WSX48 – Risk and return tables commentary

Business plan
2025-2030

Wessex Water
YTL GROUP

FOR YOU. FOR LIFE.

WSX48 – Risk and return 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

1. RR1 – Revenue cost recovery inputs

We provide full commentary and analysis of wholesale WACC, PAYG and Run-off rates in the risk and return (WSX31), financeability and financial resilience (WSX33), and cost recovery (WSX35) chapters and supporting annexes.

We have assumed beyond 2030 that:

1. There is no change in the cost of equity or the cost of new debt, but that new debt is weight more in the overall cost of debt calculation. This results in a higher WACC. This helps mitigate the downward trends observed in interest covers over this period.
2. PAYG ratios are continued to be calculated in the same manner as 2025-30, i.e. net opex / net totex with no adjustment for capitalised IRE
3. RCV run off rates are, at an overall level, the same going forwards. As we have a detailed calculation matching these to depreciation we do not think they should differ materially.

2. RR2.

2.1. RR2.1 - RR2.12. Expenditure

2.1.1. Expenditure 2025 - 30

Please refer to the commentary on CW1 and CWW1 respectively for regarding variances in operational expenditure for these years

2.1.2. Expenditure 2030 - 35

For beyond 2030 we have taken a high-level assessment of the impact of our proposed plan over 2025-30 on:

- Future maintenance requirements,
- Net zero ambition,
- Eliminating harm from storm overflows
- Meeting our statutory duties form the environment bill.

Taking account of these, we set out high levels of assumptions around opex and capex, net of expected efficiencies and real price effects. This results in a further step change in investment, increasing totex to c£6bn over 2030-2035.

There is a significant amount of uncertainty in these figures. Full requirements for 2025-30 are still not fully known, and so there may be material changes to these in the future.

2.2. RR2.13 - RR2.18.

2.2.1. Equity Issuance costs

We are submitting a plan, that in the central case restricts dividends, but requires no equity injection. Therefore, we have not included allowances for equity issuance.

If the balance materially changes through the determination process, and equity issuance is required, we would expect an allowance to be included.

2.3. RR2.19 - RR2.24.

2.3.1. IRE totex adjustment for ACICR (Ofwat)

We are proposing PAYG ratios on the natural split of opex and capex under full IFRA accounting standards, therefore there is no adjustment required here going forwards.

2.4. RR2.25 – RR2.48

2.4.1. Grants and Contributions for Capital Expenditure

We have reflected the proposed splits of expenditure between price control and non-price control as set out in the final methodology. We have then assumed that overall each of these pots is fully recovered through our commitment to cost reflective charging.

3. RR3 - RCV opening balances (RR3.1-12)

This table sets out the RCV opening balances per price control, for the pre-2020 and 2020-25 components. This table provides opening RCV figures for the financial model, which have been populated from the PR24 RCV feeder model.

4. RR4

4.1. RR4.1-4.6 – Notional Target Gearing

The company has adopted Ofwat's assumed notional gearing of 55% as per Appendix 11.

4.2. RR4.7-4.14 – Index linked Debt

The notional percentage of index linked debt at 1 April 2025 has been calculated by taking the total value of index linked debt over the total debt of the company. The company does not have CPI linked debt therefore the proportion of RPI linked debt is 100%. Opening index linked debt values have been apportioned to price controls based on the published March 23 Regulatory Capital value split.

4.3. RR4.15-4.20 – Fixed Rate Debt

Opening fixed rate debt values have been apportioned to price controls based on the split of the published Regulatory Capital value for March 2023.

4.4. RR4.21-4.26 – Floating Rate Debt

Opening floating rate debt values have been apportioned to price controls based on the split of the published Regulatory Capital value for March 2023.

4.5. RR4.27-4.38 – Index Linked Debt Interest Rates

Notional Interest rates have been taken to be interest payable (excluding indexation) over the value of the respective debt outstanding at the end of each period. Price controls are assumed to be the same as borrowings are not specific to one price control and are undertaken on a company basis. CPI is assumed to be 1% above RPI.

4.6. RR4.39-4.44 – Fixed Rate Debt Interest Rates

Notional Interest rates have been taken to be interest payable over the value of the respective debt outstanding at the end of each period. Price controls are assumed to be the same as borrowings are not specific to one price control and are undertaken on a company basis.

4.7. RR4.45-4.56 – Cash

The company has no cash balance on 1 April 2025. Cash interest rates are those as provided by our internal treasury team.

4.8. RR4.57-4.85 – Equity

The company's equity share capital is £1 and therefore shows as £0.000 when in millions rounded to 3 decimal places. Equity dividends payable in the first year of AMP8 relate solely to the final dividend forecast to be declared in 2024-25. The opening balance at 1 April 2025 relates to the final dividend as previously mentioned and is allocated based on the split of the published Regulatory Capital value for March 2023. Dividend yield is shown as 4.96% which is consistent with earlier years in AMP7 (APR 2022-23, Table 1F.21 5.45%).

For the remaining years of AMP8 no dividends are payable and no share capital issued.

5. RR5

5.1. RR5.1 to 5.43

This relevant tax data has come determined using the Wessex Finance Model which sets out the financial position for the whole company. This data has then been split by price control using the March 2023 RCV figures.

5.2. RR5.44 to 5.49

This data has been taken from the currently enacted tax legislation. The tax legislation currently allows for "Full Expensing" until 31 March 2026.

5.3. RR5.50 to 5.97

The data for these table has been prepared by Chandler KBS based on the capital programme included in the business plan. Chandler have used a bottom up approach in determining the relevant percentages based on their extensive experience in providing capital allowance advice to the water industry.

In relation to RR5.56 to RR5.61 and RR5.68 to RR5.73, the company has decided that it would not claim the full expensing in the first year of the AMP. This position is in line with the last two years on the previous AMP where the OFWAT model does not allow for full expensing regime.

This decision has no impact on the amount of corporation tax payable as the tax allowance in the OFWAT model is nil whether full expensing is claimed or not. This is primarily due to the quantum of the capital programme which is higher than the anticipated taxable profits.

Not claiming full expensing in the early years is actually expected to be beneficial to the company in the long term. The primary reason for this is that full expensing would generate higher losses carried forward and the current tax legislation restrict the utilisation of losses to 50% of the taxable profits in subsequent years. By not claiming full expensing, the company will be able to claim additional capital allowances when it is profitable and have a smaller level of taxable profits.

5.4. RR5.98 to 5.165

The data for these inputs has been prepared based by reviewing the current level of adjustments and also taking into account the company's overall business plan as reflected in the Wessex Finance Model.

6. RR6 - Post financeability adjustments inputs

This table sets out the post Financeability uplifts to revenues arising from the past delivery process. They are taken from the revenue feeder model submitted as part of this plan.

As per guidance we have left the QAA and innovation sections blank.

7. RR7

7.1. RR7.1

Opening balances of 'retained earnings' have been allocated based on the averages of revenues from Table 2A and Totex in tables 2B & 2C of the Annual Performance Report 2023.

7.2. RR7.2 - RR7.7. Cost to serve

Cost to serve is calculated as our total operating costs (made up of Wessex Water Services Limited retail costs and the Wessex share of Pelican costs (our joint venture billing company with Bristol Water), bad debt costs and depreciation) divided by our forecast customer numbers (see RR7.8 – 13 below).

We provide further information on cost to serve in annex WSX20 – Residential retail strategy and investment.

7.3. RR7.8 - RR7.13. HH Connected

These lines are equal to SUP1A.1-3 across the different services and unmeasured / measured splits. Please refer to SUP1A commentary for further information.

7.4. RR7.14 - RR7.17. HH Trade Debtor and Creditor Days

Debtor days have been forecast as the same values throughout the report period. There could be factors influencing it in both directions - positives being improved collections due to new billing system and potential gains if we start data sharing (people tend to pay quicker as it impacts their credit score) offset by negatives such as the current cost of living crisis, adverse press coverage of the industry and continued awareness that we can't cut customers off.

We have forecast zero creditor days for measured customers as direct debit payments are aimed at covering ongoing charges. For unmeasured customers we have assumed 20days.

7.5. RR7.18 - RR7.19.

The income accrual rate is based on the average unread income accrual as compared to overall measured revenues over a three year period. It is assumed to remain the same over the price review periods. The income accrual for 2024/25 is the projected balance based on this average.

7.6. RR7.20 - RR7.26. Expenditure – Total residential retail costs

This block reports total residential retail costs split by service, supply/waste/both and by measured/unmeasured. Information on our forecast retail costs are provided in annex WSX20 – Residential retail strategy and investment.

7.7. RR7.27 - RR7.34

RR7.27 is shown as nil throughout PR24 as current projections show no dividend declarations during the period.

RR7.28 is also shown as nil throughout the period as we do not have any ‘wholesale creditors’ unless our understanding of the term in incorrect.

RR7.29 represents the unspecified accrual balance allocated to retail based on the overall split of TOTEX shown in tables 2B and 2C of the Annual Performance Report 2023. Likewise, RR7.30 is the allocation of trade payables based on the same method. The increases over PR24 are driven by the projected increase in expenditure.

RR7.31 is shown as nil as there is no Corporation Tax creditor at the end of PR19 due to the losses and allowances available to us.

RR7.32 and 33 represents the allocated trade receivables for unmeasured and measured based on the revenue split shown in table 2A of the Annual Performance Report 2023.

RR7.34 is shown as 1 month across the entirety of PR24 and PR29 as this represents our average standard terms with retailers.

7.8. RR7.35.

Prior period residential apportionment is 100%.

7.9. RR7.36.

The opening cash balance for PR24 across both wholesale and retail is nil.

7.10. RR7.37. Residential net margin for company

This line reflects the residential retail margin consistent with our plan. We have assumed 1%.

7.11. RR7.38 - RR7.49. Measured and unmeasured charge

Percentages reflect those implied by our charging model, taking account of the underlying trends including new connections, meter switchers, measured and unmeasured consumption. We forecast that business water consumption (and as a result the balance of charges) will recover to pre-covid levels by the end of AMP8.

7.12. RR7.50 - RR7.58.

Opening Household unmeasured advanced receipts - estimated value of bills paid prior to the start of the regulatory year from bills issued in the annual billing run.

Opening Household measured advance receipts – is nil as bills are calculated on actual meter readings.

Residential retail allowed depreciation is based on the calculations for Residential Retail in Table RR28 and adjusted for projected inflation.

Interest rate – residential is based on total costs of new debt.

Pension contributions are based on the number of Bristol Wessex Billing Services Ltd members of Wessex Water defined benefit scheme as compared to overall scheme membership. As per RR9 there is no pension deficit or surplus going into the price review period.

Capital creditors relate to the overall size of the investment programme for Retail.

Opening fixed assets are as disclosed in RR28.

There are no dividend distributions during PR24.

8. RR8

8.1. RR8.22-33

Percentages reflect those implied by our charging model, taking account of the underlying trends including new connections, meter switchers, measured and unmeasured consumption. We forecast that business water consumption (and as a result the balance of charges) will recover to pre-covid levels by the end of AMP8.

9. RR9

9.1. RR9.1 - RR9.6

The latest triennial valuation at September 2022 has the defined benefit scheme reaching full funding by July 2024 hence the balance at start of PR24 is projected to be nil.

9.2. RR9.7 - RR9.12. Reprofiling revenue

We have smoothed revenue for 2025-26 to 2029-30. Revenue forecast for the next AMP is unsmoothed.

9.3. RR9.13 - RR9.18. Discount rate for reprofiling revenue

The discount rate for reprofiling allowed revenue is the notional wholesale WACC. This is 4.38%. There is a slightly rounding difference to that calculated in RR25.21 (4.39%).

9.4. RR9.19 - RR9.24

Opening balances of intangible assets represent the continuation of predominantly software purchases/development over the remainder of PR19. These have been allocated based on the mix of Intangible assets disclosed in Table 2O of the Annual Performance Report 2023.

9.5. RR9.25 - RR9.30

Opening balances of provisions represent environmental claims currently outstanding. These have been allocated based on the Regulatory Capital Value disclosed in Table 4C of the Annual Performance Report 2023.

9.6. RR9.31 - RR9.36

Opening balances of 'other liabilities' include other accruals and deferred income (grants & contributions/adopted assets). These have been allocated based on the Totex split shown in tables 2B & 2C of the Annual Performance Report 2023.

9.7. RR9.37 - RR9.42

We do not have non-distributable reserves as Ofwat does not recognise the fair value of infrastructure created on the adoption of IFRS.

9.8. RR9.43 - RR9.48

Opening balances of 'retained earnings' have been allocated based on the averages of revenues from Table 2A and Totex in tables 2B & 2C of the Annual Performance Report 2023.

9.9. RR9.49 - RR9.50

'Retail debtors other' align with the increase in revenues over the price review periods. The opening balance is allocated based on the revenue split in Table 2A of the Annual Performance Report 2023.

9.10. RR9.51 - RR9.62

Opening balances of inventories represent the projected stock held allocated based on the Totex split shown in tables 2B & 2C of the Annual Performance Report 2023. Opening Capital Creditors represents the value of work done on capital projects which has yet to be invoiced and is allocated based on the split of historic asset costs shown in table 2D of the Annual Performance Report 2023.

9.11. RR9.63 - RR9.68

Inventory movements align with Totex spend increase over the price review period.

9.12. RR9.69 - RR9.74

Trade creditor days are calculated as Trade Creditors divided by the combined total of operational costs and capital investment with the resulting value multiplied by 365 days. We do not differentiate between price controls as all suppliers are paid based on our standard terms.

9.13. RR9.75 - RR9.87

Other creditors represent capital creditors and interest accrual. Other debtors represent prepayments.

9.14. RR9.88 - RR9.111

Opening balances are aligned to previous statements included above (i.e., methods of allocation)

9.15. RR9.112 - RR9.135

There are no projected deficit recovery payments over the next price review as per note 1.1. The defined benefit scheme has been closed to new members for a number of years therefore contributions are consistent with current values. Defined contribution costs increase in line with the size of the labour force.

9.16. RR9.136 – RR9.171 Direct Procurement for Customers

These lines relate to expenditure on 'live' DPC contracts with third party CAP arrangements. The only projects that we are currently proposing as DP car ethe three Strategic resource options (see Commentary to data table SUP12). The confirmation of DPC is yet to be confirmed through the RAPID Gate 3 milestone, so and it is likely that DPC costs will be incurred from the start of AMP9, not in AMP8. On this basis we have not assumed any DPC costs in AMP8.

9.17. RR9.172 - RR9.177. Adjustment to Wholesale Revenue Requirement

We do not expect any adjustments to wholesale revenue requirements.

9.18. RR9.178 - RR9.195

We do not have any entries in these cells.

9.19. RR9.196 - RR9.225

Due to the immaterial nature of Price control and non-price control third party/other income, values are assumed to be consistent with 2022-23 levels.

9.20. RR9.226 - RR9.237

Opening fixed assets are as per those disclosed in RR28.

9.21. RR9.238 - RR9.243

Fixed asset lives for PR29 are assumed to be consistent with the final year of PR24.

9.22. RR9.244 - RR9.249

Movements in other liabilities relate to items disclosed in note 1.6.

9.23. RR9.250 - RR9.255

Movements in intangible assets reflect the move to more ‘Software as a Service’ arrangements which under accounting standards are unliked to be capital in nature and therefore fall into operational costs.

9.24. RR9.256 – RR9.261

There are no movements in provisions given the small immaterial nature of the item.

9.25. RR9.262 - RR9.266. Base Revenue by charging year

Base revenue by charging year for 24-25 has been populated consistent with the PR19 FD, adjusted for k, inflation and expected ODI penalties/rewards recoverable in the final year of the current price control period.

This is reported as per PD5.10 for 24-25 (expected revenue recovered) which for 24-25 we expect to the be the same as PD5.9 (expected revenue cap). Please see the commentary for PD5 for more information. There is a slight variance between the values in these lines and PD5.10 and this is due to a variance in ONS’s published inflation percentage and their indices for November 2022, which was identified after our early submission.

10. RR10 to RR16

These models are the outputs from the submitted financial model, or the position that these financials imply with our actual underlying capital structure.

11. RR17

We explain the detail behind this table in WSX33, as this table forms a key part of our long-term financial resilience assessment.

12. RR18

12.1. Income Statement – Actual Structure

The values for the year 2022-23 have come from this year's APR table 1A. Years 2023-24 to 2029-30 are from the forecasts in our Treasury Model. These have been prepared for the WWSL company on an IFRS accounting basis and so have been adjusted to the Appointed business using the RAG 4 Guidelines. For comparison the adjustments are shown here.

Table 1 – Explanation of differences between Statutory and Regulatory accounts (Income Statement)

Explanation of differences between Statutory and Regulatory accounts	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30
Positive numbers represent increased profit in the Regulatory Accounts	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
Revenue to be re-classified as Other Income in the Regulatory Accounts	(3.214)	(4.522)	(4.204)	(3.849)	(3.676)	(3.666)	(3.415)	(3.122)
Biosolids treated as negative expenditure	(0.590)	(0.602)	(0.614)	(0.626)	(0.639)	(0.651)	(0.664)	(0.678)
Non-payers excluded from Revenue in accordance with IFRS 15	0.388	-	-	-	-	-	-	-
Rental income from appointed assets included with Other Income	(0.382)	(0.390)	(0.397)	(0.405)	(0.413)	(0.422)	(0.430)	(0.439)
	(3.798)	**(5.513)**	**(5.215)**	**(4.880)**	**(4.728)**	**(4.739)**	**(4.510)**	**(4.239)**
Operating costs								
Depreciation of previously capitalised customer leakage repairs are excluded in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	0.670	0.670	0.670	0.670	0.670	0.670	0.670	0.670
Biosolids treated as negative expenditure	0.590	0.602	0.614	0.626	0.639	0.651	0.664	0.678
Innovation fund payments	1.109	-	-	-	-	-	-	-
Bad-debt provision on revenue treated as non-payers under IFRS 15 excluded from operating costs	(0.384)	-	-	-	-	-	-	-
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. In the Regulatory Accounts capitalisation of interest is not allowed	0.600	1.273	1.896	2.753	4.111	5.934	8.216	10.822
Other operating income shown separately in the Regulatory accounts	1.175	1.250	1.275	1.301	1.326	1.353	1.380	1.408
Other income shown separately in the Regulatory accounts	(3.422)	(3.488)	(3.478)	(3.470)	(3.452)	(3.450)	(3.440)	(3.434)
Depreciation arising on conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	6.415	5.045	5.045	5.045	5.045	5.045	5.045	5.045
	6.753	**5.352**	**6.022**	**6.925**	**8.339**	**10.203**	**12.535**	**15.189**
Other operating income								
Other operating income shown separately in the Regulatory Accounts	(0.968)	(1.250)	(1.275)	(1.301)	(1.326)	(1.353)	(1.380)	(1.408)
	(0.968)	**(1.250)**	**(1.275)**	**(1.301)**	**(1.326)**	**(1.353)**	**(1.380)**	**(1.408)**
Other income								
Revenue to be re-classified as Other Income in the Regulatory Accounts	3.214	4.522	4.204	3.849	3.676	3.666	3.415	3.122

Explanation of differences between Statutory and Regulatory accounts	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30
Innovation fund payments	(1.109)	-	-	-	-	-	-	-
Rental income from appointed assets included with Other Income	0.382	0.390	0.397	0.405	0.413	0.422	0.430	0.439
Other income shown separately in the Regulatory accounts	3.422	3.488	3.478	3.470	3.452	3.450	3.440	3.434
	5.909	**8.400**	**8.079**	**7.724**	**7.541**	**7.538**	**7.285**	**6.995**
Interest expense								
Capitalisation of interest: excluded from Regulatory accounts	(7.076)	(21.403)	(15.992)	(35.438)	(46.037)	(63.336)	(73.592)	(82.720)
	(7.076)	**(21.403)**	**(15.992)**	**(35.438)**	**(46.037)**	**(63.336)**	**(73.592)**	**(82.720)**
Taxation								
Corporation tax on the net adjustments described above	-	-	-	-	-	-	-	-
Deferred tax at 25% on the net adjustments described above	(0.288)	3.604	2.095	6.743	9.053	12.922	14.915	16.546
	(0.288)	**3.604**	**2.095**	**6.743**	**9.053**	**12.922**	**14.915**	**16.546**
Total differences	**0.532**	**(10.811)**	**(6.286)**	**(20.228)**	**(27.158)**	**(38.765)**	**(44.746)**	**(49.637)**

13. RR19.

13.1. Statement of Financial Position – Actual Structure

The values for the year 2022-23 have come from this year's APR table 1C. Years 2023-24 to 2029-30 are from the forecasts in our Treasury Model. These have been prepared for the WWSL company on an IFRS accounting basis and so have been adjusted to the Appointed business using the RAG 4 Guidelines. For comparison the adjustments are shown here.

Table 2 - Explanation of differences between Statutory and Regulatory accounts (Actual Structure)

Explanation of differences between Statutory and Regulatory accounts	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30
	£m	£m	£m	£m	£m	£m	£m	£m
Fixed assets								
Infrastructure asset revaluation on adoption of IFRS accounting, after depreciation. This amount is excluded from the Regulatory accounts.	(639.250)	(684.161)	(675.607)	(667.052)	(658.497)	(649.943)	(641.388)	(632.833)
Customer pipe repairs, after depreciation, are excluded from the Regulatory accounts	(34.387)	(33.717)	(33.047)	(32.377)	(31.707)	(31.037)	(30.367)	(29.697)
Interest capitalised on asset construction, after depreciation on completed assets. This amount is excluded from the Regulatory accounts.	(27.488)	(67.748)	(77.706)	(131.733)	(187.011)	(265.823)	(347.389)	(436.631)

Explanation of differences between Statutory and Regulatory accounts	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30
	(701.125)	(785.626)	(786.360)	(831.162)	(877.215)	(946.803)	(1,019.144)	(1,099.161)
Trade and other receivables Non-payers adjustment which is excluded from the Regulatory accounts.	0.645	0.645	0.645	0.645	0.645	0.645	0.645	0.645
	0.645	0.645	0.645	0.645	0.645	0.645	0.645	0.645
Trade and other payables To be shown under Capex Creditor	42.408	66.801	60.375	137.369	170.230	193.215	195.241	180.691
	42.408	66.801	60.375	137.369	170.230	193.215	195.241	180.691
Capex creditor From Trade and other payables	(42.408)	(66.801)	(60.375)	(137.369)	(170.230)	(193.215)	(195.241)	(180.691)
	(42.408)	(66.801)	(60.375)	(137.369)	(170.230)	(193.215)	(195.241)	(180.691)
Deferred income - G&C's Deferred income on adopted assets to be shown separately	111.320	116.228	121.136	126.140	131.145	136.150	141.155	146.159
	111.320	116.228	121.136	126.140	131.145	136.150	141.155	146.159
Deferred income - adopted assets Deferred income on adopted assets to be shown separately	(111.320)	(116.228)	(121.136)	(126.140)	(131.145)	(136.150)	(141.155)	(146.159)
	(111.320)	(116.228)	(121.136)	(126.140)	(131.145)	(136.150)	(141.155)	(146.159)
Deferred tax Deferred tax at 25% on fixed asset and other differences described above	175.118	191.374	193.066	199.619	208.822	222.350	238.442	256.816
	175.118	191.374	193.066	199.619	208.822	222.350	238.442	256.816
Total differences	(525.362)	(593.607)	(592.649)	(630.898)	(667.748)	(723.808)	(780.057)	(841.700)

14. RR20.

14.1. Statement of Cash Flows – Actual Structure

The values for the year 2022-23 have come from this year’s APR table 1D. Years 2023-24 to 2029-30 are from the forecasts in our Treasury Model. These have been prepared for the WWSL company on an IFRS accounting basis and so have been adjusted to the Appointed business using the RAG 4 Guidelines.

15. RR21

15.1. All lines.

This table is an exact replication of Table 1E submitted within the APR 2022-23. There have been no amendments following the APR query process.

16. RR22.

16.1. All lines.

This table is an exact replication of Table 4B submitted within the APR 2022-23. One amendment has been made subsequent to submission of the APR where it has been identified the RPI interest rates quoted for index linked bonds (RR22.403-RR22.411) were inclusive of indexation as opposed to the coupon rate. The table below shows the changes made;

Table 3 – Changes to Table 4B submitted within the APR 2022-23

Instrument Identifier	APR 2022-23 Interest Rate	Corrected Interest Rate
XS0138444020	7.27%	5.38%
XS0447731554	3.71%	2.19%
XS0261491939	3.24%	1.75%
XS0261492234	3.24%	1.75%
XS0283383767	2.53%	1.37%
XS0282725455	2.54%	1.37%
XS0323207323	2.36%	1.49%
XS0317526712	2.37%	1.50%
XS0320200032	2.37%	1.50%

17. RR23

17.1. All lines.

Wessex Water hold no financial derivatives and so all lines are Nil.

18. RR24

18.1. Debt Balances RR24.1-RR24.14

This section replicates the modelling position of the financing requirements for PR24. We have assumed the level of index linked debt will be maintained in proportion to overall debt (approx. 30%) and that any remaining new debt issued will be Fixed rate (RR24.5).

Debt repayments over the timeframe are shown in lines RR24.9 to RR24.12 and are based on the known maturity dates of the debt in issue.

The indexation cost of currently held index linked bonds are shown in lines RR24.13 and RR24.14 and are derived from the indexation values in PD1 and the coupon rates of each bond.

18.2. Interest rates and financing costs RR24.15-RR24.30

Interest rates for existing fixed rate debt have been calculated based on the projected position at the end of 24-25 allowing for any new issues or repayments prior to 1 April 2025. New fixed rate debt is assumed to be at a rate of 6.4% based on the current market averages.

Floating Rate debt interest rates are calculated based on the projected position at the end of 24-25 with an assumption for the current SONIA rate at that point in time, removing debt from the calculation as it is repaid (RR24.21). New Floating rate debt is assumed to be at the same rate as fixed rate debt, however no new floating rate debt is assumed to be issued.

Index linked debt interest rates are calculated based on the projected position at the end of 24-25 using the coupon rates of existing bonds. There is no intention to issue index link debt prior to 1 April 2025 and all existing debt is RPI linked. Any new index linked debt is assumed to be issued at CPI(H) using the rates disclosed in RR4.

Lines RR24.23 and RR24.24 show the weighted interest rates calculated from the interest rates disclosed in RR24.15-RR24.22 weighted using the debt balances disclosed in RR24.1-24.14.

Floating rate Interest paid (RR24.25) reflects the decline in floating rate debt as existing debt is repaid and new debt is either fixed or index linked. Interest receivable reflects the negligible cash balances held during the price review period.

Bank overdraft rates are assumed to be in line with Bank of England base rate projections plus the current overdraft margin.

Residential retail working capital financing rates are assumed to be the same as new fixed rate debt. The company does not have any Business retail working capital requirement hence the rate is shown as 0.00%.

18.3. Interest for financial metrics.

With the exception of RR24.45, the remaining lines in the range RR24.33 to RR24.46 are all calculated cells within the table. RR24.45 is assumed to represent debt issuance costs of approx. 0.6%.

19. RR25 and RR26

We provide full commentary and analysis of the allowed return on capital in the risk and return chapter and support appendix.

20. RR27

20.1. All lines

For years up to 2022-23 please refer to our APR commentary for 2I.

20.2. RR27.1-2

Forecasts represent our allowed revenues split into unmeasured and measured revenue, factoring in our other factors including new connections, meter switchers, measured and unmeasured consumption. Unmeasured revenue either falls year on year or grows at a slower pace than measured revenue due to meter switchers. We forecast for the trend of more lower using unmetered customers switching to meters to continue and we set our charges to ensure that unmeasured customers pay more as they use more water. Therefore, we forecast for unmeasured charges to increase slightly more quickly than measured over AMP8.

20.3. RR27.3

Third party revenue is forecast based on historic trends.

20.4. RR27.5-10

The same trends described for water are true for wastewater. We currently forecast for surface water and highway drainage charges to stay steady in real terms throughout AMP8, but we will continue to keep these charges under review and may increase them if there is clear evidence to support doing so.

20.5. RR27.5-11

Third party revenue is forecast based on historic trends.

20.6. RR27.13-19

We do not have any additional controls, so these lines are zero.

20.7. RR27.22-23

Forecasts represent our allowed revenues split into measured and unmeasured based on the same factors as wholesale revenues.

20.8. RR27.24

Third party revenue is forecast based on historic trends.

20.9. RR27.26

Bulk supply revenue for water is forecast in line with PD6. We have seen a large increase in NAV activity in our region and forecast for this to continue throughout AMP8. This is reflected in our revenue forecasts with revenue increasing in real terms year on year.

20.10. RR27.28-29

We do not have any additional controls, so these lines are zero.

20.11. RR27.30

Third party revenue is forecast based on historic trends.

20.12. RR27.31

Other appointed revenue is forecast based on historic trends.

21. RR27a

21.1. RR27a.1-2

We forecast that all third-party revenue on water and wastewater to be business throughout AMP8. This reflects historic trends.

21.2. RR27a.3-4

We do not have any additional controls, so these lines are zero.

21.3. RR27a.5-7

These splits reflect the underlying forecasts for our charges. Foul charges are a higher proportion on unmeasured than measured because the average unmeasured bill is larger than measured but the average charges for surface water and highway drainage are around the same across measured and unmeasured. Please refer to our RR27 commentary for further information.

22. RR28

22.1. Historic Cost Analysis of Tangible Fixed Assets

Historic cost depreciation is calculated on the same basis for all Wessex Water assets, that is, within the combined corporate database of the Unit4 Fixed Assets module. This database is subject to regular audits and reviews. In general, assets are capitalised on a Historic cost basis being the final capex cost of the project. On capitalisation each asset is assigned an asset life based on a table of standard asset lives that categorise assets into the most used types. From the capitalisation date going forwards assets depreciate on a straight-line basis over the length of the asset life and the remaining asset life reduces correspondingly. By default, assets are depreciated until all the original cost has been charged to depreciation, unless an active second-hand market and planned sale date indicates a positive final value (for example motor vehicles).

If an asset is sold to a third party or written-off due to being abandoned or demolished it is written out of the register with the cost and accumulated depreciation at the disposal date being reversed. If there is any remaining net book value at this time it is charged to profit and loss under “Other Operating Income”.

Values for 2022-23 come directly from APR table 2D for that year. Subsequent years depreciation and additions have been calculated by;

- rolling forward the existing asset stock,
- adding a depreciation forecast for assets still under construction at 2022-23,
- and a depreciation forecast for the capital projects comprising the remainder of AMP7
- and a depreciation forecast for the capital projects comprising AMP8

Asset disposals have been estimated as a proportion of the anticipated capital programme, based on historic observations.

Adopted assets are forecast to continue historic trends.

23. RR29

23.1. Asset Lives

Average asset lives for each price control are based on the remaining net book value at the year end and the annual depreciation charge for the year in question.

Average asset lives stay broadly constant over the period, indicating that the mix of assets by asset life category is similar to the existing asset stock.

24. RR30

24.1. Totex scenarios – high case (RR30.1-6) and low case (RR30.22-27)

Totex scenarios are based on modelling our totex forecasts, by price control, and overlaying assumptions on likely levels of optimism bias, taking the P90 and P10 positions and allocating this across AMP9 based on forecast total expenditure profiles.

24.2. ODI scenarios – high case (RR30.7-11) and low case (RR30.28-32)

ODI scenarios are based on modelling P90 and P10 forecast performance for all performance commitments and using this to forecast likely rewards/penalties based on Ofwat's (August 2023) ODI rates and allocation of PCs to price controls.

24.3. Financing scenarios – high case (RR30.12-14) and low case (RR30.33-35)

The full details and calculations are set out in WSX41 and WSX42.

24.4. Customer measures of experience scenarios – high case (RR30.15-18) and low case (RR30.36-39)

The full details and calculations are set out in WSX41 and WSX42.

24.5. Revenue & other impacts – high case (RR30.19-21) and low case (RR30.40-42)

We have included the impact of PCDs in this block, based on likelihood modelling of delays and deferrals. These have been reported in the final year of the AMP consistent with the expected impact.

24.6. Regulated equity (RR30.43-45)

Average RCV is an output of the financial model. We have assumed notional gearing of 60%.

24.7. Impact of proposed uncertainty mechanisms (RR30.58-59)

Complete as blank.

24.8. RoRE - impact of proposed uncertainty mechanisms (RR30.60-61)

This is a calculated line.

24.9. RoRE – total post uncertainty mechanisms (RR30.61-62)

This is a calculated line. WSX42 is an associated spreadsheet model summarising these calculations.