

WSX-A02 – Assurance reports

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

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WSX-A02 – Assurance reports

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This document is part of Wessex Water's response to Ofwat's PR24 draft determination.

More information can be found at [wessexwater.co.uk](https://www.wessexwater.co.uk)

1. Summary

This document contains the assurance statements produced in support of our response to Ofwat's draft determination. They support our Board Assurance statement in WSX-A01.

A summary of the assurance statements is included below:

Name	Assurance undertaken by
Report on PR24 draft determination response	Mott MacDonald
Long-term delivery strategy – assurance review	Sustainability First
Wessex Water Customer Challenge Group letter on PR24 draft determination response	CCG
Internal data table assurance	Internal
Financeability assurance	Economic Insight

Given compressed timescales, we have taken a risk-based approach to external data table assurance, prioritising any new data tables requested by Ofwat and those which reflect the most significant changes to data since our original business plan submission. Separate internal assurance has been provided for changes made to other data tables.

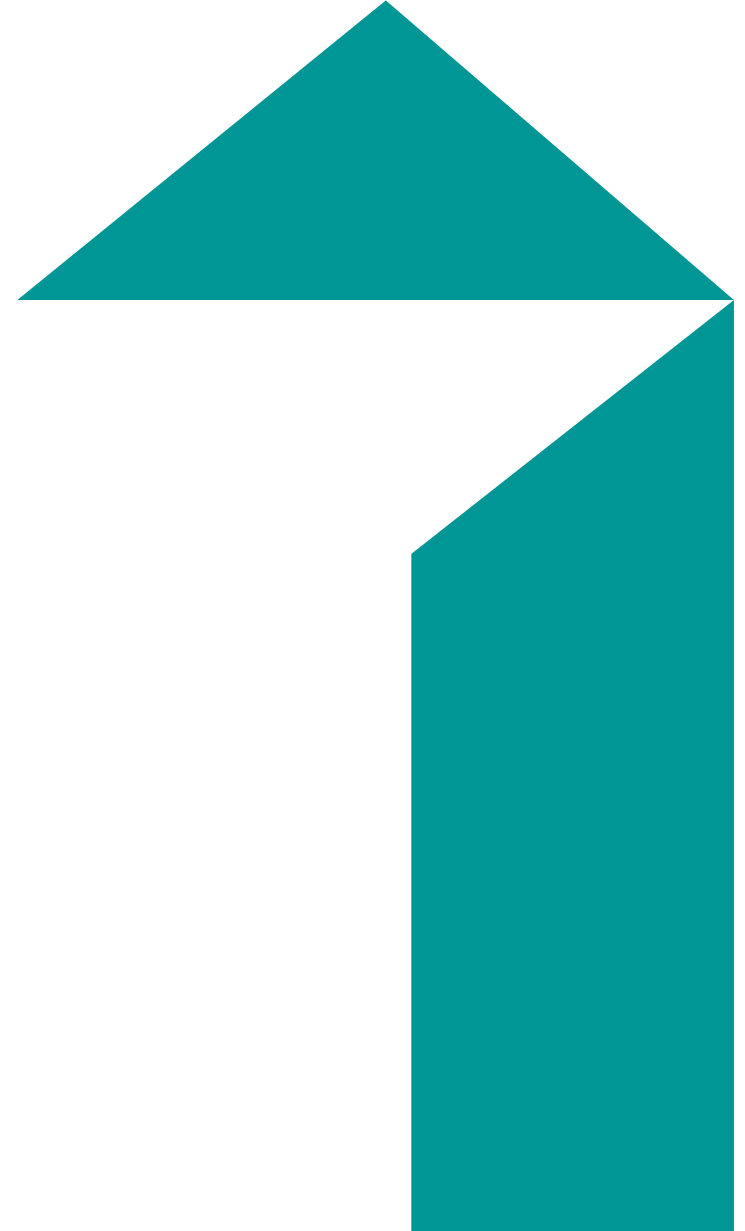
2. Report on PR24 draft determination response (Mott MacDonald)



PR24 Technical Assurance

Draft Determination-Final report

August 2024



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Issue and Revision Record

Revision	Date	Originator	Checker	Approver	Description
A	20 Aug 2024	AIJ Heather	J Burke	H Marshall	First issue.
B	20 Aug 2024	AIJ Heather	J Burke	H Marshall	Second issue post Wessex review
C	21 Aug 2024	J Burke	AIJ Heather	H Marshall	Update to audited table numbers
D	22 Aug 2024	AIJ Heather	J Burke	H Marshall	Update to include completed assurance on resilience and delivery.
E	22 Aug 2024	AIJ Heather	J Burke	H Marshall	Revision to information on resilience case.
F	22 Aug 2024	AIJ Heather	J Burke	H Marshall	Updated scope for delivery section.

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1 Introduction

1.1 Background

Owat sets maximum wholesale and domestic retail prices for water and sewerage services. It has published its draft determination of prices for 2025-2030, inviting consultation responses and company representations on its proposed decisions and expenditure allowances, by 28 August 2024.

This report sets out our scope and approach, our findings and assurance statement, carried out under our technical assurance contract “SERV.085”.

1.2 Scope: Changes to business plan tables

You asked us to sample a “critical set” of 81 data tables¹. You requested that “the scope of the (re)audits would be largely similar to last summer, though focusing primarily on any changes to the data compared to last October’s business plan submission.” We understood this to include updating historical data with the APR24 (representing 2023-24 outturn), confirming changes resulting from the pre-draft determination query process, and changes to activities or expenditure in response to Ofwat’s draft determination.

Where data from APR24 has been transferred to the PR24 tables, we agreed to audit the transfer and not to re-audit the APR data.

Appendix A lists the tables audited.

¹ Email from WC to AH, 19 June 2024.

1.2.1 Assurance tests

In line with the scope requirement, we applied a sub-set of the tests applied to your PR24 business plan, to the extent that they were relevant to each line reviewed. Table 1.1 lists the tests applied.

For reporting purposes, we grouped the tests into four broad categories:

- Data
- Processes and controls
- Reporting risk
- Performance commitment levels

Table 1.1: Assurance tests for data tables

Pre audit-checks
1. Have the documents for audit been uploaded to SharePoint?
2. Is this table/line linked to an APR24 table/line? If yes, please list the APR24 table/line reference.
Audit tests
<i>Data</i>
5. Is data collection and storage robust, including the upstream processes which generate the data?
<i>Processes and controls</i>
3. Has the data table/line been signed off by the owner and compiler?
4. Does the method statement (MS) adequately support the provision of consistent and accurate data and information? Has it been used to populate the reported figures?
6. Are the systems, controls, and processes in place adequate to provide consistent and accurate data and information. For example, is there a checks and controls process? Any internal sign-off tracker?

7. Has reported performance been calculated in accordance with the latest PR24 definitions/requirements?

Risk

10. Are there any material risks or issues that may impact the consistency or accuracy of reporting?

11. Is the data supported by audit trails, confirmed by sampling (at least 3 samples)

Performance commitments levels

12. (PCs only) Are the performance commitment levels in the plan stretching but achievable and do they reflect performance improvements expected from both base and enhancement expenditure

1.3 Scope: Climate resilience expenditure

You asked to consider your representation on the enhancement costs associated with improving resilience during 2025-2030, focusing on the Ofwat draft determination requirement, including:

- companies must set out the schemes they intend to deliver,
- this should, as a minimum, address additional flood and power resilience requirements from climate change,
- companies should clearly identify and demonstrate, supported by sufficient and convincing evidence, the causal relationship between the increasing risks and the climate change impact.

1.4 Scope: Capital programme deliverability

You asked us to consider your preparations for capital delivery, given the significant increase in expenditure for the next AMP.

1.5 Approach

Audits were carried out through in-person and/or video meetings, plus a review of presented documentation including the updated tables and

governance documents. You showed that you had a managed process to control changes post-audit.

We provided feedback after each audit and held follow-up audits as necessary.

2 Findings

2.1 Changes to business plan data tables

2.1.1 Data

We observed that changes to incorporate APR24 used the finalised APR 24 results directly.

We observed that changes to incorporate revisions or corrections resulting from Ofwat queries referred back to those corrections as their data source. We did not audit such changes at the time of the Ofwat query but no material errors were identified incidentally to observing their incorporation in the present tables.

We observed that changes resulting from updates to your expenditure or activity plans could be traced back to planning spreadsheets or were attributed to decisions at the PR24 board.

2.1.2 Processes and controls

We observed that, in general, there was evidence of good process and controls to make changes to reporting tables from source data. You have referred to source data and where changes are based on management decisions they have been overseen by senior managers and through a board-level review process.

For complex technical cost tables, and for tables presented to us immediately after compilation, we made recommendations for further internal checking and validation steps. Owing to time constraints we relied upon your confirmation that it had been done.

2.1.3 Reporting risks

We observed that the checks and controls in place appear to provide reasonable control the risk of material errors resulting from changes to your representation tables, for example through the changes authorisation process, reference to original data and methods, and by checking that table totals equate to your intended overall representation.

We understand that you will continue to update your tables. We **recommend** you conduct final checks prior to submission.

2.1.4 Performance commitments

We observed your performance commitment levels (PCLs) have been updated in your outcome tables. In updating your PCLs you have made a judgement as to the achievability of each. Owing to the more stretching PCLs overall, you are clearly adopting a more stretching position and by definition, delivery will be more challenging.

2.2 Climate resilience expenditure

Details of schemes: You have prepared a list of sites at which you propose to improve power supply resilience, for which costs have been estimated from quotations for example sites, together with your own estimates of civil and electrical works for installation.

As a minimum, address additional flood and power resilience requirements from climate change:

Your representation presents enhancement funding for power generation. Costs are derived from a sample of sites for which supplier quotations were received, and further allowances were made for civil and electrical installation works. You then extrapolated the costs across the proposed sites on an average-cost basis.

Clearly identify and demonstrate, supported by sufficient and convincing evidence, the causal relationship between the increasing risks and the climate change impact.

You refer to Ofgem's report on the impacts of Storm Arwen and the vulnerability of the power distribution network. We saw in your DWMP that you have assessed a range of consequences of site outage, from flooding or power loss.

Owing to the environmental, customer service and regulatory impacts of site outage, you have decided to provide power resilience at all sites with numeric consents if they do not already have standby power.

2.3 Capital programme deliverability

Our auditors challenged you to demonstrate the deliverability of your revised plan, especially given the potential scale of AMP8 investment. You showed that your plans avoid undue step changes in delivery, providing time to acquire the resources necessary to manage programmes.

With regard to supply chain capacity, you showed a range of actions that you have taken to prepare for delivery, recognising the significant increase in your capital programme proposed. You have appointed framework contractors, restructured your capital delivery team and begun recruiting more staff, more closely integrated with your parent company's capital delivery team, extending your supply chain to reduce the strain on the main water sector suppliers, begun to procure critical items, and are planning for land requirements and planning consent.

We expect that the large scale of AMP8 could lead to ongoing supply chain challenges in the short term, depending on the progress of other civil engineering projects which demand a similar workforce. You demonstrated that you are undertaking work to mitigate these challenges.

We have not reviewed all chapters of your final plan documents, but we concluded that your planning demonstrates your track record of performance,

and lessons learnt from poor performance, together with the activities outlined in your appendix "Transition and delivery" support the credible delivery of the proposals in your plan.

3 Assurance statement

To the Board of Wessex Water

We audited changes to technical tables of your PR24 business plan, during July and August 2024, under our technical assurance contract with you. We used a mix of video calls and in-person audits, together with desktop reviews of some supporting evidence.

We were given free access to people and information as necessary to complete our work. Our opinion is based on audits carried out during compilation of the tables, after which your change control process managed post-audit updates to finalise the tables.

In my professional opinion, based on and to the extent disclosed by our sampling carried out and as described in this report.

Changes to business plan tables

1. Data: The changes we sampled appear to have consolidated changes resulting from queries, APR24 outturn data and changes to expenditure plans in response to Ofwat challenges, as well as minor corrections.
2. Processes and controls: We observed good processes and controls for identifying, making, and finalising changes to your business plan tables. We **recommend** you complete the update of your internal notes recording the basis of the changes made, which at the time of audit was well under way but not fully completed.
3. Reporting risks: we observed that data, processes and controls appeared to be used effectively to mitigate the risk of material error in your updated tables. Owing to the limited time available and complex tables, minor errors are inevitable.

4. Performance commitments: Compared with your business plan submission of September 2023, the commitments are more challenging overall and hence more difficult to deliver. You have decided to take the deliverability risk on accepting Ofwat's proposed PC levels.

Capital scheme delivery

5. You showed that your plans avoid undue step changes in delivery, providing time to acquire the resources necessary to manage programmes.
6. The delivery steps outlined in your draft appendix "Transition and delivery" are supported by evidence shown to us during August 2024. You appear to be making good progress with both resourcing and procurement.

Climate resilience expenditure

7. You have responded to Ofwat's draft determination requirements with a case for power resilience, based on a site-level assessment of consequences of power outage.
8. Average cost estimates were based on quotations for generators of various sizes, plus estimates of the installation costs, on a pre-design basis.
9. The link to climate change is made via your experience of storm impacts on power supplies, and Ofgem assessments of the vulnerability of the power distribution network.

Yours sincerely,

Dr Andrew Heather
Technical assurer

A. Tables audited

We sampled changes made since your initial business plan submissions, in the tables listed below.

Table 2: Table Audited

Tables	Table Description
1: Outcomes	
OUT2	Outcome performance from base expenditure - Performance commitments
OUT4	Underlying calculations for common performance commitments - water and combined
OUT5	Underlying calculations for common performance commitments - wastewater
OUT6	Summary information on outcome delivery incentive payments
OUT7	Outcome performance - ODIs (financial)
OUT8	PR19 outcome performance summary
OUT9	Biodiversity - Habitat information
2: Costs (wholesale) - water	
CW1	Totex analysis - water resources and water network+ (post frontier shift and real price effects)
CW1a	Totex analysis - water resources and water network+
CW2	Base expenditure analysis - water resources and water network+
CW3	Enhancement expenditure - water resources and water network+
CW4	Raw water transport, raw water storage and water treatment data
CW5	Treated water distribution - assets and operations
CW6	Water network+ - Mains, communication pipes and other data
CW7	Demand management - Metering activities
CW7a	Transition and accelerated programme-Demand management - Metering activities
CW8	WRMP schemes (excluding leakage and metering activities)

Tables	Table Description
CW9	Enhancement expenditure (cumulative) - water resources and water network+
CW12	Transitional expenditure - water resources and water network+
CW18	Cost adjustment claims - base expenditure: water resources and water network+
CW19	Demand management - Leakage expenditure and activities
CW21	Water - net zero enhancement schemes
3: Costs (wholesale) - wastewater	
CWW1	Totex analysis - wastewater network+ and bioresources (post frontier shift and real price effects)
CWW1a	Totex analysis - wastewater network+ and bioresources
CWW2	Base expenditure analysis - wastewater network + and bioresources
CWW3	Enhancement expenditure - wastewater network+ and bioresources
CWW4	Wastewater network+ - Functional expenditure
CWW5	Wastewater network+ - Large sewage treatment works- Lines 1-10, Line 17
CWW5	Wastewater network+ - Large sewage treatment works- Lines 11-16
CWW6	Wastewater network+ - Sewer and volume data
CWW6a	Transition and accelerated programme - Wastewater network+ - Sewer and volume data
CWW7a	Wastewater network+ - Sewage treatment works; size and consents
CWW7b	Wastewater network+ - Sewage treatment works data; UV permits
CWW7c	Wastewater network+ - Sewage treatment works data; treatment type
CWW8	Wastewater network+ - Energy consumption and other data
CWW8a	Transition and accelerated programme - Wastewater network+ - Energy consumption and other data
CWW9	Enhancement expenditure (cumulative) - wastewater network+ and bioresources
CWW12	Transitional expenditure - wastewater network+ and bioresources
CWW18	Cost adjustment claims - base expenditure: wastewater network+ and bioresources
CWW19	Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers

Tables	Table Description
CWW20	Wastewater network+ - Sewage treatment works population, capacity and network data
CWW20 a	Wastewater network+ - WINEP nutrient removal (phosphorus and total nitrogen) scheme costs and cost drivers
CWW22	Wastewater - net zero enhancement schemes
4: Water resources	
RES1	Water resources asset and volumes data
5: Bioresources	
BIO1	Bioresources sludge data
BIO4	Bioresources sludge treatment and disposal data
6: Long-term strategies	
LS1	Forecast outcomes
LS2	Forecast outcomes from base expenditure
LS3	Wholesale water totex enhancement expenditure by purpose, core pathway
LS3a	Wholesale water totex enhancement expenditure by purpose, alternative pathway 1
LS3b	Wholesale water totex enhancement expenditure by purpose, alternative pathway 2
LS3c	Wholesale water totex enhancement expenditure by purpose, alternative pathway 3
LS3d	Wholesale water totex enhancement expenditure by purpose, alternative pathway 4
LS4	Wholesale wastewater totex enhancement expenditure by purpose, core pathway
LS4a	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 1
LS4b	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 2
LS4c	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 3
LS4d	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 4

Tables	Table Description
LS4e	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 5
LS4f	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 6
LS4g	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 7
LS4h	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 8
LS4i	Wholesale wastewater totex enhancement expenditure by purpose, alternative pathway 9
LS5	Wholesale water totex enhancement expenditure under common reference scenarios
LS6	Wholesale wastewater totex enhancement expenditure under common reference scenarios
LS7	Average total water, wastewater and combined bills under core and alternative pathways
7: Supplementary tables	
SUP1A	Connected properties, customers and population
SUP1B	Properties and meters
8: Past delivery	
PD8	Totex analysis – wholesale
9: Additional Tables	
ADD1	Base expenditure analysis - water resources and water network+ (CW2 equivalent; post-frontier shift efficiency and real price effects basis)
ADD2	Enhancement expenditure - water resources and water network+ (CW3 equivalent; post-frontier shift efficiency and real price effects basis)
ADD4	Transitional expenditure - water resources and water network+ (CW12 equivalent; post-frontier shift efficiency and real price effects basis)
ADD6	Base expenditure analysis - wastewater network + and bioresources; post-frontier shift efficiency and real price effects basis
ADD7	Enhancement expenditure - wastewater network+ and bioresources (CWW3 equivalent; post-frontier shift efficiency and real price effects basis)

Tables	Table Description
ADD9	Transitional expenditure - wastewater network+ and bioresources (CWW12 equivalent; post-frontier shift efficiency and real price effects basis)
ADD14	IED table BIO 7 Bioresources - Industrial Emissions Directive scheme costs and cost drivers
ADD15	PR24 Water Industry National Environment Programme (WINEP) Cost Estimates CWW27
ADD17	Sanitary determinands scheme data - CWW23
ADD19	Wastewater network+ - Growth at STWs scheme costs and cost drivers
ADD20	CWW25 - Wastewater network+ - Storm Overflow spill reduction (network)
ADD24b	ADD24b Large enhancement schemes expenditure - enhanced engagement process



3. Long-term delivery strategy – assurance review (Sustainability First)

Matt Greenfield
Regulation director
Wessex Water

Martin Hurst
Sustainability First
14 August 2024

Dear Matt

I was asked by Wessex Water to review their revised long-term delivery strategy (LTDS) with a view to resubmission to Ofwat. I have sought to assure compatibility with the Ofwat guidance (which by way of background I was brought in by Ofwat to help write).

The document has progressed massively since it was first discussed with me, and my substantive suggestions have all been taken on board. Overall, I can offer assurance that the document is broadly compatible, with the caveat that I am only able to give assurance on the drafting and content of the plan, not the detailed figuring. Wessex Water have, on my advice, also obtained a letter of comfort on the data tables from their technical contractors: Mott Macdonald.

My assurance also covers the minor changes I understand have been made to the plan following Ofwat's draft determination, which I have been talked through: but I have not in the time available been able to give the revised plan a full assessment so have to take the company's assurance that the changes are indeed relatively minor. I have however specifically reviewed the further material on board assurance, which is of good quality.

On specific detail:

- Points made from my preliminary assessment several months ago have been very largely taken on board. The extent of rewriting has been considerable, so of course errors may have crept in. But the new document looks to me much improved. There is a good and clear assessment of how the plan has taken on board points from Ofwat's feedback to the company after their presentation in Jan/Feb 2023 and identified issues with the version submitted to Ofwat last October as part of Wessex Water's business plan. There is also a much clearer summary of the required enhancement spend over time.
- The plan is not simply a regulatory compliance document, but also reflects the company's own long-term strategy. This is important (including to Ofwat) and from what I have seen it is owned across the company. Senior management and the board may wish to emphasise the desirability of this in internal communication.
- The Ofwat guidance is clear that there should be quite a high evidential bar to developing company specific scenarios. I am satisfied that Wessex Water have approached the one company specific scenario – on landbank availability – in this spirit and that scenarios which would not pass a materiality test have been discarded.
- The approach to adaptive planning and trigger points seems broadly consistent with the Ofwat guidance and demonstrates good understanding of the principle of adaptive planning.

- Board assurance and stakeholder/customer engagement both seem broadly consistent with the guidance. The document demonstrates, for example, that the Board and Customer Challenge Group have had a chance to review the new document.
- Work has been done to align the plan with the Ofwat guidance on how to approach net zero targets – in particular their guidance on the use of the sixth carbon budget targets and target dates as a mid-point.
- The treatment of the Water Resource Management Plan, which has caused all companies some difficulty, is now compatible with the Ofwat guidance: notably, the central scenario from the WRMP is presented as an 'alternative scenario' in the LTDS, and I am assured by Wessex Water that the modelling of the 'core pathway' in the LTDS is a low and no regrets variant of the WRMP.
- Wessex Water will want to judge for themselves whether they could do more to show that they have fully complied with Ofwat's requirements to demonstrate 'forecast improvements from base expenditure'. This is ultimately not something the guidance gives a clear figure for. Given the importance which Ofwat are likely to attach to this element the Board may want to form an explicit judgement on this element – and might also consider whether they could hard wire scenarios for technological changes more fully into forecast efficiencies.

That is not, of course, to say that Ofwat will accept all the proposals. At my suggestion Wessex Water have helpfully separated statutory from non-statutory drivers.

Yours

Martin Hurst

4. Wessex Water Customer Challenge Group letter on PR24 draft determination response

WESSEX WATER CUSTOMER CHALLENGE GROUP

Wessex Water Services Limited
Claverton Down Road
Claverton Down
Bath
BA2 7WW

For the attention of Matt Greenfield, Director of Strategy and Regulation

27 August 2024

Dear Matt,

Wessex Water's response to the Ofwat Draft Determination on its Business Plan 2025-2030

I am writing to you with the Wessex Water Customer Challenge Group's views and observations on the company's response to Ofwat's Draft Determination on its Business Plan for 2025 to 2030.

The Group's membership includes experts in customer engagement, social and environmental policy and regulation, customer service and affordability and vulnerability. Its expertise does not extend to technical and financial matters.

While CCW and the Environment Agency are members of the Group, they are providing their organisations' views of the Draft Determination to Ofwat separately. Their views are not necessarily reflected in this letter.

Background

The Group reported on the Wessex Water Draft Business Plan in October 2023. It said that it was satisfied that the company's research for its Plan had been carried out in line with the expectations of Ofwat. The research was generally of good quality and the company built its Plan in line with the views it heard from customers. However, it noted the biggest areas of spending in the Plan were those dictated by the government and the environmental regulator and so the areas in which customer opinion has guided the content of the Plan were limited. The Group was satisfied that the company had accounted for the priorities of its customers where the regulatory framework allowed it leeway to do so. The Group also felt the company's policies towards the affordability of its bills and helping its vulnerable customers would be helpful and effective.

The Group has received briefings from the company in July and August on the Draft Determination and its proposed response to it (prior to its Board sign off).

The Group was able to question and challenge the company over its proposed response.

The Group has reviewed company’s response against the customer priorities resulting from the engagement for its Draft Business Plan last October to assess whether it remains aligned with these. The top eight priorities were:

Customer Priority Ranking	Area
1	Safe and reliable water
2	Affordability
3	Effective sewerage system
4	Excellent river and coastal water quality
5	Excellent customer service
6	Increase biodiversity
7	Net zero carbon
8	Sustainable abstraction

Quality and Ambition Assessment (QAA)

The Group was very disappointed to see that the company’s Draft Business Plan was deemed by Ofwat to be inadequate against its QAA. The Group challenged the company on why it chose to submit a Plan that was likely to be ‘non-compliant’, particularly in relation to its cost of capital assumptions. The company explained that it wanted to be clear that it disagreed with Ofwat’s assumptions. The company also noted that the Plan fell short of Ofwat’s expectations with regard to its nutrients programme, its assurances around financeability and financial resilience, its Long Term Delivery Strategy (LTDS), some cost allowances and some performance targets.

The Group has expressed concern to the company over the possible reputational damage the QAA assessment has caused (although the company has informed the Group that this has been limited). It is reassured to see that the company is addressing the QAA issues in its response to the Draft Determination.

Financing

The Group understands the materiality of the impact of the assumption on cost of capital on investment levels and customer bills. It notes that, while the company has now adopted Ofwat’s cost of capital assumption in its financial modelling, it continues to make it clear that it believes this to be inadequate and that the rate should be higher. The Group has challenged the company on what it would do if agreement with Ofwat cannot be reached and would be very concerned if it increased the level of bills further. While not party to the company’s financial strategy, it takes comfort in learning that the company is determined, and hopeful, to reach agreement with Ofwat on this issue.

The level of the shareholder equity in the business was also challenged by the Group. Following discussions, the Group accepted that this is a commercial decision for the company Board to take.

Long Term Delivery Strategy (LTDS)

The Group was asked to comment on the company's LTDS and is pleased to learn that its comments around clarity will be taken on board in the company's final submission.

Investment, Costs and Efficiency

The company has explained to the Group the changes to its investment programme since the draft submission last October. These include statutory increases to the scope of the nutrient removal programme and additional storm overflow, bathing water and PFAS work. The Group also understands that some company cost estimates and Ofwat expenditure allowances in other areas of work have increased.

The Group welcomes Ofwat's pressure on the industry to drive efficiencies in its investment as this benefits customers. It is pleased that the company has identified significant efficiency savings in its programmes for nutrient removal and bioresources and other areas of its investment programme.

The net effect of the increased scope of work and the efficiency savings means that the value of the totex investment programme for 2025 to 2030 remains around £5bn.

The Group cannot comment on the company's cost estimates and efficiency assessments. However, it welcomes that the scope of the revised investment programme remains aligned with the company's statutory obligations and the priorities of its customers (as assessed last year).

The independent Chair of the company's Catchment Panel is a member of the Group. He has advised the Group that the Panel has serious concerns that the Draft Determination excludes around £50m of expenditure for environmental investigations and implementation investment identified within the Water Industry National Environment Programme (WINEP), running counter to guidance documents produced by Government and regulators. The Catchment Panel will be asking Ofwat to reconsider this.

The Group notes that the company is providing further evidence to Ofwat to counter the benchmarking and other assumptions used by the regulator for setting investment levels in capital maintenance, leakage, pollutions and flooding, wastewater recycling centre (WRC) growth, resilience and investigations. The Group is unable to comment on the strength and validity of the company's arguments. However, it notes that a safe and reliable water

supply, and effective sewerage system and excellent river and coastal water quality (along with affordable bills) were the company's customers' top four priorities. The Group wishes to see the scope of investment preserved in these areas.

Customer Bills and Affordability

In its Draft Business Plan submitted last October, the company assessed that customer bills would have to rise by 29% by 2030 based on its assumed levels of investment and cost of capital. The Group accepted the company's assertions that the increases were necessary to meet the (largely compulsory) asset and operational improvements. The Plan included measures and policies to address the affordability of this bill increase and to protect its vulnerable customers. The Group was satisfied with these.

Ofwat's Draft Determination has reduced the company's investment plan by around 34% and this, coupled with the regulator's assumption on the cost of capital, would result in a bill increase of around 13%. The Draft Determination still included the measures and policies to address the affordability of the higher bill increases, leading to a decrease in bills of 2% by 2030.

The company's response to the Draft Determination includes an investment programme that is similar in value to its draft Business Plan, albeit with changes in scope of work and including efficiency assumptions as described above. Despite using Ofwat's assumption on cost of capital in its financial modelling, customer bills would still rise by 29% by 2030, after applying an affordability process similar to the one used in the original submission, to address bill rises in a way to keep them below 30%.

The Group notes that affordable bills were customers' second priority. It is unable to comment on the company's financing strategy, investment costs and efficiencies. However, it would like to see the lowest bills possible, commensurate with the company meeting all its statutory obligations. It welcomes that the company is still planning to implement its original policies and processes around affordability and vulnerability for 2025 to 2030.

The company was still undertaking bill profiling over the five years at the time of the Group's review. It informed the Group of its intention to limit bills increases to no more than 10% per annum. The Group would like the company to avoid successive annual increases of this magnitude if at all possible.

Performance commitments and targets

The company has briefed the Group on its proposed amendments to its performance targets in 2025 to 2030 in response to Ofwat's Draft Determination. These include more stretching targets in ten cases, amended targets in two (to

reflect changes in the investment programme) and maintaining its original targets in the remaining five areas.

In the Draft Determination Ofwat identified the need for the company to improve its levels of stretch from enhancement expenditure in relation to meeting government targets, particularly around leakage and per capita consumption. The company has also accepted further stretch for CRI (drinking water quality), mains repairs, internal sewer flooding, sewer collapses, total wastewater pollutions, serious pollution incidents, storm overflow spills (average per overflow) and biodiversity.

The Group is pleased to see that the company is now planning to take on more risk and meet more stretching targets for these measures, as they relate directly to its customers' priorities and impact the level of service associated with them. In our meeting we questioned why these had not been included in the original Business Plan.

The company has explained to the Group why it is maintaining its original targets on five measures despite Ofwat wanting to see more stretching performance in these areas. These include unplanned outage, customer contacts about water quality, discharge permit compliance and operational greenhouse gas emissions. The reasons given by the company mainly include disagreement over the scope and definition of commitments and incentives, the level of investment being allowed to meet them, and some PCs will drive perverse and counter-productive outcomes. The Group has noted these and hopes that agreement between the company and Ofwat can be reached.

The Group notes that the Catchment Panel has concerns over Ofwat's proposed common Biodiversity performance commitment due to differences in the size and nature of companies' landholdings and the proposed timing of investment and reporting mechanisms (amongst other things). It is understood that the Catchment Panel will be making representations to Ofwat on this.

Customer Experience (C-MeX)

The Group sees that the company, along with most others in the sector, have concerns over the design of the new C-MeX measure (particularly with regard to benchmarking against the all-sector UKCSI average score and the proposed incentive calculation methodology) and its effectiveness in improving customer experience. The industry is suggesting that further work be done by Ofwat and the industry to address these concerns. The Group is supportive of the company's position.

Other issues

The company has explained to the Group its concerns over other issues associated with the Draft Determination. These include Ofwat's uncertainty

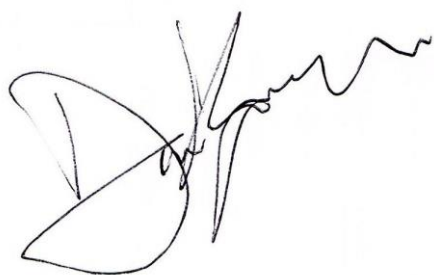
mechanism, the proposed Price Control Deliverables (PCDs) and Outcome Delivery Incentives (ODIs), risk and investability, the increased regulatory burden and the revised PR24 timetable.

The Group is not qualified to comment in detail on these issues. However, it has sympathy with the company's resistance to PCDs. The Group would not welcome any system which forced companies to make sub-optimal investment decisions in terms of best value or in the best interest of customers or the environment.

In summary, the Group is supportive of the company's revised Plan but has concerns about the uncertainty over the cost of capital that remains. The revised Plan is intended to address Ofwat's QAA concerns. It includes broadly the same discretionary deliverables as the original Plan, and which customers have had some say, plus some extra statutory investment that also aligns with their priorities for environmental improvements. The Group is pleased to see that the company had identified areas where it can achieve higher service targets and deliver significant cost savings in its investment programme. The company has found efficiency savings in its programme, but these are set against increases in the scope of statutory work with the result that proposed bill increases remain the same as in the Plan submitted last year. Customers will be keen to see efficiencies keeping charges as low as possible. The Group welcomes that the company still plans to implement its policies and schemes to help vulnerable customers and with the affordability of the increased bills. It will continue to encourage the company to look at ways to reduce its costs.

I trust these observations will be helpful to the company, and to Ofwat in producing its Final Determination on Wessex Water's Business Plan for 2025 to 2030.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dan Rogerson', with a large, stylized initial 'D' on the left.

Dan Rogerson
Chair Wessex Water Customer Challenge Group

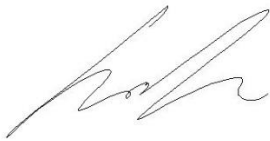
5. Internal data table assurance

To: Wessex Water Board

In reference to the Finance Directorate review of 73 tables for Wessex Water's response to the draft determination. I can confirm we were given free access to people and information as necessary to complete our work.

In our opinion, based on to the extent disclosed by sampling and reviews carried out between 5 August 2024 and 19 August 2024:

1. The data in the response tables has been completed appropriately.
2. Where errors and omissions were found as a result of our reviews, these were corrected upon notification to the respective table owners.



Lee Derrick FCCA
Group Financial Controller
Wessex Water Services Ltd

6. Financeability assurance (Economic Insight)

Matt Greenfield
Operations Centre
Claverton Down Road
Claverton Down
Bath
BA2 7WW

22 August 2024

Letter of assurance regarding Wessex Water's approach to considering financeability in its representation on Ofwat's consultation on its PR24 Draft Determinations

Instructions

Wessex Water Services Ltd (Wessex) has instructed Economic Insight Ltd (EI) to undertake an assurance review of its approach to considering financeability in its representation on Ofwat's PR24 Draft Determinations.

For the purpose of providing this assurance, I have been provided the following documents: WSX-R01, WSX-R02 and WSX-R05.

My understanding of Wessex's approach to considering financeability

I understand that Wessex has taken the following steps to consider the financeability of its representations:

- Wessex has used Ofwat's view of the allowed return of 3.72% appointee-level WACC (as set out in its Draft Determinations) in its data tables to assess financeability on the basis of a notional capital structure using Ofwat's financial model.
- On the basis of the above, Wessex has been able to confirm that it is financeable, in the narrow sense that it can maintain an investment-grade credit rating (BBB+/Baa1) and therefore raise debt at reasonable terms.
- The above is contingent on Wessex being able to retain (or, attract) equity under Ofwat's Final Determinations.
- However, Wessex is concerned about its ability to retain (or, attract) equity at Ofwat's current view of the allowed return, and has therefore proposed an alternative WACC.
- On this basis, it has reached the following conclusion in its proposed Board assurance statement:

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

The board can confirm that the actual company is financially resilient over the 2025-2030 period and beyond under its business plan. This is subject to raising the necessary debt and equity financing and the board anticipates that the final determination will set a WACC at a sufficient level to facilitate this. As part of our submission the board has provided a viability statement out to March 2035 having satisfied itself that our plan will support the financial resilience of the company over at least this period."

My observations on Wessex's approach to considering financeability

I consider that Ofwat's financeability duty requires it to ensure that a properly defined notional company can access steady and reliable sources of finance, on reasonable terms, in order to provide the required level of service to its customers and meet its statutory obligations.

The established approach to adhering to the financeability duty requires that, in relation to a notionally (hypothetically) efficient company:

- First, expected investor returns are commensurate with the underlying level of investor risk. In turn, this requires the regulator to set:
 - (a) determinations (when considered as a whole) that provide a symmetrical balance of equity risk¹; and
 - (b) an appropriate level of WACC (and, within the WACC, the cost of equity and the cost of debt) commensurate with the above balance of risk faced by equity and debt investors.
- Second, the notional company to be able to raise debt finance on reasonable terms.

Should the assumptions that Ofwat has proposed regarding the assessment of notional financeability be valid, and should those assumptions further be consistent with Wessex being able to retain (or, attract) equity investment, then I would agree with the company's assessment that, using Ofwat's financial model, an investment grade credit rating is reported, indicating the company could raise debt finance on reasonable terms.²

However, I consider that Ofwat's assessment of the cost of equity does not accurately reflect the underlying risk faced by equity investors in the sector. I therefore consider it unlikely that Wessex can retain (or, attract) equity at Ofwat's view of the allowed return of 3.72% appointee-level WACC, and therefore, the first financeability condition is not fulfilled.

Further to the above, I do not consider that the assumptions regarding the notional company (as proposed by Ofwat, including for use in financeability testing) are sufficiently robust to be relied upon. This includes the assumption that the notional capital structure (gearing) is 55%; and the assumption that the notional company faces a symmetrical balance of risk. I am also concerned about possible inconsistencies between Ofwat's assessment of the gains the notional company can make in relation to productivity and service quality and the regulator's current proposed cost of equity. Finally, I am concerned regarding tensions between a further slowing down of cost recovery (as achieved through the PAYG rates and RCV run-off rates for the notional company) which lengthens the time horizon over which equity investors would realise their return and material method changes to the regulatory framework (signalling to said investors that they face risks of further material method changes in future). The slowing down of cost recovery also reduces available cash flow in the near term, which may have implications for the notional company's ability to make necessary investments. In combination, these assumptions therefore raise the risk of a 'false positive' when undertaking financeability assessments (whereby one wrongly concludes that the notional company is financeable – particularly from an equity perspective).

Assurance statement

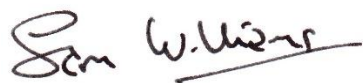
Following from the above, I can provide assurance that Wessex has taken an appropriate approach to considering financeability, predicated on the assumptions that the regulator has asked it to make.

¹ By which I mean the 'most likely' outcome is that equity investors in the notional company earn the allowed equity return.

² I note that I have not checked underlying models and, therefore, I rely on Ofwat's financial models (and, Wessex's use of them) to be correct and the assessment based on them to be correctly reported in the documents Wessex shared with me.

I am happy to confirm that the above is my independent opinion, having undertaken my review.

Yours sincerely,

A handwritten signature in black ink that reads "Sam Williams". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Williams, Director.