

Summary PR24 data tables commentary October 2023



Summary PR24 Data Table Commentary

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Overview

Anglian Water has a long track record of delivering for the long term. It's what's made us the resilient business we are today, in the face of global economic challenges and unprecedented climate change.

Driven by our purpose, we've harnessed our approach to long-term thinking and adaptive planning, achieving a balance between investing now and investing later, ensuring multi-generational fairness for customers, present and future. We've worked with Defra, Ofwat, EA, DWI and others to phase investment ahead of 2025 and beyond 2030¹. This assists with our Board to assure the deliverability, affordability and financeability of our plan. It also reduces any regret and allows time for new options to emerge, potentially reducing cost and increasing value. We'll do this while meeting our regulatory obligations and exceeding government targets wherever possible.

Our plan contains enormous levels of environmental investment, much of which we'll deliver in partnership with others, along with industry leading levels of customer support. A key feature of our plan is our commitment to support all customers at risk of water poverty by 2030.

Assessing deliverability² has been a vital aspect in building and assuring our plan. We've developed risk mitigation strategies which are already in place, including; early start (Transition) and late finish (AMP9 phasing), early market engagement, exploring alternative commercial models such as SIPR & DPC³, and planning our future workforce.

To manage risk across the larger programme, we propose uncertainty mechanisms⁴ for items not yet defined to be part of our plan and have placed the two reservoir schemes in a separate price control with bespoke cost sharing rates to manage the associated uncertainty.

We've proposed ambitious environmental performance targets, including eliminating serious pollution incidents and reducing the total number of pollution incidents by 42%. Delivering on Get River Positive, we aim to reduce discharges from storm overflows by 17% in the next five years, in line with the Storm Overflows Discharge Reduction Plan.

Delivering excellent service to our customers remains at the heart of our plan. This is reflected in our stretching targets for Water Supply Interruptions (49% reduction), and Internal Sewer Flooding (21% reduction). Informed by our long-term

Asset Systems Resilience Appraisal, we are driving investment in our most climate vulnerable water mains in AMP8, as part of a proposed multi-AMP programme to climate risks.

During AMP8 our average household bill will rise by 15.5%, an increase of 21p per day during AMP8. Ensuring that our proposed investment programme is affordable for customers and running our business efficiently go hand in hand. The efficiency challenge we have set ourselves removed £990 million from our plan, keeping bills 2.7% lower than they would have been.

In determining the Botex, we have used Ofwat's preferred models to benchmark our base costs. We've also included a limited number of cost adjustment claims, including one for energy, the biggest single cost increase not reflected in the models. This particularly affects us given the low-lying nature of our region.

We have assumed ambitious frontier shift improvement of 0.8% per year in AMP8. This is at the top of the plausible range of productivity improvements and has been applied to both our base and enhancement costs. In another example, we recognised the bottom-up costs for our first-time rural sewerage programme were high in comparison to the PR19 benchmark. Consequently, we've reduced the cost by almost 50% to align with external benchmarks.

Ours is a comprehensive and ambitious plan that will lay the groundwork to create a legacy for future generations. It is also on the cusp of financeability. Notwithstanding our shareholders long-term commitment, we retain significant concerns that Ofwat's early view of WACC is unlikely to be sufficient to attract the necessary equity, without which the notional company would not be financeable and is not financially resilient to shocks.

To set PR24 up for success we ask that Ofwat redresses the balance of risk and return, which currently presents a risk to the appetite of high quality and long-term shareholders. We also ask that Ofwat addresses the problems with the current proposed WACC rate, which poses a similar risk. This is vital for the long-term financial viability of the sector as a whole. Once these long-term investors are gone, we cannot bring them back. We look forward to working with Ofwat on the evidence we've provided on this, ahead of the final determination.

¹ see Chapter 5 (Aligning our Strategic frameworks) in Our Plan

² see Annex ANH31

³ see Chapter 9 (Deliverability, DPC and SIPR) in Our Plan

⁴ see Chapter 10 (Dealing with uncertainty) in Our Plan

In working together to address the challenges we face, we must be careful not to unwittingly stymie our ability to create a future-focused, efficient and environmentally sound industry; one which inspires confidence for customers, stays ahead of climate change and population growth, and ensures flowing taps and flourishing environments for generations to come.

SUM1 Performance Commitments

Our plan responds to customer priorities. Customers repeatedly tell us that they want us to prioritise safe, clean water, secure resources for the future in the face of climate change, take care of the environment and support the most vulnerable in society. We have set stretching but achievable targets, informed by our purpose, our 25-year SDS and customer and stakeholder priorities, including a commitment to support all customers at risk of water poverty through unprecedented levels of help.

Improving environmental performance is a top priority. Our performance commitments support us to go further and consider the Environment Act and UK Net Zero targets. By 2030, we will eliminate serious pollution incidents and reduce the total number of incidents by 42%. We have also proposed an ambitious 17% reduction in storm overflow spills. On river water quality, our ambitions are supported by our customers, however, they don't believe they should be achieved at any cost. Customers want us to ensure a sensible balance between ambition and affordability. That's why we have stretching efficiency aims, removing £990 million from our plan, keeping bills lower.

Excellent service is an expectation, reflected in the 49% reduction in the time our customers experience a water supply interruption by the end of AMP8, and 21% reduction in the number of internal sewer flooding incidents.

We continue to set stretching targets for water demand, including maintaining our sector-leading performance on leakage.

Our plan has been built having gathered a detailed picture of the specific challenges facing the region we serve; rapid growth, climate change, lowest rainfall averages, shrinking and swelling of soils. Operational resilience to these pressures is crucial to deliver on our commitments whilst supporting economic and population growth.

SUM2 Key Business Plan Metrics

Eastern England saw the highest population growth in England between 2011 and 2021, with an additional 488,000 people living in the region (2021 Census). We are home to 15% of England's population. By 2050, around 1 million more people will live here.

Our region will be an important player in future energy strategies, with Norfolk and Suffolk alone having the potential to supply half of the country's 40-gigawatt power target from offshore wind by 2040. There is also an opportunity to maximise hydrogen production from the water process, particularly at Bacton in Norfolk and the Humber Bank.

We are supporting sustainable growth through our Water Resources Management Plan. Distribution Input will decrease steadily, through significant reductions in leakage and per capita consumption, supported by our smart meter rollout and behaviour change programme. To support higher levels of non-domestic use, we will offset increases with demand management.

As our region continues to grow, we must invest in infrastructure and improve interconnectivity/water sources to minimise abstraction. Our growing population will also increase the pressure on our wastewater collections and treatment systems. As new houses and developments take shape, we will see an increase of almost 500km of public sewer network and our waste water flows will increase by 2.8% on forecasted end of AMP7 volumes.

We are building on our largest-ever WINEP (Water Industry National Environment Programme) which will significantly increase nutrient removal from our wastewater discharges, through our Advanced WINEP proposals, to realise even greater environmental outcomes at less cost to customers.

We are striving to be a net zero carbon business by the end of AMP8, through reducing the energy consumption associated with our operations, which has an additional benefit of lower costs and minimising our environmental impact.

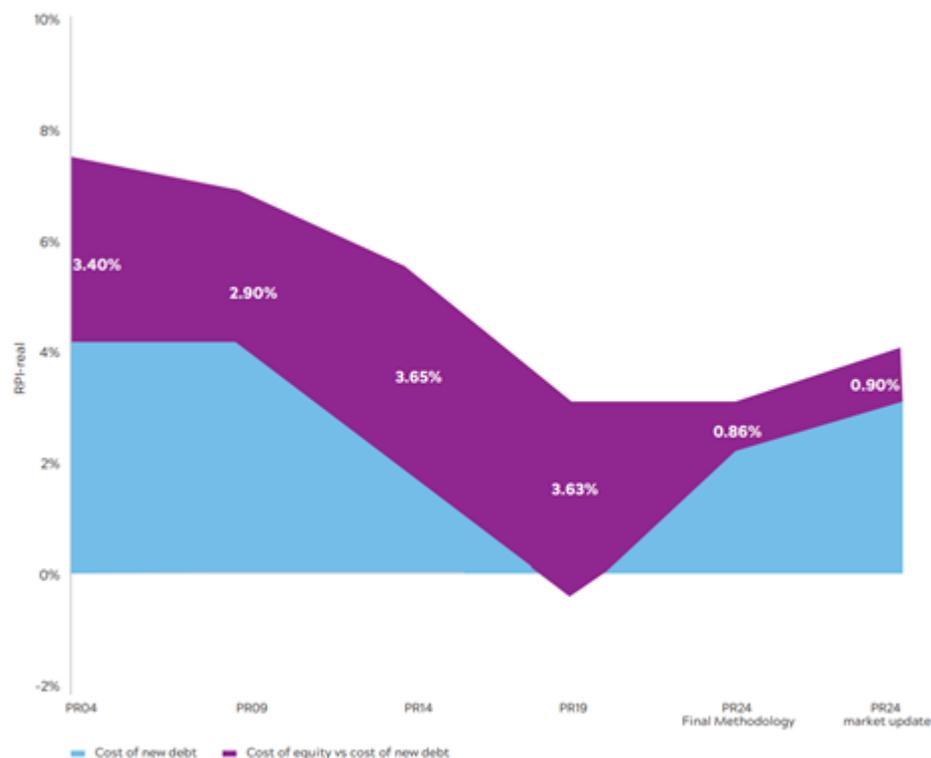
SUM3 Cashflows and WACC

Our plan is only financeable on the basis that new equity is raised on the notional capital structure, assuming that the notional company would restrict dividends to 2% of equity RCV during AMP8, and that it would be able to attract sufficient equity investment at the cost set out in Ofwat’s ‘early view’ on the allowed return on capital.

We retain significant concerns that Ofwat’s “early view” on the cost of capital is unlikely to attract equity funding (even if updated to reflect recent market movements), in which case our plan on the notional basis is not financeable.

The spread between the cost of equity and cost of debt, which creates an incentive for an investor to provide equity capital at greater risk, has significantly fallen compared with the previous 20 years.

Figure 1 Cost of equity and new debt at PR points



There is a misalignment between risk and return in the PR24 Final Methodology, our risk analysis shows that the notional company is exposed to a higher level of downside risk than assumed by Ofwat in the PR24 Final Methodology.

Based on our analysis, the equity buffer is insufficient to absorb increased risks.

The actual company is financially resilient to downside shocks in AMP8 and beyond, despite our concerns about the financial resilience of the notional company to downside risk, our analysis shows that the actual company is financially resilient to downside risks in AMP8 and beyond, based on the actual capital structure.

On the basis of the actual capital structure and accounting for other actual-company factors, some downside scenarios lead to financial Trigger Events, but no scenarios that we have considered lead to the Event of Default or a sub-investment-grade credit rating.

SUM4 Expenditure

We note that the table errata log asks that we provide an alternate version of SUM4 using corrected formulae and have therefore provided that below. We have a version prepared and available if required:

Figure 2 SUM4 table with corrected formulae numbers

SUM4 Expenditure						
Line description	Units	DPs	Mandatory	Discretionary	Total	PR24 reference
			2025-30	2025-30	2025-30	
Net totex - water						
Enhancement water totex - Environmental	£m	1	51.1	0.0	51.1	SUM4.1
Enhancement water totex - WRMP	£m	1	961.4	0.0	961.4	SUM4.2
Enhancement water totex - resilience	£m	1	0.0	238.3	238.3	SUM4.3
Enhancement water totex - net zero	£m	1	0.0	0.0	0.0	SUM4.4
Enhancement water totex - other	£m	1	237.6	0.0	237.6	SUM4.5
Total water enhancement net totex	£m	1	1250.2	238.3	1488.5	SUM4.6
Base - water totex	£m	1	0.0	2158.2	2158.2	SUM4.7
Total water net totex excluding developer services	£m	1	1250.2	2396.5	3646.6	SUM4.8
Developer services - water net totex	£m	1	12.1	0.0	12.1	SUM4.9
Total water net totex	£m	1	1262.3	2396.5	3658.8	SUM4.10
Net totex - wastewater						
Enhancement wastewater totex - Nutrient removal	£m	1	758.5	0.0	758.5	SUM4.11
Enhancement wastewater totex - storm overflows	£m	1	526.2	0.0	526.2	SUM4.12
Enhancement wastewater totex - Other environmental	£m	1	486.3	0.0	486.3	SUM4.13
Total wastewater enhancement environmental net totex	£m	1	1770.9	0.0	1770.9	SUM4.14
Enhancement wastewater totex - net zero	£m	1	0.0	152.9	152.9	SUM4.15
Enhancement wastewater totex - other	£m	1	401.0	292.6	693.5	SUM4.16
Total wastewater enhancement net totex	£m	1	2171.9	445.4	2617.4	SUM4.17
Base - wastewater totex	£m	1	0.0	2858.3	2858.3	SUM4.18
Total wastewater net totex excluding developer services	£m	1	2171.9	3303.7	5475.6	SUM4.19
Developer services - wastewater net totex	£m	1	6.4	0.0	6.4	SUM4.20
Total wastewater net totex	£m	1	2178.3	3303.7	5482.1	SUM4.21

We've achieved a balance - hitting statutory targets and ambitious levels of improvement to deliver better outcomes for the environment, customers and stakeholders, whilst managing customer affordability⁵. This balance is supported by extensive engagement with regulators and in-depth customer research⁷, which have been tested against our resilience framework⁸, ensuring we remain protected from shocks and stresses like extreme weather or market volatility.

We've rigorously challenged the scope and cost of investment to ensure our plan is efficient, whilst delivering service improvement through our cost benchmarking activity⁹. In total, we have removed £990 million of efficiencies from our plan. This has resulted in an increased focus on nature-based solutions, in particular, sustainable drainage systems^{10,11}

Our plan is one which delivers best value, not least cost. It considers wider environmental and social benefits via our Six Capitals Value Framework. Our Strategic Direction Statement, which puts a strong emphasis on mitigating our climate impact¹² and delivering resilience³, teamed with our LTDS, will help us adapt to the inevitable changes we are already witnessing.

Our base costs are efficient when benchmarked against Ofwat's proposed suite of base models¹⁴, with the addition of five cost adjustment claims for issues specific to our region¹⁵.

Although we are asking customers to fund more ambitious programmes, over 90% of our enhancement will be covered by price control deliverables as an additional layer of customer protection.

Considering our region's challenges, expectations on the sector, statutory drivers and our ambitions, enhancement expenditure in AMP8 will double that of AMP7. Recognising the challenges of raising bills, we will support all customers at risk of being in water poverty.

5 see Chapter 7 (Driving cost efficiency) of Our Plan
6 see Chapter 3 (Customer bills and affordability for all) in Our Plan
7 see Chapter 4 (Customer engagement) in Our Plan
8 see Chapter 6 (Securing resilience now and in the longer term) in Our Plan
9 see Chapter 7 (Driving cost efficiency) in Our Plan
10 see Annex ANH26
11 see Annex ANH27
12 see Annex ANH 28
13 see Annex ANH26
14 see Chapter 7.2 (Wholesale base in detail) in Our Plan
15 see Annex ANH23



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