

**WSX-A01 – Board
assurance
statement**

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

FOR YOU. FOR LIFE.

1. Introduction

The Board of Wessex Water is committed to fulfilling our regulatory and public service responsibilities, and we support Ofwat's wider objectives of restoring confidence and improving performance in the water industry. We were very disappointed that our business plan was rated as 'inadequate' at draft determination stage, and we trust our response addresses Ofwat's particular concerns.

We have very carefully considered the draft determination and its implications. We have addressed all the concerns set out in the quality and ambition assessment, including the challenge on specific areas of cost. Since submitting our plan, we have considered all available new information. On the basis of this new information, we have sought to close the gap between our own and Ofwat's view of efficient costs by applying further challenge to areas of new investment (e.g. to our nutrients programme) and the scale of our capital maintenance programme. Our revised plan is now fully aligned with all PR24 statutory requirements.

Our financial modelling and data tables in our response also use Ofwat's draft determination cost of capital as an input as required. However, we do disagree with Ofwat's view, and the approach to setting this so we provide an alternative view which we believe more appropriately compensates investors for the level of risk at PR24.

2. Ofwat's additional requirements

In Ofwat's quality and ambition assessment (QAA) at draft determination, it sets out the following requirements with regards to our Board assurance:

"The company should provide Board assurance that its plan is deliverable. If the company considers that it requires a delivery mechanism to make its plan deliverable, it should propose a mechanism alongside a delivery action plan and a commitment to accept increased monitoring on its delivery plan and delivery action plan."; and

"The company should provide additional Board assurance, supported by a financial resilience plan and investor support, where appropriate, to demonstrate how it will maintain financial resilience in the control period and beyond in the context of our draft determinations."

We provide this additional assurance below.

2.1. Deliverability

Since submitting our plan we have considered new information, including updated guidance from regulators; more mature designs and scopes for areas of new investment (e.g. our nutrient removal programme); and expert input on scope, costs and deliverability. On this basis, our revised plan is now fully aligned with all PR24 statutory requirements through to 2030, and beyond. Furthermore, with the creation of YTL's new construction company, our investors are strengthening their commitment to UK infrastructure delivery.

In considering this issue, the Board has reviewed statements made by other companies that Ofwat has agreed meet its minimum requirements and taken these into account alongside a final draft of the text prepared in WSX-M05 and WSX-A02.

On this basis, the Board has challenged itself and provides assurance that:

Wessex Water will work to ensure that the revised Business Plan, which is consistent with all statutory requirements to 2030, is delivered. However, given the scale of the investment programme for the 2025-30 period, the board will require regular reports to monitor progress carefully. The independent assurance

provided by Mott MacDonald confirms that Wessex Water's progress in relation to preparing for the forthcoming investment programme supports the credible delivery of our revised plan.

2.2. Financeability and financial resilience

The Board has considered carefully Ofwat's requests on the cost of capital and financeability. We have fully considered analysis to assess the financeability of the Company on both the notional and the actual basis, taking into account potential future scenarios. The analysis supporting this is presented in WSX-R05.

The Board has also considered the financial resilience of the actual Company. We provide assurance that the actual company is financially resilient over the 2025-30 period and beyond under our Business Plan. The analysis supporting this is presented in WSX-R05.

In considering this issue, the Board has reviewed statements made by other companies that Ofwat has agreed meet its minimum requirements and taken these into account.

On this basis, the Board has challenged itself and is satisfied that:

The business plan is financeable on the basis of the notional capital structure subject to raising the necessary debt and equity financing. This takes account of all components of the business plan, including the Ofwat draft determination view on the allowed return on capital, and is consistent with maintaining target credit ratings at least two notches above the minimum of the investment grade under current rating methodologies.

The board can confirm that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan, subject to raising the necessary debt and equity financing. We note this is made more difficult by the adverse trend in financial stakeholder sentiment on the sector. The board anticipates that the final determination will set a WACC at a sufficient level to facilitate this. As part of our submission the board has provided a viability statement out to March 2035 having satisfied itself that our plan will support the financial resilience of the company over at least this period.

Supporting statement

For the notional company, the board has targeted credit ratings of Baa1 with Moody's and a senior unsecured debt rating of BBB+ with Fitch. Using Ofwat's draft determination view of the WACC credit metrics deteriorate over the period and, if this trajectory was not corrected in AMP9, then a downgrade in that following period would be likely.

The board believes the actual company ratings targets provide a robust degree of headroom above the threshold for investment grade and should enable the company to maintain efficient access to the debt capital markets throughout the economic cycle.

To meet key credit metrics commensurate with the above credit ratings, we have modelled equity funding of £330m for the actual company and £780m for the notional company. On the assumption that the overall PR24 risk and return package and the level of allowed equity return are set at an appropriate level at the final determination, we are confident that our plan is financeable from a debt and equity perspective on both a notional company basis and an actual company basis.

The board has assessed the financeability of the business plan under both the notional and actual capital structures and has reviewed the supporting independent assurance undertaken. The board also confirms that the cost recovery rates proposed ensure that these are reasonable and do not store up a financeability problem beyond the period of the price control.

3. Concluding remarks

The Board looks forward to Ofwat delivering a Final Determination which enables the Company to properly carry out its statutory functions; and to finance the proper carrying out of those functions and secure the long-term resilience of the Company's systems on the basis set out in the Business Plan submitted by the Company.

The Board has continued to challenge management in order to satisfy itself that the assurance mechanisms used by the Company which support the costs and evidence provided in response to the Draft Determination are robust. This includes the continuing work of third-party assurers. We are satisfied that the processes in place to develop the data and information on which we base our decisions are appropriate and effective.

The Board has continued to follow the assurance processes in place for the PR24 programme and other elements of the assurance provided as part of the business plan submission are unchanged. Assurance completed as part of the Draft Determination representation has built on the previous assurance of the October 2023 Business Plan. The Board is satisfied that its representation meets the expectations of a responsible company.

This Draft Determination Board Assurance Statement was approved by the Board on 23 August 2024.



Tan Sri (Sir) Francis Yeoh – Chairman



Dato Hong Yeoh – Shareholder Non-Executive Director



Jim McKenna – Senior Independent Non-Executive Director



Dato Mark Yeoh - Shareholder Non-Executive Director



Colin Skellett – Chief Executive



Hann Yeoh - Shareholder Non-Executive Director



Dame Fiona Reynolds – Independent Non-Executive Director



David Barclay - Non-Executive Director



Kate Mingay - Independent Non-Executive Director



Andy Pymer – Chief Finance Officer



Tim Gardam - Independent Non-Executive Director



Ruth Jefferson – Chief Compliance Officer



Kevin Wall - Independent Non-Executive Director



John Thompson – Chief Operating Officer