Risk and Return
PR24 data tables commentary

PR24 Draft Determination Representations – August 2024

Risk and Return PR24 Table Commentary

Overview of changes to Risk and Return tables

We have updated our data tables to reflect our Draft Determination Representations in accordance with Ofwat requirements, including updating 2023-24 forecasts with actuals for both APR aligned and non-APR aligned data.

We have provided commentary on material changes made to the data in the tables. Please refer to our original data table commentary (ANH07 to ANH18) if more information is required.

We have made changes to the following Risk and Return tables since submitting the version of our data tables that our Draft Determination is based on (ANH03 Data tables - March 2024 update). Please see the Change Log in ANH_DD_004 - v7 Main data tables for a more detailed summary and the individual tables themselves for changes in red font:

- RR1
- RR2
- RR3
- RR4
- RR5
- RR6
- RR7
- RR9
- RR10
- RR11
- RR12
- RR13
- RR14
- RR15
- RR16
- RR24
- RR27

RR1 Revenue cost recovery inputs

Wholesale WACC Lines 1.1 - 1.18

The WACC parameters for AMP8 are consistent with Ofwat's DD notional assumptions included in Ofwat's DD version of the Regulatory Financial model with notional gearing set at 55%, nominal cost of equity set at 6.76% using the long-term CPIH inflation rate, and similarly nominal cost of debt set at 4.9%. We have not updated AMP9 inputs.

PAYG and Run-off - PAYG Lines 1.19 - 1.36

Calculated annually and separately for each control on a "natural" basis, that is, as Opex (net of price control and non-price control grants and contributions) divided by Totex (net of price control and non-price control grants and contributions), as sourced from our updated table RR2 for PR24 for DD Representations.

No adjustments are applied to the base rates; only for Water Resources the natural rate (Line RR1.19) has been re-calculated by adjusting for (removing) the following contingent funding amounts from the respective Capex values already included in line RR2.1:

Table 1

		2025/26	2026/27	2027/28	2028/29	2029/30
Water Resources Capex	£'m	-	1.21829	6.09143	24.36573	27.81348

This is to ensure the natural rate used in the regulatory model aligns to the actual opex /capex split used for bill modelling. Please note that for the input to the regulatory model we have adjusted the RR2.1 table value to remove the element of totex which is proposed as contingent funding, to ensure the contingent totex is not included in bill modelling.

PAYG and Run-off - Run-off Lines 1.37 - 1.72

Run-off rates are set using Ofwat's DD average run-off rates for the price controls Water Resources, Water Network+, Wastewater Network+, Bioresources, that are sourced from Tables 18-21, Annex 1 - Cost recovery rates, document: PR24 Draft Determinations: Aligning risk and return appendix. For the ADDN1 price control, run-off rates are the same as the WR price control due to similar assets (Water Reservoirs) included in both. No adjustments are applied to the base rates.

Long term inflation rates Line 1.73

Long-term CPIH is 2%, consistent with Ofwat's long-term inflation assumption and as reported in PD1.38.

RPI-CPIH wedge Line 1.74

The RPI-CPIH wedge is calculated as the differential between RPI and CPIH indexation rates (PD1.27 and PD1.28) provided in the updated table PD1 for DD Representations.

RR2 Totex inputs to cross reference with CA

Company Inputs - Opex Lines (Equity Issuance costs) Lines 2.13 - 2.18

We have set these to zero in line with our response to Query OFW-OBQ-ANH-060.

Company Inputs - Grants and contributions Lines 2.25 - 2.48

The data populated for these lines relates to Developer Services activities for Water and Wastewater

The data correlates with the data presented in tables CW1 and CWW1 which reflect the expenditure and revenue reported in tables DS1e, DS2 and DS3. All of these tables include the adjustment of Frontier Shift and Real Price Effect with the exception of diversion/third party data which is exclusive of these adjustments.

The data has been populated for all 5 years of AMP8 (2025-2030), as per the forecast shown in table DS4. The data requires AMP9 years (2030-2035) to be populated and we have therefore used our AMP8 data and projected this forward using an ONS+ growth forecast.

RR3 RCV opening balances

All values are sourced from the output of the submitted updated "PR24 RCV adjustments" feeder model for DD Reps.

RR4 Financing financial model inputs

Debt Lines 4.1 - 4.8

In populating the parameters for the notional financing structure to use in our updated regulatory financial model for DD Representations, we have applied and sought to maintain consistency with the Final Methodology assumptions, as outlined in section 6.1 of Appendix 10. As such, notional target gearing is set to 55%, index-linked debt to 33% of total debt, proportion of RPI ILD to 90%. The RPI ILD proportion (90%) is consistent with the company's actual debt structure, as well as with the respective inputs from Ofwat's DD version of the regulatory financial model.

Index Linked, Fixed Rate Debt and Cash Lines 4.27 - 4.44 & 4.51 - 4.56

These inputs have been sourced from the respective inputs from Ofwat's DD version of the regulatory financial model.

Equity Lines 4.57 - 4.85

With regards to dividends, we are assuming a 2% dividend yield for all years (RR4.79) with 0.8% real growth rate (RR4.78) in line with Ofwat's DD assumptions. "Ordinary shares issues" (RR4.65 - 4.70) have been calculated to maintain 55% notional gearing in all years of AMP8. The total equity requirement has been split across price controls in proportion to RCV.

RR5 Tax opening balances

Tax opening balance Lines 5.1 - 5.19

Lines 1-6 Opening current tax liabilities

The tax creditor reflected in the AWS balance sheet is inter group and not payable to HMRC. For PR19 we showed this in "other creditors" and not as a Corporation Tax creditor. We have done the same again in PR24 and so the amount to show in RR5 is zero

Lines 7-12 Opening tax loss balance

We have taken the closing current tax losses carried forward at 31 March 2024 as per the statutory accounts and adjusted this for losses forecast to arise or be utilised during the year to 31 March 2025. We have also removed any tax losses brought forward estimated to relate to non-appointed businesses.

We have allocated the opening balance between the four price controls in line with RCV.

Lines 13-18 Opening deferred tax balance

We have taken the closing deferred tax balance at 31 March 2024 as per the statutory accounts and adjusted this for movements forecast to arise during the year to 31 March 2025. We have assumed that there are no deferred tax movements relating to non-appointed businesses and household retail.

We have allocated the opening balance between the four price controls in line with RCV.

Line 19 Current tax liabilities

This is the sum of lines 1-4 i.e. zero

Capital Allowances Lines 5.20 - 5.43

Lines 20-25 Proportion of new capital expenditure qualifying for a full deduction See narrative to lines 50-97

See narrative to lines 50-97

Lines 26-43 Opening capital allowance pool balances

The opening capital allowance pools reflect the computational position at 31 March 2023 as per our latest submitted tax computation. From this we have deducted an estimate of non-appointed capital additions and then included capital additions in the year ended 31 March 2024 and forecast to arise in the year ended 31 March 2025 as per our latest financial forecasts. We have then deducted any capital allowances forecast to be claimed in the same three years to arrive at our opening pool balance on 1 April 2025.

We have allocated the opening pool balance across the four price controls in line with RCVs.

Capital Allowance Rates Lines 5.44 - 5.46

Lines 44-46 Capital allowance writing down allowance rates

We have included the current writing down allowance rates of 18%, 6% and 3%.

First Year Allowance Rates Lines 5.47 - 5.97

First Year Allowance Rates Lines 5.47 - 5.97

We have included the rates included in the FA2024.

Lines 50-97 Allocation of new capital expenditure

We have carried out a tax analysis of forecast capital expenditure during AMP8. This has been carried out individually for each price control and we have analysed the total forecast expenditure for each year between the 18% general pool, the 6% special rate pool, the 3% structures and buildings pool, expenditure not qualifying for capital allowances and expenditure qualifying for a tax allowance based on depreciation.

We have estimated the proportion of spend in each category that qualifies for the higher allowance.

For AMP9 we have assumed that the split between the various capital allowance pools will be the same as for the average for AMP8.

Other Tax Inputs Lines 5.98 - 5.159

Lines 98-103 P&L expenditure not allowable as a deduction from taxable trading profits

We have estimated the level of disallowable expenditure each year based upon historical results and have allocated this between four price controls in line with RCV's. We have assumed that prices rise by 2% per annum throughout AMP8 and AMP9.

Lines 104-109 Other adjustments to taxable profits

A major adjustment on our tax computation is a deduction for amortisation of intangible assets. However, the Ofwat model does not distinguish between tangible and intangible assets and calculates capital allowances on the total capital additions. In the March 2023 tax computation, there is a balance of Intangible assets which is expected to increase by March 2025. These intangible assets are not included in the opening capital allowance pools and so it is necessary to include an adjustment for the amortisation on this opening balance of Intangibles assets that will be a deduction on the tax computation. We have therefore included the forecast amortisation on this March 2025 balance as it is expected to arise in each year of AMP8 and AMP9. We have split the total in line with RCV's.

Lines 110-115 Disallowable expenditure - change in general provisions

The only General Provision we have in our computation is for Bad Debts due within one year. Any Increase in provisions will be reflected in the Retail price control.

Lines 116-121 Finance lease depreciation

We have calculated the depreciation charge based on leased assets held on 31 January 2023. To this we have added the depreciation calculated on new leases expected to commence in the remainder of AMP7 and in AMP8. We have also taken into account any rent reviews expected to occur during the remainder of AMP7 and in AMP8. We have allocated the total between the four price controls in line with RCV.

For AMP9 we have used the average depreciation for AMP8.

Lines 122-127 P&L Expenditure relating to renewals not allowable as a deduction from trading profits

We do not have any profit and loss expenditure relating to renewals not allowable as a deduction from taxable trading profits

Lines 128-133 Tax cashflow initial balance

We do not have any tax cashflow initial balance

Line 134 Tax loss allowance - nominal

We have included a tax loss allowance of £5m for carried forward losses, in line with current HMRC guidance.

Line 135 Statutory Corporation tax rate

We have used the latest announced Corporation Tax rate of 25% from 1 April 2023.

Line 136-141 Adjustment to tax payment

We do not make adjustments to tax payments

Lines 142-147 Charge for DB schemes- residential retail

We have included the retail element of our DB pension payments

Lines 148-153 Other taxable income - Amortisation on grants and contributions

We do not amortise grants and contributions as they are all credited to the income statement in the year of receipt. There are three different tax treatments for these credits.

1. A proportion are treated as income receipts and taxed in the year of receipt
2. A proportion are treated as capital receipts and deducted from additions to the 6% special rate pool
3. A proportion are adopted assets and are not taxed at all as the debit to fixed assets is treated as ineligible for tax relief

Instead of including the amortisation on grants and contributions we have included the reduction in capital allowances in the 6% special rate pool because of these capital grants and contributions, as this is the amount that will increase the taxable profits.

For AMP8 we have used our forecast models but for AMP9 we have assumed that figures increase at the same average rate as in AMP8.

Lines 154-159 Other taxable income - grants and contributions taxable on receipt

As stated above all our grants and contributions are credited to the Income statement in the year of receipt. It is only those that are income in nature that are taxed in the year of receipt. We have estimated the proportion of grants and contributions that are taxable on receipt using historic percentages applied to total grants and contributions.

For AMP8 we have used our forecast models but for AMP9 we have assumed that figures increase at the same average rate as in AMP8.

Lines 160-165 Allowable depreciation on capitalised revenue

For AMP8 we have forecast the level of allowable depreciation on deferred revenue each year based on the level of forecast CAPEX and the amount of this CAPEX treated as qualifying for a tax deduction based on depreciation. We have split this between price control based on RCV

For AMP9 we have assumed that figures increase at the same average rate as in AMP8

RR6 Post financeability adjustments inputs

All values are sourced from the output of the submitted updated "PR24 Revenue adjustments" feeder model for DD Reps.

For Lines RR6.19-24, we have used Ofwat’s DD assumptions for the combined Innovation Competition and Water Efficiency Competition funding.

RR7 Residential retail

Residential Retail - Other Lines 7.37 - 7.58

Line 7.37 Residential net margin for company

We have used a 1.2% residential retail net margin in line with the Ofwat's DD assumptions.

Line 7.56 Interest rate - residential

These inputs have been sourced from the respective inputs from Ofwat’s DD version of the regulatory financial model.

The October submission for RR7.57 was £1.034m and related solely to the nominal net book value of tangible residential retail fixed assets as at 31/03/2025.

The Draft Determination has led to a revision of this to further include the nominal net book value of intangible residential retail fixed assets as at 31/03/2025, increasing RR7.57 by £29.906m. Additionally, since October we have completed APR tables 2D and 2O for 2023/24, which allowed our draft determination revision for RR7.57 to include actuals for 2023/24. Thus, increasing our tangible net book value at 31/03/2025 to £1.168m.

These two factors coupled together have led to a revised residential retail fixed asset net book value of £31.074m at 31/03/2025.

RR9 Miscellaneous inputs

Reprofiling lines 9.7 - 9.18

We have not re-profiled revenues. We have used the real wholesale WACC rate as the discount rate input.

Intangible and fixed assets 9.19 - 9.24 and 9.226 - 9.237

Lines RR9.19-.24 and RR9.226-.237 are calculated by utilising table RR28 and adjusting for inflation (for tangible and intangible). As these lines reflect balances as at 01/04/2025, in the October submission we were basing our calculations on forecast capital expenditure in 2023/24 and 2024/25.

Since October, we have completed APR tables 2D and 2O for 2023/24, which allowed our draft determination revision for RR9.19-.24 and RR9.226-.237 to include actuals in 2023/24. Whilst 2024/25 still uses forecast figures for total gross capital expenditure as per PR24 tables CW1a and CWW1a, there have been revisions to these figures since the October submission, causing some changes to RR9.19-.24 and RR9.226-.237.

RR10 to RR16.12 Financial Modelling Output tables

Line 1 of RR10 to line 12 of RR16 are outputs from the completed regulatory financial model and have been updated for DD Representations.

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