

UUW82

Risk & Return - Commentary

October 2023

Data Table Commentaries

This data table commentary is provided to support and explain the PR24 Risk and Reward data tables

Executive Summary

This document is intended to provide commentary and additional information on the Risk & Return tables within United Utilities Water (UUW) price review submission. The Risk & Return tables can be split out into three categories; information required to populate Ofwat's financial model, the key outputs for the notional company from Ofwat's financial model and the outputs for the actual company structure.

Information required to populate Ofwat's financial model: RR1 – RR9

For AMP8 we have used the early view WACC guidance provided by Ofwat in its final methodology to aid in comparison with other companies' plans. Ofwat's early view WACC is a spot position using a data cut off of 30 September 2022 and we recognise that Ofwat will update the calculation of the WACC at its final determinations to take account of the latest available market evidence. We are not seeking to solve financeability by advancing or deferring any revenues in AMP8 through adjusting PAYG or RCV run-off rates. We no longer view these as appropriate levers to address financeability issues as Moody's will adjust for these advancements when calculating ratios for actual company performance. We are forecasting sizeable PR19 reconciliation adjustments to both the RCV and revenues for AMP8, because of this we propose to assess the actual company financeability after these adjustments are made, rather than prior to their additions. In order to achieve the target credit rating for the notional company we have assumed an additional equity injection of £2,250m over AMP8 on the assumption that Ofwat will continue to assess the notional company pre-financeability adjustments. Because we assess the actual company post-financeability, less additional new equity is required (as in effect the additional revenues are an equity injection themselves) and we assume that for the submission £1,350m of new equity will be required in AMP8, with the 2% issuance allowance derived using the (lower) actual company injection rather than the (higher) notional company requirements. Based on Ofwat's early view WACC, we would expect to set a base dividend of the allowed cost of equity minus 1%, reflecting equity reinvestment to fund an element of expected real RCV growth. This equates to a dividend yield of 3%, as reported in RR4, consistent with Ofwat's expectation for companies with real RCV growth.

AMP9 has been populated consistently with the inputs used to undertake the Long Term Viability Statement. Whilst ordinarily we would use the current WACC for all future AMPs, it is clear that the AMP8 WACC cannot be used in AMP9 and to expect companies to remain financeable. This is as result of the significant increase in capex in both AMP8 and AMP9 opposite the low proportion on new debt within the allowed cost of debt when the cost of new debt is higher than the cost of embedded debt. We therefore use a combination of all levers available to solve financeability in AMP9; PAYG advancements, WACC adjustments and equity injections. We use all three levers rather than one for pragmatism, as future requirements may need one or more of these levers to be utilised but that this is entirely dependent on what WACC is set at PR29.

It is important to recognise that the inputs we provide have been constructed against the plan that we have submitted. Therefore, where we derive percentages that are intended to be used with the investment proposals e.g. PAYG, run-off and capital allowance rates, these are only valid opposite the expenditure proposed elsewhere in our plan. Consequently, we would expect that if there were any differences in the view of efficient expenditure required to deliver the proposed outcomes, Ofwat will adjust the respective rates appropriately to reflect the difference in allowance. This was the case at PR19 for PAYG rates but not for run-off or capital allowance rates as they were less material at the time. However, with new investment (capex) requirements being substantially higher at PR24 than at PR19, there will now also be a need to also correct these rates and not just PAYG in order to calculate an appropriate allowed revenue to ensure that companies can remain financeable.

We have populated lines in line with guidance provided where possible, and exceptions have been explained in the detailed table commentary. Examples of deviations away from line guidance are the treatment of other liabilities and intangible assets. Intangible asset balances have been included with tangible asset balances in the inputs in order to ensure they are accounted for correctly in the financial model and to ensure consistency across data tables. A more in depth description of these adjustments is provided in the detailed table commentary. Additionally, the 'other liabilities opening balance' has been used to capture balance sheet items

that have no specific input in tables RR1 – RR9, as well as the notionalisation adjustment required in the notional company financial model.

Outputs for the notional company from Ofwat’s financial model: RR10 – RR15

The bill profile for 2025-30 before inflation (RR14) indicates that customer bills will need to increase by c£110 by 2030 in order to pay for the environmental improvements required by the WINEP. Tables RR10 – RR15 have been populated using *UUW94 - Ofwat Financial Model*, and any material movements have been described in the table commentary.

Actual company outputs: RR16 – RR30

Our plan is financeable in both the actual company and the notional company structure, targeting credit ratings of A3/BBB+ and Baa1/BBB+ respectively. We include a number of additional financeability ratios for the three credit rating agencies (Moody’s, S&P and Fitch), the calculations for which have been set out in RR16 table commentary for the actual company and a worksheet included within *UUW94 – Ofwat Financial model*- for the notional company. Our view of the RoRE range in RR30 is that there is a -6.28% to +4.43% range in addition to the base allowed RoRE. Whilst this sits outside of the Ofwat proposed RoRE range, we feel it more accurately reflects the downward bias that the PR24 methodology imparts. We also note that this range excludes the impact of Price Control Deliverables (PCDs), which would apply a further downside skew, given that Ofwat proposes to apply these asymmetrically. In calculating this range, we have adjusted each input for the headline rate of corporation tax in line with our interpretation of line guidance. We have presented the average regulatory capital value in 22/23 financial year average prices, to ensure consistency with other inputs in the table.

As demonstrated in Table RR17, under all scenarios modelled the company would reasonably expect, on a standalone basis, to be able to maintain investment grade credit ratings without having to consider mitigating actions.

Tables RR18, RR19, RR20, RR27 and RR28 have been populated in line with RAG4.11 where possible, with material movements explained in the table commentary. RR27 differs from the APR in AMP7 in that third party revenues have been aligned to the Revenue Forecasting Incentive, which exclude revenues for rechargeable works since this income was not included in the revenue control set at PR19. RR28 contains both tangible and intangible assets to ensure consistency and comparability between data tables.

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1. RR1 Revenue cost recovery inputs

RR1.1 - 18 Wholesale WACC

- 1.1.1 As discussed in *Chapter 9 - Risk, return and responsible behaviour* - section 9.4.2, for AMP8 we have based the cost of capital that underpins each of our wholesale price controls, and the margin that underpins our residential retail price control, on the early view WACC guidance provided by Ofwat in its methodology statement for consistency and comparability purposes. Our business plan assumes the same WACC for each price control.
- 1.1.2 The appropriate WACC for PR24 is higher than at PR19, driven by the step-change in interest rates observed since the start of 2022 which have continued to rise during 2023, which inevitably results in higher financing costs for both debt and equity. Table 1 below shows the Ofwat early view wholesale cost of capital on a nominal and CPIH-stripped basis, along with the cost of equity.
- 1.1.3 The breakdown of the appointed cost of capital into its constituent parts on a real basis is included in data table RR25 Weighted average cost of capital for the Appointee, which mirrors the breakdown given by Ofwat in its 'early view' WACC. The wholesale cost of capital has been allocated into its constituent parts by mirroring all the appointed WACC sub-elements except for the wholesale beta. We have adjusted the wholesale beta in line with Ofwat's response to queries ID-469 and ID-468. The breakdown of the wholesale cost of capital into its constituent parts on a real basis is included in data table RR26. To calculate the nominal cost of capital components for this table, we apply the long term CPIH inflation rate stated in RR1.73 in line with the Fischer equation to the real cost of equity and real cost of debt stated in RR26.

$$(1 + \text{Nominal rate}) = (1 + \text{real rate})(1 + \text{inflation})$$

Table 1: Wholesale allowed return on capital in real and nominal terms

	Nominal	CPIH stripped
Overall cost of equity (used in WACC)	6.09%	4.00%
Overall cost of debt (used in WACC)	4.65%	2.60%
Notional gearing	55%	55%
Wholesale WACC	5.30%	3.23%

Source: Ofwat's final methodology and UU calculations to inflate CPIH stripped rates by 2% to get nominal rates

- 1.1.4 As Ofwat's 'early view' WACC is a spot position as published in December 2022 using a data cut-off of 30 September 2022, we expect Ofwat to update the WACC appropriately at its final determinations taking account of the latest available market evidence.
- 1.1.5 As Ofwat did not provide a view on an AMP9 WACC in its final methodology, we have used the 75th percentile cost of equity from the Frontier Economics' updated report (included in supplementary document *UUW73 – Third party report - Cost of Capital for PR24*) in combination with the gearing and embedded/new costs of debt included in the Ofwat AMP8 'early view' WACC but using a new/embedded debt ratio of 49% (being a straight line extrapolation of the 17% average AMP8 new debt, being 0% at the start of AMP8 to 34% at the end of AMP8, with AMP9 assumed to start at 34% and end at 64%, giving an average of 49%) for this period.

RR1.19 - 30 PAYG rates

- 1.1.6 Natural or base PAYG rates represent net operating expenditure as a percentage of total net expenditure for each price control in each year. For *UUW*, net operating expenditure includes infrastructure renewals expenditure (IRE).
- 1.1.7 The natural PAYG rates are derived from our business plan totex for the AMP, therefore any subsequent amendments to the allowed totex should result in a change to the PAYG rate to reflect any differences in allowances between operational and capital expenditure. We anticipate that Ofwat will reflect any

differences in PAYG at PR24 in a similar fashion to that it used at PR19 within the ‘Opex-capex-split’ feeder model. PAYG rate profiling reflects the profiling of our totex programme in Table 2 below where increases in the PAYG for 2029/30 are driven principally by a reduction in capex (net totex) rather than a change in the underlying net opex.

Table 2: AMP8 totex profile and resulting PAYG rates

Price control	PAYG calculation	2025/26	2026/27	2027/28	2028/29	2029/30
WR	Net opex incl. IRE (£m)	111	114	119	122	117
	Net totex (£m)	146	146	175	162	143
	PAYG rate	76%	78%	68%	75%	82%
WN	Net opex incl. IRE (£m)	356	374	374	372	384
	Net totex (£m)	603	636	666	604	595
	PAYG rate	59%	59%	56%	62%	65%
WWN	Net opex incl. IRE (£m)	325	332	339	350	361
	Net totex (£m)	1,280	1,657	2,075	1,922	995
	PAYG rate	25%	20%	16%	18%	36%
Bio	Net opex incl. IRE (£m)	62	65	74	76	84
	Net totex (£m)	194	222	230	191	142
	PAYG rate	32%	29%	32%	40%	59%

Source: RR2 Totex inputs to cross reference with CA

- 1.1.8 We are not seeking to advance or defer any revenues in AMP8 meaning that no adjustments have been made to the natural PAYG rates proposed in RR1.19 - 24. In previous AMPs we have sought to address financeability issues through the adjustment of PAYG or RCV run-off rates but the absence of any adjustments does not mean that we are comfortably financeable at the current WACC. The reason is that we no longer see these as valid levers to utilise given that Moody’s adjusts for them when calculating ratios for company performance. Therefore, the only method available to the company to solve these ratios is through equity injections and/or the use of shareholder returns to ensure that, post-financeability, the company is financeable.
- 1.1.9 Ofwat has not provided a view on an AMP9 WACC in its final methodology but using the AMP8 WACC for AMP9 would clearly be inappropriate given the significant change in the embedded/new debt proportions within the cost of debt. Therefore, we have used a combination of changes to WACC, revenue adjustments (through PAYG) and equity injections to achieve a financeable plan for AMP9. This should not be viewed as a projection, more that it is in recognition that there is a lot of uncertainty in both required investment and the parameters that will be set for AMP9, so rather than seeking to be overly precise in setting individual parameters now, we have utilised a combination of all three (PAYG, WACC & equity injection). We would expect to forecast a different position when submitting the AMP9 business plan at PR29.

RR1.37 - 72 RCV run off rates

- 1.1.10 The natural or base RCV run off rate reflects the economic use of the related assets as a proportion of the RCV. We derive the run off rate for each price control in each year by calculating the current cost depreciation (CCD) for the associated current assets and new additions. For a detailed explanation of our approach please refer to section 9.5.4 of *Chapter 9 - Risk, return and responsible behaviour*

- 1.1.11 For simplicity, we have calculated an aggregate RCV run off rate for each year in each price control to apply to both the pre 2025 and post 2025 rather than seeking to apply different rates to the respective RCVs. As with the determination of PAYG rates, we derive the RCV run off bottom up. This means that the rate that we calculate for the RCV run off in each year relates to the mix of current assets from our asset register but also future assets as part of the totex requirements. Similar to the PAYG rate, any amendments to the totex allowance should result in a change to the RCV run off rate to reflect the revised allowances and mix of asset types. This is more of a concern for PR24 compared to previous price reviews as the proportion of depreciation from new additions is significantly higher than in PR19 or PR14. By the end of AMP8 up to 30% of our total CCD (RCV run off) in each year is a result of new additions rather than current assets, therefore a change to totex can have a significant impact on the required run off rate to sufficiently remunerate the cost of depreciation. Table 3 below shows the proportion of CCD that is attributed to new additions within each price control for AMP8. The run off rate of infrastructure will naturally be lower than the run off rate of short life capex and different types of enhancements will typically require a different mix of assets to deliver an outcome. Therefore, changes in the allowed totex across the various enhancements will necessitate a change to the RCV run off rate applied to the price control to ensure that sufficient revenues are recovered to remunerate the cost of depreciation.

Table 3: Proportion of CCD attributed to new additions by price control

Price control	31 Mar 26	31 Mar 27	31 Mar 28	31 Mar 29	31 Mar 30
Water resources	5%	15%	22%	27%	31%
Water Network+	1%	4%	9%	13%	17%
Wastewater Network+	3%	9%	19%	29%	37%
Bioresources	4%	10%	19%	26%	31%
Wholesale total	2%	8%	16%	24%	30%

Source: UU calculations based on internal current cost register

- 1.1.12 We are not seeking to advance or defer any revenues in AMP8 meaning that no adjustments have been made to the natural RCV run off rates proposed in RR1.37 - 40. In previous AMPs we have sought to address financeability issues through the adjustment of PAYG or RCV run-off rates but the absence of any adjustments does not mean that we are comfortably financeable at the current WACC. The reason is that we no longer see these as valid levers to utilise given that Moody's adjusts for them when calculating ratios for company performance. Therefore, the only method available to the company to solve these ratios is through equity injections and/or the use of shareholder returns to ensure that, post-financeability, the company is financeable.
- 1.1.13 Since Ofwat did not provide a view on an AMP9 WACC in its final methodology, we have used a combination of WACC, revenue adjustments (through PAYG and RCV run-off) and equity injections to achieve a financeable plan for AMP9. We expect to forecast a different position when submitting the AMP9 business plan at PR29.
- 1.1.14 Since UUW does not have additional controls, we have left additional controls lines blank as it could be misleading to report a 0% run off rate.

RR1.74 RPI - CPIH wedge

- 1.1.15 The RPI-CPIH wedge has been derived from UUW's inflation forecasts submitted as part of table PD1, which only include RPI forecasts to 2030. UUW's inflation forecasts are based on external forecasts until December 2027 (the methodology for this is detailed in the table commentary for PD1). For January 2028 onwards the forecasts transition to our long term assumption of 2% for CPIH and 3% for RPI, giving a wedge of c1% for 2028/29 onwards. Our long term 2% CPIH assumption is based on the Bank of England's 2% target for CPIH inflation. Our long term 3% RPI forecast is based on breakeven inflation data as published by the Bank of England. We observed the Bank of England daily breakeven inflation

data on 3 July 2023, which covers maturities from 2.5yr to 40yrs. We calculated the RPI breakeven starting in 5 years' time (i.e. approximately when we change over from external forecasts to the long term forecast) running until the longest date observed (i.e. 40 years' time). This calculated a RPI breakeven rate of 3.05% for the 35 year period starting in 5 years' time. We have rounded this number to 3% for ease of use as our long term RPI assumption.

2. RR2 Totex inputs to cross reference with CA

RR2.1 - 12 & RR2.25 - 48 Totex and G&Cs

2.1.1 The detailed commentary for all AMP8 expenditure is provided in the commentaries for CW1 and CWW1. The forecast expenditure requirements in AMP9 have been derived by assuming constant botex from 2029/30 and then overlaying the additional enhancement requirements as reported in LS3 and LS4 for each price control. Although we see a step up in capital expenditure in year 1 of AMP9 compared to that forecast in year 5 of AMP8, in reality we'd expect transitional investment to be brought forward in a similar way to the transitional investment between AMP8 and AMP7.

2.1.2 We have populated the allocation of grants and contributions between price control and non-price control in line with the Ofwat methodology and guidance but we do not believe that it is appropriate for non-s185 diversions to be included within the price control for AMP8 and beyond. We have previously outlined our reasons for this in response to Ofwat's consultation on the Revenue Forecasting Incentive for AMP8.

RR2.13 - 18 Equity issuance costs

2.1.3 Our business plan assumes that *UUW* will raise £1,350m of new equity in AMP8 in the actual company to help finance the RCV growth resulting from increased environmental requirements. Our long term delivery plan also currently indicates that AMP9 will be of similar scale to that of AMP8 and therefore we forecast a further equity injection in AMP9 of £1,000m. This is in addition to the £500m of outperformance that we are planning on reinvesting in AMP7 that is accounted for by reduced opening debt balances. The amount of equity required has been calculated to achieve our desired credit ratings as outlined in RR16 Financial ratios. We note in the commentary for RR1 Revenue cost recovery inputs that we have used the Ofwat 'early guidance' WACC for consistency and comparability purposes. This therefore implicitly assumes that additional equity is available at the cost of equity allowed (at the Final Determination).

2.1.4 Ofwat's methodology allows for companies to recover 2% of equity issuance costs as part of allowed revenues to cover the cost of raising the additional financing, which is reported in opex. In reality, all financing requirements are calculated at an Appointee level, not at an individual price control, but we have allocated the issuance costs to each of the 4 wholesale price controls based on net capital expenditure, since the growth in the RCV is driving the need for additional financing.

RR2.19 - 24 IRE totex adjustment for ACICR (Ofwat)

2.1.5 As *UUW* does not capitalise its IRE and instead reports it within opex we have left these inputs as zero.

RR2.25 - 48 Grants and contributions

2.1.6 The detailed commentary for all grants and contributions in AMP8 is reported in the commentary for table DS1e.

3. RR3 RCV opening balances

RR3.1 - 12 RCV opening balances

- 3.1.1 All lines are outputs of Ofwat's 'PR24 RCV adjustments feeder model' that we have provided as part of our submission (*UUW97 – Ofwat RCV Feeder Model*). Please refer to *UUW78 - PR19 Reconciliation Submission* for any associated commentary or explanation as to how we have derived each line. The total of all 2025 RCV opening balances reported in RR3, is equal to the opening RCV at 1st April reported in line PD11.24.

4. RR4 Financing financial model inputs

RR4.9 - 26 Opening debt balances

- 4.1.1 All actual company opening debt balances presented are after the impact of any swaps and apportioned to each price control based on the relative weightings of the opening RCVs in line with our standard approach to allocating Appointee balances to specific price controls.

RR4.27 - 44 Interest rates for ILD and fixed rate debt

- 4.1.2 We have calculated the notional interest rates for both ILD and fixed rate debt with reference to the nominal cost of debt allowance within the WACC derivation (for AMP8 and AMP9 WACCs as per table RR1). For ILD we convert the nominal cost of debt into a real cost of debt using the indexation rates using the Fischer equation.

$$(1 + \text{real rate}) = \frac{(1 + \text{nominal rate})}{(1 + \text{inflation})}$$

- 4.1.3 We also utilise the same indexation rate assumptions for RPI (2.9%) and CPIH (2.0%) ILD that Ofwat specifies in its methodology for deriving the interest rate excluding indexation in RR4.27 - 38 from the interest rate on fixed debt RR4.39 - 44.
- 4.1.4 Since *UUW* does not have additional controls, we have left additional controls lines blank as it could be misleading to report a 0% interest rate.

RR4.45 - 50 Opening cash balance

- 4.1.5 We have reported a nil cash balance within lines RR4.45 - 50 since Ofwat's financial model only enables companies to enter an opening cash balance but not to specify target levels of cash held during each year. Any opening cash balances are reduced by annual cash flows calculated in the model, which in a high expenditure environment, are eroded quickly and effectively become debt balances. In reality financially resilient companies will hold certain levels of liquidity to cover the next 12 months plus of cash flows (including refinancing of debt) of which a material proportion will be cash. Therefore as the notional company financial model cannot accurately reflect how cash is held in practice, for simplicity we have reported a nil opening cash balance, but we reiterate that in reality we would expect companies to hold material cash balances over AMP8.

RR4.51 - 56 Cash interest rates

- 4.1.6 The cash interest rate reported in these lines is applied to both positive and negative cash flows in Ofwat's financial model. Therefore, we have set this rate as equal to the rate on fixed debt in the notional company as it would be inappropriate to apply a cash interest rate to a debt balance (as in lines RR9.39 - 44).
- 4.1.7 Since *UUW* does not have additional controls, we have left additional controls lines blank as it could be misleading to report a 0% interest rate.

RR4.57 - 62 Opening called up share capital balance

- 4.1.8 The Appointee opening balance of £230m opening share capital has been apportioned to each price control based on the relative weightings of the opening RCVs in line with our standard approach to allocating Appointee balances to specific price controls.

RR4.63, RR4.77 - 79 Dividends

- 4.1.9 Equity dividends paid in line RR4.63 has been populated in line with the 3% yield reported in RR4.79. We note that this line is not used to populate dividend calculations within Ofwat's financial model, so we have populated it as a negative to reflect that cash outflow as per table RR20.
- 4.1.10 We have left RR4.77 blank as per line guidance since we do not propose to override dividends calculated in the notional company financial model.

RR4.64 - 70 Ordinary shares issued

- 4.1.11 Our plan assumes that the notional company will seek to raise £2,250m of new equity in AMP8 and £1,000m in AMP9. The equity issuance costs reported in table RR2 Totex inputs to cross reference with CA are based on actual company equity issuance of £1,350m in AMP8. This is because in the actual company, we resolve financeability after the application of reconciliation adjustments forecast in RR3 RCV opening balances and RR6 Post financeability adjustments inputs since the actual company has tighter financeability constraints and customers should not bear any additional costs as a result. Whereas for the notional company we resolve financeability before any reconciliation adjustments, leading to a higher assumed equity injection. We have apportioned the assumed equity issuance in the notional company based on the opening RCV for each price control as stated within table RR3 RCV opening balances.

RR4.81 - 86 & RR4.90 - 95 Opening dividend creditor's balance & opening dividend cash flows balance

- 4.1.12 *UUW* dividends are paid when they are declared so dividend cash flows and dividend creditors are assumed to be nil across all price controls.

5. RR5 Tax opening balances

RR5.1 - 19 Opening tax balances

- 5.1.1 Tax is not calculated at a price control level as part of business as usual activity. Therefore, we have apportioned the opening balances for tax losses and deferred taxes that we report at an Appointee level based on the opening RCV for each price control as stated within table RR3 RCV opening balances.
- 5.1.2 There is forecast to be a significant increase in the deferred tax balance relative to the balance as reported in 2022/23 due to the continuing impact of enhanced capital allowances, which causes an increase in timing differences and the resulting deferred tax calculation in the latter years of AMP7.
- 5.1.3 The opening tax loss is based on the carried forward tax loss per the submitted tax computation for the 31 March 2022, together with expected movements for the remainder of AMP7. This loss is primarily a result of an increase in capital allowances due to “super-deductions” in 2021/22 and 2022/23, “full expensing” in 2023/24 and 2024/25 and 50% first year allowances on longer life assets from 2021/22 onwards as well as lower profits due to the impact of high inflation on our operating and interest costs.

RR5.20 - 25, RR5.50 - 55, RR5.62 - 67, RR5.74 - 79 RR5.86 - 91 & RR5.92 - 97 Proportion of new capital expenditure qualifying for each pool

- 5.1.4 Each project within our proposed AMP8 capital programme is allocated to one or more asset categories based on the asset(s) being constructed. These asset categories are then allocated to an associated capital allowance pool based on the tax classification of that asset. The tax classification of that asset is based on the type and forecasted life of the asset, together with the historical summary position from the last three years tax computations. The resulting percentage is calculated based on the amount in each pool as a percentage of total net capital expenditure for each year in each price control. The percentages reported within RR5.92 - 97 correspond to the values reported in RR5.160 - 165 when multiplied by the net capex in each price control for each year but we note that Ofwat’s financial model only makes use of the reported allowable depreciation and not the percentage.
- 5.1.5 It is important to recognise that the proportion of capex attributable to each capital allowance pool is heavily dependent upon the amount and type of capex allowed, which can differ significantly between enhancement areas. Therefore, the proportions contained within our business plan align only to our proposed capex and if Ofwat were to make reduced allowances in certain areas of expenditure then this could materially impact the amount of capital allowances being claimed in AMP8. Given the projected scale of the investment programmes and the associated impact that these will have on capital allowances in AMP8 and beyond, it is important that greater attention is paid to these weightings than might have been the case at previous price reviews.
- 5.1.6 Since *UUW* does not have additional controls, we have left additional controls lines blank as it could be misleading to report a 0% proportion of qualifying capital expenditure.

RR5.56 - 61, RR5.68 - 73, RR5.80 - 85 Proportion of new capital expenditure qualifying for each enhanced pool

- 5.1.7 For each capital allowance category we assume that all expenditure allocated to that pool in 2025/26 is eligible for the enhanced capital allowance rates. As we currently expect the enhanced rates to end after this, we apportion no expenditure to these enhanced rates after the first year. We anticipate that Ofwat will continue to reconcile changes in tax laws through an ex-post adjustment mechanism to reflect any changes to either the headline rate of corporation tax or the capital allowance rates.
- 5.1.8 Since *UUW* does not have additional controls, we have left additional controls lines blank as it could be misleading to report a 0% proportion of qualifying capital expenditure.

RR5.26 - 43 Opening capital allowance balances

- 5.1.9 For each capital allowance pool we apportion forecasted balance as at 1/4/2025, reflecting the closing balances per the submitted tax computation for the year ended 31 March 2022 plus any new additions

in the remainder of AMP7 based on the opening RCV for each price control as stated within table RR3 RCV opening balances.

RR5.142 - 147 Charge for DB schemes residential

- 5.1.10 Although the line description reads 'charge for DB schemes – residential retail', we have populated these lines with the total charge for DB schemes across *UUW*, apportioned to wholesale price controls based on 2025/26 opening RCV. This ensures the total *UUW* DB scheme charge is included within deferred tax calculations in Ofwat's financial model since this is the only input for DB scheme charges.

RR5.148 - 153 Amortisation on grants and contributions

- 5.1.11 Although in reality *UUW* does recognise amortisation of capitalised grants and contributions, we have reported these lines as nil since they're only used in tax calculations within Ofwat's financial model and are not correctly accounted for within the income statement. Therefore, we have included amortisation of capitalised grants and contributions within our calculations for average asset lives reported in table RR9 Miscellaneous inputs. For more detail on our treatment of depreciation and amortisation please refer to commentary table RR29 Asset lives.

RR5.98 - 103 P&L expenditure not allowable as a deduction from taxable trading profits

- 5.1.12 The above allocation has been based on the historical summary position from the previous three year tax computations together with the expected costs within the AMP8 programme. In particular, the expected costs in relation to equity raising which are expected to be not allowable for tax purposes have been adjusted for.

6. RR6 Post financeability adjustments inputs

RR6.1 - 26

- 6.1.1 All lines are outputs of Ofwat's 'PR24 revenue adjustments feeder model' that we have provided as part of our submission (*UUW98 – Ofwat Revenue Adjustments*). Please refer to *UUW78 - PR19 Reconciliation Submission* for any associated commentary or explanation as to how we have derived each line. We note that we have left lines RR6.19 - 24 blank as per line guidance, and also lines RR6.13 - 18 under the assumption that Ofwat will populate these lines post submission. The reconciliation adjustments in RR6 are the same as those reported within lines PD12.45 - 70, but are adjusted for the time value of money in the profiling tab of Ofwat's 'PR24 revenue adjustments feeder model'.

7. RR7 Residential Retail

RR7.1 Retained earnings

7.1.1 Since we don't forecast retained earnings on a price control level as part of business as usual activity, retained profits for retail has been assumed to be equal to net assets attributable to retail outlined in lines RR7.19, RR7.32, RR7.33, RR7.36, RR7.50, RR7.51, RR7.57 and RR7.58.

RR7.8 - 13 Household customer numbers

7.1.2 There is a shift in the proportion of household customers from unmeasured to measure throughout AMP8 and AMP9 due to proactive meter installations, and wider promotion of metering resulting in more customers taking up a meter option, along with an increase in overall metered customers due to new connections.

7.1.3 Values for 2024-25 onwards incorporate key customer forecasts as included in the *UUW Revised WRMP*. These forecasts have been revised for two factors:

- Latest information on new connection volumes in 2022/23 and 2023/24, and
- Projected increases in numbers of future households that will be served by NAVs.

7.1.4 This has resulted in a change from WMRP forecasted connection volumes out to 2029/30, as set out Table 4 below. We anticipate that total billable water customer numbers will return to WRMP projections by 2029/30.

Table 4: WRMP to SUP1A reconciliation

WRMP vs SUP1A household billable customers	2025/26	2026/27	2027/28	2028/29	2029/30
WRMP household water customers	3,231.7	3,261.7	3,290.7	3,317.8	3,344.1
Exclude: Domestic NAVs	(13.3)	(17.2)	(21.4)	(26.1)	(31.3)
WRMP underlying household billable water customers	3,218.4	3,244.5	3,269.3	3,291.6	3,312.9
SUP1A household total billable customers	3,276.1	3,301.8	3,333.1	3,366.5	3,397.2
Exclude: wastewater only customers	(84.5)	(84.5)	(84.5)	(84.4)	(84.4)
SUP1A underlying household billable water customers	3,191.6	3,217.2	3,248.6	3,282.1	3,312.9
Difference in AMP8 due to revised new connections profile	(26.9)	(27.3)	(20.6)	(9.5)	0.0

Source: *UU revised WRMP submission and internal forecasts*

RR7.14 - RR7.15 Trade debtor days

$$\text{Trade debtors} = \left(\frac{\text{Year end (un)measured trade debtors}}{\text{(un)measured revenue}} \right) \times 365$$

7.1.5 The trade debtor days shows a flat profile through AMP8 and AMP9, unmeasured trade debtor days at 33 days, measured trade debtor days at 30 days. This reflects a consistent standard of billing and cash collection.

RR7.16 - RR7.17 Advance receipts creditor days

$$\text{Advance creditor days} = \left(\frac{\text{Year end (un)measured creditors}}{\text{(un)measured revenue}} \right) \times 365$$

- 7.1.6 The advanced customer receipts for unmeasured customers remains flat through AMP8 and AMP9 at 17 days. Unmeasured customers are billed in advance, so advanced cash only appears around year-end when main billing takes place, before the bill start date of 1st April, and when customers choose to pay their bill bi-annually or in full.
- 7.1.7 The advanced customer receipts for measured customers remain flat throughout AMP8 and AMP9 at 59 days. Measured customers are billed in arrears, and so advanced cash only occurs when a customer is on direct debit.
- 7.1.8 There is a gradual shift in the proportion of metered to unmetered customers over time as customers opt for meter installations and new properties are connected to the network.

RR7.18 Measured income accrual rate

$$\text{Measured income accrual rate} = \frac{\text{Accrued income (gross of measured credits)}}{\text{Measured sales}}$$

- 7.1.9 The measured income accrual rate is the measured accrued income as a proportion of measured revenue. Measured revenue increases over the AMP due to the gradual increase in the proportion of metered to unmetered customers over time, and the measured income accrual increases at the same rate.

RR7.20 - RR7.26 Retail expenditure

- 7.1.10 Retail capex is reported in 2022/23 FYA prices and reflects that reported in RET1 for AMP8. Total operating expenditure split by customer type is in nominal prices, and is calculated as operational expenditure as per RET1 for AMP8, inflated to nominal prices and split by customer type as per the splits in lines RR7.8 - 13. For more information on Retail totex, please see RET1 table commentary.

RR7.34 Retail creditor months

- 7.1.11 Transactions between Retail and Wholesale are settled in the same month as they are raised leading to zero creditor months.

RR7.37 Residential net margin

- 7.1.12 The residential net margin has been set in line with Ofwat's early view WACC guidance.

RR7.53 Pensions contributions

- 7.1.13 Although we have populated this line with forecast pension contributions attributable to Retail, this line is not actually an input in to Ofwat's financial model. As such, we have included the *UUW* pension contributions/charges within Wholesale inputs RR5.142 - 147 and RR9.112 - 135 to ensure the total appointee charge is accounted for.

RR7.55 Percentage distributed as dividends at retail level

- 7.1.14 Although dividends are paid out at *UUW* Appointee level, we would assume that 100% of profits attributable to retail would also be paid out. However, as a result of a signage error in the retail cash flow statement of the notional company financial model, putting a value in this line results in an incoherent cash flow statement. Therefore we have input 0% in RR7.55 in order to ensure that we pass all model checks. For more information please see *UUW95* Financial Model Commentary.

RR7.56 Interest rate - residential

- 7.1.15 This has been set in line with the overall cost of debt included in our WACC in line with Ofwat's guidance.

8. RR8 Business Retail

- 8.1.1 *UUW* does not have a Business Retail operation therefore the majority of this table is not populated in line with Ofwat's response to query ID-403 where it confirmed "that RR8 does not need to be completed in full for companies without a business retail function; however lines for measured and unmeasured charges should be populated for the financial model to correctly calculate the residential/business apportionments."
- 8.1.2 The measured and unmeasured charge allocations are populated to ensure that the Wholesale charge is allocated to both household and non-household customers in Ofwat's financial model. The sum of lines RR8.22 - 33 and lines RR7.37 - 49 equates to 100% for each price control in each year.

9. RR9 Miscellaneous inputs

RR9.7 - RR9.12 Reprofitting revenue

9.1.1 We have not made use of any revenue reprofiling within AMP8 or AMP9. The long term projection for bills (as shown in LS7) is set to increase AMP on AMP out to 2050 and therefore any attempt at smoothing of bills in the current period would result in large step changes from the end of one AMP to the beginning of the next. Customers have previously told us that they prefer more stable bills (increases) and therefore attempting to adjust the profile of revenues in AMP8 or AMP9 would not be supported by customers.

RR9.31 - RR9.36 Other liabilities opening balance

9.1.2 There are a number of items that appear on the balance sheet of the actual company (table RR19) that have no corresponding input in tables RR1 - RR9, and therefore cannot be automatically input in to the notional company financial model. As a result, without any adjustment the balance sheet in Ofwat's financial model would not accurately reflect all relevant line items since it uses opening asset and retained earnings positions of the actual company, whilst not allowing for corresponding liabilities to be recorded. Therefore we have included a number of balance sheet items within lines RR9.31 - RR9.36 to ensure the outputs of the notional company are consistent with the RAGs. The balance sheet items included in these lines are listed in Table 5 below:

Table 5: Opening balance adjustments

Table reference	Description	Comment	Value
RR19.5, RR19.10, RR19.16 & RR19.23	Financial instruments	There is no input for derivatives balances in tables RR1 – RR9	£143m
RR19.11	Cash & Cash equivalents	As discussed in table commentary for RR4 we have input a nil cash balance to allow for a cleaner view of debt required over AMP8, but the cash balance forecast for 2024-25 in the actual company is £400m as per RR19	£400m
RR19.21	Trade & other payables (non-current)	Ofwat's financial model does not split out current and non-current trade payables so we have only input current trade payables in to RR9	£(21)m
RR19.18 less actual provisions in RR9.25 - 30	Current deferred income	As per RAG 4.11, current deferred income should be recorded within provisions in the balance sheet. However since there should be no cash flow impact, we have excluded current deferred income from provisions inputs in RR9.	£(19)m
RR19.26	Non-current deferred income – grants & contributions	There is no input for non-current deferred income in tables RR1 – RR9	£(292)m
RR19.27	Non-current deferred income – adopted assets.	There is no input for non-current deferred income in tables RR1 – RR9	£(680)m
n/a	Adjustment from notional debt to balance sheet debt	Adjustment from notional debt (debt reported in table 1E) to balance sheet debt (debt reported in table 1C). For more detail please see 2022-23 APR commentary.	£111m
Total			£(358)m

Source: RR19 and APR commentary reconciliation between net debt in 1C and 1E

9.1.3 The £358m liability has been apportioned between price controls based on individual imbalances within Ofwat's financial model. The imbalance at a price control level is as a result of inputs, such as fixed

assets, being reported at a price control level due to business as usual reporting in the APR, and inputs such as equity issuance and working capital only being reported at an Appointee level as part of business as usual reporting and apportioned via a top-down allocation method for the purpose of populating tables RR1 - RR9.

- 9.1.4 We have also included the impact of notionalisation within Ofwat's financial model at a price control level within the other liabilities opening balance for each price control as per Table 6 below:

Table 6: Changes in net debt balance for the notionalisation of debt

Price control	Notionalisation adjustment
WR	£(96)m
WN	£(514)m
WWN	£(1,129)m
Bio	£(64)m
Total	£(1,803)m

Source: UUW94 Ofwat's financial model (wholesale debt tab)

- 9.1.5 This adjustment is required as although Ofwat's financial model notionalises actual debt, it takes actual company retained earnings as an input and does not correct it for the notionalisation adjustment.

RR9.69 - RR9.81 Creditor days

- 9.1.6 Trade creditor days has been calculated on the basis in which it is used in Ofwat's financial model. Trade creditor days is multiplied by total opex to obtain a trade creditors balance. We have therefore populated other creditors with nil balances in order to avoid double counting, since other creditors would relate to a proportion of our total opex.

- 9.1.7 Trade creditor days also includes an assumption for capital accruals. This has been included within trade creditors rather than capex creditors to align to the APR. In table 1C, capital accruals are reported within trade and other payables (line 13) since the accrual represents work-in-progress which has not yet been invoiced, rather than capital expenditure creditors due within one year as per RAG 4.11 (line 14).

- 9.1.8 Since UUW does not have any additional controls, we have left the additional controls lined blank as it could be misleading to report a zero day assumption.

RR9.112 - RR9.135 Pension scheme contributions

- 9.1.9 As highlighted within RR7 table commentary, there are no inputs in tables RR1 - RR9 that capture pension charge/cash contributions attributable to Retail that are used in Ofwat's financial model. As such, we have apportioned the total charge/contribution for UUW between the Wholesale price controls using 2025-26 opening RCV to ensure the correct appointee charge is included.
- 9.1.10 Although line guidance states lines RR9.118 - 123 should be used to capture cash contributions for DB schemes, we have also included cash contributions for DC schemes within this line. This is since we have included an accounting charge for DC schemes within lines RR9.112 - 117 as per guidance, but there are no other inputs to capture the equal and opposite cash contribution for DC schemes. Excluding cash contributions for DC schemes would result in a misstatement of the deferred tax charge calculated in Ofwat's financial model.

RR9.136 - 171 Total direct procurement from customers

- 9.1.11 Total direct procurement from customers - infrastructure cost 1 represents the forecast unitary charge (UC) for the HARP DPC at the OBC, stated in 2022-23 prices. For schemes 2 to 4, we have derived indicative unitary charges for the component parts of the proposed DPC scheme that will be new for AMP8. Whilst we present these individually (schemes 2, 3 and 4 in the table) our planning assumption is that they will be bundled together into a single DPC scheme and procured as one. These are indicative UC's and are derived simplistically using the forecast expenditure to deliver the scheme with contract

period of 25 years and end of concession payment equal to 15% of the CAP construction cost and upfront fees. We also assume a 10% cost efficiency is delivered by the CAP when compared to a BAU delivery approach for the construction cost.

- 9.1.12 We note that SUP12 outlines development costs and DPC costs that the company will incur, whereas lines RR9.136 – 171 detail the unitary charge that will be payable to the CAP.

RR9.190 - 195 Bulk supplies qualifying for water trading incentives

- 9.1.13 There is only 1 potential qualifying water trade (with Severn Trent relating to Chester) but as no contract has been signed at the time of publication and therefore there is uncertainty over whether this trade will proceed, it has not been included within our business plan submission.

RR9.19 - 24, RR9.226 - 237 & RR9.244 - 249 Intangible assets and fixed assets balances

- 9.1.14 We note in Ofwat's response to queries 427, 428 & 429, it confirmed the expectation that the opening balance for intangible assets be included along with investments in lines RR9.19 – RR9.24, with movements recorded in lines RR9.244 - 249. Lines RR9.244 - 249 are used in Ofwat's financial model as a balance sheet movement, which are subsequently reflected in cash flows within net cash generated/used in investing activities. Since part of the movement in intangible assets relates to amortisation, populating RR9 in this way would be incorrect. Amortisation of intangible assets is treated in the same way as depreciation of tangible assets in both the statutory and regulatory accounts; it is added back to operating profit to calculate net cash generated/used in operations (which we note is used to calculate FFO in Ofwat's Appointee FS calcs tab). Additionally, all of our intangible assets (the majority of which are related to software), are depreciated in the same way as our tangible assets. Therefore, we have reported only investment balances/movements in lines RR9.19 - 24 and RR9.244 - 249, and included intangible assets and their respective amortisation charges within lines RR9.226 - 237. This treatment is consistent with the confirmed inclusion of intangible assets within the fixed asset balances reported in table RR7 (as per query ID-426), and the calculation of average asset lives in table RR29.

RR9.238 - 243 Wholesale fixed asset life (post override)

- 9.1.15 For more information on the basis of our AMP8 wholesale fixed asset lives calculations please refer to table commentary for RR29 Asset lives. AMP9 asset lives have been populated on a consistent basis. We have left additional controls asset lives blank since *UUW* does not have any additional controls and it could be misleading to report a nil asset life.

RR9.262 - 266 Base Revenue by charging year

- 9.1.16 Allowed revenues for 2024/25 include our latest estimate of ODIs rewards/penalties relating to 2022/23 outperformance and include an RFI adjustment relating to 2022/23 revenue imbalances. Network Plus allowed revenues include the allowance for grants & contributions.

10. RR10 Allowed Revenue Outputs

- 10.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.

RR10.7 Tax

- 10.1.2 The notional company financial model calculates tax profit and tax losses in year on a price control basis and then apportions any net tax paid to those price controls that are in tax profit for that year. The result of this is that revenue allowances for tax are not evenly distributed between price controls, which will cause charges to customers to vary depending on which price control tax revenues are allocated to and the mix of water and wastewater revenues in charges.

RR10.9 Other income (non-price control)

- 10.1.3 RR10.9 acts to strip out non-price control income and other operating income from allowed revenue in RR10.1. Other operating income contains forecast profit/loss on disposals of fixed assets as per Ofwat query ID-200. We expect to make a profit on disposals in Water Resources, so RR10.9 is returned as a negative number (effectively stripping out the profit from allowed revenues). For Water Network Plus, Wastewater Network Plus and Bioresources we expect to make a loss on the disposal of fixed assets so the value returned in RR10.9 is a positive number, as the loss on disposals outweighs the non-price control income that is being deducted.

RR10.21 - 25 K factors by charging year

- 10.1.4 We see an increase in K factors in 2025-26 mainly as a result of post-financeability revenue adjustments totalling c. £80m in the first year of AMP8. K factors in Water Resources, Wastewater Network Plus and Bioresources decrease year on year as you'd expect, with Water Resources presenting a negative K factor in 2029-30 as a result of a drop in operating expenditure in the final year of the AMP. The K factor in Water Network remains high in 2026-27 then becomes negative in 2027-28 and 2028-29, before increasing again in 2029-2030. These movements reflect the profile of the revenue allowance due to tax in Water Network Plus which can be seen in line RR10.42.

11. RR11 PAYG and RCV run-off outputs

- 11.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.

12. RR12 RCV by control

- 12.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.

13. RR13 Annual RCV balances

- 13.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.

14. RR14 Bill profile for 2025/30 before inflation

- 14.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.
- 14.1.2 We have left lines RR14.2 and RR14.3 blank since *UUW* does not profile bills differently across the region.

15. RR15 Retail margins 2025/30 (nominal price base)

- 15.1.1 We do not provide detailed commentary on the notional company output tables other than for where there are material variances.

16. RR16 Financial ratios

RR16.1 - 12 Notional company ratios populated by Ofwat's financial model

16.1.1 Lines RR16.1 - 12 are populated directly from Ofwat's financial model, and we don't propose any changes to the calculations used. However we note that the 2025/30 dividend yield is being calculated in an inconsistent way to the individual yields in AMP8. The 2025/30 dividend yield uses base regulated equity as per the RoRE tab in Ofwat's financial model, which does not include the equity issuance assumed in table RR4 Financing financial model inputs. The calculation for dividend yield in each individual year is based on regulated equity as per the wholesale debt tab of Ofwat's financial model, which includes the assumed equity injections input in table RR4. We believe the dividend yields calculated in each individual year are correct.

RR16.13 - 20 Target credit ratings and company proposed ratios for the notional company

16.1.2 We are targeting credit ratings of Baa1/BBB+ for the notional company. These rating targets relate to the long-term issuer ratings in line with licence definitions. We note that usually for the water sector Fitch's senior unsecured debt ratings are one notch tighter than the long-term issuer ratings.

16.1.3 We have proposed 7 other financial ratios in order to help inform financeability of the notional company including: Moody's Debt/RCV, Moody's adjusted interest cover, S&P FFO/Net debt, S&P Net debt/EBITDA, Fitch Debt/RCV, Fitch post maintenance interest cover (PMICR) and Fitch Nominal post maintenance interest cover (NPMICR). We have included the calculations of each of these ratios within an additional ratios tab in *UUW94 - Ofwat's financial model*.

16.1.4 We note that we would have calculated the Moody's adjusted interest cover and S&P FFO/Net debt ratios for the notional company on a gross interest basis (as we do for the actual company), but due to way cash is modelled in Ofwat's financial model we were unable to do so.

RR16.35 Actual company RoRE

16.1.5 To calculate RoRE for the actual company we have used RoRE calculated in Ofwat's financial model for the notional company and have adjusted for the difference in capital structure in the actual company. The financing adjustment has been calculated as the difference in gearing between the notional company and the actual company, multiplied by the difference between the base RoRE as per RR16.12 and the overall cost of debt used in the WACC (CPIH – stripped). Calculations can be seen in Table 7 below:

Table 7: Actual Company RoRE

Component	2025/26	2026/27	2027/28	2028/29	2029/30
Notional company gearing	55%	55%	55%	55%	55%
Actual company gearing (average)	64%	64%	64%	63%	63%
Difference in gearing	9%	9%	9%	8%	8%
Base RoRE (RR16.12)	4.18%	4.18%	4.17%	4.16%	4.16%
Overall cost of debt (CPIH stripped)	2.60%	2.60%	2.60%	2.60%	2.60%
Difference in return	1.58%	1.58%	1.57%	1.56%	1.56%
Financing difference	0.15%	0.14%	0.14%	0.13%	0.12%
Base RoRE (£m)	291	317	353	392	416
Financing difference (£m)	23	24	27	28	28
RoRE actual company (£m)	314	342	380	420	444
RoRE actual company (%)	4.51%	4.50%	4.48%	4.46%	4.44%

Source: Ofwat's final methodology, Ofwat's financial model (RoRE tab) and UU calculations for actual company gearing

RR16.36 Actual company target credit ratings

16.1.6 We are targeting credit ratings of A3/BBB+ for the actual company. These ratings relate to the long-term issuer ratings in line with licence definitions. We note that usually for the water sector Fitch's senior unsecured debt ratings are one notch tighter than the long-term issuer ratings.

RR16.37 - 43 Company proposed financial ratios for the actual company

16.1.7 The ratio calculations for the actual company are slightly different to those provided for the notional company, but only as we were able to reflect gross interest balances, since the actual company holds a cash balance as per line RR19.11, and therefore receives interest on that cash balance as per line RR18.6.

RR16.37 Moody's debt/RCV

16.1.8 Please refer to Table 8 below:

Table 8: Moody's debt/RCV

Component	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Total debt excl. derivatives (£m)	10,595	12,116	13,455	14,649	14,421	RR19.15 plus RR19.22 less balance sheet to notional adjustment in Table 5
Cash	(420)	(840)	(806)	(948)	(400)	RR19.11
Moody's adjusted net debt	10,176	11,276	12,650	13,701	14,021	Calc
UUW combined RCV closing balance – year end prices	15,961	17,621	19,845	21,756	22,435	Ratio tab Ofwat's financial model
Debt/RCV	63.75%	63.99%	63.74%	62.98%	62.50%	RR16.37

RR16.38 Moody's adjusted interest cover

16.1.9 Moody's adjusted interest cover is calculated as Moody's adjusted FFO, less Moody's adjusted capital charges, plus Moody's adjusted gross interest divided by Moody's adjusted gross interest.

16.1.10 Please refer to Table 9 below:

Table 9: Moody's adjusted interest cover

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Underlying net interest incl. indexation	380	447	535	590	647	RR18.6 plus RR18.7
Indexation	(123)	(140)	(159)	(155)	(163)	RR16.76
Interest receivable	16	24	32	34	26	RR18.6
Moody's adjusted gross interest	273	331	408	468	510	Calc
UUW RCV run off	665	705	755	812	875	RR16.60
Revenue reprofiling	0	0	0	0	0	RR16.67
Moody's adjusted capital charges	665	705	755	812	875	Calc
Operating profit	747	853	900	962	1,018	RR18.4
Other income	81	84	88	91	95	RR18.5
Depreciation/amortisation	447	483	532	583	633	Ofwat's financial model ¹

¹ Depreciation/amortisation includes amortisation of grants and contributions, so adding back depreciation/amortisation is effectively stripping this value out of the calculation.

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Other non-cash movements	(7)	(8)	(9)	(11)	(12)	RR18.3 & amortisation on adopted assets ²
Provisions movement	0.3	0.6	0.3	0.3	0.3	RR20.7
Underlying net interest paid	(257)	(307)	(377)	(435)	(484)	RR20.10
Current tax	0	(54)	(31)	(21)	(26)	RR18.12
Moody's adjusted FFO	1,011	1,050	1,102	1,171	1,225	Calc
Moody's adjusted interest cover	2.27	2.04	1.85	1.77	1.69	RR16.38

RR16.39 S&P FFO/net debt

16.1.11 Please refer to Table 10 below:

Table 10: S&P FFO/net debt

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Operating profit	747	853	900	962	1,018	RR18.4
Other income	81	84	88	91	95	RR18.5
Depreciation/amortisation	447	483	532	583	633	Ofwat's financial model ¹
Other non-cash movements	(7)	(8)	(9)	(11)	(12)	RR18.3 & amortisation on adopted assets ²
Underlying interest incl. indexation excl. interest received	(396)	(471)	(567)	(624)	(673)	RR18.7
Current tax	0	(54)	(31)	(21)	(26)	RR18.12
S&P adjusted FFO	872	886	912	982	1,036	Calc
S&P adjusted net debt	10,176	11,276	12,650	13,701	14,021	As per Moody's calc
S&P FFO/net debt	8.57%	7.86%	7.21%	7.17%	7.39%	Calc

RR16.40 Net debt/EBITDA

16.1.12 Please refer to Table 11 below:

Table 11: Net Debt/EBITDA

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
S&P adjusted net debt	10,176	11,276	12,650	13,701	14,021	As per Moody's calc
EBITDA	1,268	1,412	1,509	1,626	1,735	Operating profit plus other income plus depreciation/amortisation plus other non-cash movements in calc above
S&P net debt/EBITDA	8	8	8.4	8.4	8.1	Calc

² Amortisation of adopted assets is included within other income but should be stripped out of this calculation, so is deducted as a non-cash movement.

RR16.41 Fitch debt/RCV

16.1.13 Please refer to Table 12 below:

Table 12: Fitch debt/RCV

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Fitch adjusted net debt	10,176	11,276	12,650	13,701	14,021	As per Moody's calc
³ UUW combined RCV closing balance – year end prices	15,961	17,621	19,845	21,756	22,435	Ratio tab Ofwat's financial model ³
Debt/RCV	63.75%	63.99%	63.74%	62.98%	62.50%	Calc

RR16.42 Fitch post maintenance interest cover (PMICR)

16.1.14 Please refer to Table 13 below:

Table 13: Fitch post maintenance interest cover (PMICR)

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Operating profit	747	853	900	962	1,018	RR18.4
Other income	81	84	88	91	95	RR18.5
Depreciation/amortisation	447	483	532	583	633	Ofwat's financial model ¹
Other non-cash movements	(7)	(8)	(9)	(11)	(12)	RR18.3 & amortisation on adopted assets ²
UUW RCV run off	(665)	(705)	(755)	(812)	(875)	RR16.60
Current tax	0	(54)	(31)	(21)	(26)	RR18.12
Post maintenance cash flow	601	649	720	790	831	Calc
Underlying net interest paid	257	307	377	435	484	RR20.10
Fitch PMICR	2.34	2.11	1.91	1.82	1.72	Calc

RR16.43 Fitch nominal post maintenance interest cover (NPMICR)

16.1.15 Please refer to Table 14 below:

Table 14: Fitch nominal post maintenance interest cover (PMICR)

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Post maintenance cash flow	601	649	720	790	831	Calc from PMICR table above
RCV indexation year end prices	301	340	387	407	434	Ratio tab Ofwat's financial model

³ Note that Fitch's debt/RCV ratio uses shadow RCV, but for AMP8 there is no difference between closing RCV and shadow RCV.

Component (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	Line ref/source
Nominal post maintenance cash flow	901	989	1,106	1,197	1,265	Calc
Underlying net interest paid	257	307	377	435	484	RR20.10
Indexation	123	140	159	155	163	RR16.76
Total interest	380	447	535	590	647	Calc
Fitch NPMICR	2.37	2.21	2.07	2.03	1.95	Calc

RR16.56 Further adjustments to FFO

16.1.16 The main difference between actual company FFO and FFO as calculated in Ofwat's financial model is due to differences in revenues and other income. For the actual company, we derive FFO including the additional revenues recovered resulting from PR19 reconciliations (as reported in table RR6 Post financeability adjustments inputs), whereas the notional company is assessed pre revenue adjustments. This means that the actual company FFO is higher than the notional company. Additionally, we have included amortisation of deferred income related to adopted assets within other income which flows through to FFO, whereas amortisation of deferred income related to adopted assets are not included within Ofwat's financial model. Finally, in the actual company we have stripped out profit/loss on disposal of fixed assets from cash flows generated/used in operating activities since profit/loss is not a cash flow, where as Ofwat's financial model does not do this within the cash flow statement.

RR16.62 - 63 Adjustments to interest

16.1.17 RR16.62 has been populated as nil since the assumption of equity issuance in the actual company and its impact on debt balances is already incorporated in to RR24.46, which RR16.61 pulls from.

16.1.18 Further adjustments to interest are as a result of the following:

- RR24.46 includes indexation, where as in RR16 indexation is included separately in lines RR16.74 – 76; and
- RR24 has been populated excluding swaps, except for cross currency swaps, as per Ofwat guidance. This leads to higher interest being reported in RR24, and therefore in RR16.61, than that reported in RR18.7. RR18.7 reflects the interest costs of the actual company after the benefit of swaps, so in order for financial metrics to be calculated correctly we have adjusted for this in line RR16.63.

RR16.69 Further adjustments to net debt

16.1.19 Adjustments to net debt reflect the difference between actual company and notional company capital structure.

RR16.75 Adjustments to indexation of index linked loans

16.1.20 Adjustments to indexation between the notional and actual company are largely as a result of higher net debt reported in the actual company, as per line RR16.70.

RR16.77 Profit after tax

16.1.21 As per RR18.14

RR16.79 Capex

16.1.22 Net capex as reported in RR2, inflated in to nominal prices using inflation assumptions in PD1.

RR16.80 EBIT less tax charge

16.1.23 Calculated as the sum of RR18.4, RR18.5 and RR18.12.

17. RR17 Financial metrics by scenario

RR17.7 - 11 Company proposed financial metrics

Table 15: Company proposed financial metrics

Proposed metric	Comments
Moody's: Debt/RCV	Added as this is one of Moody's key credit metrics and is based on the year-end debt and RCV position, whereas the gearing position presented above on line 1 is based on year-average reported RCV balance. This ratio is calculated in line with the company specified ratio included as line RR16.37 in table RR16.
Moody's: Adjusted interest cover	Included as one of Moody's key credit rating metrics and specific calculation is not aligned to Ofwat's interest cover ratios on lines 2-4. This ratio is calculated in line with the company specified ratio included as line RR16.38 in table RR16.
S&P: FFO/Net debt	Included as one of Standard & Poor's key credit rating metrics and specific calculation is not aligned to Ofwat's FFO/Net Debt ratios on lines 5-6. This ratio is calculated in line with the company specified ratio included as line RR16.39 in table RR16.
S&P: Net Debt / EBITDA	Included as one of Standard & Poor's key credit rating metrics and not covered in above ratios presented in table. This ratio is calculated in line with the company specified ratio included as line RR16.40 in table RR16.
Fitch: Post maintenance interest cover (PMICR)	<p>Included as one of Fitch's key credit rating metrics and specific calculation is not aligned to Ofwat's interest cover ratios on lines 2-4. This ratio is calculated in line with the company specified ratio included as line RR16.42 in table RR16.</p> <p>Note that due to line constraints we have not been able to include the other 2 key Fitch ratios, Debt/RCV and nominal PMICR. We chose to exclude Fitch's Debt/RCV ratio on the basis this is broadly aligned to the Moody's Debt: RCV ratio (reported above), with the exception that shadow RCV is used in the Fitch version. We chose to exclude Fitch's nominal PMICR as (cash) PMICR is a more long-standing ratio and therefore arguably slightly more important than nominal PMICR.</p>

Scenario A: Totex underperformance

- 17.1.1 Totex underperformance (10% of totex) over 5 years.
- 17.1.2 We apply totex underperformance on 10% to each year, spread across capex and opex in line with the PAYG rates within the business plan. Underperformance is assumed to be shared 50:50 with customers and apportioned to AMP9 revenues and the 31 March 2030 midnight adjustment in line with the PAYG rates within the AMP8 plan.
- 17.1.3 We do not make any adjustments for tax within the reconciliation values in line with Ofwat's approach to reconciling cost for PR24. This means that any tax outperformance in AMP8 that results from the higher expenditure will be offset by tax underperformance in AMP8 when taxable profits are higher due to the reconciliation adjustments. This is in line with Ofwat's current approach to adjusting for tax when reconciling performance.

Scenario B: ODI underperformance

- 17.1.4 ODI underperformance payment (3% of RORE) in one year applied in year 2.
- 17.1.5 The closing notional regulated equity for 2026/27 is £7,930m (nominal), therefore applying this as a 3% RoRE ODI underperformance penalty payment equates to a net penalty of £238m that we apply to 2026/27 revenues.

17.1.6 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario C: -2% inflation

17.1.7 Inflation below the assumption for the base case in the business plan (2% below).

17.1.8 This scenario should be applied at 2% below in each year of the price review period. We assume inflation is applied broadly across the overall basket of measures and not weighted towards any specific elements, such as power or housing (which would result in very different modelled scenarios). Annual compounding until the end of AMP8 applied to revenue, opex (at 50% impact), capex and index-linked debt.

17.1.9 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario D: Deflation

17.1.10 Deflation of -1% for 2 years, followed by a return to the long term inflation target. The deflation should be in years 1 and 2 to allow time for the return to the long term inflation target.

17.1.11 As with scenario C above, assume inflation applied broadly across basket of measures & annual compounding until the end of AMP8. CPIH inflation set at -1% for 2025/26 and 2026/27.

17.1.12 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario E: 10% spike in inflation

17.1.13 High inflation; a 10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.

17.1.14 As with scenario C, above we assume inflation is applied broadly across basket of measures & annual compounding until the end of AMP8. CPIH inflation assumed to be 10%, 5%, 5% for 2025/26, 2026/27, 2027/28 respectively with RPI assumed to be 13%, 7%, 7% 2025/26, 2026/27, 2027/28 respectively.

17.1.15 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario F: Increased bad debt

17.1.16 Increase in the level of bad debt (20%) over current bad debt levels applied in years 2 and 3.

17.1.17 We assume a 20% increase in the absolute level of £m regulatory bad debt, as derived from 2022/23 regulatory revenue of £42.2m. This equates to £8.4m additional regulatory bad debt applied to both 2026/27 & 2027/28.

17.1.18 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario G: Debt refinance underperformance

17.1.19 Debt refinanced as it matures, with new debt financed at 2% above the forward projections of interest rates.

17.1.20 Our base plan requires c£6.3bn of new debt financing to deliver our requirements across AMP8, including £2.4bn of debt that matures. For this scenario the interest rates for all new debt issuances, both fixed and index-linked, are increased by 2% above the rates in the base case. Incrementally increasing interest charges (up to £123m by 2029/30) are offset by reduced current tax charges, with revenues remaining unchanged. As the assumption is that refinancing is above the market rates, we do not make any AMP9 revenue adjustment for the increase in the cost of new debt.

Scenario H: Financial penalty

17.1.21 Financial penalty – equivalent to 6% of one year of Appointee turnover applied in year 2.

17.1.22 Modelled based on c£2.5bn revenue in 2026/27. A 6% penalty, therefore, is equal to £152m revenue reduction in 2026/27. This assumes that reconciliation adjustments are evenly profiled within the allowed revenues and that no further revenue re-profiling is undertaken.

17.1.23 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario I: Combined scenario 1

17.1.24 This largest combined 'severe but reasonable scenario' should two of the largest impacting risks occur, which has a highly unlikely probability of occurrence, would be £882m. Largely comprises compensation so all applied to operating expenditure with no totex sharing since this would constitute an excluded item.

17.1.25 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Scenario J: Combined scenario 2

17.1.26 Estimated value of all the top 10 risks – taking the gross value of each top 10 risks £4,037m and multiplying it by the current likelihood to derive an estimate value of all the top 10 risks of £902m.

17.1.27 This is applied to totex as overspend, spread remaining 11-years of the viability statement period i.e. 2024/25 to 2034/35. AMP8 underperformance is assumed to be shared 50:50 with customers and apportioned to AMP9 revenues and the 31 March 2030 midnight adjustment in line with the PAYG rates within the AMP8 plan.

Scenario K: Combined scenario 3

17.1.28 Combined scenario assuming totex underperformance of 5%; an ODI penalty at 1.5% of RoRE; low inflation (1% below forecast); higher bad debt (10%), higher rate of new debt (+1%) and financial penalties (3%)

17.1.29 Taking a realistic combination of the Ofwat specific scenarios by assuming 50% of all Ofwat prescribed scenarios A, B, C, F, G & H. (50% application deemed more plausible when combining multiple downside scenarios). Scenario C (-1% below forecast across the AMP), as the most extreme is included of the three inflation scenarios with scenario D (deflation; lower total impact) and E (increases inflation) excluded

17.1.30 All of the above scenarios have also been included within our detailed financial resilience testing, expanded to cover 14 scenario and with an extended duration out to 2035. The results of our stress testing include impacts on key financial metrics (including credit rating metrics & financial covenants), our ability to service debt and potential mitigating actions available to management under each scenario modelled. The outputs from this testing are summarised in *Chapter 9 - Risk, return and responsible behaviour* - Section 9.7, with further detailed analysis provided within our supplementary document *UUW68 - Financial Resilience*.

17.1.31 Note that we have left cells blank where they are not applicable to *UUW* as it could be misleading to report zero headroom.

Reverse stress testing

Thresholds used

- We are aligning thresholds used to companies' licence requirements and so consider the lowest investment grade credit ratings (i.e. Baa3/BBB-) for each credit rating agency as being the minimum to be tolerated in any stress scenario.
- For the purposes of populating the headroom/stretch analysis within this table (e.g. lines RR17.12 & RR17.13) we prudently set this as the point at which any one metric meets its respective estimated credit rating threshold, although in reality rating agencies do tend to take a more balanced view of several key metrics. Since credit rating agencies tend to consider the underlying prospects of companies rather than one-off impacts, we have also assumed that concurrent periods of below

threshold metrics would result in a potential downgrade, rather than any one year being below threshold.

- The full thresholds used for each credit rating metric selected and how these have been derived aligns to our financial resilience testing as set out in detail in supplementary document *UUW68 - Financial Resilience* (appendix I)

Results

Table 16: Scenario Results

Scenario	Stress test comments
Scenario A: Totex underperformance (10% of totex) FY26-30	Increasing in 1% increments, totex underperformance of c18% (c£2.8bn) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30
Scenario B: An additional ODI penalty of 3% RORE FY27	Increasing in 1% increments, an ODI penalty of c63% (c£5.0bn) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30. Note that since the stress test is only applied to a single year, it takes a significant penalty to cause credit rating threshold to be breached for multiple years
Scenario C: CPIH inflation -2.0% vs baseline plan for FY26-30	Increasing in 0.1% increments, CPIH inflation of -6.6% vs baseline (or -4.6% average) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30
Scenario D: Deflation -1% FY26 & FY27	Increasing in 1% increments, CPIH deflation of -10% would result in S&P's Debt/EBITDA ratio exceeding estimated investment grade threshold of x12 in FY28 and FY29
Scenario E: High inflation FY26-28	Increasing in 1% increments, a spike in RPI inflation to 54% in FY26 & 27% in FY27 would result in S&P's FFO:Net ratio falling below estimated investment grade threshold of 4% in FY26 & FY27
Scenario F: Bad debt 20% increase FY27, FY28	Increasing in £10m increments, a £310m increase (or 1,078% increase in bad debt) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY27 & FY28
Scenario G: New debt financed at 2% above forward projections	Increasing in 0.1% increments, an increase of 3.7% in new debt cost (worth £227m by FY30) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30.
Scenario H: Financial penalty of 6% turnover in FY27	Increasing in £100m increments, a financial penalty of £5,000m (representing 208.5% of revenue) would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30. Note that, similar to stress test B above, since the stress test is only applied to a single year, it takes a significant penalty to cause credit rating threshold to be breached for multiple years
[✂]	[✂]
Scenario J: Estimated value of top 10 risks – spread FY25-FY35	Increasing in £100m increments, a total opex impact of £2,400m (or £225m average annual increase over AMP8, equating to c19% extra total opex), would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30.
Scenario 12: Combined scenario – 50% of scenarios A,B,C,F,G,H	Increasing in 5% increments, applying 60% of scenarios A, B, C, F, G, and H would result in Fitch's PMICR falling below estimated investment grade threshold of 1.3x in FY29 & FY30.

18. RR18 Income statement – actual structure

RR18.1 Revenue

- 18.1.1 Revenue reported in line RR18.1 is not consistent with total appointee revenue reported in line RR27.32 in AMP7. This is due to the exclusion of rechargeable works from third party revenues in table RR27 (and subsequently table PD5) in order to align to the Revenue Forecasting Incentive, where we have excluded revenues for rechargeable works in water network plus and wastewater network plus. However, in order to ensure financial ratios in table RR16 are reflective of total revenues in AMP7 we have included rechargeable works within the revenue figure reported in RR18. The differences in reported revenue due to rechargeable works is detailed in Table 17 below.

Table 17: Difference in reported revenue due to rechargeable works

Year	2022-23	2023-24	2024-25
Variance (nominal prices)	£1.65m	£1.66m	£1.71m

Source: RR18 and RR27 inflated to nominal prices

- 18.1.2 We have included the unitary charges associated with DPC schemes within the revenues reported in AMP8, with an equal and opposite offsetting CAP payment included within operating costs, therefore resulting in no impact to reported operating profit. This ensures we report actual revenues we're expecting to collect from customers, whilst having no impact on net debt or operating profit. We note that this is different to how these revenues and costs are reported in the Ofwat financial model and the suggested approach in the 2020-21 RAGs consultation.

RR18.5 Other income

- 18.1.3 Other income has been reported in line with RAG 4.11 and therefore includes: amortisation of grants and contributions, amortisation of capitalised income relating to adopted assets, diversions income and statutory other income. The increase in other income from 2022/23 to 2023/24 and 2024/25 to 2025/26 relates to diversions income. For more details on forecast diversions income please see table DS1e and the associated commentary.

RR18.7 Interest expense

- 18.1.4 Reported interest costs in 2022/23 reflect the high inflation environment at the time of reporting, but are expected to fall year-on-year over the remainder of AMP7 in line with falling inflation. We then expect interest costs to increase over AMP8 due to the additional debt required in order to finance our biggest ever totex programme.

RR18.13 Deferred tax

- 18.1.5 We have an increase in deferred tax in 2024/25, with a decrease in 2026/27 as a result of enhanced capital allowances. For more information on the impact of capital allowances please refer to RR5 Tax opening balances and its associated commentary.

RR18.15 Dividends

- 18.1.6 Dividends reported reflect base dividends only, calculated as 4% of the equity portion of the RCV in AMP7 and 3% of the equity portion of the RCV in AMP8. For more information on our AMP8 dividend policy please refer to supplementary document UUW70 - *Capital Structure and Dividend Policy*.

RR18.16 - 18 UK corporation tax

- 18.1.7 We have reported no adjustments to tax in respect of prior years as we do not expect to overpay/underpay the tax charge in any given year. Note that taxable losses carried forward are included within line 16, current year tax, since these are designed to reduce current year tax.

19. RR19 Statement of financial position – actual structure

RR19.14 Capex creditor

- 19.1.1 Consistent with 2022/23 APR, we have reported capex creditors as nil, and have included an assumption for our capital accruals liability within trade & other payables. The capital accrual represents work-in-progress not yet invoiced, so we believe this classification is better aligned to definitions in RAG 4.11.

RR19.17 Current tax liabilities

- 19.1.2 We assume to pay tax on the date it is incurred and therefore have forecast no current tax liabilities.

RR19.32 Called up share capital

- 19.1.3 We have reported assumed equity issuance for the actual company of £1,350m within called up share capital. Profiling of assumed equity issuance aligns to profiling of equity issuance costs reported in table RR2 Totex inputs to cross reference with CA.

20. RR20 Statement of cashflows – actual structure

RR20.2 Other income

- 20.1.1 In line with Ofwat query ID-547, we have amended the Ofwat pro forma and reverted RR20.2 from a cell linked to RR18.5, to an input cell. This is because RR18.5 includes amortisation of grants and contributions and amortisation of deferred income related to adopted assets. Amortisation is a non-cash item and should therefore be excluded from RR20.

RR20.10 Net interest paid

- 20.1.2 Net interest paid is calculated as interest expense excluding indexation plus interest received on cash balances (as reported in RR18.6). Interest paid in 2022/23 as per RR20.10 is significantly lower than the net interest expense reported in lines RR18.6 and RR18.7. This is due to indexation and capitalised interest being excluded from cash interest reported in RR20.10.

RR20.14 Grants and contributions

- 20.1.3 We have populated this line with capital grants and contributions received in the year. These are expected to increase significantly in 2025/26 due to the removal of income offset in AMP8. For more information on year on year variances please refer to table DS1e and the associated commentaries.

21. RR21 Net debt analysis (appointed activities)

21.1.1 Please refer to 2022/23 APR commentary of table 1E.

22. RR22 Analysis of debt

22.1.1 Please refer to 2022/23 APR commentary of table 4B.

23. RR23 Financial derivatives

23.1.1 Please refer to 2022/23 APR commentary of table 4I.

24. RR24 Debt balances and interest costs

- 24.1.1 The table guidance states: “Debt balances should not reflect notional swap values; only principal which must be repaid. Interest rates should reflect the contribution of swap leg cashflows, where applicable (and reflecting the post-swap GBP interest rate for currency swaps).”
- 24.1.2 As the guidance focuses on the inclusion of post-swap GBP interest rates for currency swaps only, we have interpreted this guidance to mean that we should exclude the interest rate impact of all other swaps. Therefore for this table we have excluded all GBP interest rate and inflation swaps. This results in c£155m higher AMP8 interest costs under RR24 as the beneficial position of many of our swaps have been removed.

RR24.1 - 14 Debt balances

- 24.1.3 The opening gross debt balance for each type of debt is based on our current best estimate for 1/4/2024 based on our projected expenditure and inflation in the remainder of this financial year. We have excluded all swaps except cross currency swaps and so this table will show differences to how we usually report debt, i.e. our synthetic CPI linked debt is shown as a fixed debt as the inflation swap has been excluded, whilst we don't usually operate with material floating debt balances, we show floating debt balances in the RR24 table as we include cross currency swaps that swap our currency debt to GBP floating, but we exclude the second layer of interest rate swaps that then convert the same debt into fixed rate.
- 24.1.4 For AMP8 and in line with Ofwat's assumptions in its notional company financeability testing, we assume that 33% of new debt requirements will be issued as CPIH-linked, with the remainder being fixed rate as UUW does not tend to operate with material floating debt balances. To avoid circularity issues in our modelling, this 33% has been applied prior to the calculation of interest on new debt, this means that by 2029/30 when interest on new debt becomes more material the actual effective percentage CPIH-linked debt issued is slightly below 33%. However, with our higher proportion of opening index-linked debt, the total amount of index-linked debt does not drop below 33% before the end of AMP8.
- 24.1.5 Repayment of debt has been included based on the contractual repayment dates excluding the impact of all swaps except for cross currency swaps.
- 24.1.6 Indexation on index linked loans has been calculated using CPIH and RPI inflation forecasts as stated in PD1 but at a granular level based on the indexation date for each debt instrument i.e. it does not simply assume financial year average inflation is paid, it uses the actual month's inflation for when the indexation is paid. Indexation has been calculated using the opening debt balance as opposed to year average balance to avoid circularity issues.

RR24.15 - 30 Interest rates and financing costs

- 24.1.7 The interest rates for embedded debt within RR24.15 - 22 represent the aggregate interest rate based on the debt balance during the financial year excluding the impact of all swaps with the exception of cross currency swaps. We have also included assumed AMP7 refinancing that will be classed as embedded debt as at 31 March 2025 at prevailing rates spotted on 2 June 2023 (5.58% for fixed rate debt, 5.99% for floating rate debt).
- 24.1.8 The interest rates for new debt within RR24.15 - 22 has been aligned to the cost of new debt included in the early view WACC as deflated/inflated by the WACC RPI and CPI assumptions of 2.9% and 2.0% respectively. We have not included AMP8 rates for new floating rate or RPI linked debt as we are not assuming that any debt of that form is raised in AMP8.
- 24.1.9 To calculate the weighted interest rates for the combined new and embedded debt (RR24.23 and RR24.24), we divide the total interest paid (excluding indexation) by the year average balance for each year for both fixed rate and index-linked debt.

- 24.1.10 The bank overdraft interest rate has been aligned to the cost of new fixed rate debt (RR24.28). We have assumed that the bank interest rate receivable (RR24.26) will be 1.5% lower than the bank overdraft rate, with this adjustment reflecting the 'credit spread' element of the bank overdraft rate, leaving the market rate element only for the bank interest rate receivable.
- 24.1.11 RR24.27 – The interest receivable reported in this line relates to bond discount premium interest, since guidance advises to use the coupon rates in the interest rate lines above. We have not included pension interest income on our pension asset within this line as this is not considered when calculating financial ratios.
- 24.1.12 The financing cost associated with working capital in Retail has been assumed to be equal to with the overall cost of debt included in our WACC in line with the interest rate reported in line RR7.56.
- 24.1.13 We have followed the guidance and left the forecast business retail working capital financing cost rate blank as we have exited the Business retail market.

RR24.33 - 46 Interest for financial metrics

- 24.1.14 We use RR24.45 'Other interest cost' to correct for how interest is calculated in the preceding lines for RR24.33 - 44 using the balances and interest rates from the previous sections. The interest rates used in RR24.15 - 22 are aligned to our actual interest on new and embedded debt but the calculations in lines RR24.33 - 44 apply our embedded debt rates to some new debt balances. This means that future interest calculated differs to that which we calculate in our model because of the different rates on embedded vs new debt. We therefore use this line to balance back to the correct total interest so that RR24.46 is correct, as this line is pulled in to ratio calculations in RR16.
- 24.1.15 If changes were made to correct the calculations in lines RR24.33 - 44 then the line RR24.45 'Other interest cost' would be a de minimus value. The changes needed are principally to schedule out embedded and new debt separately over AMP8 and then to use those balances to calculate interest.
- 24.1.16 We demonstrate this in Table 18 below:

Table 18: Embedded and new debt schedule

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
Embedded fixed rate debt - closing balance	4,444.3	4,443.2	4,442.0	4,140.7	4,039.3	3,737.7	
Embedded floating rate debt - closing balance	1,581.1	1,459.0	1,416.8	1,311.3	1,005.3	908.9	Prior year closing balance plus in year refinancing only
Embedded RPI debt - closing balance	3,484.6	3,309.0	3,333.3	3,359.4	3,339.5	3,365.9	
Embedded CPI debt - closing balance	499.2	509.5	520.5	532.0	542.9	415.5	
New fixed debt - closing balance	0.0	671.3	1,529.5	3,118.4	3,935.0	4,183.6	Prior year closing balance plus in year issuance only
New floating debt - closing balance	0.0	0.0	0.0	0.0	0.0	0.0	
New RPI debt - closing balance	0.0	0.0	0.0	0.0	0.0	0.0	
New CPI debt - closing balance	0.0	325.0	741.1	1,513.6	1,907.9	2,022.0	
Total debt - closing balance	10,009.1	10,717.1	11,983.2	13,975.5	14,769.8	14,633.5	

Source: RR24

- 24.1.17 Note that the calculation for 2024/25 closing debt will be different from the AMP8 calculations as debt issued in 2024/25 will be embedded debt and not new debt.
- 24.1.18 Once the embedded and new debt is scheduled out separately the relevant embedded and new debt interest rates can be applied to the year average balance for each category/year in the Table 19 below:

Table 19 Year average balance

	2025/26	2026/27	2027/28	2028/29	2029/30	
Embedded fixed rate interest	178.1	177.5	166.1	160.9	163.1	
Embedded floating rate interest	83.5	74.4	68.6	57.6	43.5	
Embedded RPI debt interest	48.8	49.5	50.6	51.7	52.8	
Embedded CPI debt interest	1.0	1.0	1.0	1.0	0.7	
New fixed rate interest	17.9	58.8	124.2	188.5	217.0	
New floating rate interest	0.0	0.0	0.0	0.0	0.0	Year Average balance * relevant rate
New RPI debt interest	0.0	0.0	0.0	0.0	0.0	
New CPI debt interest	5.3	17.5	37.0	56.1	64.5	
Total interest before indexation	334.6	378.7	447.5	515.8	541.5	
Total interest including indexation	444.4	504.1	587.1	659.7	687.8	
Difference to reported total interest	0.274	0.329	0.450	0.408	0.290	

Source: RR24

- 24.1.19 As can be seen using the above calculations the difference to reported total interest is very small, and were similar calculations used in lines RR24.33 – 44 then our balances reported in RR24.45 would have been very small.

25. RR25 Weighted average cost of capital for the Appointee

- 25.1.1 The AMP8 WACC is based on Ofwat's 'early view' guidance included in the PR24 final methodology. As the sub-elements of the 'early view' WACC are only provided to a limited number of decimal places, in order to avoid rounding issues on the more summary elements of the cost of capital (e.g. overall cost of debt, overall cost of equity and overall WACC) certain sub-elements have been input in the data tables with an estimate of additional decimal places. Where responses to queries have been given stating higher decimal places, we have adjusted accordingly.

26. RR26 Weighted average cost of capital by wholesale price control

- 26.1.1 The AMP8 WACC is based on Ofwat's 'early view' guidance included in the PR24 final methodology. As the sub-elements of the 'early view' WACC were only provided to a limited number of decimal places, in order to avoid rounding issues on the more summary elements of the cost of capital (e.g. overall cost of debt, overall cost of equity and overall WACC) certain sub-elements have been input in the data tables with an estimate of the additional decimal places. Where responses to queries have been given stating higher decimal places, we have adjusted accordingly.
- 26.1.2 We note that the column heading of the table states 'Assumed notional structure (nominal)', however line guidance indicates that all elements of the WACC should be input in real prices which we have followed.
- 26.1.3 For the AMP8 Wholesale WACC, we have kept all of the WACC sub-elements aligned to the AMP8 appointed WACC, with the exception of the raw equity beta (and therefore also the unlevered beta – as per Ofwat query ID-469), which we have amended such that the overall AMP8 wholesale WACC agrees with Ofwat's 'early view' Wholesale WACC for AMP8.

27. RR27 Revenue analysis

- 27.1.1 2022/23 data is consistent with table 2I in the APR with the exception of third party revenues in water network plus and wastewater network plus. This is because revenue reported in RR27 (and subsequently in table PD5) has been aligned to the Revenue Forecasting Incentive, where we have excluded revenues for rechargeable works from water network plus (£1.224m) and wastewater network plus (£0.426m). In line with Regulatory Accounting Guidelines we have reported rechargeable works income as price control revenue in the APR, but as this income was not included in the revenue control set at PR19 we have excluded it from the RFI mechanism for the purpose of setting charges and have aligned PD5 and RR27 to this approach. We have treated rechargeable works in a consistent way for the remainder of AMP7 but for AMP8 have included rechargeable works in the third party revenue lines of RR27, as per the RAGs.

28. RR27a Revenue analysis

- 28.1.1 The percentages reported in RR27a are based on the values reported in RR27. For example in RR27, 100% of third party revenue is non-household.
- 28.1.2 We have left lines RR27a.3 and RR27a.4 blank since we do not have additional controls and believe it could be misleading to report a percentage assumption within these lines.

29. RR28 Historic cost analysis of tangible fixed assets

- 29.1.1 Ofwat confirmed in query ID-426 that it is correct to include both tangible and intangible assets within the fixed assets NBV and the depreciation charge year on year within table RR7 Residential Retail. Similarly, table RR29 Asset lives, is populated on the basis of all fixed assets. In order to ensure consistency and comparability between data tables, and in line with Ofwat's response to query no.341 on App16 at PR19, we have reported both tangible and intangible assets within this table. In line with guidance, RR28 is in 2022/23 FYA prices and as such, opening and closing balances are not equal due to different inflation factors being used year on year. In nominal prices, opening and closing balances reported in RR28 are equal and line RR28.12 is equal to the sum of RR19.1 and RR19.2.

30. RR29 Asset lives

- 30.1.1 We have populated the average asset lives in a way that enables the Ofwat Financial Model to generate the expected level of net historic cost depreciation for each price control given how they are utilised in the model.
- 30.1.2 The model does not use inputs for amortisation of capitalised grants and contributions to calculate the primary statements, instead only using them to calculate taxable profit. As such, the model would understate profit before tax since amortisation is not being reported within operating costs nor within other income. Additionally, the model does not allow for adjustment to depreciation for disposal of fixed assets or assets that are fully depreciated. Instead, depreciation is calculated on the opening balance plus additions in the AMP. In reality, depreciation costs on the opening balance would reduce as the assets are fully depreciated during the AMP.
- 30.1.3 Therefore, we have calculated the average asset lives reported in RR29 and RR9 to reflect the expected historic cost depreciation plus expected historic cost amortisation on grants and contributions. This ensures that depreciation is not overstated within the calculation of the income statement and appropriately accounts for amortisation and changes in the amount of depreciation resulting from fixed asset disposals. We have left RR29.5 - 6 and RR29.8 blank since *UUW* does not have any additional controls nor a business retail function.
- 30.1.4 The increasing trend in average asset lives for all price controls reflects how the resulting values are used in the financial model when it includes accumulated depreciation within the 'At cost wholesale fixed assets initial balance' (RR9.268 set to 1) and adds new additions in at cost. The amount against which the average asset life (the depreciation rate in the model) is applied is increasing at a faster rate than the depreciation, therefore in order to maintain a constant straight-line depreciation, the average asset life increases (the depreciation rate decreases). This change is also influenced by the asset lives of the new additions in relation to the base, where increasing proportions of longer lived assets will increase the average asset life by more compared to where the new additions are similar or shorter lived. This is most obvious when comparing the change in the asset lives between Water Network+ and Wastewater Network+, where the additions of significant amounts of infrastructure in Wastewater Network+, driven by the CSO programme, cause the average asset life to increase by relatively more than we see for Water, which has a greater proportion of shorter lived additions e.g. metering.

31. RR30 RoRE analysis

- 31.1.1 We have set our view of the RoRE range as -6.28% to 4.43%. We believe that this represents a reasonable balance of risk and return across our plan, and is also broadly consistent (on a component basis) with Ofwat's guideline RoRE ranges that it expects to apply to each source of RoRE variation.
- 31.1.2 We note that our RoRE range excludes the impact of Price Control Deliverables (PCDs), which would apply a further downside skew, given that Ofwat currently propose to apply these asymmetrically. We have discussed the impact of this methodology further in *Chapter 9 - Risk, return and responsible behaviour* - section 9.3.2 managing the downside risks.
- 31.1.3 We have reported the company's P90 scenarios (upside risks as per Appendix 10 of Ofwat's final methodology) within the high case blocks. These blocks are considered to be outperformance against base, and hence have been reported as positive values as per table guidance.
- 31.1.4 Subsequently, we have reported the company's P10 scenarios (downside risks as per Appendix 10 of Ofwat's final methodology) within the low case blocks. These blocks are considered to be underperformance against base, and hence have been reported as negative values as per table guidance.
- 31.1.5 We have adjusted each input for the headline rate of corporation tax in line with our interpretation of line guidance. The adjustment made reflects that tax adjustments made in table App26 at PR19, where all inputs were divided by $(1 - \text{corporation tax \%})$. An example of the impact of this adjustment can be seen in Table 20 where the tax adjustment increases the breadth of the range.
- 31.1.6 All out/underperformance has been presented in 2022/23 prices, so we have also presented average regulatory capital value in 2022/23 prices to ensure risk ranges are not impacted by inflationary differences.
- 31.1.7 Mitigating actions to the downside risks reported in table RR30 are described in *Chapter 9 - Risk, return and responsible behaviour* - section 9.3.2 managing the downside risks.

RR30.1 - 6, RR30.22 - 27, RR30.46 & RR30.52 Totex out/underperformance

- 31.1.8 We believe totex is an inherently asymmetric risk. It is much more likely that we will encounter unforeseen additional costs over AMP8, than opportunities to deliver additional efficiencies above and beyond those in our plan. The plan we need to deliver is significant in size and requires new capabilities. We are attempting to our largest ever programme, at a faster pace, and at efficient cost. There is inevitably a risk that in order to deliver such a programme, costs may be higher than forecast in order to deliver projects on time and to the standard customers expect. With other water companies facing the same environmental and social pressure to deliver significant investment over AMP8, we're expecting one of our key pinch points to be around availability of equipment and materials. We have already begun engaging with suppliers on some materials, but it is clear that scarcity of materials and key equipment will be one of our main challenges. *UUW47 - Deliverability* details the risks we're facing in delivering our plan, and the actions we've taken to mitigate against those risks. Scarcity of materials as well as deliverability of the solutions we have proposed both have an asymmetrically skewed downside risk, with cost increases being more likely than additional efficiencies.
- 31.1.9 We are facing a more volatile outlook over the next 10 years than previous price reviews, placing further pressure on the ambitious cost efficiencies we have assumed. There is a risk to totex out/underperformance that we experience input price increases over and above CPIH inflation, as we have in AMP7. This has been outlined in more detail in *Chapter 8 - Delivering at efficient cost* - in section 8.5.1 Exiting AMP7 at a highly efficient baseline. We have an active risk management strategy in order to mitigate exposure to extreme changes in commodity prices, particularly for energy. However we still experience unavoidable increases in prices when markets are volatile, so cannot mitigate against this risk entirely. We have considered the impact of inflation within calculations for financing out/underperformance, so have not included a specific allocation within the totex risk range but have

considered the risk on our costs more generally to further demonstrate the asymmetric skew of the totex risk range.

31.1.10 Retail costs out/underperformance have been reported in line with the RoRE risk ranges in Appendix 10 of Ofwat's methodology.

RR30.7 - RR30.11, RR30.15 - 18, RR30.28 - 32, RR30.36 - 39, RR30.47, RR30.49, RR30.53 & RR30.55 ODI out/underperformance

31.1.11 As set out in *Chapter 5 - Delivering Great Service*, we have utilised Ofwat's indicative ODI rates published by Ofwat which are calibrated against our 2022/23 RCV. We have used these ODI rates to calculate the RoRE ranges presented in RR30, however the returns are calculated against our (higher) AMP8 RCV. We therefore expect that Ofwat will increase its ODI rates to reflect increases in RCVs over AMP8. ODI P10 and P90 positions have been adjusted for the headline rate of corporation tax. The Table 20 below shows the impact of the use of indicative ODI ranges, as well as the impact of the tax adjustment.

Table 20: ODI risk ranges

	Base ODIs pre-tax adjustment	Base ODIs post-tax adjustment [as per RR30]	ODIs uplifted to reflect AMP8 RCV pre-tax adjustment	ODIs uplifted to reflect AMP8 RCV post-tax adjustment
ODIs	-1.45% to 1.52%	-1.94% to 2.02%	-1.80% to 1.83%	-2.39% to 2.44%
Mex's	-0.26% to 0.22%	-0.35% to 0.29%	-0.26% to 0.22%	-0.35% to 0.29%
Total	-1.72% to 1.74%	-2.29% to 2.31%	-2.06% to 2.05%	-2.74% to 2.73%

Source: RR30 and UU internal calculations

RR30.12 - RR30.14, RR30.33 - 35, RR30.48 & RR30.54 Financing out/underperformance

31.1.12 Financing performance has been split between the impact of issuing new debt and the inflation impact on debt as per Ofwat's guidelines.

31.1.13 For the financing performance of issuing new debt, we have calculated this in two stages:

- Potential out-or underperformance on the incurred cost of new debt compared to the allowed cost of new debt; and
- Potential underperformance from having a higher proportion of new debt than the expected proportion of new debt as used in the WACC for allowed costs.

31.1.14 For 1. we have evaluated the performance of non-index linked GBP public benchmark bond issues from the sector over the 12 months to 30 June 2023 (as per Table 21) versus the iBoxx non-financial 10yr+ A/BBB indices less 15 basis points (the "iBoxx rate"), which is the rate currently used for the debt indexation mechanism and the proposed rate for PR24 new debt. We have calculated the re-offer (without fees) yield and annualised this rate where relevant on each debt instrument and compared that to the iBoxx rate on the pricing date. This indicates that the range of 'day 1' performance experienced by the sector over the past 12 months was a range of 21 basis points outperformance to 56 basis points underperformance with a weighted average underperformance of 17 basis points.

31.1.15 We have used the maximum 21 basis point outperformance for our high case and the minimum 56 basis points underperformance for our low case unadjusted. This range only reflects the 'day 1' performance risk on new debt, but as the actual allowed cost of new debt is linked to the average iBoxx rate over the entire 12 months of the financial year there will also be timing differences on top of this 'day 1' performance. To ensure we do not present an extreme risk for financing performance and to acknowledge mitigants, we assume that instead of timing differences necessarily expanding the range of financing performance outcomes, that as the timing performance is most likely independent of the 'day 1' performance that timing risk would both expand and contract the risk range with the average result

being a limited impact. Therefore we have not explicitly included the risk of timing differences here to include mitigations in this risk.

31.1.16 These rates have then been applied to the notional company amount of new debt. We have used the notional company amount of new debt as we are dealing with the higher proportion of new debt for the actual company in point 2 and want to avoid double counting.

Table 21: Non-index linked GBP public band issue across the sector

Company	CCY	Notional GBP	Pricing date	Issue date	Maturity date	Duration	Coupon	Form	Ann/Semi
SVT	GBP	400,000,000	23/11/2022	30/11/2022	30/11/2034	12.0	4.625%	Nominal	s
YKS	GBP	275,000,000	27/06/2023	04/07/2023	18/04/2041	17.8	2.750%	Nominal	a
YKS	GBP	25,000,000	27/06/2023	04/07/2023	28/04/2035	11.8	5.500%	Nominal	a
YKS	GBP	250,000,000	21/02/2023	28/02/2023	28/04/2035	12.2	5.500%	Nominal	a
YKS	GBP	250,000,000	21/02/2023	28/02/2023	28/04/2030	7.2	5.250%	Nominal	a
ANG	GBP	560,000,000	13/06/2023	20/06/2023	20/06/2039	16.0	6.000%	Nominal	a
ANG	GBP	300,000,000	13/06/2023	20/06/2023	20/06/2031	8.0	5.875%	Nominal	a
NWG	GBP	350,000,000	03/02/2023	14/02/2023	14/02/2031	8.0	4.500%	Nominal	a
NWG	GBP	400,000,000	21/10/2022	28/10/2022	28/10/2034	12.0	6.375%	Nominal	a
WSX	GBP	300,000,000	24/03/2023	31/03/2023	31/10/2032	9.6	5.125%	Nominal	a
SVT	GBP	400,000,000	28/03/2023	04/04/2023	04/04/2036	13.0	5.250%	Nominal	s
SVT	GBP	50,000,000	07/09/2022	16/09/2023	16/09/2037	15.0	4.995%	Nominal	s
UU	GBP	350,000,000	19/06/2023	26/06/2023	26/06/2036	13.0	5.750%	Nominal	a
UU	GBP	75,000,000	24/01/2023	31/01/2023	10/02/2038	15.0	1.750%	Nominal	a
UU	GBP	300,000,000	30/03/2023	06/04/2023	06/10/2038	15.5	5.125%	Nominal	a
Ave	GBP								

Company	Reoffer price	Calc reoffer yield(s or a)	Calc reoffer yield *a)	iBoxx A	iBoxx BBB	iBoxx yield (ecl. 15bps reduction)	iBoxx yield (inc. 15bps reduction)	Performance vs iBoxx	Performance vs iBoxx less 15bps
SVT	98.930	4.743%	4.799%	4.43	5.22	4.83	4.68	0.03%	-0.12%
YKS	64.427	6.075%	6.075%	5.51	6.26	5.89	5.74	-0.19%	-0.34%
YKS	94.162	6.203%	6.203%	5.51	6.26	5.89	5.74	-0.32%	-0.47%
YKS	99.478	5.557%	5.557%	5.00	5.73	5.37	5.22	-0.19%	-0.34%
YKS	99.359	5.356%	5.356%	5.00	5.73	5.37	5.22	0.01%	-0.14%
ANG	99.178	6.082%	6.082%	5.61	6.35	5.98	5.83	-0.10%	-0.25%
ANG	99.725	5.919%	5.919%	5.61	6.35	5.95	5.83	0.06%	-0.09%
NWG	99.566	4.566%	4.566%	4.48	5.20	4.84	4.69	0.27%	0.12%
NWG	98.295	6.585%	6.585%	5.74	6.62	6.18	6.03	-0.41%	-0.56%
WSX	99.310	5.222%	5.222%	4.81	5.58	5.19	5.04	-0.03%	-0.18%
SVT	99.044	5.325%	5.425%	4.96	5.73	5.35	5.20	-0.08%	-0.23%
SVT	100.00	4.995%	5.057%	4.79	5.62	5.21	5.06	0.15%	0.00%
UU	99.527	5.803%	5.803%	5.60	6.34	5.97	5.82	0.17%	0.02%
UU	69.520	4.641%	4.641%	4.65	5.36	5.01	4.86	0.36%	0.21%
UU	99.462	5.179%	5.179%	4.96	5.74	5.35	5.20	0.17%	0.02%
Average								-0.01%	-0.16%
Weighted average								-0.02%	-0.17%
Median								0.01%	-0.14%
Max								0.36%	0.21%
Min								-0.41%	-0.56%

Source: Bloomberg market data

31.1.17 For 2. We have calculated the higher amount of new debt that the actual company is expected to hold compared to the notional company. As new debt is expected to incur much higher costs of debt than

embedded debt we have calculated an underperformance scenario only as we do not see a likely scenario where the cost of new debt is lower than the cost of embedded debt nor a scenario where UUW would have less new debt than the early view WACC assumption. To calculate the impact of this scenario we have applied a 0.94% underperformance scenario, which is calculated as the difference between the cost of embedded and new debt in the early view WACC, i.e. 3.28%-2.34%.

- 31.1.18 We note that there is a cross correlation of this risk with totex performance, as if a lower amount of totex is spent then there will be a lower proportion of new debt offsetting an element of the financing performance risk.
- 31.1.19 For the financing performance linked to inflation, this has been calculated by applying an inflation scenario to actual company non-index linked debt only (new and embedded). We have assessed our P10 P90 inflation scenario by reference to the range of inflation forecasts that make up the HMT inflation forecasts in their publication 'Forecasts for the UK economy' dated May 2023. The first part of Table 22 shows the CPI forecasts for the calendar years 2023 to 2027. Looking at 2026 and 2027 years in particular as those years correlate most with the AMP8 date range, the range of forecasts compared to the 'new forecasts' average is +1.2/-2.1 for 2026 and +0.8/-0.4 for 2027 – this averages to +1.0/-1.25 over both years. We have therefore applied a 1% scenario for financing outperformance due to inflation and a 1.25% scenario for financing underperformance due to inflation.
- 31.1.20 In terms of risk mitigation for this scenario, UUW's actual company higher proportion of index linked debt compared with the notional company forms a large offset to the potential magnitude of this element of financing performance. We also view this scenario as being independent from the financing performance due to issuing new debt and so have not adjusted the relevant ranges for any cross correlation.

Table 22: HMT RPI and CPI inflation forecasts

City forecasters	Month	CPI inflation (annual average, per cent)				
		2023	2024	2025	2026	2027
Bloomberg Economics	Feb	-	-	-	-	-
Capital Economics	May	6.8	1.8	1.1	2.0	2.0
Goldman Sachs	Feb	6.9	2.0	1.1	0.0	2.0
Natwest Markets	May	6.7	2.8	1.9	-	-
Deutsche Bank	Feb	6.8	2.4	2.0	1.9	2.0
Societe Generale	Aug	6.0	1.9	2.1	2.0	-
UBS	May	6.5	2.3	2.0	-	-
Non-City forecasters						
Beacon Economic Forecasting	May	7.5	4.6	3.8	3.3	3
CEBR	May	7.1	3.3	2.6	2.3	2.1
Experion Economics	May	7.0	2.4	1.6	1.7	2.0
ITEM Club	May	6.2	2.5	1.8	2.0	-
Kern Consulting	May '22	-	-	-	-	-
Liverpool Macro Research	May	6.4	3.2	2.0	2.0	2.0
NIESR	May	7.4	3.9	1.9	2.5	-
Oxford Economics	May	6.5	2.4	0.9	0.9	1.8
IMF	Apr	6.8	3.0	1.8	2.0	2.0
Independent Average		6.8	2.8	2.0	1.9	2.1
New Forecasts		6.8	2.9	2.0	2.1	2.2
Highest		7.5	4.6	3.8	3.3	3.0
Lowest		6.2	1.8	0.9	0.0	1.8

City forecasters	Month	CPI inflation (annual average, per cent)				
		2023	2024	2025	2026	2027
OBR	Mar	6.1	0.9	0.1	0.5	1.6

City forecasters	Month	RPI inflation (annual average per cent)				
		2023	2024	2025	2026	2027
Bloomberg Economics	Feb	-	-	-	-	-
Capital Economics	May	9.4	1.7	0.4	-	-
Goldman Sachs	Feb	-	-	-	-	-
Natwest Markets	May	9.6	5.0	3.3	-	-
Deutsche Bank	Feb	9.0	3.5	3.4	3.3	3.2
Societe Generale	Aug	8.5	-	-	-	-
UBS	May	9.2	3.6	3.4	-	-

Non-City forecasters						
Beacon Economic Forecasting	May	9.3	4.9	4.0	4.1	4.3
CEBR	May	4.4	3.9	4.2	4.0	4.4
Experion Economics	May	8.8	3.3	2.8	2.9	2.9
ITEM Club	May	9.0	2.1	1.2	2.2	-
Kern Consulting	May '22	-	-	-	-	-
Liverpool Macro Research	May	9.3	4.6	2.8	3.1	-
NIESR	May	13.1	6.3	2.8	3.1	-
Oxford Economics	May	9.2	3.6	1.6	1.8	3.0
IMF	Apr	-	-	-	-	-
Independent Average		9.1	3.9	2.7	2.1	3.4
New Forecasts		9.1	3.9	2.6	3.0	3.4
Highest		13.1	6.3	4.2	4.1	4.4
Lowest		4.4	1.7	0.4	1.8	2.5
OBR	Mar	8.9	1.6	1.0	1.7	2.8

Source: HMT quarterly forecasts

RR30.19 - 21 & RR30.40 - 42, RR30.50 & RR30.56 Revenue out/underperformance

31.1.21 We have reported revenue scenarios in line with the RoRE risk ranges in Appendix 10 of Ofwat's methodology.

RR30.58 - 61 Uncertainty mechanisms

31.1.22 As described in supplementary document *UUW58 – Bioresources Business Plan*, we have proposed a notified item to deal with the uncertainty surrounding land bank. If the notified item were to be triggered we would expect there to be an in period interim determination, whereby the associated costs would be incorporated in to base revenues. Therefore, we have populated RR30.58 and RR30.59 as nil, since we would expect the notified item to be incorporated in to base revenues and to subsequently share the risk profile outlined there.

Appendix A Compliance with reporting requirements

A.1 General

A.1.1 *UUW* has endeavoured to fully comply with all of the reporting requirements. In a small number of instances where this is not the case, we have fully explained this within the table commentaries with appropriate justification.

A.2 Ofwat query response ID-533

A.2.1 *UUW*, in response to query ID-533, has not trimmed our data to match Ofwat's defined number of decimal place requirements. For display purposes data will, however, always conform to the formatting rules as set within the Ofwat PR24 tables. We believe this to be fully aligned to the table requirements.

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