Investor Summary
PR24 Final Determinations
January 2025

Pennon

South West Water

Bournemouth Water

Isles of Scilly Water

Bristol Water

ses WATER

Investor Summary
PR24 Final Determinations

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About this document

This document summarises our analysis of Ofwat's Final Determinations published on 19 December 2024. It includes key metrics from South West Water's (SWW) and Sutton and East Surrey's (SES) Final Determinations for the five years from 1 April 2025 to 31 March 2030.

SWW's licence incorporates the provision of water services for Bournemouth Water and Bristol Water, and the combined water and sewerage undertakings for Devon, Cornwall and the Isles of Scilly.

SES Water has a separate licence that incorporates the provision of water services to the Sutton and East Surrey Region.

The financial information included within this document reflects Ofwat's regulatory accounting approach, including notional balance sheet gearing and other assumptions. Therefore the information in this document does not reflect the actual financial position or performance, nor how this is reported in statutory accounts. Real prices are based on 2022/23 with nominal / outturn prices reflecting actual / forecast CPIH to 2030.

SBB **South West Water (SWW or SBB)**
Refers to the combined company across all five regions (South West (Devon & Cornwall), Bristol, Bournemouth & Isles of Scilly)

SWB **South West (SWB)**
Refers to the four regions Devon, Cornwall, Bournemouth & Isles of Scilly

BRL **Bristol (BRL)**
Refers to the Bristol region

SES **SES Water (SES)**
Refers to the Sutton and East Surrey region

The right deal for right now

Key Financial Determination summary

'Outstanding' Business Plan status for SWW, SES 'good/ standard' status

Totex allowances of £5.6bn[1] for water businesses – in line with Business Plan (97% of amounts requested)

A step change in capital investment of £3.2bn[1]

Growth in RCV of 34% – returns benefiting from K7 additional investment

Industry base returns of 5.1% increasing to 5.4% reflecting 'Outstanding' SWW plan and 5.15% for SES's 'good/standard' plan

Stretching ODIs reflecting priorities of customers – with caps and collars in place

PCD[2] framework – with rewards available for delivery

RORE range of 0.5% to 10.1% in SWW (0.1% to 10.4% in SES) – targeting c.7% RORE for K8

WaterShare+ innovative share scheme retained

£200m for customer support initiatives



[1] Forecast nominal prices; [2] Price Control Deliverables

A vision towards a sustainable future – a step change in investment

Our business plans for 2025-2030 were designed to deliver what our customers and stakeholders asked for and to respond to the needs of the communities we serve. Ofwat's Final Determinations substantially confirms the revenue requirements and c.97% of our totex plans.

Revenue
100%
of levels requested

Water businesses
totex
97%
of Business Plan

£3.2bn[3]
investment programme

Growth of
34%
in RCV
(nominal by 2030)

Our plans set out our largest ever investment programme; targeting a step change in investment for customers, regulators and stakeholders, delivering with improvements across all our areas and driving growth for our investors. At the heart of our plans is a £3.2bn investment programme which drives forward our four strategic priorities: ensuring resilient water supplies and excellent drinking water quality; improving water quality in our rivers and seas through reducing pollutions and the reliance on storm overflows; net zero and environmental gain; and delivering for customers whilst keeping bills affordable for all.

Our plans are ambitious which is why our South West Water plan was one of only two plans that were recognised by Ofwat as 'outstanding' with the funding and scope of work we requested being largely supported by Ofwat, setting us up to deliver for the long-term.

This is the third price review in a row that the South West Water plan has achieved the top rating from Ofwat, something no other company has achieved. And with the Final Determination confirming the scope and quality of our plans, it should come as no surprise that we are ready to deliver. The 'outstanding' status of the plan for South West Water and the 'good / standard' status of the SES plan provides visibility of and confidence in what we need to deliver over the next five years, as well as the revenues we are allowed to support that delivery.

The Final Determinations in December 2024 secured c.100% of the revenue and 97% of the total costs which were in our Business Plans, closing much of the gap from Ofwat's earlier Draft Determinations whilst also increasing protections and reducing delivery risk as a result.

With investment of c.£3.2bn over the next five years, the Determination also gives clarity and confidence on our total expenditure, and provides an improved return, with higher allowances and an improved opportunity for outperformance compared with the Draft Determination previously published by Ofwat. This investment will provide a floor for growth of 34% over K8 in addition to the 75% growth over K7 as a result of 25% base K7 allowances, c.20% from additional K7 funding recognised as an uplift in RCV at 31 March 2025 as well as 30% growth from acquisitions..

We can also move forward with an improved performance incentive regime and the opportunity for outperformance. Ofwat have recalibrated ODIs for new information and the combined package of incentive rates, deadbands, caps, collars and backstop protection mechanisms is broadly consistent with the incentive principles we developed for our plans, providing both improved outperformance opportunity as well as a reduced level of downside risk compared with the Draft Determination.

[3] In forecast outturn prices

With the threat of climate change, a growing population and challenging public expectations, we recognise that there is much to do. With robust relative performance on the common performance measures that remain in place for the next five year period, we are well placed to deliver the change required and to improve the service we offer to customers, whilst protecting the environment around us. The next phase of delivery will require a sustained and higher level of investment than previous regulatory periods, providing a firm foundation for the future.

We have been increasing our investment in the final months of the current regulatory period in order to demonstrate a balanced performance on ODIs and to ensure we are delivering at the run rate for investment required on a sustained basis going forward and with a focus on those common performance measures continuing into K8. With the Final Determination materially confirming the scope and outputs of the K8 plan, and better aligning to our incentive rates, this early transition will stand us in good stead to deliver effectively and efficiently in the next period.

We are already delivering our plans for the future, building on the environmental improvements we have made in this period. As a result, we have agreed that as we deliver on our commitments we will target unlocking the 0.3% uplift on the cost of equity associated with 'outstanding' status:

- Storm overflow reduction programme to target lower average spill frequency of 16.5 or lower by 2030
- Achievement of a 4☆ EPA rating by 2028
- CRI performance within the sector level dead band across 2025-2030
- £24m of investment at no cost to customers in affordability measures, including £5m of debt matching and community projects funding.

The PR24 Final Determinations and the close alignment to our plans across the Group will allow us to tackle the challenges of the future head on and with confidence.

Concluding the PR24 price review

After careful consideration we have accepted both the SWW and SES Final Determinations. Given the close alignment of the Final Determination to our plans and the material improvements made by Ofwat following its consultation on the Draft Determination, we conclude that this is in the interests of customers, investors or other stakeholders.

In awarding the SWW plan "Outstanding" status, Ofwat recognised that the outcomes and efficient cost we proposed allows us to deliver a step change in investment to deliver what our customers want. Ours was a long-term plan and is sustainable for the future.

It is rightly a challenging determination and it is also a complex one, with many new measures such as Price Control Deliverables (PCDs), cost protection mechanisms and a revised incentive regime. Nonetheless it provides a better balance of risk and reward and as we deliver on our ambitious plans there is an opportunity for outperformance to be earned.

We have already ramped up our investment, building on our strong track record of delivery through a focus on efficiency and performance improvement. With plans well underway to deliver £86m of annualised efficiencies through operational transformation and integration, and our business restructured to align with our priorities, we are well placed for the challenges ahead.

We are targeting outperformance of K8 plans that will give headroom to our delivery. Previous regulatory periods has seen delivery of 6-8% in K7 and 11-12% in K6. Taking into consideration our plan we are targeting c.7% RORE returns in K8, with Ofwat's upper RORE range of 10.1%.

New investment over the regulatory period of £3.2bn will be funded by customers and investors – with roughly one third of funding from customers and two thirds from investors. We gave a robust and comprehensive financing strategy, with both debt and equity investor funding.

Aligned with Ofwat's approach to equity funding, we are seeking support from equity investors which will result in gearing of c.60-65% over the K8 period – consistent with a strong investment grade credit rating.

We are ready to tackle the challenges ahead – we're doing this.

Tackling the biggest challenges head on

Our capital investment of £3.2 billion[4] across the regions we serve includes our base maintenance programme alongside an extensive enhancement programme, focused on delivering against our four priorities. So, what are the key deliverables of our plan?

Our four priorities	K7 additional investment / activity – preparation and acceleration for K8
Water quality and resilience	• Recovering from drought in 2022 – two new water resources, repurposing two quarries and new water treatment works in Cornwall • Developing desalination solution in Cornwall & Isles of Scilly • Two new water recharge sources for Devon • Treated water interconnection in North Devon – increasing resilience in the region • Delivering our Quality First programme across SWW
Storm overflows and pollutions	• Avoiding c.12,000 spills through our interventions • c.10% additional storage above our K7 plans • 57km of sewers relined to reduce infiltration and completing over 12 hectares of sewer separation • 6 newly designated bathing waters – first sites on the River Dart • 12,000 monitors installed to proactively identify potential pollution incidents • Early delivery of Event Duration Monitors (EDMs) and flow monitors
Net zero and environmental gains	• Outperformed our biodiversity targets by c.13% • Planted c.300,000 trees (ahead of target) • Accelerated five phosphorous removal schemes
Addressing affordability and delivering for customers	• Over 115,000 customers on our social tariffs – ahead of target • 76,000 SMART meters installed in North Devon as part of the Green Recovery programme • Established progressive charging pilots – following success of 'Stop the Drop' campaign • Launching our new Customer Experience Platform – transforming our customer service

[4] Nominal prices

Planned investments	K8 outcomes
• Upgrading one third of the water treatment works across our regions • Renewing or replacing c.440km of water mains across our regions • Lead pipes replacement for 38,000 customers, targeting 170 nurseries, schools and colleges in the SES region • New strategic reservoir with Cheddar 2 in Bristol and a water re-use plant in Poole • Reducing leakage by 19% in the South West region, and 14% in the Bristol and SES regions.	• Water quality – CRI and customer contacts • Water supply interruptions • Leakage • Repairs to burst mains • Unplanned outage
• 291 overflow improvements – 100% of storm overflows at bathing waters addressed • Adding over 250,000m^3 of storage to capture rainfall and reduce overflows – 62% reduction targeted from 2023/24 levels • Removing rainwater draining into our sewerage network by a volume equivalent to over 350 hectares • Upgrading over 200km of our sewer network	• Pollution incidents • Storm overflows • Discharge permit compliance • Internal and external sewer flooding • Sewer collapses • Bathing water quality
• 10% reduction in the amount of phosphorous entering rivers – improving water quality • A new independent environmental advisory panel – to ensure we are focused on putting the environment first	• GHG reduction • Embodied carbon • Biodiversity • River water quality
• SMART metering installations for 1/3 of our customer base • Largest ever package of support to help those struggling to pay – doubling to £200m • Expanding WaterShare+ through a third issuance incorporating SES customers • Improved digital and self-service offerings for customers – opening our data to communities	• Per capita consumption (PCC) and Business demand • C-MeX, D-MeX and BR-MeX

Key financials

Investment programme
(£m)

- £3.2bn investment (nominal prices)
- Doubling of allowed investment programme
- Enhanced expenditure reflects new, legislative obligations and customer priorities for each region
- Base maintenance positioned efficiently
- c.£0.4bn of additional investment recognised in RCV through K7 true-up

Real[5]		FD allowances 2020-25[6]	FD allowances 2025-30
Enhancement – total		**440.7**	**1,646.6**
	SBB Water	218.4	549.0
	SES Water	36.1	37.7
	Wastewater	186.2	1,059.9
Maintenance – total		**1,033.6**	**1,085.7**
	SBB Water	535.2	542.3
	SES Water	99.1	113.8
	Wastewater	399.3	429.6
Investment – total		**1,474.3**	**2,732.3**
Water – total		888.8	1,242.8
Wastewater – total		585.5	1,489.5
	South West Water	1,136.7	2,256.5
	Bristol Water	202.4	324.3
	SES Water	135.2	151.5

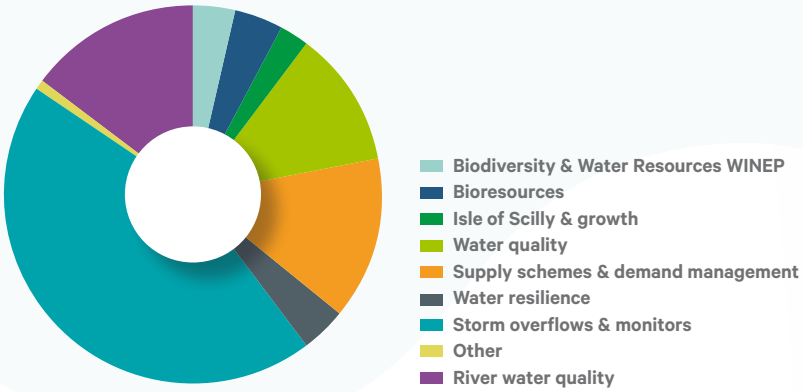
Appointee totex
(gross)

- £5.6bn totex (nominal prices)
- £86m targeted to position into K8
  - Reshaping the business
  - Realising synergies from Bristol and SES

Real[5]		2020-25[6]	2025-30
Totex – total allowance		**3,269.1**	**4,780.0**
	SBB Water	1,631.9	2,123.4
	SES Water	292.3	316.3
	Wastewater	1,097.2	2,064.3
	SBB Retail	218.0	237.9
	SES Retail	29.7	38.1

Investment drivers

- Investment driven by legislative and regulatory requirements

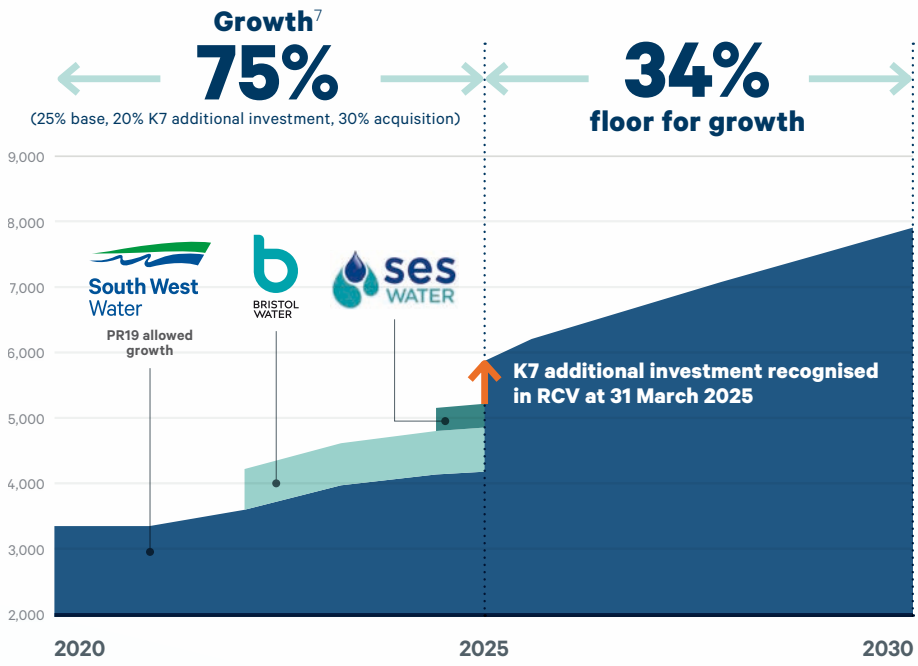


[5] 2022/23 prices; [6] 2020-25 SBB reflects combined programme for South West Water (including Bournemouth Water) and Bristol Water for the whole regulatory period to aid comparability

Shareholder value – RCV growth

(£m)

- 34% nominal growth in RCV over K8 driven by increased capital programme
- Opening RCV adjustments in 2025 reflects regulatory true-ups in relation to totex, inflation and ODIs (see page 20)
- 30% RCV growth in K7 from Bristol and SES acquisitions



Returns based on

- Returns for K7 reflect Ofwat's Final Determination
- Total returns higher than 2020-25 reflecting higher equity returns as well as the increasing cost of debt
- Range for Return on Regulated Equity (RORE): 0.5% - 10.1% for SWW, 0.1% - 10.5% for SES
- Financeable – PR24 Final Determination consistent with strong investment grade credit rating

	SWW 2020-25	Draft Determination 2025-30	Final Determination 2025-30
Appointee WACC	2.96%	3.72%	4.03%
Retail net margin	0.04%	0.06%	0.06%
Equity return	4.19%	4.80%	5.10%
Cost of debt	2.14%	2.84%	3.15%
Embedded debt	2.42%	2.46%	2.77%
New debt	0.63%	3.36%	3.74%
Share of new debt	20%	26%	24%
Notional gearing	60%	55%	55%
RORE			
SWW	-0.7 - 8.5%	0.8% - 9.4%	0.5% - 10.1%
SES	-0.7 - 8.5%	-0.9% - 9.3%	0.1% - 10.4%
Tax	17%	25%	25%
Financeable	✓	✓	✓

+30bps South West Water

+5bps ses WATER

[7] Comprises acquisitions and organic growth (including Green Recovery, accelerated investment and transition spend)

Total water businesses – SBB SWB BRL SES

The table below summarises the revenue and key measures for the water businesses, from Ofwat's Final Determinations.

Key financial metrics

Nominal (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	2025-30
Total appointee revenue	**993.7**	**1,062.9**	**1,143.7**	**1,190.9**	**1,236.8**	**5,628.0**
Capital expenditure	**733.8**	**669.5**	**624.0**	**629.8**	**525.6**	**3,182.7**
Water	316.8	307.9	287.4	276.6	260.5	1,449.1
Wastewater	417.0	361.6	336.6	353.2	265.1	1,733.6
Regulated Capital Value (RCV)	**6,312.5**	**6,767.4**	**7,179.9**	**7,592.8**	**7,881.4**	**7,881.4**
Base dividend allowance	120.9	130.5	149.7	159.2	167.5	727.8
Notional gearing (excl. equity injection)	59%	61%	62%	63%	64%	64%

SBB

Revenue building blocks

Nominal prices (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	2025-30
PAYG (operating costs and IRE)	393.1	407.9	438.4	455.7	474.2	2,169.3
RCV run-off (including post 2020 additions)	257.7	271.3	284.7	297.2	307.1	1,418.0
Return on RCV	224.8	241.7	258.3	273.9	287.0	1,285.7
Residential retail	59.7	64.0	67.7	70.1	72.1	333.7
PR19 reconciliations	(30.7)	(20.1)	(6.5)	(6.9)	(7.3)	(71.6)
Other net revenue	5.4	5.4	6.9	8.0	8.6	34.1
Total appointee revenue	**909.8**	**970.3**	**1,049.6**	**1,097.9**	**1,141.7**	**5,169.3**

- PAYG reflective of underlying cost profiles for operating costs and infrastructure renewals
- RCV run off adjusted by Ofwat in the Final Determination to defer revenue to future periods
- Return on RCV excludes 30 bps for 'Outstanding' Business Plan and if conditions are met will be a true-up at the end of the period
- PR19 reconciliation adjustments reflect revenue forecast incentive, lower tax payments compared to allowances and ODIs for 2023/24 and forecast for 2024/25
- No tax payments assumed to 2030 – a change from our Business Plan reflecting legislative changes to tax allowances
- Other net revenue reflects bulk supplies and third party income streams, grants and contributions as well as revenue to support Ofwat's innovation fund.

SBB continued

Key financial metrics

Nominal prices (£m)	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2025-30**
Capital expenditure	**699.4**	**628.8**	**587.3**	**597.6**	**492.8**	**3,005.9**
Water	282.4	267.1	250.7	244.3	227.8	1,272.3
Wastewater	417.0	361.6	336.6	353.2	265.1	1,733.6
PAYG ratio	41%	41%	45%	46%	52%	45%
Regulated Capital Value (RCV)	5,932.6	6,367.7	6,764.3	7,164.3	7,440.4	7,440.4
Base dividend	113.4	122.6	140.8	149.9	157.9	684.6
Notional gearing (excl. equity injection)	59%	61%	62%	63%	64%	64%

- Dividends reflect base yield of 4%, up from 2% in the Business Plan and Draft Determination
- Ofwat's equity raise is based on the notional structure and does not reflect actual financial structures.

SES

Revenue building blocks

Nominal prices (£m)	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2025-30**
PAYG (operating costs and IRE)	48.9	50.2	50.1	47.1	47.9	**244.2**
RCV run-off (including post 2020 additions)	17.3	18.1	19.0	19.6	20.2	**94.3**
Return on RCV	14.6	15.3	16.0	16.6	17.1	**79.7**
Residential retail	8.1	9.9	10.2	10.5	10.8	**49.5**
PR19 reconciliations	(4.3)	(0.1)	-	-	-	**(4.4)**
Other net revenue	(0.8)	(0.8)	(1.3)	(0.9)	(0.8)	**(4.6)**
Total appointee revenue	**83.9**	**92.6**	**94.2**	**93.0**	**95.1**	**458.7**

- PAYG and RCV run-off reflective of underlying cost profiles, but differing from the Business Plan
- Return on RCV includes 5bps for 'Standard' Business Plan
- No tax payments assumed to 2030 reflecting current legislative allowances
- Other net revenue reflects bulk supplies and third party income streams, grants and contributions as well as revenue to support Ofwat's innovation fund.

Key financial metrics

Nominal prices (£m)	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2025-30**
Capital expenditure – Water	34.4	40.8	36.7	32.2	32.7	**176.8**
PAYG ratio	67%	63%	66%	67%	64%	**66%**
Regulated Capital Value (RCV)	379.9	399.7	415.6	428.5	440.9	**440.9**
Base dividend allowance	7.5	7.9	8.9	9.3	9.8	**43.2**
Notional gearing (excl. equity injection)	60%	61%	62%	63%	64%	**64%**

- Dividend reflects base yield of 4% as per the Final Determination allowance
- Ofwat's equity raise is based on the notional structure and does not reflect actual financial structures.

Innovative capital delivery

We are ready to deliver the doubling of investment, having already accelerated the £75m[8] storm overflow investment with Ofwat's agreement to get a head start in 2024/25.



We have set up our delivery partnership "Amplify", which gets all the people involved in delivering the investment together, to ensure we delivery in the right way, at the right cost, at the right time. After all, it's the right plan for right now.

The amplify partnership unites some of the country's best engineering companies; with BAM Nuttall, Clancy, Mott McDonald Bentley, Tilbury Douglas, MWH Treatment and Network Plus Envolve our main construction partners.

The partnership is supported by a range of consultancy organisations: Stantec, Long O Donnell, and Turner & Townsend will provide project management; Aecom, ChandlersKBS and Turner & Townsend will ensure best value-for-money; while Aecom, Arcadis, Pell Frischmann, Stantec and WSP will produce innovative designs.

Together as amplify, they have already started working on over 1,000 projects with c.£625m of the programme handed over which will help South West Water dramatically reduce the use of storm overflows, maintain the region's excellent bathing waters, and strengthen water quality and resilience in the face of climate change.

Overall the K8 programme will drive investment into the local economy, creating around 2,000 new jobs, with new treatment works and reservoirs among the investments planned as part of the company's ongoing commitment to its customers, communities and the environment.

Reshaping our business

We have already restructured our business to focus on our front-line delivery across all the regions through our newly established business units of water, wastewater, retail and power. Through reshaping our business we are focused on ensuring we have the right expertise and capabilities as we enter the new regulatory period. Training is key to this and we continue to invest in our people, being recognised as the only business in the UK water sector achieving platinum status from The 5% Club. We are also on track to meet our commitment to support apprentices and graduates.

We will deliver for each of the communities we serve and our teams are already engaging with customers on our investment plans, working with stakeholders to develop our plans and align our priorities.

Given the scale of investment, our regulators are rightly going to monitor our delivery closely. We will share our detailed delivery plan that meet their expectations and publish it following their scrutiny this summer.

[8] Real price base

Our 2025-2030 Business Plan is financeable, with key financial metrics met on a notional and actual basis.

We have considered the key financial ratios and financeability, balanced with customer affordability. Key financial ratios used are those consistent with rating agency requirements, as well as those which are tested within our existing debt market instruments.

The table below shows key financial credit metrics.

Notional funding structure – 2025-30[9]	SBB	SES
Gearing (Net debt/RCV) – excl. equity at 2030	64%	64%
Adjusted cash interest cover (per Ofwat measure)	1.6	1.6
FFO/net debt (per Ofwat measure)	9.3%	10.0%

Credit rating

In July 2024 SWW obtained two credit ratings ahead of the licence requirement. Rating for SWW are Baa1 (negative outlook) and BBB+ (stable outlook) from Moody's and Fitch respectively. SES's credit rating from Moody's was also increased to Baa1 in November 2024, following its acquisition by Pennon Group. These ratings support the business in issuing low cost funding through our diversified financing portfolio to support higher levels of investment for 2025-2030.

Funding and gearing

Our plan was financed from the assumed raising of efficient funds through debt capital markets, coupled with revenues from customer bills. We sought to strike the right balance between the affordability of customers' bills and efficient gearing levels to ensure our balance sheet remained resilient, to the benefit of all our stakeholders. This also meant that for every £0.30 of expenditure funded by customer bills, investors fund £0.70.

Ofwat's assessment of the financeability of the notional company has assumed an equity injection for all companies across the sector. This assumed injection has supported some of the adjustments made within the Final Determination – such as the deferral of revenue through reducing RCV run-off reducing customer bills. Overall, the Final Determinations reflect Ofwat's assumptions on an industry notional capital structure basis, and therefore does not reflect actual capital structure. Ofwat's modelling assumes the following equity injection (nominal price base):

Ofwat Assumed Equity Injection (£m)	Total
SBB	436.0
SES	31.1
Water Businesses	467.1

It is these equity injections (offsetting some of the adjustments to support customer bills) which deliver a notional gearing of 54.8% combined for the water businesses. Without these assumed equity injections gearing would be higher ending the period at c.64% on a notional basis.

RCV run-off rates

RCV run-off has decreased for this Business Plan, reflecting the nature and proportions of expenditure on shorter life assets. We have assessed our existing asset base and future additions. The run-off rates we proposed are consistent with the condition and performance of the asset base and the planned maintenance programme. Ofwat reduced the SBB water and wastewater RCV run off rates from 4.58% to 4.2% to manage customer bills over 2025-2030. The total revenue deferred into K9 of c.£100m will increase RCV and returns in subsequent periods.

RCV run-off	2025/26	2026/27	2027/28	2028/29	2029/30
SBB Water	3.95%	3.91%	3.87%	3.83%	3.80%
SES Water	4.5%	4.5%	4.5%	4.5%	4.5%
Wastewater	4.41%	4.29%	4.22%	4.14%	4.13%

[9] Average over the period 2025-2030.

Pay-As-You-Go (PAYG)

The ratio on average over the period is 45% for SBB and 66% for SES. SBB PAYG ratio is lower than 2020-25 due to the increase in the scale of the investment programme compared to the modest increase in operational expenditure. SES is higher due to aligning the regulatory accounting approach with SBB.

PAYG	2025/26	2026/27	2027/28	2028/29	2029/30
SBB Water	50%	53%	57%	60%	63%
SES Water	67%	63%	66%	67%	67%
Wastewater	31%	29%	32%	31%	39%

The Final Determination PAYG ratios have not been adjusted for financeability purposes, and therefore align with how costs naturally fall in our plan.

Regulatory dividend strategy

Our dividend policy across South West Water and Sutton and East Surrey is aligned with Ofwat's principles and the licence. Dividends will be calculated to take account of delivery of the plan within these overarching principles that the dividend will:

- Not impair the ability of the Company to finance the appointed business
- Take account of service delivery for customers and the environment over time
- Reward efficiency and the effective management of risks to the appointed business
- Be transparent.

Within the Final Determination Ofwat has allowed a 4% base dividend yield, paid from South West Water and SES Water to Pennon.

Striking the right balance

As a responsible business we have ensured that we have struck the right balance between financial resilience and fair, affordable bills for customers.

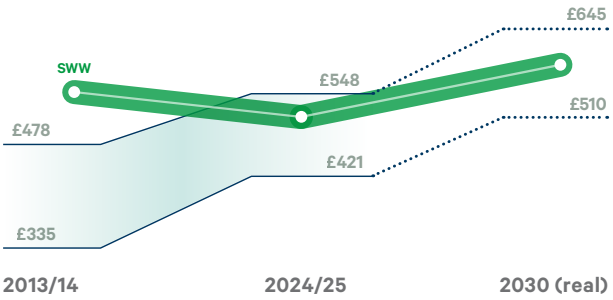
Whilst the Final Determination includes a significant increase in our investment and customers are funding around one third with two thirds coming from investors. As a result, across our regions, customers will see one of the lowest bill increases in the sector.

Allowed revenue by control

Outturn prices (£m)	2025/26	2026/27	2027/28	2028/29	2029/30	2025-30
Water Resources – South West	46.4	48.6	51.6	54.9	58.2	**259.7**
Water Resources – Bristol	24.4	26.3	28.0	29.6	30.6	**138.9**
Water Resources – SES	9.3	7.5	7.2	7.3	7.1	**38.4**
Water Network Plus – South West	310.3	330.1	353.1	370.0	379.9	**1,743.4**
Water Network Plus – Bristol	113.4	120.3	130.3	137.7	142.5	**644.2**
Water Network Plus – SES	66.4	75.2	76.8	75.2	77.3	**370.9**
Water – total	**570.2**	**608.0**	**647.0**	**674.7**	**695.6**	**3,195.5**
Wastewater Network Plus	317.7	340.6	370.5	386.4	407.1	**1,822.3**
Bioresources	38.0	40.3	48.4	49.1	51.3	**227.1**
Wastewater – total	**355.7**	**380.9**	**418.9**	**435.5**	**458.4**	**2,049.4**
Residential Retail – SBB	59.7	64.0	67.7	70.1	72.1	**333.6**
Residential Retail – SES	8.1	9.9	10.2	10.5	10.8	**49.5**
Residential Retail – total	**67.9**	**73.9**	**77.9**	**80.6**	**82.9**	**383.1**
Total allowed revenue	**993.7**	**1,062.8**	**1,143.8**	**1,190.8**	**1,236.9**	**5,628.0**

At the end of K7 the efficiencies we have delivered over the last 10 years has resulted in average customer bills in Devon and Cornwall being lower than they were ten years ago. As a result these bills are no longer an outlier for the industry and with one of the lowest increases bills to 2030 we will move substantively be within other company bill levels.

Industry average bill range



One of the **lowest bill increases**

Average industry bills 2030 (real)

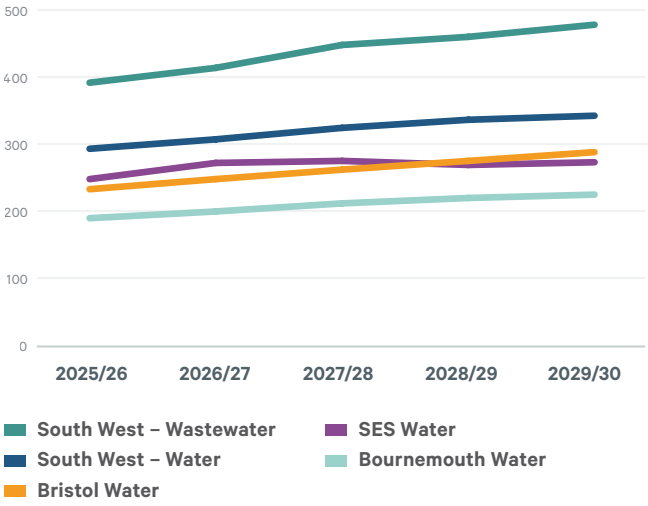
Water and Sewage Companies (WASCs)

Company 1	645
Company 2	642
Company 3	631
South West Water	629
Company 5	614
Company 6	607
Company 7	588
Company 8	585
Company 9	583
Company 10	557
Company 11	510

Water Only Companies (WOCs)

Company 1	287
Company 2	241
Bristol Water	239
SES Water	215
Bournemouth Water	179
Company 6	152

Indicative bills (nominal prices)



Given our strong support for customers, we are on track to deliver our Board pledge with 100% of customers surveyed in the first half of 2024/25 finding their bill affordable both in Devon and Cornwall and Bristol. Across the Group we have over 115,000 customers on our support tariffs and others are being supported through our range of affordability initiatives.

Our plans to 2030 include our largest package of affordability measures to date, equating to over £200m, which will ensure we are able to support all customers through a range of initiatives. We are also continuing to install smart meters, providing customers with greater visibility and control over their bills whilst encouraging water efficiency. This includes £5m of shareholder funded support to further investigations and support affordability issues.

Progressive charging

A key feature of our plan is tariff innovation – progressive charging, which means distributing bills more fairly across those who benefit from our services, whilst sending the right signals on efficient water use to help manage affordability. We will learn from pilots across our region to understand what works best, and what our customers want, for example:

Seasonal tariffs – discounting bills, to provide lower bills for average resident through lower winter rates, whilst rates in the summer – when demand peaks – increase, to incentivise efficient water use.

Rising block tariffs – testing whether these tariffs, supported by smart meters, can aid water efficiency and help customers feel their charges are fair.

Peak charging – looking at those periods when demand is high, and increasing water charges – similar to what we see in the energy sector – to incentivise customers to change the pattern of their demand, reduce peak demand and therefore minimise the need for future investment.

Partial occupancy – identifying homes and businesses that may not be occupied all year round, and that therefore may be reserving capacity on our network, without fully utilising and being charged for it. We will consider if the costs associated with these customers need to be reviewed, and how best to reflect fair charging for this unique aspect of our region. In 2024/25 we commenced trials into seasonal tariffs with both households and non-households, Rising Block tariffs for households and Peak Charging for Households. The seasonal tariffs are being trialled in the South West, Bristol and Bournemouth areas. Ofwat and CCW continue to support the development of our progressive charges and we will look at what trials will be appropriate for the SES Water region.

Engagement to empowerment

WaterShare+

The South West Water WaterShare framework is a unique mechanism created ten years ago and has evolved to support a transparent reporting of performance and a sharing of financial benefits to customers across our regions.

To date, we have returned over £40m to customers through our WaterShare+ mechanism giving customers money off of their bill or shares in Pennon and we are retaining this to 2030 and expanding this to SES customers.

We will continue with the option enabling customers to have a true equity stake and say in our business. In the South West area one in 14 customers have taken up this option, and we are looking to increase this over the next 5 years.

Delivering improved outcomes for customers, communities and the environment

PR24 represents a change in approach setting performance commitments since Outcome Delivery Incentives (ODIs) were established from 2015.

Ofwat's methodology focuses on 23 common ODIs across the sector setting both industry wide performance commitments as well as company specific targets which reflect the nature and historical investment of the company. Whilst the Group has two licences for South West Water and Sutton and East Surrey, ODIs have also been set across three regions: Devon, Cornwall, Bournemouth and Isles of Scilly; Bristol and SES. Targets and incentives will therefore differ across the regions.

In addition to the common measures, Ofwat has allowed one bespoke ODI for embodied greenhouse gas emissions (applying to Devon and Cornwall region). Across the water business regions 17 of these common measures are existing ODIs, with seven assumed to be new ODIs – including our bespoke measure.

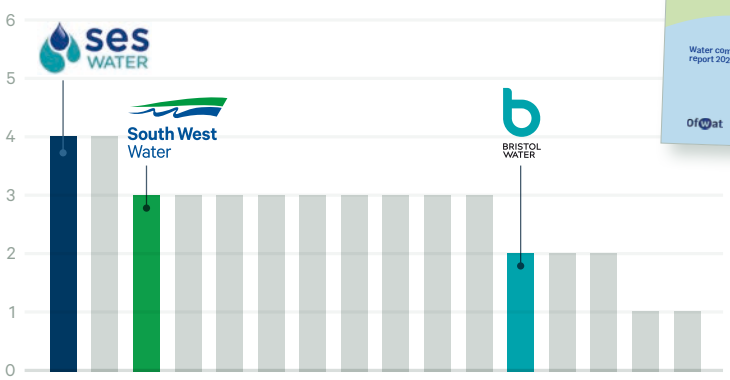
Over K7, performance across the sector for common ODIs has been challenging, with no company achieving a reward for these measures. All outperformance in the sector has come from bespoke ODI measures.

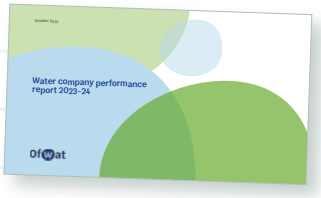
The water businesses have shown strong performance relative to the sector as outlined in Ofwat's Water Company Performance Report 2023/24[10]. Performance against common ODIs is shown for each region below, with seven measures considered upper quartile in 2023/24.

Achieved **strong relative performance**

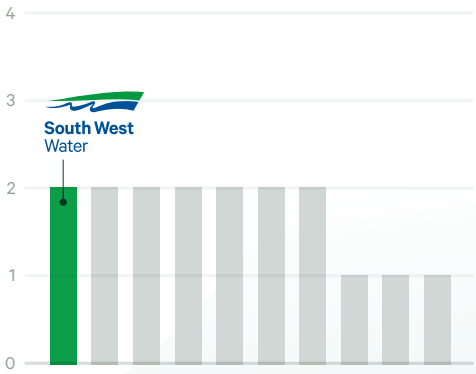
Upper Quartile in 7 measures in 2023/24

Water performance





Wastewater performance



Ofwat has set challenging performance commitments, although some targets have improved relative to the Draft Determination and whilst there are areas of focus for improvement, across the regions we have met the majority of performance targets in at least one year, and there are seven measures where one (or more) of the regions delivered upper quartile performance in 2023/24.

[10] Number of Water and Wastewater common ODIs achieved by each company in 2023/24, as published by Ofwat in October 2024

Measures	South West Water	Bristol Water	SES Water
Wastewater			
Internal sewer flooding	✓✓		
External sewer flooding	✓		
Total pollution incidents	○		
Bathing water quality	✓✓		
Sewer collapses	✓		
Discharge permit compliance	✓		
Water			
Serious pollution incidents	○	✓	✓
Biodiversity	✓✓	✓	✓
Water supply interruptions	✓	✓	✓✓
Compliance risk index	✓	○	✓✓
Customer contacts about water quality	✓	✓	
Leakage	✓	✓	✓
Per capita consumption	✓	○	○
Repairs to burst mains	✓	✓	✓
Unplanned outage	✓✓	✓	✓✓
Customer			
C-MeX	○	✓✓	○
D-MeX	✓	✓	○

New measures

✓✓	Embodied greenhouse gas emissions – bespoke
✓✓	Operational greenhouse gas emissions (water)
✓✓	Operational greenhouse gas emissions (wastewater)
✓✓	River water quality (phosphorus)
○	Storm overflows
✓✓	Business demand
○	BR-MeX

✓ **Met in at least one year in K7**
✓✓ **Industry upper quartile in 2023/24**
✓✓ **On track for shadow 2024/25**
○ **Area of focus**

Targets, incentives and protections

The Final Determination includes an ODI RORE range calculated by reference to Ofwat's risk assessment (P10/P90) as +0.6% to -1.3%.

Ofwat has considered our customer research as part of our representation, alongside the additional information from industry 2023-24 performance that was available to them in between Draft and Final Determination.

The Final Determination reflects a range of approaches to balance the ODI risk and reward from the Draft Determination including:

- 9 targets have been revised to reflect 2023/24 industry performance and forecasts
- 8 underperformance deadbands have been included to reflect the stretching nature of measures
- 22 collars applied to reduce scale of underperformance payments - including on total pollution incidents
- Updated incentive rates, with more rates calculated based on inflation adjusted PR19 rates
- One bespoke measure allowed for embodied greenhouse gas emissions.

In addition, Ofwat has established two overarching ODI mechanisms to provide further protection within the ODI framework.

Outcome Adjustment Mechanism (OAM)

Reduces annual ODI impact for all companies based on industry comparison assessing the difference of the median (3 or 4) companies above +/- 0.5% RORE. This measure will protect against annual issues that effect the industry performance as a whole (such as national weather impacts). Our analysis shows that the OAM would have been triggered in 2023/24.

Aggregate Sharing Mechanism (ASM)

This mechanism provides a backstop protection against higher levels of both out / under performance where if total net ODI performance each year is +/- 3% RORE, 50% of the excess is shared with customers and this increases to 90% where RORE is +/- 5%.

Regulatory protections

In addition to the ODI protections Ofwat includes a range of other regulatory risk and uncertainty mechanisms in the Final Determination. This provides a wide range of protection for movement in external cost indices, cost of new obligations and provides backstop protection for cost and financing performance.

Totex protections

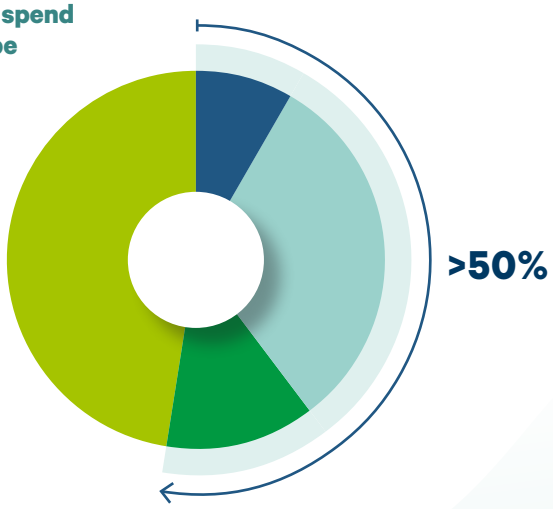
During K7 market prices in a number of areas have outstripped CPIH inflation driven by macro-economic drivers, which has impacted the whole industry. Recognising these cost challenges for the K8 regulatory period Ofwat has implemented a number of further totex true-up mechanisms which provide an proportion of protection to the downside risk in key areas across both operating costs and capital investment.

In addition to the labour true-up in K7, Ofwat are applying a specific index approach to energy costs and material and equipment on capital investment alongside retaining the labour mechanism. In addition, Ofwat retains the framework for cost sharing rates, however this provides a higher rate for enhancement compared to base expenditure.

Whilst the actual level of expenditure may differ as we move through the regulatory period, the true-up assessments are based on the Final Determination allowances and are not directly linked to actual expenditure incurred. Therefore these mechanisms provide protections to downside risks – but are not a full 'pass through' of cost movements which are still subject to the relevant totex sharing mechanism.

Over 50% of our Totex cost base is covered by these cost index true-ups.

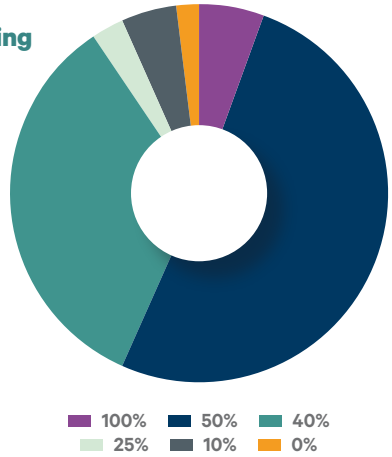
Totex spend by type



- **Energy** – DESNZ industrial user wholesale cost index
- **Labour** – ONS ASHE labour cost index
- **Materials** – ONS new infrastructure COPI index for materials
- **Other non-indexed costs** (cost sharing rates only)

Following the application of the true-up mechanisms, the cost sharing mechanisms will apply, which differ depending on the type of costs and whether base or enhancement. The majority of costs are at either 50% (base) or 40% (enhanced) sharing.

Spend by cost sharing rate



In addition to the specific cost mechanisms there are additional overarching protections in place:

Aggregate sharing mechanism (totex) – a backstop protection on totex cost sharing at +/- 2% RORE effectively halving the cost sharing over this level.

Notified items – a bespoke notified item process (with lower materiality threshold) for key investments of PFAS, storm overflows, bioresources, Cyber security and major water resource schemes.

Financing mechanism

In setting the cost of debt Ofwat makes an assessment of embedded debt based on industry analysis and sets the cost of new debt based on macro-economic factors and those specific to the water industry.

For PR24 Ofwat has retained the indexation true-up mechanism which was established at PR19 where the cost of new debt is subject to a reconciliation based on the movements with reference to the interest index 'iBoxx'. Where the actual iBoxx moves compared to the assumptions in a price review the overall cost of debt will be updated to reflect this and applied at PR29 to reflect changes in the market cost of finance.

In K7 this cost of new debt mechanism increased the industry cost of debt resulting in an equivalent uplift of c.£20m.

Price control deliverables

For PR24 Ofwat have introduced a new common framework in the form of 'Price Control Deliverables' (PCDs) which set out the key outcomes or outputs required through capital investment. PCDs are financial incentives attached to enhancement spend (and a small amount of base spend) which return money to customers if outcomes not delivered in full or on time.

PCDs are designed to increase Ofwat's oversight of delivery through increased reporting to protect customers from companies who fail to deliver against their commitments. Financial incentives apply to 'on time' delivery with small rewards where companies deliver on time and penalties for late delivery (this is applicable to storm overflows, phosphorus / chemical removal, water supply, metering, and mains renewal). Additionally, penalties will apply where companies fail to deliver certain conditions which will require external assurance. Non-delivery results in allowances being returned to customers. Ofwat will set out detailed monitoring and assurance requirements in their consultation in February / March 2025.

The delayed delivery cashflow mechanism (DDCM) is also being introduced which would allow a company's revenues later in the period to be adjusted downwards if it is materially behind in the delivery of its enhancement programmes at the end of years two and three of the regulatory period. The mechanism will not apply in years four and five as the revenue adjustments for underspend in these years will be addressed as part of the PR29 reconciliation adjustment process.

Growth and regulatory returns

RCV legacy adjustments

Nominal (£m)	**SBB**	**SES**
PR19 FD – 31 March 2025	**4,846**	**349**
RPI-CPIH wedge	80	5
Green Recovery	75	-
Accelerated Infrastructure Delivery (AID)	27	-
Totex	309	11
PR14 blind year	57	1
ODI	36	-
IFRS 16	-	-
WINEP	(7)	-
Land sales	(1)	(1)
PR19 Strategic Regional Water Resources Adjustment	1	-
Transitional Expenditure	77	-
Other	-	-
Closing RCV – 31 March 2025	**5,500**	**365**

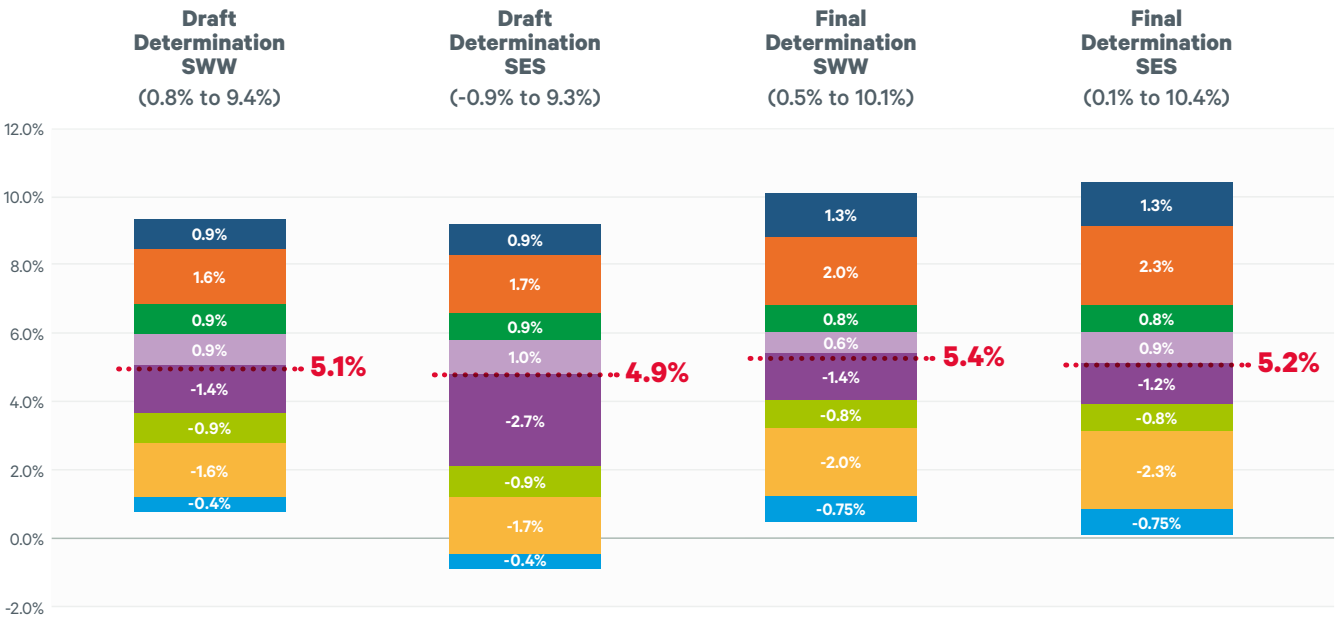
- **RPI – CPIH wedge** – This adjustment reflects the anticipated difference between the actual wedge between RPI and CPIH over K7 and the 1% per annum assumed in Ofwat's methodology.
- **Accelerated delivery** – Green Recovery and AID programme reflects additional investments agreed during K7 and inflated to 1 April 2025.
- **Totex** – Reflects the 50% share of forecast spend above PR19 allowances at the Draft Determination response in August 2024. This includes the impact of higher inflation driven by costs such as power, chemicals and construction costs. Adjustments in K8 applied to RCV and receiving a return into the future, instead of revenue, recognising the affordability pressures for PR24 on customer bills.
- **PR14 blind year** – Reflects final true-ups to PR14 established post the PR19 Final Determination.
- **ODI** – Reflects outperformance achieved through K7 that is rewarded through RCV as opposed to in period.
- **IFRS 16** – Adjustment to RCV recognising the omission of data by Ofwat in South West Water's FD for K7.
- **Other** – Includes other regulatory true-up mechanisms including tax and wage inflation.

Return on Regulated Equity

Fair returns for investors

The RORE for our plan is based on an assessment of the range of outturn levels of performance we can expect to see. For assessment purposes, the high and low probability events (P90 and P10) have been excluded. The estimates are in turn based on a forward-looking assessment of the risk to performance from natural variations in external factors (e.g. weather, third-party damage, etc) overlaid with an assessment of where we believe we can target further cost efficiencies and improve performance further, economically and efficiently.

Overall the RORE range for the 2025-2030 Final Determination is 0.5% to 10.1% for SWW and 0.1% to 10.4% for SES.



1 Financing reward
Financing risk

Financing risk for a notionally geared company at the Ofwat cost of debt is estimated at a range of –0.5% risk and +0.9% opportunity within the RORE range.

2 Totex savings
Totex overspend

Totex impacts consider both individual cost risks and opportunities and reflects our experience of delivery in this area.

3 C-MeX/D-MeX outperformance payment
C-MeX/D-MeX underperformance penalty

Customer measures underperformance penalties and outperformance payment ranges from a +/- £21m for SBB and +/- £1m for SES on average per annum. This equates to a RORE range of –0.8% to +0.8%.

4 ODI outperformance payment
ODI underperformance penalty

Based on Ofwat P10/P90 scenarios, this amounts to a potential -£35m to +£14m for SBB (a RORE range of -1.4% to +0.6%) and -£2m to +£1m for SES (a RORE range of -1.2% to +0.9%).

Cost of equity

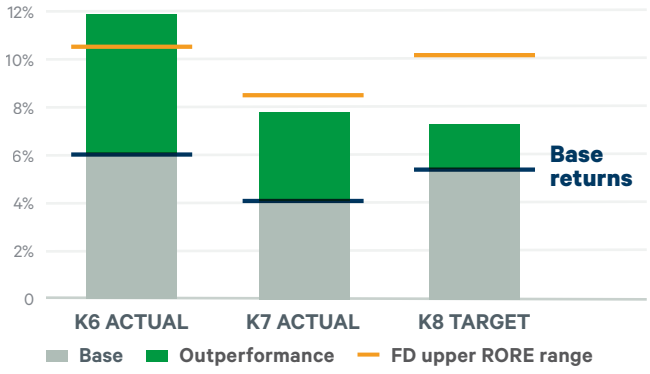
Targeting outperformance

We have a strong track record of delivering in our regulated water businesses, driving strong returns on regulated equity compared with allowances and focusing on delivering improvements for our customers and the environment.

The K7 period saw continued delivery of returns above the base level, and allowed us to share financial benefits of outperformance with our customers through our innovative WaterShare+ scheme, giving them a stake and a say in our business by sharing over £40 million of outperformance through either reductions in their bills or allowing them a share in the business.

We are targeting to drive outperformance, targeting approximately 7% RORE over the K8 period, within Ofwat's range of forecast returns.

Return on Regulated Equity – RORE (% real)



Totex

We have already embarked upon plans to drive efficiencies of £86 million on an annualised basis through operational transformation and integration programmes across the business that provide an opportunity to counteract shortfalls in regulatory allowances. In addition, cost protection mechanisms for K8 minimise the downside cost impacts seen in K7, with over 50% of totex covered by these indices.

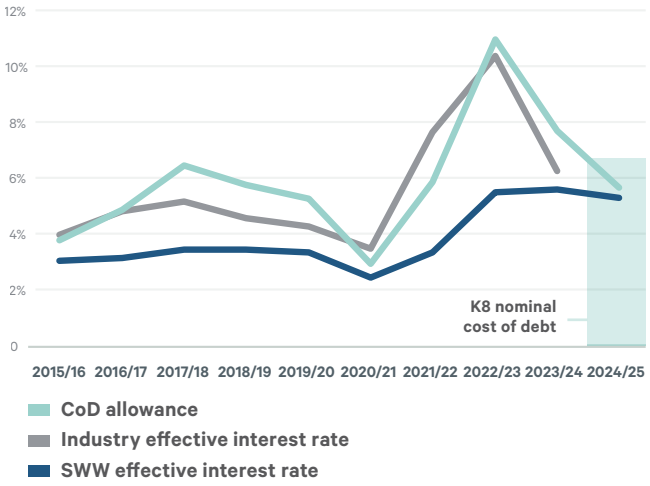


We are targeting opportunities through:

- Synergies of integration
- Reshaping the business
- Right sourcing and supplier efficiency.

Financing

Our diversified debt portfolio supported strong financing performance in K7. Our effective interest rates have been amongst the lowest in the sector, and approximately £300 million of financing outperformance has been delivered in K7 as a result of our diversified portfolio and effective hedging policy, which focuses on locking in outperformance against Ofwat's allowed cost of debt.



ODIs

In K7, we have achieved approximately 70% of all ODIs over the regulatory period, and demonstrated robust relative sector performance on the common ODIs that will target to continue into K8. Whilst pollution targets remain a core focus area for South West Water, other metrics have been achieved at least once in K7 by the water businesses with upper quartile performance across a number of areas including leakage, unplanned outages, bathing water quality, internal sewer flooding and water quality, providing opportunities for sharing best practice across our different water brands and delivery aligned with, or providing outperformance on, the targets set.

Appendix – supporting information

Contents

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Revenue building blocks background

Totex

Following the merger of Bristol Water's licence with South West Water on 1 February 2023 the SWW Final Determination includes seven specific price controls, with two specific to Bristol Water, as below. Operating and capital expenditure is allocated between these separate revenue controls in the Final Determination. Ofwat combine these controls together when describing South West Water appointee in their Final Determination summaries. SES Water has three specific price controls that are shown separately and Ofwat show SES Water separately in their Final Determination summaries.

Water	**South West Water** **Bristol Water** **SES Water**	• Water resources • Water network plus
Wastewater	**South West Water**	• Wastewater network plus • Bioresources
Retail	**South West Water & Bristol Water – combined** **SES Water**	• Residential retail

Efficiency

Delivery through **efficiency and innovation**

In the period 2020-2025, totex efficiencies delivered in the early years of K7 has enabled us to reinvest in some of the most significant challenges we face as a sector, including boosting water resilience and reducing storm overflows, to deliver improvements above our K7 business plan commitments, along with absorbing some of the macro-economic driven shocks.

Having reorganised around our four business units across the group, we are ready to drive efficiency savings further, including £11m per annum through merger savings for SES Water over 2025-2030, and we have delivered the £20m p.a. (£50m total over 2022-25) following the Bristol merger.

Targeting **efficiency savings** before reinvestment

For our plan to 2030, we have applied a significant efficiency challenge, recognising that we need to step up more than ever before, transforming the way that we work and think to deliver services in new ways at reduced costs. In total, this efficiency translates to £300 million from base expenditure and £300 million from enhancement expenditure – 12% overall. With frontier shift and other Final Determination assumptions the efficiency challenge is further increased.

We have a number of strategic initiatives in progress to support this, alongside improving performance. These include:

- **Integration** – of Bristol Water and SES into our Water Group, delivering efficiencies and benefits across all regions as we take best practice and economies of scale across the wider Group
- **Customer led intelligent operations** – aligning operational work with customer journeys ensuring work is effectively and efficiently allocated, giving more insight and reporting
- **Operational transformation** – driving productivity and service levels through transforming our ways of working and site operation using best in class techniques
- **Partnerships** – driving efficiency in our key partnerships to ensure work is targeted efficiently at lowest cost. Amplify is a good example for our engineering investment programme
- **Digitalisation** – generating insightful data sources to enable better analysis of processes and work to enable process re-engineering and cost reduction

- **Power** – increasing levels of self-generation to protect against volatile wholesale power markets
- **CREWW** – harnessing innovation in partnership with the University of Exeter.

Capital charges, fast and slow money

Key areas of the Final Determination are:

RCV run-off rate 'slow money' – the cost of our current assets and future investment which are included annually within customer bills. RCV run-off has slightly decreased for this Business Plan reflecting the nature and proportions of expenditure on shorter life assets. For SBB, Ofwat reduced this from our view of 4.58% to 4.2% in line with the determination for most other water and wastewater companies. This reflected the strength of our notional financial ratios in Ofwat's financial modelling and allowed the revenues and bills in the Final Determination to remain in line with our plan. We will earn a return on this RCV over the slightly longer period of time this means we are recovering the 2025 RCV balance through revenue allowances.

Pay-as-you-go ratio – 'fast money' which appears in customers' bills in this regulatory period (K8), largely through operating costs and maintenance. This ratio on average over the period has decreased for SBB as a result of the increase in the scale of the enhanced investment programme compared to the modest increase in operational expenditure. It has increased for SES as an agreed adjustment between RCV run off and PAYG which aligns SES regulatory accounting treatment with SBB.

We use run-off rates and pay-as-you-go ratios which align with how costs in our plan would naturally fall and we have not needed to adjust these rates for financeability purposes. Ofwat's adjustment to RCV run off rates reflected the strength of our notional financeability and would therefore be reviewed as part of PR29 revenue and bill profile considerations.

Investor returns

Ofwat's cost of capital in the Final Determination was aligned to our forecast in our Draft Determination Response. The retail margin increased from 1.2% to 1.5%, increasing the retail revenues within the total appointee revenues. The higher cost of equity in the Final Determination and higher cost of debt reflected movement in market data and methodology considerations, as we anticipated in our Draft Determination response.

The Final Determination includes a forecast of a 2.3% CPIH rate of inflation on average over 2025-2030, although the real cost of capital has been calculated using the longer term 2.0% assumption, consistent with the position described in the Ofwat's PR24 methodology. The same cost of capital is used across all wholesale price controls.

An average of 24% of the notional debt assumptions are indexed to a corporate bond iBoxx index, plus 0.3% to reflect the additional cost for water companies Ofwat assessed compared to this index. Any movements in this index (+0.3%) from the 3.74% real cost of new debt included in the Final Determination during 2025-2030 will form part of PR24 reconciliation adjustments at PR29, based on the industry notional profile of new debt Ofwat have included in the Final Determination.

SES Water no longer includes a small company premium on the cost of debt as this part of our undertakings made to the CMA following the merger. Similarly the small company cost of debt premium that applied to Bristol Water was removed from customer bills from 2023-24 following that merger as part of CMA undertakings.

Returns to investors are derived from both the wholesale and retail revenue controls. Overall returns are set out in the table on page 9.

Regulatory mechanisms

Ofwat include a range of regulatory risk and uncertainty mechanisms in the Final Determination. This provides a wide range of protection for movement in external cost indices, cost of new obligations and provides backstop protection for cost and outcome performance. For outcomes there is protection should industry median performance be better or worse than a +/- 0.5% RORE threshold, and for individual companies beyond a +/- 3% threshold. This is in addition to the ODI design features in the Final Determination.

The key features of this are summarised in the table below.

Mechanism	What it does	When it could apply and how
Costs		
Labour and materials cost indexation	Adjusts allowance (ie. FD allowance for totex cost adjustment) for movement in ONS ASHE labour cost index and ONS new infrastructure COPI index for material	PR29 totex cost reconciliation. Covers £1.6bn of totex (labour) and £0.6bn of totex (materials)
Energy cost indexation	Adjusts allowance (ie. FD allowance) for movement in DESNZ industrial user wholesale cost index	PR29 totex cost reconciliation. Covers £0.45bn of totex
Totex cost adjustment	Wholesale cost differences shared (after energy, materials and labour indexation movements)	PR29 totex cost reconciliation. Split between revenue and RCV based on PAYG rates
Notified Items	Bespoke notified item process (with lower materiality threshold) for PFAS, storm overflows, bioresources, PFAS, Cyber security and major water resource (Direct Procurement for Customer) schemes	Potential interim determination or "logging up" at PR29
Aggregate sharing mechanism (totex)	Backstop protection on totex cost sharing at +/- 2% RORE (effectively halves the cost sharing e.g. 50% company share on base wholesale becomes 25% beyond 2% RORE)	Part of totex reconciliation at PR29
Outcomes		
ASM – Aggregate sharing mechanism (ODIs)	Backstop protection on ODIs – at +/- 3% RORE (50% of excess shared) and +/- 5% RORE (90% excess shared). Based on annual ODI performance	PR24 revenue adjustment
OAM – Outturn adjustment mechanism (ODIs)	Reduces annual ODI impact for all companies by the difference of the median (3 or 4) companies above +/- 0.5% RORE	Annual ODI impact may depend in industry performance
Financing		
Cost of new debt indexation	Corrects for the difference in the corporate bond iBoxx index for real movements in the cost of new debt. Notional adjustment based on industry profile of cost of new debt	PR29 revenue adjustment

PR24 cost sharing rates

Alongside the true-up mechanisms, cost sharing rates are in place for both under and outperformance where the impact is shared between the company and customers. For K8 Ofwat has increased the protection for companies on enhancement spend, where a company will be required to fund 40% of an overspend (compared with 50% in K7). For areas of greater uncertainty, such as IED and EPR permits, Ofwat has set a company share of only 25%.

2022/23 real prices	Company totex shares of difference to PR24 FD	
	Outperformance	Underperformance
Enhancement		
Standard	40%	40%
IED and EPR permits	25%	25%
WINEP investigations & continuous water quality monitoring	40%	10%
Strategic water resource funding	0%	0%
Transition and accelerated programme	50%	50%
Weighted	**38%**	**37%**
Base		
Wholesale	50%	50%
Abstraction incentives and discharge consents	25%	25%
Weighted	**46%**	**46%**
Retail, developer services, third party and bioresources	100%	100%
Total weighted company share	**48%**	**47%**

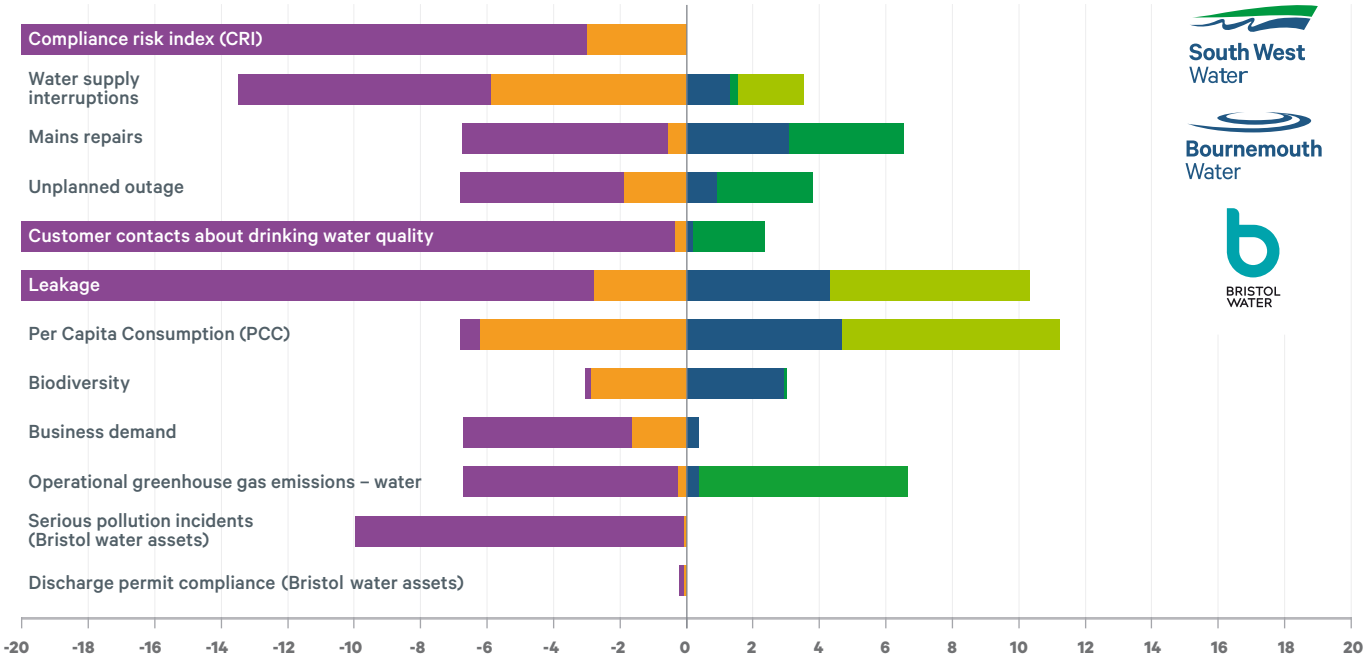
Overall incentive range

Overview of the potential impact on customer bills

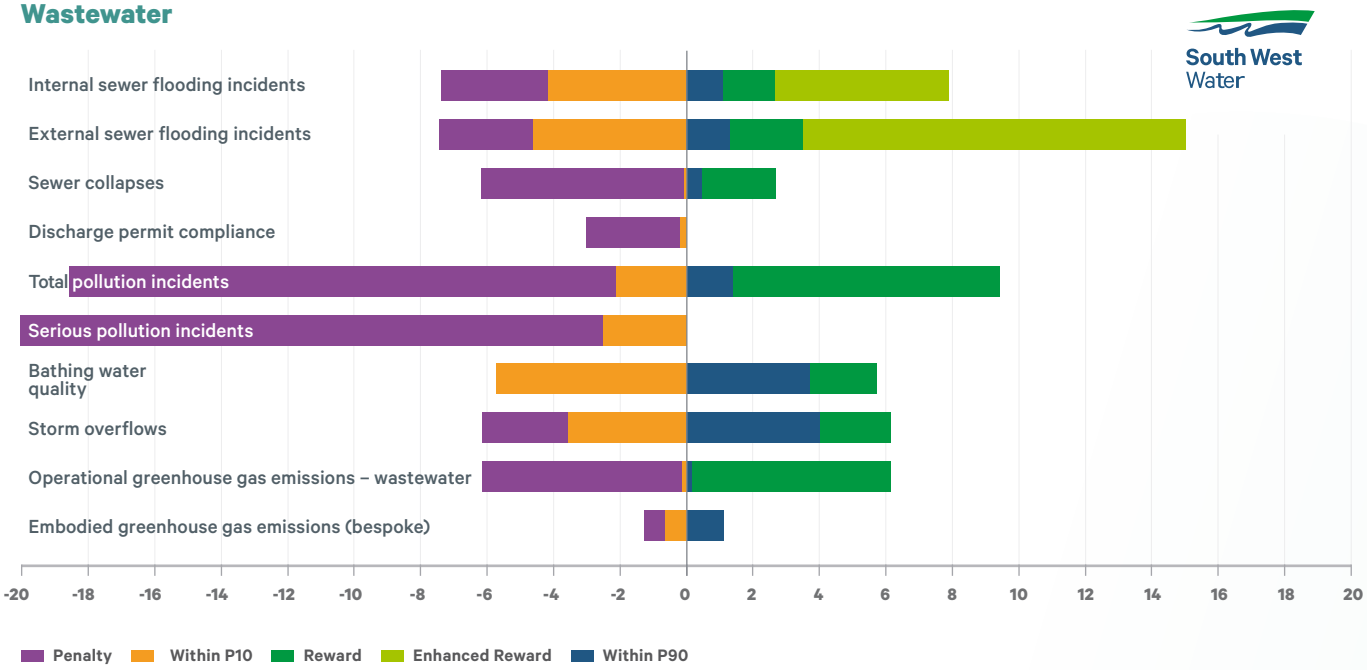
Ofwat's view of the overall incentive range of incentives for SBB for the five year period to 2030 is from an outperformance payment of £70m (£166m at PR19) to an underperformance payment of -£175m (-£249m at PR19), excluding the potential impact of customer measures (C-Mex, D-Mex and BR-Mex).

In terms of RORE, this equates to a maximum range of +0.6% per annum for outperformance payments to -1.4% p.a. for underperformance payments excluding the potential impact of customer measures (+2.2% to -2.6% at PR19). The ODI performance below is based on an annual range.

Water

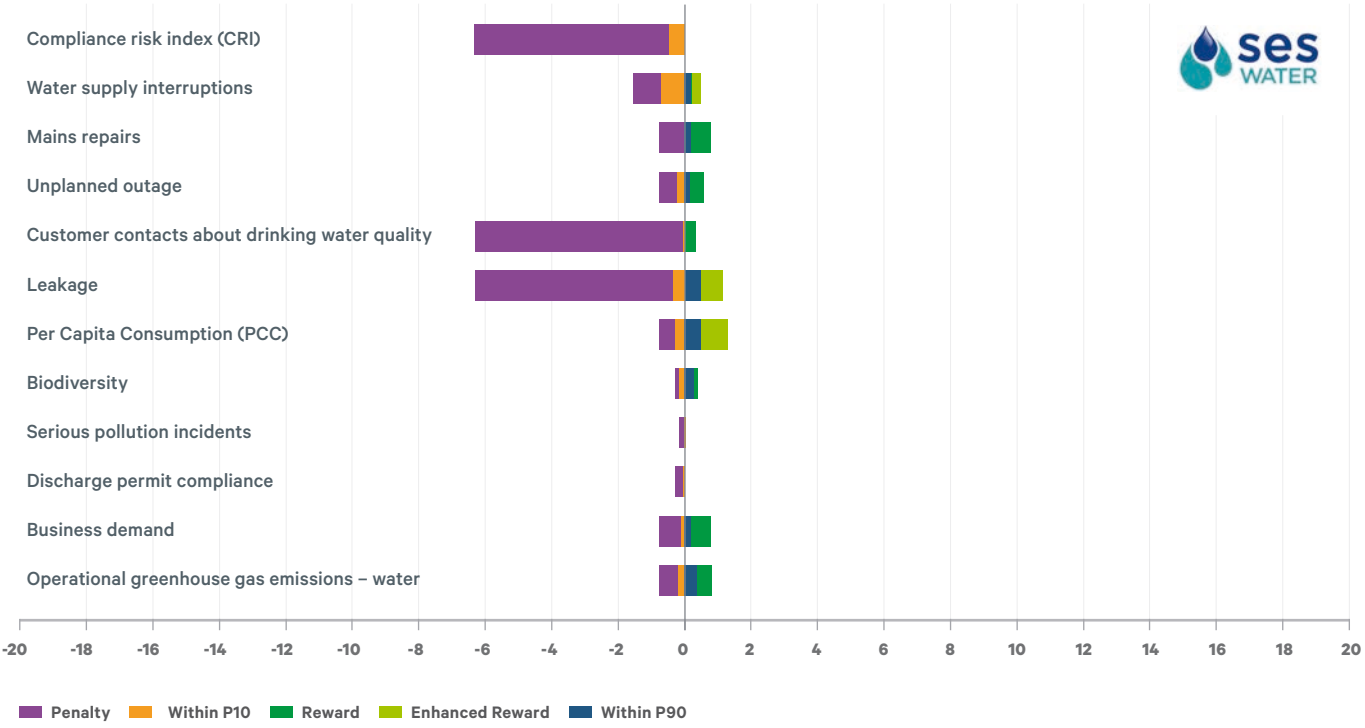


Wastewater



For SES, Ofwat's view of the overall incentive range of incentives for is from an outperformance payment of £7m to an underperformance payment of -£10m, excluding the potential impact of customer measures (C-Mex, D-Mex and BR-Mex). In terms of RORE, this equates to a maximum range of +0.9% per annum for outperformance payments to -1.3% p.a. for underperformance payments excluding the potential impact of customer measures. The ODI performance below is based on an annual range.

Water



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