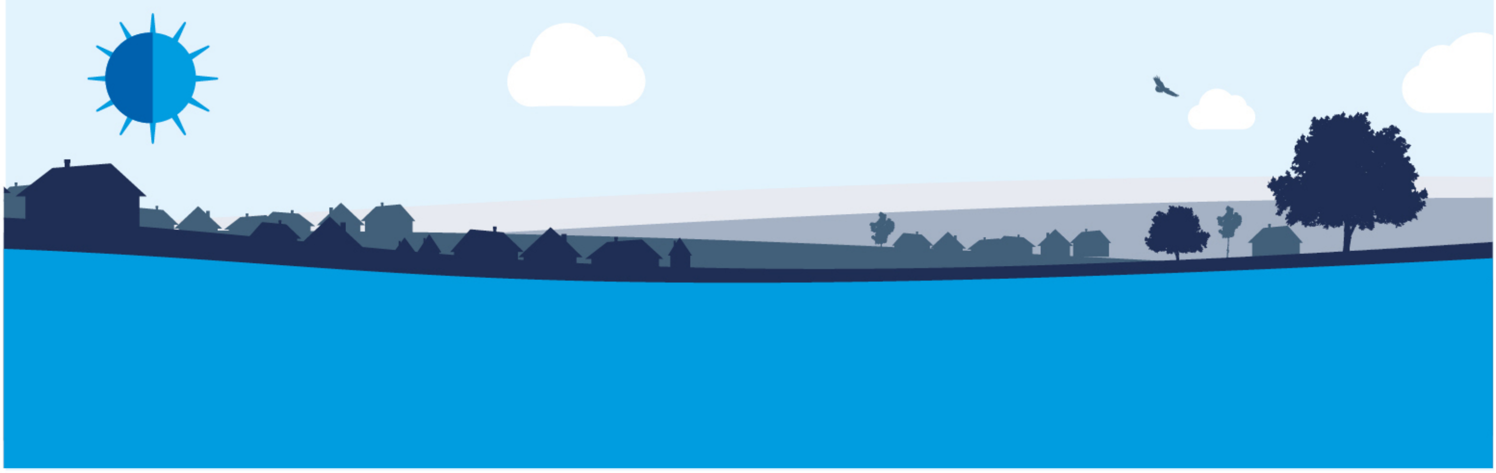
Appendix RA12
Table commentaries

1 April 2019



1. Business Plan Tables

Validation checks

In our September submission, we highlighted some validation checks showing on the data tables submission which we think are valid. Some of these are still showing as an error and we set these out below:

App 4	Validation errors relate to Business Retail
App 24	Validation errors in block F but this relates to business retail which is not applicable.
App 26	Number of validation errors but all relate to sewerage or business retail.
App 29	Validation errors relate to bioresources
App 33	Number of validation errors but all relate to sewerage
WS17	This table has not been completed as it is not applicable.
Wr6	'Validationflags' says there is a validation error but there is no error on the Wr6 sheet.
Wr7	Validation is that all numbers should be positive. The data in the relevant lines is positive, however the validation is still showing.
R5	This table has not been completed as it is not applicable.
R7	Validation error relates to Business Wales which is not applicable.

We have prepared the following commentary for the PR19 Business Plan Tables only in relation to the relevant table lines where a change for the September submission has been made and a commentary is not provided elsewhere in our resubmission (signposted where required below).

Table App1: App1 – Performance commitments (PCs) and outcome delivery incentives (ODIs)

Changes are outlined in appendix RA07.

App1a – Outcome delivery incentive (ODI) – additional information

Changes are outlined in appendix RA07.

App3 – Abstraction Incentive Mechanism - surface and ground water abstractions under the AIM threshold

The only change is respect to the action SSC.CA.A4 in respect to performance data (2016-20) and performance thresholds for Hagley.

Table App4: Customer Metrics

Line A3 - Customers finding the level of their water bills affordable: (a) for companies who charge for water only (WoCs)

We have used the weighted average of the Cambridge Water and South Staffs Water figures from the CCWater 'Water Matters' survey up to 2017-18. We have then entered the combined uninformed affordability score for 2018-19 which is taken from our acceptability studies run in July 2018 and in March 2019. From 2019-20 onwards, we have developed a realistic improvement profile up to 2030 which reflects the forecasted on-going financial pressures on households. This includes building in a slight fall at the start of AMP8 (2025/26) based on the assumption at this point in time that customers will experience bill increases during AMP8 and so a higher proportion will find the bill unaffordable.

Line A5 - Customers finding the level of their combined bills affordable: (c) for companies who charge for water only (WoCs)

We have used a weighted average of the Cambridge Water and South Staffs Water figures from the CCWater 'Water Matters' survey up to 2017-18. We have then entered the combined bill uninformed affordability scores for 2018-19, however we have included the neutral scores as a fairer reflection that in the acceptability research we layer in RoRE and inflation. Then from 2019-20 onwards we have developed an achievable improvement profile showing an increase in the figure up to 2030. This includes building in a slight fall at the start of AMP8 (2025/26) based on the assumption at this point in time that customers will experience bill increases during AMP8 and so a higher proportion will find the combined bill unaffordable.

Line A6 - Customers finding their water bills acceptable: (a) for companies who charge for water only (WoCs)

We have used figures from our acceptability engagement undertaken at 2013. Figures are the same each year as we have not tracked acceptability during AMP6. We have then entered the combined uninformed affordability score for 2018-19 which is taken from our acceptability studies run in July 2018 and in March 2019. The combined figure for 2018-19 is now 81%, which is lower than 83% submitted in our September business plan which was drawn from just the July 2018 engagement. From 2019-20 onwards we have presented a steady increase in the figure up to 2030. This includes building in a slight fall at the start of AMP8 (2025/26) based on the assumption at this point in time that customers will experience bill increases during AMP8 and so a higher proportion will find the bill unacceptable.

Line A8 - Customers finding their combined bills acceptable: (c) for companies who charge for water only (WoCs)

We have taken the same approach as line A3 on the basis that there are similar methodology challenges as the questions were not specifically researched over the full period. It is reasonable that the results over the period would align.

Block B - Vulnerability

We cover the changes to this section in appendix RA07

Table App26: RORE scenarios

We have updated the wholesale and retail revenue risk and this is covered in the response to action SSC.RR.A2

We have also applied a 50:50 cost sharing rate to the totex scenarios as set out in Ofwat's additional guidance on RORE analysis.

Table App28: Developer services (wholesale)

In response to Ofwat's IAP assessment on our developer costs, we have revisited this. The detail is set out in appendix RA02.

We have also included in our resubmission some thought on Ofwat's Water Service growth and new development enhancement modelling along with some possible improvements.

Table App29: Wholesale tax

We have completed to reflect the changes to the capital allowance pools from the last UK Budget.

We are not expecting any expenditure that will be eligible for the 2% allowance in 2019-20 and so the opening pool will be zero.

In AMP 7 we have categorised expenditure on buildings and structures within the 2% pool. This is in relation to our cost adjustment claim for the two water treatment works investments.

Table App32 - Weighted average cost of capital for the Appointee

In response to action SSC.CA.A7, we have amended line 6 to ensure that the WACC is reduced by 0.01% to align with Ofwat's early view of 5.47%

Table WS1: Wholesale water operating and capital expenditure by business unit

Table WS1 has been updated following feedback from the IAP. We set this detail out in appendix RA01 and RA02.

Table WS2: Wholesale water capital and operating enhancement expenditure by purpose

Table WS2 has been updated to reflect the changes in developer expenditure described above, and to reflect reallocations Ofwat made in IAP.

Table Wr4: Cost recovery for water resources

The PAYG rate in Wr4 now includes the adjustment for pulling the lever to address financeability under the notional structure. This is set out in detail in section 8 of our main submission document.

Table Wn2: Wholesale water network plus water distribution (explanatory variables)

Line 31 (number of booster stations) has been restated following confirmation of the line definition. This is set out in detail in appendix RA01.

Table Wn4: Cost recovery for water network plus

The PAYG rate in Wn4 now includes the adjustment for pulling the lever to address financeability under the notional structure. This is set out in detail in section 8 of our main submission document.

2. Financial Models

We are submitting the following two versions of the financial model;

"*PR19-17z-actual*" and

"*PR19-17z-notional*"

The former for the Company's actual structure and the latter for the notional structure. These models have been used to populate the relevant business plan tables.

2.1 Adjustments in the Model

In our September submission, we had to make some adjustments in the models in order for them to work as expected. Some of these problems have been resolved in the new model, but we still have had to make the following adjustments. All of these adjustments were also made in the September submission and therefore none of them are new.

Tab Reference	Cell Reference	Changes/Reason
F_input	Row 68	This line includes the sum of lines 12&13 from table R1 (Total depreciation on assets acquired between 1 April 2015 and 31 March 2020, and Total depreciation on assets acquired after 1 April 2020) deflated to 17/18 CPIH price.
F_input	Row 443	This line includes the sum of forecast SIM reward and HH retail reconciliation adjustments, calculated by the PR19-Revenue-adjustments-feeder-model-June-2018-update.xlsm feeder model.
InpOverride	Row 582	This row adjusts for the investments (loans to group companies) of £40m reported in line 3 of App12.
InpOverride	F601	This cell adjusts for the Deferred income from G&C's reported in line 26 of App12 and the difference between book debt and covenant debt for the indexed linked bonds, reported in App 19 line 25.
Sensi tab	Row 65	We have used the Sensi tab to adjust the CPIH/RPI wedge to adjust for 31st March 2021, as without this adjustment, the RPI inflation for the year was calculated as 2.63% rather than the forecasted 3.03%. Without this adjustment, there would have been a year on year compounded impact on RCV growth.

Wholesale global	Cell K181	The Forecast flag switch was set to 1 so that K182 came out as 100% (Exited company residential retail)

For the model "*PR19-17z-notional*" which is based on the notional capital structure, we have followed Ofwat's guidance on the "User guide" tab for values to input into the "Override" tab for nationalisation. For dividend yield, we have used 2% in place of 3% in our September submission in order to partly address our financeability. This level of dividend yield is also consistent with our dividend yield assumed under actual capital structure. Although not stated into the "User guide" tab, we have assumed that the notional percentage of indexed linked debt is 33%, as stated in Ofwat's PR19 Final Methodology appendix.

In addition, for the notional structure model, we have shifted the opening cash position from retail into wholesale, in order for the target gearing function in the "InpOverride" tab to correctly output an opening gearing of 60% at the Appointee level. This adjustment was made in lines 111/458.

For the model "*PR19-17z-actual*", the Company has used the same cost of capital as the notional structure as the Company accepts Ofwat's view of the cost of capital. The cost of capital for the actual structure is directly linked to tables Wn5 and Wr5 from the Business Plan Tables. The only variance is in the allowed nominal cost of debt at 4.37%, compared to the original 4.36%. This is a result of inputting Ofwat's suggested values for cost of debt (as quoted in the PR19 Final Methodology Appendix 12 p.16) into App32, the table automatically calculates 4.37% as the notional cost of debt. We have however adjusted the asset beta figure in tables Wn5 and Wr5 to ensure that the nominal cost of capital is equal to Ofwat's early view of the WACC, 5.37%.

2.2 Verification Checks

We were not able to resolve the below verification checks in the model, however we believe these checks do not have material impact on the key model outputs.

Verification checks	Model actual structure "*PR19-17z-actual*"	Model notional structure "*PR19-17z-actual*"	Comment
Corporation tax due check	-	Check	Not able to resolve, but not present in the model with the actual structure