

PR24

NORTHUMBRIAN
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DD RESPONSE – TABLE COMMENTARIES & FINANCIAL MODEL

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1. INTRODUCTION

When we published our [business plan](#) in October 2023, we included business plan data tables and commentaries as required under Ofwat's [guidance](#).

Following queries from Ofwat between October 2023 and January 2024, and some further updates from regulators on the requirements for our environmental expenditure programme (WINEP), we updated our data tables and shared these with Ofwat. We [published these updated tables](#) on 25 January 2024, along with [a commentary](#) to explain these changes.

After we published these tables on 25 January, Ofwat asked us to make further changes. We shared these tables with Ofwat on 12 February, with some minor changes to our “past delivery” adjustments and reflecting updated national tax policies. In total, all of these changes meant that instead of our average bills increasing by 18.5%, as set out in our original business plan tables¹, they would now increase by **13.6%**². A large part of this change – but not all - was because of updated 2024/25 bills.

We are one of the few companies to continue reducing their proposed bill increases after submitting their business plan in October 2023; though we think this is because some other companies have not yet reflected changes to tax in their plans, and we expect them to do so in response to DD.

In both [our business plan](#) and our [commentary in January](#), we explained that there were still some larger changes to come to our Business Plan. In the January commentary, we explained that this was because:

- *“Our Business Plan included a series of nature-based schemes in the Teesmouth to meet new legal requirements for Nutrient Neutrality, these proposals were ambitious but cost significantly less to customers and we believe would deliver a greater level of environmental benefit. Following the submission of our Business Plan in October new guidance allows us to make an application to the Secretary of State for those ambitious proposals to be taken forward. We made this application in January and expect to hear back from the Secretary of State in April. If this application is not successful, then the alternative solution would require significantly more investment and may drive a significant change to our Business Plan.*
- *We have received feedback from the UK Government in relation to our proposed Water Resource Management Plan (WRMP) which may require us to consider additional investment in Essex and Suffolk to ensure that we are able to leave more water in the environment in the future and abstract less, we are working through this feedback but currently do expect a small increase in investment will be required to address the concerns raised.*
- *We continue to receive feedback on our plans to reduce spills to the environment from Storm Overflows including from both Ofwat, the Environment Agency and others. This may lead us to consider changes to the plan we submitted*

¹ This uses Ofwat's method to calculate bills across both our operating areas – original calculation can be [found on Ofwat website](#).

² This uses the same method, but [was updated by Ofwat](#) on 8 May 2024.

in October. While in general we currently expect such changes to be modest there is significant uncertainty in this area.”

We said we would expect to resolve these areas of uncertainty by July – and in our business plan tables of 28 August 2024, we have resolved all of these. We had already explained this to Ofwat in June 2024, including providing updated costs and estimating the impact on bills.

Finally, we have changed some costs and included some additional investments in response to Ofwat’s draft determinations (see our main response NES80, and section 3 below).

In total, these changes to our business plan mean that our average bills **will increase by 18.5%** - the same as originally forecast in our business plan. We have provided an updated full set of business plan tables to Ofwat, including updated financial modelling. This was necessary because of the updates to the areas of uncertainty which have now been resolved.

This commentary explains the changes we have made to the business plan tables, grouping these by the changes made (rather than by table, as we did for our original business plan). Ofwat has also asked for us to complete 22 additional tables, which we have submitted alongside our response on 28 August 2024, and we provide commentary to these additional tables too.

2. UPDATES IN RESPONSE TO QUERIES

We had already updated our business plan tables by the 12 February submission. We logged all of the changes in response to Ofwat queries, and have published the log alongside the tables. This included a £7m reduction in our total expenditure compared to our original PR24 business plan, because of:

- A £17m reduction in the scale of the septic tanks programme following changes to the requirements and guidance issued by the Environment Agency.
- A £4m increase in the costs of a Kielder Reservoir bulk supply proposal following discussions with Ofwat and RAPID.
- A small number of costing corrections of £6m in total.

Since then, we have updated for some minor cost and revenue changes, including updating 2023-24 bills and 2024-25 bills to actuals (Ofwat confirmed in OFW-OBQ-NES-190 that they wanted to use these updates in actual bills for the Draft Determinations).

We also moved our reservoir safety enhancement expenditure from “Additional Line 3” to “Additional Line 5” in Table CW3, as requested in Ofwat’s [guidance for submitting business plan tables](#). We note that this means “Additional Line 3” expenditure is now **blank** and so Ofwat will need to delete any existing data in their database.

3. UPDATES ON AREAS OF UNCERTAINTY

On 24 May, we wrote to Ofwat to provide updated costs and deliverables for several areas of uncertainty that we had highlighted in September 2023 and in our October 2023 business plan. These were uncertain because the regulatory requirements (on WINEP monitoring, nutrient neutrality, septic tanks, and WRMP) had not yet been finalised, or we expected revisions to guidance which would mean significant changes to these programmes and the related costs and deliverables. We had said that we would provide Ofwat a full updated set of costs and deliverables for these areas once these became clearer. Our 24 May letter provided most of these updates.

We have now finalised all of these areas of uncertainty and provide our final costs and deliverables in our business plan tables. We describe the changes we have made for each of these in our **main DD representations document (NES80)** and summarise these below.

3.1. NUTRIENT NEUTRALITY – LONG SEA OUTFALL

In June 2024, Defra confirmed that we are required to take forward our option for nature-based solutions and a long sea outfall (the second column in Table 20 of NES28). This is a change in our business plan.

As part of our representations, we have included a supplementary enhancement case (NES28A) for these changes (NES28a) which explains the cost of the long sea outfall and other changes to our enhancement case. We have not changed the costs or benefits or the original nature-based solutions, which are still included as well as the new long sea outfall, and we assessed the benefits of the long sea outfall option in our original business case. We have updated our business plan tables to include the costs and benefits for this new option.

We explain this further in section 9.1 of NES80. This is an additional **£245m** in our business plan.

3.2. WRMP

We explained the requirement to carry out detailed investigation and design on three additional schemes for WRMP in our letter of 24 May. We have included the costs for this in our revised business plan tables, based on the 6% of capex recommend for RAPID schemes to cover these stages. This is an additional **£21.0m** in our business plan.

3.3. WINEP MONITORING

We explained the revised guidance for continuous water quality monitoring in our letter of 24 May (and in section 9.3 of NES80). We have included revised costs in our business plan tables, reducing totex from £124.79m in our October business plan to **£55.45m** now.

We also have some changes for monitoring at emergency overflows (see section 9.3 of NES80). This reduces our totex for this to **£19.5m**. We note that we have asked Ofwat to double this value to reflect the change in guidance from Defra to deliver 50% of the programme by 2030, rather than the 25% assumed in our data tables (see section 9.3 of NES80).

3.4. STORM OVERFLOWS

The EA has asked us to include an additional 10 storm overflows in WINEP for AMP8, as these could now be cost beneficial under SOAF. These will cost an additional £22m, which we have included in Table CWW3 (and other associated tables). This is in addition to 69 more storm overflows under our accelerated plan (see 5.1 of this document, and section 11 of the main response NES80).

4. UPDATES FOR 2023-24 ACTUALS

We have updated our tables to match the 2023-24 APR (that is, for 2023-24 actuals only). For some tables, there are additional values for 2023-24 that are not included in the APR but where we have updated to actuals (some lines in CW4, CW6, CW7, CWW8, and CWW20).

We have not made any changes to our transition or accelerated expenditure to match actual 2023-24 values, as we know this would potentially disrupt cost models and cause difficulties for Ofwat in shifting expenditure into AMP8 instead – and we wanted to make this as simple as possible. However, this data is available to Ofwat from the APR if they would like to do this.

We have also updated: our developer services estimates; third party costs and local authority rates; and our past delivery values and calculations.

4.1.1. Updates to developer services estimates

We have changed our 2023-24 values to match the APR actuals but have not otherwise changed our forecasts.

4.1.2. Updates to third party costs and local authority rates

We have left our AMP8 third party costs and revenues unchanged from our business plan and the Draft Determinations. There is considerable uncertainty over the revenues and costs we anticipate for the Teesside industrial water (non potable) supplies, with some very large new customers potentially arriving over 2025-30. We therefore strongly support the use of a cost reconciliation mechanism that would align costs to the automatic in period revenue reconciliation that is already in place (non potable water revenue is in the revenue control).

4.2. PAST DELIVERY – BUSINESS PLAN TABLES PD1, PD10, PD11

4.2.1. Amending the timing of the RCV midnight adjustment

We support the proposal (p30) to adjust the timing of the midnight adjustment so it applies for the RCV at 31st March 2025. As Ofwat notes, this will support financeability and better reflects the economic timing of the adjustment. It does not affect customers.

4.2.2. Table PD1 - Inflation

We have updated Table PD1 for actual RPI and CPIH indices to June 2024. From that point onwards, we use forecasts from the May 2024 MPC.³

We revert to the long term CPI(H) target of 2% from 2027/28 onwards.

For Tables PD4-9, we updated the 23/24 data to APR24 and left 24/25 data unchanged.

4.2.3. Table PD4 – Land Sales

Updated 23/24 using APR24 Table 2L.

4.2.4. Table PD5 – Revenue

Updated 23/24 using APR24 Table 2M

4.2.5. Table PD8 – Totex analysis

Updated 23/24 using APR24 Tables 4J & 4K

4.2.6. Table PD9 – Totex performance

Updated 23/24 using APR24 Table 4C.

4.3. PAST DELIVERY - MODELS

We have made all changes to the Past Delivery models in the Inputs tabs in **RED** font. We give the references below.

4.3.1. Revenue Adjustments feeder model

All inputs are taken from the feeder models and are made on the F Inputs tab. On lines 107-108 of that tab, we have re-inserted the Business Plan adjustment we believe is required to correct for the rechargeable works reclassification error. We raised this issue as a query to the DD (OFW-IBQ-NES-007), where Ofwat stated *This was an error, and we will correct this for the final determinations.*

³ <https://www.bankofengland.co.uk/monetary-policy-report/2024/may-2024#:~:text=The%20Bank%20of%20England's%20Monetary,maintain%20Bank%20Rate%20at%205.25%25.>

Rechargeable Works Adjustment

In RAG4.09, Ofwat reallocated rechargeable works from outside the price control to inside the control. This offset rechargeable income against the fixed revenue allowances that had excluded it from the calculations.

| | | | | | | | |
|------------------|----|-----------------|----------------|---|------------|----|--|
| United Utilities | 16 | Choose an item. | RAG 4.09 App 1 | Within RAG 4.09 App 1 - The list of rechargeable works has moved from third party not governed by price control (in AMP6), to third party governed by price control. This reclassification is inconsistent with the FD. | 18/03/2021 | 24 | We acknowledge that amounts for rechargeable works were wrongly excluded when we set price controls at PR19. Revenue for such activities is within the scope of price controls unless there is a specific exclusion such as an Excluded Charge (as, for example, is the case during the 2020-25 price control period for diversion work required under the New Roads and Streets Works Act 1991 or any other statutory provision except a provision of the Water Industry Act 1991). We will address this issue at PR24 as part of the revenue reconciliation. |
|------------------|----|-----------------|----------------|---|------------|----|--|

Ofwat acknowledged this in a RAG4 query response per above, saying they would address this as part of the revenue reconciliation. We do not see within the DD RFI model where this adjustment has been made⁴. To rectify this requires either to add the rechargeable works into the FD allowed revenue or to exclude it from the actual revenue in the model.

We have made this adjustment in the Revenue Adjustments feeder model. The Ofwat query response OFW-IBQ-NES-007 confirmed that the DD omission was an error and Ofwat will correct this for the Final Determination.

4.3.2. Debt Reconciliation Model

We have updated the debt reconciliation model for full year IBOXX data for 23/24 and latest forecast for 24/25 (based on July 2024 values). All other DD data is unchanged.

| Data updated | Model Reference | Data Source |
|--|--------------------------------------|--|
| 1 Year average of iBoxx adjusted for 'outperformance wedge' (base) | InpR line 41, 23/24 and 24/25 values | InpIndex tab – IBOXX values to July 24 |

4.3.3. Developer Services Model

We have updated for 23/24 values from the APR24.

| Data updated | Model Reference | Data Source |
|----------------------------|--|-------------|
| Total new properties 23/24 | Actual Properties and Revenue tab, lines 45,62 | APR 4Q.11 |

4.3.4. RPI-CPIH Wedge Model

We have updated the indices in this model for 23/24 actuals and a reforecast of 24/25.

| Data updated | Model Reference | Data Source |
|----------------------|-----------------|---|
| RPI and CPIH indices | F Inputs | Table PD1 - actuals 23/24, forecast 24/25 |

⁴ No mention of rechargeable work in the Accounting for Past Delivery publication

4.3.5. Revenue forecasting incentive model

We have updated the model for inflation and the APR24 data. We leave 24/25 revenue forecasts unchanged.

| Data updated | Model Reference | Data Source |
|-------------------------------|---------------------------|--|
| Revised K 24/25 | Inputs lines 84,102, 122 | In period adjustment model 2023, Outputs |
| Actual Revenue – water, waste | Inputs lines 86, 104, 124 | APR24 2M.3 |
| CPIH - Nov | Inputs Line 35 | Table PD1 |

We remain of the view that the penalty adjustment of £0.3m for wastewater revenue variance in 2020/21 should be removed, as this was due to unforeseen lower revenue from Covid 19 Industrial Shutdown for major process businesses on Teesside.

For wastewater, our RFI variation in 20/21 was 4%, exceeding the 2% threshold. This was due to Teesside industrial users shutdowns during the peak of the Covid-19 lockdowns, with manufacturing falling by 54% in 2020⁵. While the penalty is relatively minor, we understand Ofwat is considering increasing the penalty threshold for the Covid-19 period⁶. To make an accurate forecast for 20/21, we would have had to forecast the shutdowns in early January 2020, before the first Covid cases had even reached the UK.

We have thus set Cell F74 on the Inputs tab at **Full waiver**.

4.3.6. Bioresources reconciliation model

We have updated the model for inflation and the APR24 data. We leave 24/25 forecasts unchanged.

| Data updated | Model Reference | Data Source |
|------------------------------------|-----------------|--|
| Actual volume of sludge (ATDS) | InputsR line 11 | APR24 8A.3 |
| Recovered revenue for bioresources | InputsR line 17 | APR24 2M.3 |
| Revised unadjusted revenue (URt) | InputsR line 19 | In period adjustment model 2023, line 16 |
| CPIH - Nov | InputsR line 33 | Table PD1 |

4.3.7. Cost Sharing model

Ofwat propose to cap sharing rates for 24/25 for some companies. We do not support a retrospective adjustment of PR19 rates and we are concerned that a late change to the working of the costs reconciliation model (ie separating 24/25 expenditure) would mean the companies could not check the model until they see it in the FD.

| Data updated | Model Reference | Data Source |
|---|---------------------|-------------|
| Total actual totex (net of business rates, abstraction licence fees and grants and contributions) | F Inputs lines 7-10 | APR24 4C.5 |

⁵ <https://www.business-live.co.uk/economic-development/huge-damage-north-east-economy-18482534>

⁶ PR19 reconciliation rulebook consultation – final policy approach and response document – Section 1.3.1

| | | |
|--|----------------------|------------------|
| Actual totex - business rates | F Inputs lines 12-16 | APR24 4J.7, 4K.7 |
| Actual totex - abstraction licence fee | F Inputs lines 17-18 | APR24 4J.8-10 |
| Indices | F Inputs lines 40-51 | Table PD1 |

4.3.8. Residential Retail reconciliation model

| Data updated | Model Reference | Data Source |
|--------------------------|------------------|-------------|
| Reforecast customers | Inputs1 cell P10 | APR24 2F.8 |
| Actual customers ("AC") | Inputs1 cell Q10 | APR24 2F.7 |
| Revenue Recovered | Inputs1 cell S10 | APR24 2F.6 |
| Indices | Inputs1 | Table PD1 |

4.3.9. Land Sales model

| Data updated | Model Reference | Data Source |
|--------------|-------------------|-------------|
| Land Sales | F Input lines 4-6 | APR24 2L.1 |
| Indices | F Input | Table PD1 |

4.3.10. Tax Reconciliation model

Ofwat have not published the Financial models that provide the inputs for this, but the adjustments generated are very similar to our own calculations, so we have simply resubmitted the DD model.

4.3.11. ODI Performance Models 2023/24

This section includes commentary relating to the submission of our performance and ODI model for 2023-24.

Table 3a

Below includes a list of interventions we have made within the 2023-24 model, to ensure it correctly calculates the levels of reward and penalty.

3A.3 Leakage

We include the value of under and out performance related to our performance against both Leakage NW and ESW as per our commentary in the APR.

3A.4 Per Capita Consumption

Our PCC penalty for 2023/24 includes Ofwat’s proposed level indicated in their DD models.

3A.13 Interruptions to supply between one and three hours

The performance input figure in table 3A is incorrectly calculating the value of penalty. As per the FD, the penalty per minute is £1.119m.

The baseline value of performance between 2018 and 2021 was 8.2776 decimal minutes. (497 seconds)

In 2023-24 we achieved 7.88 decimal minutes (473 seconds), against a 92.5% target of 7.66 minutes (459 seconds).

The overall deficit to the target is 13 seconds – which is £0.242m.

We enter this in the “Company_PC_inputs” tab sheet to ensure that the correct penalty value is showing in the ODI model.

During the PR19 reconciliation modelling there was a minor error in relation to this measure, with a penalty value of £0.394m being taken through the model.

3A.14 Abstraction Incentive Mechanism

This was not activated in 2023-24. We insert a 0 performance in the ODI model (3A, F26) to avoid the #value being presented and causing further issues within the model.

3A.18 Delivery of lead enhancement programme and 3A.19 Delivery of smart water metering enhancement programme

As per our FD we have adjusted the “Company_PC_inputs” tab to reflect that ODIs only apply in 2024-25, not in the current year of reporting. To do this, we change cell AC36 and AD36 from “TRUE” to “FALSE”.

We also note the same issue for the Delivery of Howdon STW enhancement, and as such we have set cell AV36 to false in the “Company_PC_inputs” tab.

3A.2 Water Supply Interruptions, 3A.9 Interruptions to supply greater than 12 hours and 3A.13 Interruptions to supply between one and three hours.

For the ODI associated with 2020 – 2025 performance in column I, we have included the ODI values associated with these measures from Ofwat’s Final Determinations. This includes the values from Ofwat’s 2021-22 determination where our performance was affected by severe weather storms which were deemed a civil contingency.

Table 3B

3B.10 Water Industry National Environment Programme

As per our FD we have adjusted the “Company_PC_inputs” tab to reflect that ODIs only apply in 2024-25, not in the current year of reporting. To do this, we change cell AU36 from “TRUE” to “FALSE”.

Table 3F

Data in 3F.4 columns E and F are estimated to achieve the expected annual l/p/d of 148.6 for performance in 2024-25.

4.3.12. ODI Performance Models 2024/25

We include a copy of our ODI performance model applying forecasted performance for 2024-25. Below reviews those measures where forecasted performance for 2024-25 shows a significant change to the performance provided in our business plan (PR24) submitted in October 2024.

Table 3A

3A.1 Compliance Risk Index (CRI)

Our business plan forecasted a performance of 4.35. Whilst we now indicate our forecast is 7.05, two significant failures in the early part of 2024 largely account for the difference. The two failures include a coliforms fail at Mosswood Water Treatment works, accounting for 1.026 units. Whilst a turbidity issue at Lartington Water Treatment Works accounts for 1.712 units.

3A.3 Leakage

We include the value of under and out performance related to our performance against both Leakage NW and ESW as per our commentary in the APR.

3A.4 Per Capita Consumption

Our PCC penalty for 2023/24 includes Ofwat's proposed level indicated in their DD models.

3A.17 Delivery of water resilience enhancement programme

With regards to our forecast for the end of the AMP out or underperformance payment, we have calculated a 28 month delay in completing the proposed Cross Connection into Darlington (C60/60a) scheme which represents 0.24% of the total enhancement. The performance commitment is reported to 1 decimal place, therefore we calculate a penalty based on 0.2%. Our method of calculating the final ODI rate is outlined as option 2 in our previous submission to Ofwat on the 13th June 2023, entitled Water Resilience PC – BES24 – Submission:

Consistent with Ofwat's documented policy for calculating late delivery penalties at PR19, late delivery penalties would then be calculated based on:

- Allowed funding for the scheme X length of delay X time value of money (WACC + RCV Run-off rate)⁷.

⁷ See p137 onwards of: <https://www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-Delivering-outcomes-for-customers-policy-appendix.pdf> where Ofwat states that late delivery penalties should be calculated as: $ODI\ rate = scheme\ totex * (WACC + RCV\ run-off\ rate) / units$ where: 'scheme totex' is our final cost allowance in 2017-18 prices; 'WACC' is the wholesale CPIH-based weighted average cost of capital that applies to that company, including where the small company premium applies. Using CPIH reflects the schemes relate to new investment; 'RCV run-off rate' is the price control allocation for the performance commitment multiplied by the five-year average RCV run-off rate for that price control in our final determinations. This reflects the relative bill impact of the different RCV runoff rates for the price controls that relate to the scheme;

In this instance, as the scheme accounted 0.2% of full delivery to one decimal place, we calculate the following penalty:

$$0.2 \times 28 \text{ months} \times (7.91\% / 12 \text{ months}) = \text{£}0.036913\text{m}$$

We further indicate that a further 30.32% of the programme (related to £24.87m of funding) is now forecast to be 1 month late, using the above formula we calculate this to be a penalty of £0.1639m

Finally, we also indicate a non-delivery penalty associated with our Shildon WPS scheme (3.66% of the programme) and some elements of our TCTF (2.72% of the programme). The non-delivery rate set out by Ofwat is £369k per 1% of non-delivery. Our associated penalty is therefore £2.35m.

This takes our total penalty associated with underperformance against our water resilience programme to £2.55m, as shown in the ODI model for 2024/25.

Table 3B

3B.4 Treatment Works Compliance

We are already aware of three failures in the current year, and as such have already failed the very tight 99% deadband.

3B.8 Bathing Water Quality

Although the measure is changing in 2025, we note forecasted performance for the current AMP, set in the current methodology was to achieve 97.06%, or 33 good or excellent bathing waters out of 34. However, for 2024, a new bathing water has been allocated, Littlehaven. Based on current samples, we expect this bathing water to have a rating of poor in 2024. In 2023, we achieved 32 out of 34 bathing waters as good or excellent, as we expect this profile to continue in 2024, with the added inclusion of Littlehaven, take the updated forecast to 91.4%.

3B.11 Howdon STW

As per Ofwat's model, we have set the penalty with late delivery on this commitment to zero. However, we expect a late delivery penalty associated with 24 months to be applied to this commitment.

5. UPDATES IN RESPONSE TO DRAFT DETERMINATIONS

5.1. COSTS

We explain the changes we have made to costs in the Change Log of our business plan tables. In addition to the changes described in section 3 above, these are:

- Removed WINEP items now not included in our statutory requirements.
- Additional WINEP items now included in our statutory requirements.
- Correction to our costs for the Bungay to Barsham pipeline (see 6.7.2)
- Reduction to our costs for the sludge barn (see NES80, 7.9)
- Changed profile of mains renewal expenditure
- Reduction to our reservoir safety costs (see NES80, 7.6)
- Updated EA discharge charges (see NES80, 7.1.5)
- Additions of wave 3 asset health, service reservoir replacements, and 69 additional storm overflows (see NES80).

5.2. OUTCOMES

As per section 4 we have updated the outcomes tables with 2023/24 actual performance and any re-forecasts for 2024/25. Tables updated include OUT 2, 4 and 5 for performance, whilst OUT 6 and OUT 8 reflect the AMP7 performance for PR19 reconciliation (and Ofwat's adjustment to our PCC underperformance penalty). 2023/24 and 2024/25 ODI performance models commentary included in section 4.3.11 and 4.3.12 above.

We do not update the outcomes tables for every measure, for example where we do not challenge Ofwat's proposed PCLs, we do not update our business plan tables to reflect Ofwat's PCL.

Our table updates reflect the Outcomes Chapter of our DD response and include revisions to:

- Bathing Water Quality (OUT 5), where we re-forecast our PCL based on the inclusion on an additional bathing water and a revised profile based on current information.
- River Water Quality (OUT 5), in line with the updated paper we sent to Ofwat in June 2024. We have detailed our change to our PCL based on the correct methodology.
- Storm Overflows (OUT 5) which reflects our proposed new PCL.
- Greenhouse Gases (OUT 4 and OUT 5) which reflects our improved reporting of GHG from chemicals and applied Ofwat's challenge.

We have not included updated profiles for the following measures, despite providing the challenges and new profiles in the DD response. Please refer to the DD response main document for proposed PCL profiles. These include:

- Water supply interruptions where we propose the application of an industry historic trend of either UQ or Median rather than applying the median of company business plans.
- Per capita consumption where we propose a new starting baseline applying actual performance adjusted by the level of underperformance against our metering enhancement. We do not challenge the end of the AMP PCL.
- Business Demand, where we again challenge the AMP baseline and we adjust our PCL based on excluding growth within our PCL.
- Total Pollutions, where we propose a PCL at the median trend line from company actual performance rather than the 2024/25 PCL from AMP7. We also include the Ofwat PCL as our proposed level for enhanced thresholds in the DD response (not included in data table updates in OUT 7).
- Unplanned Outage, where we propose to apply a ODI rate more in line with other asset health ODIs.

We also propose changes to deadbands to CRI, serious pollutions and discharge compliance. However, there is no section of the data tables to add these in.

5.3. RISK & REWARD TABLES RR1-RR9

We have highlighted below the changes that we have made from our previous Business Plan Tables. In general, we only make changes where these feed into the Financial Model and have a material impact. We have amended the DD financial model switches to use Company rather than Ofwat values in these cases (see Section 7 for the itemised list). The majority of data is thus unchanged.

5.3.1. Table RR1

| Table lines | Description | Comments |
|-------------|------------------------|---|
| RR1.1-10 | Wholesale nominal WACC | Adjusted Cost of Equity and Debt as per our Representation |
| RR1.19-22 | PAYG Rate | We have taken these values from the Financial model, Natural PAYG rate, lines 245-248. We use the Ofwat calculation of Opex/Totex to ensure there is no excess or shortfall of fast money. |

We have made no change to the Run Off Rates and we leave those Financial Model inputs at the Ofwat values (which are very similar to our original values).

5.3.2. Table RR2

| Table lines | Description | Comments |
|-------------|-------------|---|
| RR2.1-10 | Totex | Totex inputs taken from the resubmitted CW1 and CWW1 tables |

5.3.3. Table RR3

| Table lines | Description | Comments |
|-------------|----------------------|---------------------------------------|
| RR3.1-10 | RCV Opening Balances | Data taken from RCV adjustments model |

5.3.4. Table RR4

| Table lines | Description | Comments |
|-------------|----------------|--|
| RR4.79 | Dividend Yield | We have assumed a modelled dividend yield of 4%, consistent with CMAFD19 |

5.3.5. Table RR5

We have updated this table for the following lines:

| | Original PR24 submission £'m | Post draft determination submission £'m | Difference £'m | Comments |
|--|---------------------------------|--|-------------------|--|
| Opening tax loss balance (gross) RR5.7-12 | 91.881 | 68.588 | (23.293) | <p>The PR24 business plan was originally submitted to Ofwat when the expensing regime for capital allowances was a temporary 3-year scheme, ending on 31 March 2026. The most optimum position for Northumbrian Water when the expensing regime was temporary was to claim all capital allowances available and to build up the losses generated to carry forward into future years when the expensing regime had ended.</p> <p>The expensing regime was made permanent in the Autumn Statement held on 22 November 2023. Following this announcement Northumbrian Water resubmitted its 31 March 2022 computation to disclaim some capital allowances and has remodelled its position for 31 March 2023, 2024 and 2025 to disclaim capital allowances to generate a profit of £5m per annum which can be covered by the losses brought forward without restriction.</p> <p>Capital allowances under the super deduction regime have been claimed in full as this was a permanent benefit, and this is why there is an opening loss balance.</p> |
| Opening deferred tax balance (net) | 605.376 | 605.586 | 0.21 | As well as the differences in the opening tax loss balance noted above and capital allowance balance noted below the other main difference relates to the value of the Asset Backed |

| | | | | |
|---|---------|---------|----------|--|
| RR5.13-18 | | | | Funding upfront contribution (reduced from £163m to £89m) which is subject to pension spreading rules. The other adjustments to taxable profits lines (RR5.104-109) in RR5 for the years 25-26 and 26-27 have reduced due to the pension spreading reducing from £40.750m to £18.431m in each of these years. |
| Opening capital allowances – main rate pool RR5.26-31 | 561.826 | 528.381 | (33.445) | Overall the capital allowance pools have increased by £64.196m. This is partly due to the disclaiming of capital allowances as noted on the opening tax loss balance line. The other reason for the increase is that more AMP8 spend has been accelerated into 2025 than was anticipated. |
| Opening capital allowances – special rate pool RR5.32-37 | 614.416 | 716.001 | 101.585 | |
| Opening capital allowances – SBA pool RR5.38-43 | 41.018 | 37.074 | (3.944) | |

Capital allowance expenditure proportions between 2025-2030 have been updated for the inclusion of the Long Sea Outfall of over £200m which has been included in the special rate pool for WWN (RR5.52, RR5.64, RR5.76, RR5.88, RR5.94).

The tables have also been updated to show that the expensing regime continues throughout the whole period rather than ending at 31 March 2026.

As a final cross check – the financial model still generates zero wholesale tax for AMP8 under this dataset, so there is no impact on customers.

5.3.6. Table RR6

| Table lines | Description | Comments |
|-------------|-------------|----------|
|-------------|-------------|----------|

| | | |
|---------------------|---------------------------------|---|
| RR6.1-10 and RR6.25 | Post Financeability adjustments | Data taken from Revenue Adjustments Model |
|---------------------|---------------------------------|---|

5.3.7. Table RR7

| Table lines | Description | Comments |
|-------------|----------------------------------|---|
| RR7.2-7 | Residential retail cost to serve | We have used the Ofwat cost to serve values from the DD Financial Model, which we apply in the Financial Model. |
| RR7.21-26 | Retail expenditure | We have used Financial Model values from the Residential Retail tab lines 557-563 |
| RR7.37 | Net Margin | We have adjusted this to 1.2% as per the DD |

5.3.8. Table RR9

| Table lines | Description | Comments |
|-------------|---------------------------|---|
| RR9.7-10 | Reprofiling Revenue | We set the reprofiling revenue to smooth bills, whilst ensuring a neutral npv effect (no FM errors) |
| RR9.13-16 | Discount rate | We set this at the Wholesale WACC rate in our representation |
| RR9.43-46 | Opening Retained earnings | We adjust this slightly to ensure the opening balance sheets balance |

Note – we have set the reprofiled revenue to smooth customer bills, but we have set the financial model switch at zero (InpS cell F80).

5.3.9. Table RR14 - Bills

We reforecast average household bills in the Financial Model Table RRR14 as follows:

| Unsmoothed Bills | | | | | | | | Real Increase 24-25 to 29-30 |
|--|--------|--------|--------|--------|--------|--------|--------|------------------------------|
| Line Description | 23-24 | 24-25 | 25-26 | 26-27 | 27-28 | 28-29 | 29-30 | |
| Water Combined | 203.54 | 218.07 | 222.72 | 231.19 | 236.06 | 238.74 | 248.79 | 14.1% |
| Wastewater | 190.63 | 204.40 | 228.21 | 233.17 | 238.84 | 246.11 | 251.91 | 23.2% |
| Bill profile for 2025-30 before inflation - From financial model | 394.18 | 422.47 | 450.93 | 464.36 | 474.90 | 484.84 | 500.70 | RR14.1 18.5% |
| Company's bill profile for different regions | | | | | | | | |
| ESW Water | 242.80 | 260.74 | 278.34 | 288.92 | 295.01 | 298.35 | 310.91 | RR14.2 19.2% |
| NWL Water | 176.41 | 188.57 | 184.52 | 191.54 | 195.57 | 197.79 | 206.12 | 9.3% |
| NWL Waste | 190.63 | 204.40 | 228.21 | 233.17 | 238.84 | 246.11 | 251.91 | 23.2% |
| NWL Combined | 367.04 | 392.97 | 412.73 | 424.71 | 434.41 | 443.89 | 458.03 | RR14.3 16.6% |

Some points to note:

- The Combined Company 24/25 bill has risen from £415 to £422. This is because we are deflating the outturn bill of £454 by a lower inflation adjustment (123.0/132.1) to bring it to 22/23 prices:

| Company / Service | 24/25 Average HH Bill outturn £ (Discover Water) | Indexation FYA 24/25 to FYA 22/23 | 24/25 Average Household Bill 22/23 prices £ |
|--|--|-----------------------------------|---|
| Water Combined | 234 | 93.12% | 218.07 |
| Wastewater | 220 | 93.12% | 204.40 |
| Combined Company, Combined bill | 454 | 93.12% | 422.47 |
| ESW Water | 280 | 93.12% | 260.74 |
| NWL Water | 203 | 93.12% | 188.57 |
| NWL Waste | 220 | 93.12% | 204.40 |
| NWL Combined | 422 | 93.12% | 392.97 |

- 2 We have not smoothed the 25/26 to 29/30 profile at this stage, although we present both the smoothed and unsmoothed bills in the main response.

The smoothed bill profile reduces 25/26 bills and increases 29/30 bills, so the overall increase is higher:

Smoothed Bills

| Line Description | 24-25 | 25-26 | 26-27 | 27-28 | 28-29 | 29-30 | | 24-25 to 29-30 |
|--|--------|--------|--------|--------|--------|--------|--------|----------------|
| Water Combined | 218.07 | 217.17 | 226.46 | 235.44 | 245.20 | 255.07 | | |
| Wastewater | 204.40 | 226.51 | 232.85 | 239.56 | 246.19 | 253.47 | | 17.0% |
| Bill profile for 2025-30 before inflation - From financial model | 422.47 | 443.68 | 459.32 | 474.99 | 491.39 | 508.54 | RR14.1 | 20.4% |
| Company's bill profile for different regions | | | | | | | | |
| ESW Water | 260.74 | 271.70 | 283.33 | 294.55 | 306.77 | 319.12 | RR14.2 | 22.4% |
| NWL Water | 188.57 | 179.72 | 187.41 | 194.84 | 202.92 | 211.09 | | 11.9% |
| NWL Waste | 204.40 | 226.51 | 232.85 | 239.56 | 246.19 | 253.47 | | 24.0% |
| NWL Combined | 392.97 | 406.23 | 420.26 | 434.39 | 449.11 | 464.56 | RR14.3 | 18.2% |

The smoothing keeps annual ESW bill increases in the 4%-4.5% range and the NWL bills in the 3.4%-3.5% range.

- 3 We retain our water services allocation adjustment as per our Business Plan of:

| Water Resources Capex Adjustment from ESW to NWL | £ |
|--|--------|
| ESW Customer | £12.03 |
| North Customers | -£8.07 |

The adjustment reflects the specific WRMP investment requirements in the ESW region. The adjustment is overall revenue neutral and does not affect the revenue controls set by Ofwat, just the regional allocation.

6. ADDITIONAL TABLES

6.1. ADD1 TO ADD13

ADD1 to ADD10 are the post frontier shift and RPEs version of tables CW2, CW3, CW11, CW12, CW17, CWW2, CWW3, CWW11, CWW12, CWW17. To go from pre FS and RPEs to post FS and RPEs, we have used the following formula:

post FS&RPE cost_t = pre FS&RPE cost_t * (1+ Cumulative net price change_t) where t is the year and Cumulative net price change is taken from table SUP11.

This is similar to how we have applied FS and RPEs to table CW1a and CWW1a to get CW1 and CWW1.

Note that we have not applied FS and RPEs to business rates and abstraction charges. This is explained in our response to query **OFW-OBQ-NES-140**.

We have applied base cumulative net price change in SUP11 for third party services tables (CW11 and CWW11).

ADD11 and ADD13 are the pre FS and RPEs version of tables DS2e and DS3.

ADD12 has not been completed as it is for Welsh companies.

6.2. ADD15

Since our business plan, we have added six additional schemes to WINEP for water (three for HD_IMP, and three for HD_INV). This is because we received a letter from the EA in September 2023 explaining that they had identified the Redgrave Group and Rickinghall licences as potentially impacting on the Waveney & Little Ouse Valley Fens Special Area of Conservation (SAC) and were therefore adding those licences to the list of licences they were investigating under the Habitats Regulations.

We agreed with the EA that we would add these six additional schemes to WINEP to enable an options appraisal assessment to be undertaken, and to implement any actions identified. This is split between the three licences affected (two at Rickinghall, one at Redgrave), with one investigation and one implementation for each of the three licences (so, six additional schemes in total). This means an additional £0.0247m for HD_INV and an additional £0.427m for HD_IMP.

We note that there are some small changes since query OFW-NES-OBQ-100:

- Our River Bure investigation was previously included under the wrong driver – it should be under WFD-NDINV_WRFflow but was included in the totals for WFD_ND_WRFflow in the query response. So, WFD_ND_WRFflow has been reduced by 1 action and £0.089m. This was double counting as it had also been correctly included in WFD_NDINV_WRFflow).

6.3. ADD17

The data in this table is unchanged from our response to query OFW-OBQ-NES-091 in December 2023, except to transfer this into the new table and add cost driver 14 (the corresponding CWW3 lines).

6.4. ADD18

Note – we have been unable to correct the formula errors on lines RR30.56 and RR30.71. Our data as summarised assumes these corrections are made.

Summary of the Key Assumptions made in the NWL RORE Table ADD18

| RORE component | Industry or NWL data used | Ofwat assumptions applied | NWL Mitigations |
|----------------------------|--|--|---|
| Wholesale Costs | NWL 2020-24 totex actual v FD, so a low overspend compared to industry | Included the impact of the energy costs indexation on AMP7 performance | Frontier Shift 0.8% pa, Chemicals RPE, Business Rates 10% share |
| Retail costs | NWL data, with impacts of varying inflation used for risk range | Included Ofwat use of indexation as a mitigant | No further mitigants |
| Price control deliverables | Ofwat data | Ofwat DD assumptions, with rewards for meeting deadlines | None |
| ODIs | NWL Monte Carlo analysis | Ofwat DD PCLs | Amendment of PCLs, use of deadbands |
| New debt issuance | Industry debt since 1/4/22 | IBOXX variance to Actuals | None |
| Inflation financing | Industry – Ofwat data used | Ofwat ranges per DD | None |
| CMEX | NWL high performance | | Removal of UKCSI constraint |
| DMEX & BREX | Ofwat range, NWL central | Ofwat DD range | None |
| Revenue | Ofwat range | Ofwat DD range | None |

Key results of ADD18 Table

| Mitigation | Pre | Pre | Pre | Post | Post | Post | |
|---------------------------------|-------|--------------|---------------|---------------|--------------|---------------|---------------|
| | Range | High P90 | Low P10 | Mid Point | High P90 | Low P10 | Mid Point |
| Wholesale totex | | 1.39% | -1.94% | -0.28% | 1.35% | -1.59% | -0.12% |
| Retail totex | | 0.01% | -0.04% | -0.01% | 0.01% | -0.04% | -0.01% |
| Outcome delivery incentives | | 0.01% | -1.95% | -0.97% | 0.75% | -1.18% | -0.22% |
| Financing | | 0.74% | -0.61% | 0.06% | 0.74% | -0.61% | 0.06% |
| Customer measures of experience | | 0.41% | -0.30% | 0.06% | 0.55% | -0.30% | 0.13% |
| Revenue & other | | 0.00% | -0.05% | -0.03% | 0.00% | -0.05% | -0.03% |
| RoRE - total | | 2.56% | -4.89% | -1.17% | 3.40% | -3.76% | -0.18% |

Pre mitigation, there was a material downside skew for totex and outcomes that was not offset by the positive skew that NWL forecast for financing and CMEX. We note that the positive CMEX skew for NWL will not be matched for the industry as a whole, where we would expect a negative skew given the asymmetric reward constraining impact of UKCSI. The 0.18%

negative RORE mid point in the NWL table is thus a **13bps overstatement for the industry as a whole** (removing the positive CMEX value).

Post mitigation, the ODI mid point falls significantly, but is still negative at the p50 level. It is this downside skew that confirms our view that an aiming up adjustment to the cost of capital is required. The CMA PR19 Determination (paras 9.1340-3) confirmed that asymmetry of ODI risk was a key factor in their application of an aiming up adjustment.

We maintain our Business Plan view that, due to the downside risk, an aiming up adjustment of 25bps is required to present a balanced risk package.

Wholesale costs

Our approach to wholesale cost risks is similar to Ofwat's approach in Section 1.1.3 of the Risk & Return Appendix. We have used NWL Actual and FD costs for 2020-24 from our APR. We did not use projected 24/25 data for the P10/P90 ranges as the backloading of the investments made the range much larger, so we took a conservative view to exclude it.

For AMP7 as a whole, we calculated the totex variances to FD for P90, P10 and P50 both pre and post the impact of the DD energy RPE (ie we adjusted the totex variance for the energy uplift that we would have received).

| Totex variance | P90 | P10 | P50 |
|------------------------|-------|-------|-------|
| Pre energy RPE | | | |
| Water | -0.9% | 10.4% | 4.7% |
| Waste | -3.9% | 1.4% | -1.3% |
| Post energy RPE | | | |
| Water | -1.0% | 8.8% | 3.9% |
| Waste | -5.5% | 1.1% | -2.2% |
| Company | -3.2% | 4.9% | 2.8% |

Note – These are post costs sharing, post tax

A comparison to the Ofwat assumptions for Figure 3: Wholesale cost ranges suggest a similar P90 to NWL, with the NWL P10 value still downside skewed.

| Wholesale Totex | Ofwat | Ofwat | NWL | NWL |
|--|--------------|-------------|--------------|--------------|
| Totex variance to FD | Under | Over | Under | Over |
| RORE Range | High | Low | High | Low |
| RORE Range | P90 | P10 | P90 | P10 |
| Wholesale Totex pre AMP8 RPE mitigations | -5.0% | 16.0% | | |
| Wholesale Totex post mitigation | -8.5% | 8.5% | -8.7% | 13.2% |
| Post cost share | -4.3% | 4.3% | -4.3% | 6.6% |
| Post tax | -3.2% | 3.2% | -3.2% | 4.9% |
| Annual totex | 955 | 955 | 955 | 955 |

| | | | | |
|----------------------------|------|-------|------|-------|
| Totex variance | -30 | 30 | -31 | 47 |
| Notional Regulatory Equity | 2956 | 2956 | 2956 | 2956 |
| RORE | 1.0% | -1.0% | 1.0% | -1.6% |

If we then apply the NWL cost mitigants of a chemicals RPE, Frontier Shift at 0.8% pa and removal of the 10% business rates cost share overspend, we arrive at a P90/P10 range that is almost balanced

Retail

We have not used the retail variances from 2020-25 as these were skewed by the lack of an inflation allowance and the unusually high inflation during the period. Bad debt costs are typically linked to bill increases and retail costs are strongly influenced by wage increases. Both of these were adversely affected by the high inflation over 2022-24.

For AMP8, we focussed on the underlying retail risk – that actual inflation values from the DD forecast. We used a similar approach to Ofwat's for financing costs – the variations in CPIH inflation since 1997. The P10 and P90 of these generated an upside inflation skewed variance per below:

| Inflation range for retail | P90 | P10 |
|---|------|-------|
| Since 1997 BOE independence, P10/P90 | 1.2% | 3.7% |
| Allowance in price limits (AMP8 DD average) | 1.7% | 1.7% |
| Variance | 0.5% | -2.0% |

This translated into a downside skewed variance per below:

| Actual to FD variance AMP8 After Tax, £m, NWL Retail | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|---|---------|---------|---------|---------|---------|
| Retail costs - high case P90 | 0.231 | 0.234 | 0.238 | 0.241 | 0.245 |
| Retail costs - low case P10 | -1.003 | -1.017 | -1.032 | -1.047 | -1.063 |

The impact on overall RORE is relatively low, with a -0.01% downside p50.

We do not propose any mitigation for retail.

Price Control Deliverables

As Ofwat note, WINEP timing over 2020-25 was significantly affected by Covid restrictions, so it is difficult to assess the risks of project overruns in future years.

We have opted to use the Ofwat symmetrical RORE ranges of -0.3% to 0.3% in our table.

This is on the assumption that:

- The PCD rewards are for delivery on the target date, not beforehand. To change the PCD delivery scheme to incentivise early delivery instead would generate additional uncertainty, as well as lacking justification from a customer point of view.

2 PCD delivery dates would be subject to the change control process as agreed by the EA. There are frequently well justified reasons for adjusting delivery dates, including interventions by regulators and third parties. To convert such interventions into penalties would be penalising companies for events outside their control.

New Debt issuance

Our approach is similar to Ofwat's but we have used a longer period for the Industry Bond issuances versus IBOXX data from 1/4/22 to 5/8/24. This approach generates a downside skew of risk, as recent issuances from mid 2023 onwards have been at a higher cost than IBOXX.

| Post Mitigation | Lower | Higher | |
|----------------------|--------------|---------------|-----------------------|
| New debt - IBOXX | -0.27% | 1.39% | IBOXX post 1/4/22 |
| RORE Pre tax | 0.09% | -0.45% | 32% per DD |
| RORE Post tax | 0.07% | -0.33% | Used for ADD18 |

We do not propose any mitigation for this component.

Inflation & Fixed Nominal Debt

We acknowledge the upside inflation risk for nominal debt. We note that the AMP8 inflation forecast is currently below the 2% long term CPIH rate that Ofwat use in calculating the cost of debt.

However, to be consistent with our approach of using historical data for wholesale and retail cost risks, we have used the Ofwat RORE ranges for this table.

CMEX, DMEX, BRMEX

For DMEX and BRMEX, we assume the symmetric ranges of +/-0.25% DMEX and +/-0.2% BRMEX. We take the P10/P90 values from this range, then apply a tax reduction. This gave a P10/P90 range of +/-0.15% DMEX, +/-0.12% BRMEX.

For CMEX, we use the NWL top 4 ranking history over 2021-24 to give this a positive RORE skew. This will not apply for the industry as a whole and our range should not be seen as one that would apply for the risk range for the industry.

We do however recognise the limiting factor of the asymmetric UKCSI threshold. This threshold would have put the whole industry into penalty over 2023/24. We factor the UKCSI limitation into our recalculation of what the NWL rewards and penalties would have been over 2020-24

| CMEX NWL adjusted for PR24 UKCSI approach | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---------|---------|---------|---------|
| NWL Reward/Penalty £ | £1.29 | £3.526 | £3.238 | -£1.496 |

| | P10 Low | P90 High |
|------------------------|---------------|--------------|
| Adjusted NWL Reward £m | -0.66 | 3.44 |
| Pre Tax RORE | -0.04% | 0.19% |
| Post Tax RORE | -0.03% | 0.14% |

We then make a mitigation adjustment on RR30.69 to add a further 0.16% RORE to the high scenario to reflect our proposal that Ofwat withdraw the UKCSI threshold control.

6.5. ADD19

The data in this table is unchanged from our response to query OFW-OBQ-NES-054 in November 2023, except to transfer this into the new table.

6.6. ADD20

We have added more lines to this table compared to the previous submission. This includes ten lines related to storm overflows now included in WINEP, and 69 lines related to additional storm overflows that we explain in section 11 of NES80.

6.7. ADD21

6.7.1. Commentary requested by Ofwat

Our three schemes in ADD21 are the same as those in CW8 and CW3 in our original business plan tables, and these plans remain unchanged (though the costs for Bungay to Barsham have been corrected; see 6.7.2). We uplifted these costs from 2021/22 prices that are required in the WRMP tables to 2022/23 prices that are required in PR24 tables using the published financial year average CPIH.

There are no variations except as described in 6.7.2 below.

6.7.2. Corrections to costs for the Bungay to Barsham interconnector (OFW-OBQ-NES-192)

As we said in our response to query OFW-OBQ-NES-192, following our review of costs to compile that response we identified capex and opex costs directly linked to the Bungay to Barsham pipeline that we had not included in CW8, our enhancement case NES14, or our WRMP tables.

This is because this scheme has two component parts which we costed separately as two separate (but linked) WRMP options. Although we included the correct length of main for both schemes together (9.8km), we included costs for only one of the parts. In our WRMP, we explain that these options are ESW-TRA-018 (from Bungay to Broome) and ESW-

TRA-023 (Broome to Barsham). We report these options separately in our WRMP, and where we selected TRA-023 for our Best Value or Alternative plans, we also always selected TRA-018 and considered the cumulative effect of the two options⁸. This was an error in our business plan.

In our response to OFW-OBQ-NES-192, we said we would amend the capex included in Table CW8 in our business plan for this interconnector scheme from £8.935m (in the original CW8) to £13.122m. The opex would also increase from £0.080m per year to **£0.087m** per year, starting from 2030-31.

Since we provided that response to OFW-OBQ-NES-192, we have also identified £708k of capex costs in relation to biodiversity net gain that were not included in our draft business plan. So, we have updated our capex costs for the Bungay to Barsham interconnector to **£13.830m**. This change is reflected in our ADD21 table as well as Table CW8, CW3, and other tables.

We described the connection between these two schemes in our enhancement case NES14⁹, and so this does not change anything about the “needs” and “options” sections of our case. It also does not change anything on cost efficiency, as the benchmarking was carried out using a different interconnector as a case study. We describe our response to this area of the DD in section 6.3 of NES80.

6.7.3. Additional commentary

We note that as the Bungay to Barsham interconnector scheme will be commissioned in 2029/30, the benefits will start after 2029/30. So, we have removed the benefit of “1” which was showing in 2029/30 in CW8 in our original business plan, and replaced this with “0”.

In our response to query OFW-OBQ-NES-192, we said that:

However, such a comparison is difficult because pipelines are not easily linked to simple cost drivers for length and/or diameter:

- We note that pipelines are not necessarily a simple line from A to B. In practice, both our Holton to Eye and Barsham to Saxmundum pipelines have branches that allow connection to more than one point of the distribution network. This means that there are different pipe diameters used at different stages. In addition to this, where there is not a single continuous trench this reduces the scope for scale economies.*
- When developing costs for these schemes we considered the cost per metre of laying the pipes, as well as the components required for pumping stations. But there are other factors that affect costs – for example, the number, length, and types of road/river/rail crossings that are required, given the route; and any land or BNG costs. Different*

⁸ WRMP, p226

⁹ NES14, Table 17

transfer or interconnector schemes may also have different requirements for how water is stored, depending on availability.

We also said:

“Table CW8 only provides space to list one pipe size, but as we explain above, this can vary across a pipeline. [Table 1] below shows the percentage length of main by pipe diameter for each scheme. We include this to illustrate the complexity of using pipe diameters as a cost driver. In our costings for the business plan, we consider each diameter separately – for example, the Barsham to Saxmundum pipeline is not costed using just 650mm pipe for the entire length, but using the percentage splits in [Table 1]. “

TABLE 1 - % OF MAINS BY DIAMETER

| | 180 | 280 | 355 | 400 | 450 | 630 | Total |
|----------------------|--------|--------|--------|--------|---------|--------|---------|
| Bungay to Barsham | 38.14% | 61.86% | | | | | 100.00% |
| Holton to Eye | | | | | 100.00% | | 100.00% |
| Barshum to Saxmundum | | | 45.69% | 16.76% | 15.45% | 22.10% | 100.00% |

7. FINANCIAL MODEL

We have resubmitted the accompanying notional financial model. We have used the DD financial model and as a default left most F_Inputs data unchanged and most InpS switches were left as Ofwat choices (ie set at 2). We have only changed values where there is a material update from our resubmitted business plan tables.

Where we changed a switch from 2 (Ofwat) to 1 (Company), we highlighted the cell in red.

Switches changed from DD setting:

| InpS Switch Change | Excel line | Choice |
|--|------------|------------|
| Switch - Totex | 57 | 1=company |
| Switch - RCV Opening balances switch | 65 | 1=company |
| Switch - Alternative revenue value - real | 73-75 | 1=company |
| Switch - re-profiled revenues active switch - Wholesale control | 80 | 0=inactive |
| Switch - WACC | 85 | 1=company |
| Switch - Post financeability adjustments not eligible for tax uplift | 92 | 1=company |
| Switch - Post financeability adjustments eligible for tax uplift | 100 | 1=company |
| Switch - Residential retail revenue adjustment | 104 | 1=company |
| Switch - Capital expenditure - Proportion of new capital expenditure qualifying for high level deduction | 118 | 1=company |
| Switch - Capital expenditure writing down allowance main rate pool | 119 | 1=company |
| Switch - Capital expenditure writing down allowance structures and buildings pool | 122 | 1=company |
| Switch - Capital expenditure writing down allowance special rate pool | 125 | 1=company |
| Switch - Ordinary shares issued - control - nominal | 214 | 1=company |

| | | |
|--|-----|-----------|
| Switch - Dividend yield | 225 | 1=company |
| Switch - Opening retained earnings balance - control | 238 | 1=company |
| Switch - Reprofiting | 284 | 1=company |

Business plan to F Inputs data change from DD version

| F_Inputs Description | Excel Lines | BP Table lines |
|---|--------------------|-----------------------|
| COMPANY INPUTS - CAPEX - Gross capital expenditure | 12-15 | RR2.1-4 |
| COMPANY INPUTS - OPEX - Total gross operational expenditure | 18-21 | RR2.7-10 |
| RCV opening balances | 52-61 | RR3.1-10 |
| WHOLESALE WACC | 65-80 | RR1.1-10 |
| Post financeability adjustments | 396-405 | RR6.1-10 |
| Residential retail revenue adjustment | 420 | RR6.25 |
| Reprofiting revenue | 422-425 | RR9.7-10 |
| Discount rate for reprofiting allowed revenue | 428-431 | RR9.13-16 |
| Opening retained earnings balance | 517-520 | RR9.43-46 |
| Equity - Real dividend growth | 607 | RR4.79 |
| Residential net margin for company | 712 | RR7.37 |
| Bill profile for 2025-30 before inflation: 2024/25 value | 762 | See bills commentary |