WSX57 - Summary for board presentation tables commentary

Business plan 2025-2030

Wessex Water
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WSX57 - Summary for board presentation tables commentary

CONTENTS

This supporting document is part of Wessex Water's business plan for 2025-2030.

Please see 'WSX00 – Navigation document' for where this document sits within our business plan submission.

More information can be found at wessexwater.co.uk

Business Plan – key points

Key themes of our plan

Our plan is ambitious, innovative, and delivers what customers want and the environment needs. The plan addresses the key challenges for PR24 of:

- meeting rising expectations about what water companies need to deliver for their customers and communities;
- protecting and enhancing our environment, including sustainably managing our natural resources, and making rapid progress on the operation of storm overflows;
- adapting to climate change and meeting net zero emissions; and
- delivering affordable bills, in the context of increasing cost of living challenges.

We have engaged more than ever before with our customers and stakeholders, seeking to balance mandatory environmental improvements with more direct service improvements. We have consistently performed well since privatisation and our Board and wider team continue to innovate and to focus on providing the personal service our customers have always experienced while meeting rising expectations.

To meet the challenges of enhancing our environment, deliverability and affordability we have a clear vision of our long-term outcomes {insert footnote reference to SDS?}. We have set out our AMP8 proposals in that context, optimising to balance the requirements for increased resilience, a step change in maintenance allowances to provide a sustainable long-term service and adapting our working practices to meet net zero carbon emissions and increased biodiversity.

Addressing the challenges

We pride ourselves in our customer services, environmental performance and our desire to collaborate with Ofwat and other regulators to find innovative ways of meeting the challenges that we face. We have set out in our covering Chairmans letter {insert footnote reference to letter} our key issues relating to PR24, namely:

- Continuing uncertainty
- Deliverability, affordability and financeability
- Infrastructure
- Speed of next steps

The regulatory requirements are not stable and further dialogue seems inevitable and this uncertainty makes it challenging to fully commit to deliver what is a significantly larger investment programme without wasting customers money. This situation compounds the already very challenging supply chain and resource restrictions that create longer lead times and delays in delivery. We have already committed early start expenditure and now need to engage contractors and placing orders. It is imperative that the Ofwat Executive and Board decisions made are clear, simple to understand, timely and do not restrict our ability to flex to the conditions by straightjacketing us to prescriptive outputs so we can recover from the current uncertainty, but we need to move with speed or it will impact our ability to deliver the programme.

Nevertheless, we are submitting a plan that our Board support and strikes the right balance between deliverability, affordability and financeability. Our customers have been clear about their desire for environmental improvements, affordable bills, etc and our package of performance targets has been optimised to deliver maximum value within the constraints in the short-term and set in the context of our long-term ambitions.

Specifically, we highlight our proposal for increased maintenance expenditure and within this the infrastructure expenditure, with further stepped increases to follow on both water and sewerage infrastructure assets in future price controls. As a result of the regulated price path for water deviating from its 'true' value, there has inevitably been underfunding (and thus, underinvestment) over the last decade. This will have constrained both our ability to invest in new assets, as well as our ability to maintain our existing ones. Our proposed increase in capital maintenance is both to 'make up for' the past, and to ensure we are back on a long-run sustainable path. It is essential that at this review we do not cut the proposed capital maintenance but start to put right the previous underinvestment.

1. SUM 1

1.1. Performance Commitments

This business plan delivers a highly ambitious set of outcomes, including tackling pollution, enhancing the water environment, and ensuring there is enough water to cater for everyone's needs over the long-term. We have built these proposals in response to the many and varied challenges we now face, both as a company and a society, and with our customers' priorities front of mind[1].

Our customers have been clear about their desire for environmental improvements, for affordable bills, etc and that is why our plan and our package of performance commitment targets reflects the need to strike the right balance in the short-term while remaining focused on our clear vision of the outcomes we intend to deliver by 2050.

Our plan for 2025-30 is set in the context of these longer-term ambitions, and our long-term delivery strategies[2]. In this way we have prioritised our investment to maximise the value to our customers and the environment.

The resultant trends in performance proposed reflect a mix of drivers and pressures, including customer preferences, the scale of mandatory environmental improvements and also how well we are currently performing relative to our long-term outcomes[3].

Since 2020 we have experienced significant shocks and stresses, requiring additional resilience and innovation to minimise the variation in performance that would result. We pride ourselves in our track record of performance since privatisation, as well as delivering the best face-to-face service to our customers. It is essential that the determination does not restrict our ability to think on our feet and adjust our plans as this would be detrimental to our customers. We would like to discuss how this can be achieved, particularly regarding how the approach to price control deliverables can meet the requirement to protect customers without restricting our ability to continue to achieve best value for our customers[4].

[1] Please see document WSX04 – A summary of our customer research
[2] Please see document WSX03 – Long term delivery strategy
[3] Please see document WSX57 – Outcomes tables commentaries which provides a wider summary of information on our performance commitments
[4] Please see document WSX26 – Price control deliverables

2. SUM 2

2.1. Key business plan metrics

Our water and waste network and treatment are getting much more complex. This leads to significant investment that cannot be predicted from historical data. The backward-looking econometric models cannot pick this up. Our cost adjustment claim reflects the additional efficient costs over time.

Increased cryptosporidium risk, phosphorus and nitrogen removal, very stretching pollution and leakage targets all drive extra cost. This cost will be realised through – among other things - capital schemes, energy, chemicals, and maintenance.

Whilst headline property growth is lower than historically, this reflects a bigger NAV market. The NAV market only accounts for the last mile and our treatment and network still requires significant investment for these “non-connected” properties. This is not properly reflected in models but must be in allowances.

The significant increase in capital investment and the slowing down in recovery of some elements of totex leads to significant real RCV growth over the period. In our submission, we are funding this through restriction of dividends, with no dividends assumed in our plan. However, as we discuss in WSX31, 33 and 41 this does have an impact on the overall risk to the business, which must be reflected in the cost of capital.

3. SUM 3

3.1. Cashflows and WACC

It is crucial that a balance of risk and return is struck that represents a fair bet for an investor in an efficient operator, and hence continue to attract both equity and debt finance to the sector to finance the significant capital investment.

As outlined in document WSX41 there is already significant risk of underperformance, across key operational metrics we are seeing routine, and significant underperformance over the last three years. We are proposing an increase to our base costs, and a better alignment of enhanced service to investment to rectify this. However, the statutory investment over 2025-30, is not only of unprecedented scale, but also represents a new range of technical challenges and innovative approaches. This creates further risk. We are proposing to address this by looking at the WACC. We are proposing a cost of capital that takes account of this increase in systematic risk and accounts for the movements in market data since the final methodology, we outline our evidence for this in WSX31.

This does result in upward pressure on bills. We have taken action to mitigate this, as explained in WSX35, we have slowed down recovery of expenditure through the PAYG ratios, and decreased RCV run off rates, to strike the right balance between current and future customers. We have then profiled our revenues throughout the period to ensure an overall bill profile that the plurality of customers find acceptable.

Given the costs, revenues, and balance of risk and return that this plan includes, results in both the notional and actual company targeting a strong investment grade rating of BBB+/Baa1, and remaining financially viable in the long term. The company’s current rating. For the actual company this is contingent on complete restriction of dividends throughout the period to fund the capital growth.

4. SUM 4

4.1. Expenditure Summary

The key aspects of our investment plan were included in our affordability testing with customers. This included mandatory requirements like our WINEP nutrient reduction programme. So, we need to be careful how a separation between mandatory and discretionary is interpreted, as it will mean different things to different audiences. For example, it would be misleading to just quote ‘x%’ of the plan has been influenced by customers’, as in reality they have been clear about their desire for environmental improvements, for affordable bills, etc. and therefore we could equally say they have influenced our entire programme and consequently we have worked hard with regulators and the government to find a better way of delivering the best value for lowest cost.

However, in order to comply with the guidance, you have provided for this data table, we have applied the following logic:

Mandatory- investment where there is a clear statutory obligation and where regulators require specific details of projects, cost and timings. These include the WINEP, strategic resource options, cyber-security/NIS and IED/EPR bioresources requirements.

Grey areas in mandatory relate to where there is an overall obligation on the company, but the exact mix of activities, cost and timing may be dependent on a range of factors including customer preferences, third parties or market conditions. Examples include, growth/capacity investment, new development, first time sewerage.

Discretionary include service/performance activities where there is regulatory oversight, but where customer preferences and factors such as weather conditions can affect the mix of activities, cost and timing and where the company needs to flex and innovate to ensure the best value for customers at lowest cost. Includes: leakage, PCC and metering, lead pipe replacement, pollution reduction and sewer flooding as well as carbon and biodiversity initiatives.