

Yorkshire Water

PR24 Investor update session

11th October 2023



YorkshireWater

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PR24 Business plan submission update



We've submitted our plan for 2025–2030 to Ofwat

**A thriving Yorkshire.
Right for customers.
Right for the
environment.**

- Delivering our largest ever environmental investment
- Improving the resilience of our network of pipes to continue to deliver safe, clean water now and in the future
- Making sure all low income households have access to financial support



Our plan outlines £7.8bn investment across the region between 2025 and 2030



£4.3bn

£4.3bn will support plans for a healthy, natural environment, with a focus on protecting and improving river and coastal water quality, to create a cleaner, safer water environment.



£3.1bn

A £3.1bn investment will drive efforts to deliver secure, safe clean water supplies with improved resilience of its network of pipes and a focus on future water resource needs.



£446m

The plan outlines investment in customer service and an increase in support available to customers with an investment of £446m.



£250m

Financial support for half a million customers. Help with water bills for 280,000 customers. £250m worth of financial support across five years.



45,000

Engagement with more than 45,000 customers and stakeholders. 78% of them found the plan acceptable.



10,000

The plan will support employment for more than 10,000 people across Yorkshire.

Bringing our plan to life

A thriving Yorkshire – a clear vision for the region



Secure, safe, clean water supplies

Deliver safe, clean, great tasting water and ensure we can continue to meet water demand in future.



First-class customer service

Provide a tailored, reliable service and make sure that we are easy to interact with, in whatever way our customers choose to get in touch.



Bills everyone can afford

Deliver value for money to our customers, keep bills as low as possible, and offer the right support to customers who struggle to pay.



Modern and resilient infrastructure

Build and operate efficient, climate-resilient infrastructure to provide reliable services for our customers.



Net zero carbon emissions

Reduce carbon emissions towards net zero across our business and supply chain.



A healthy, natural environment

Reduce pollution and sewer flooding, improve river quality, and enhance biodiversity across the region.

Bringing our plan to life

Right for customers – a plan that delivers on the diverse needs of our customers in Yorkshire



£446m

has been outlined in the plans to deliver first-class customer service.



Bringing our plan to life

Right for customers – a plan that delivers on the diverse needs of our customers in Yorkshire



Delivering a service that is reliable and easy, resolves queries as quickly as possible.



Making sure our services are accessible and cater for the extra needs of customers.



Proactively letting customers know about any issues on channels of their choice whilst also providing extra assistance for those that needs it.



Support for those who are struggling to pay the bills.

Right for customers



Bringing our plan to life

Right for customers and right for the environment

The submission outlines **£3.1bn** investment to deliver secure, safe clean water supplies including:

£2.4bn

investment to improve supply resilience through increased mains replacement from 211.6 mains repairs per 1000 km mains to 199.3 mains repairs per 1,000 km of mains by 2030.

£95m

to maintain safe, clean water supplies.

£83m

to enhance collaboration with landowners and stakeholders to improve land management.

£461m

to secure future water resources which includes the addition of new boreholes and the upgrade of water meters to smart meters.



Right for customers



Right for the environment



Bringing our plan to life

Right for the environment



£4.3bn

Yorkshire Water's also submitted to Ofwat its largest ever environmental investment plans, with a £4.3bn investment in a healthy, natural environment, including:



Right for the environment



Bringing our plan to life

Right for the environment

£1.9bn

to reduce the use of storm overflows and to protect the environment. Reducing monitored spills from 71,200 in 2024/25 to 54,769 in 2029/30.

£1.8bn

to maintain and improve wastewater collection and treatment.

£347m

to ensure Yorkshire Water's bioresources facilities continue to deliver.

£155m

to reduce air emissions; ensure infrastructure meets the need of a growing population.

£51m

invested in measures to reduce greenhouse gas emissions.

£26m

to continue work to tackle flooding issues through Living With Water.



Right for the environment



Accelerated investment

Activities support company's commitment to improving bathing water



£66.298m

**Ofwat have supported
two accelerated
infrastructure delivery
projects.**

The two schemes are as follows:

1

Inland bathing water improvement scheme – River Wharfe Ilkley

- UK's first designated inland riverine bathing water



2

Coastal bathing water improvement

- Enhancements to the Wheatcroft combined sewer overflow in Scarborough to meet the spill target for coastal bathing water of an average of two spills per bathing water season



Performance commitments



We've prioritised performance improvements in areas that matter most to our customers:

- providing safe water
- focusing on environment



78% of customers support our plan

Customers, stakeholders and shareholders support our plans

Plan was built using insight from engagement with more than 45,000 customers and stakeholders from around the region on their priorities.



78%
of customers support our plan



Environmental priorities are supported by the Yorkshire Leaders Board which is the Business in the Community strategic leadership team for Yorkshire.



Shareholders have committed to supporting the aims of the business through further funding to deliver plans to help Yorkshire thrive. This includes £100m before end of March 2025 and £440m before end of June 2027.

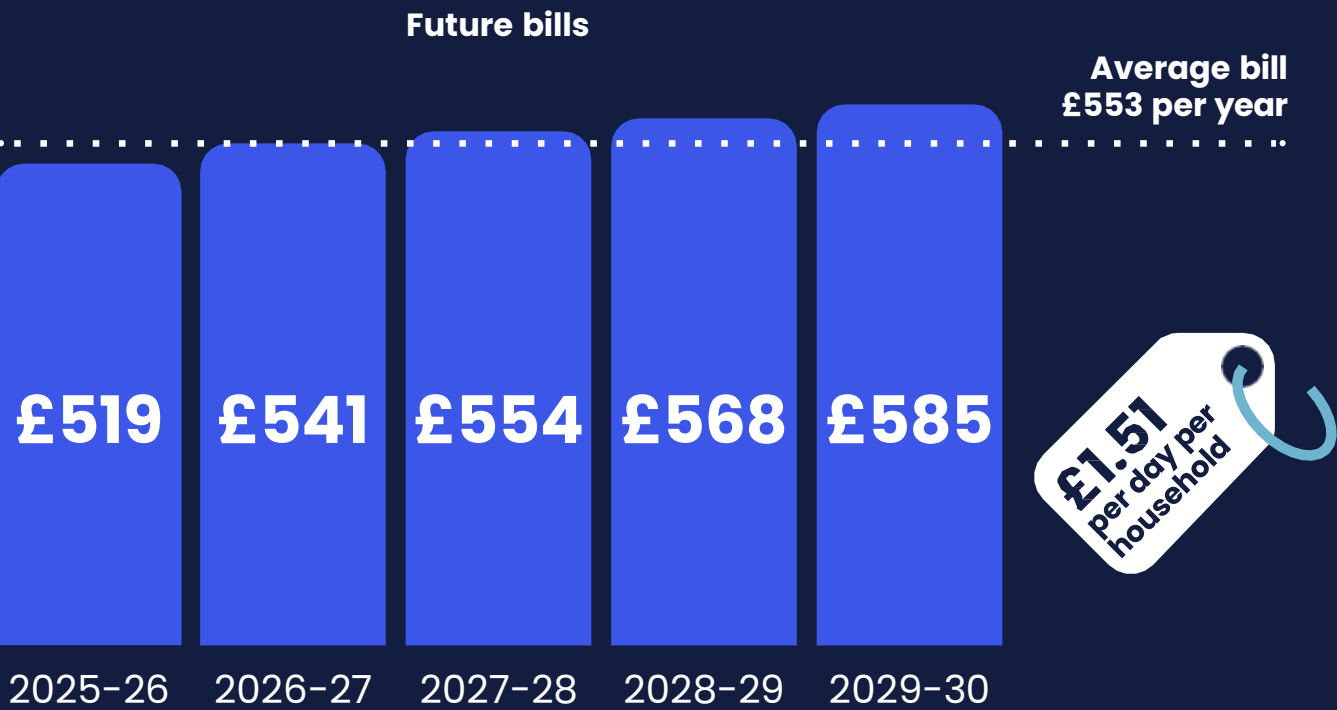


Bill impact

How our plan will impact future annual household customer bills between 2025–2030

Average household bill, £/property in 2022/23 prices

Breakdown of bills between 2020–2025



Yorkshire Water Executive Team



Nicola Shaw CBE
Chief Executive Officer



Paul Inman
Chief Financial Officer

Ben Roche
Director of Wastewater

Dave Kaye
Director of Clean water

Imran Patel
Director of Customer
Experience

Richard Stuart
Director of Asset Delivery

Andy Haywood
Chief Modernisation
Officer

Chris Offer
Director of Regulation

Kathy Smith
Company Secretary

Peter Jacques
Interim Director of Health
and Safety

Michelle Naisbitt
Interim Director of Human
Resources

Financial information



Cost position

- Modelled base allowance reflects growth and increased costs across sector e.g. energy
- Cost adjustment claims for base costs not captured in Ofwat's models – ongoing removal of phosphorus, proportion of combined sewers, and smart meter renewal programme
- Targeted allowances for clean water asset health e.g. mains renewal
- WRMP increase due to expenditure to address future deficit in water supply and demand balance
- WINEP increase due to cost of meeting environmental requirements
- £400m efficiency improvement plus £148m frontier shift as we drive our modernisation agenda
- We have proposed 3 large schemes to be delivered through a DPC route (Total AMP8 value of an estimated £505m in addition to £7.8bn)

		PR24 £m 22/23	PR19 £m 22/23
Base	Modelled base costs	3,903	3,683
	Cost adjustment claims	302	–
	Targeted allowances – Asset health	429	–
	Total base	4,634	3,683
Enhancement	WRMP	286	33
	WINEP	1,773	921
	Bathing water storm overflows	261	–
	Other enhancement	436	337
	Total enhancement	2,757	1,291
Wholesale	Total wholesale totex	7,391	4,974
Retail	Retail costs	449	345
Total	Total costs	7,840	5,319

Cost position

- PAYG and run-off rates have been set at “natural” levels
- IRE reclassified from PAYG to run-off in line with Ofwat guidance
- Reduction in “natural” PAYG rate as increase in costs predominantly capex based
- Real revenue growth of 32%
- Real RCV growth of 24%
- Nominal RCV growth of 37%, with £12.8bn RCV by 2030

	PR24 £m 22/23	PR19 £m 22/23
Opex	2,988	2,413
IRE	748	551
Capex	3,655	2,010
Wholesale totex	7,391	4,974
Retail costs	449	345
Total costs	7,840	5,319
PAYG rate	40.6%	60.6%
Run-off rate	4.6%	3.8%

WACC

- Updated risk free rate, embedded debt rate and new debt rate to end of July 2023 following Ofwat clarification on methodology
- We highlighted concerns with Ofwat's cost of equity methodology, given sector need to raise equity, but insufficient premium within cost of equity above cost of new debt
- Presented alternative view from 3 experts with WACC ranging from 3.49% to 4.24%
- Have adopted Ofwat methodology updated for July 23 market data (incl risk free rate, embedded debt rate and new debt rate)

WACC analysis (CPIH real)

	YW Plan	Ofwat Early view
Cost of equity	4.55%	4.14%
Cost of debt	2.94%	2.60%
Notional gearing	55%	55%
Appointee WACC	3.66%	3.29%

Regulatory true-up

- Totex mechanism provides 45% protection against recent cost inflation, together with £80m customer contribution to additional £180m storm overflow investment
- Cost of debt indexation protects against recent rise in interest rates
- RPI/CPIH wedge mechanism protects against recent rise in the RPI / CPIH wedge
- Regulatory framework provides true-ups against key elements impacting performance in AMP7
- ODI position is latest forecast for end of period penalties, such as PCC, plus forecast penalties in FY24 and FY25

Prior period adjustments	Revenue £m 22/23	RCV £m 22/23
Totex mechanism	130	58
Cost of debt indexation	58	—
RPI / CPIH wedge mechanism	39	—
ODI rewards / (penalties)	(51)	4
Other	—	(4)
Total adjustment	176	58

Strong liquidity position

- Strong current liquidity position following £400m shareholder fund receipt and £202m July bond tap issuances
- RCF facilities increased by £30m during Sept 2023
- Total RCF and liquidity facilities now total £982m
- Inflation linked swaps with £176m notional value cancelled post year end – settling £141m accrued accretion liabilities
- Minimal debt maturities remain in AMP7 (£113m)
- Targeting minimum liquidity of 15 months cash requirement

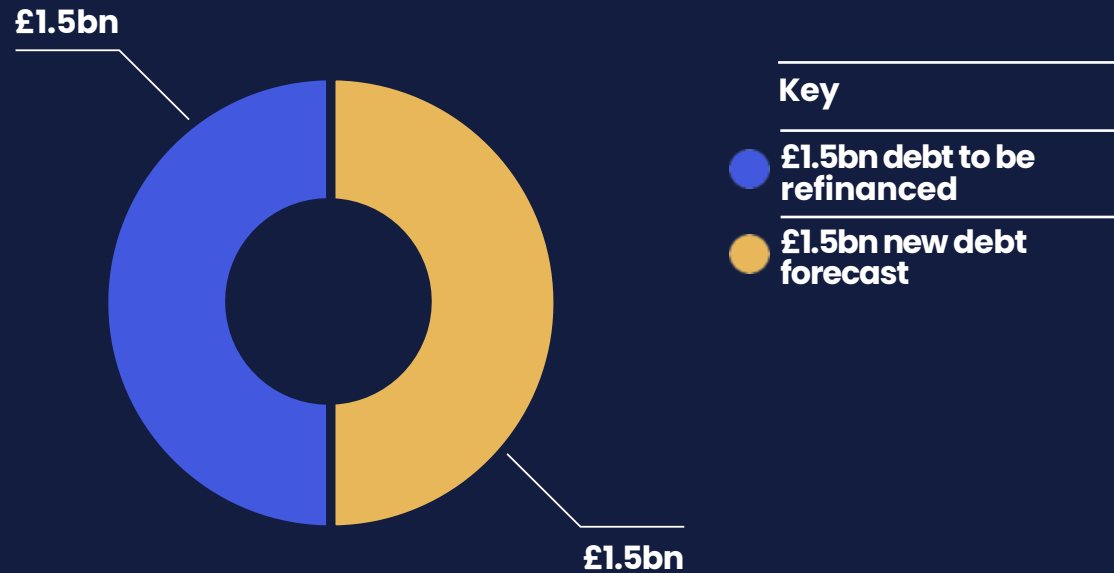
Yorkshire Water Financing Group (“YWFG”)		
Revolving Credit Facilities	31 Mar 23	30 Jun 23*
Drawings Outstanding	£393m	–
Committed Facility Size	£480m	£650m
Available Headroom	£87m	£650m
Cash & Equivalents		
Cash Accounts	£2m	£3m
Liquidity Funds	£252m	£280m
Deposits	£40m	£25m
	£294m	£308m
Committed Liquidity Facilities		
Debt Service Reserve	£182m	£182m
Operating & Maintenance	£120m	£120m
Total Available Liquidity	£683m	£1,260m

Source: Management analysis

*Presented including bond proceeds received and additional RCF post 30 June

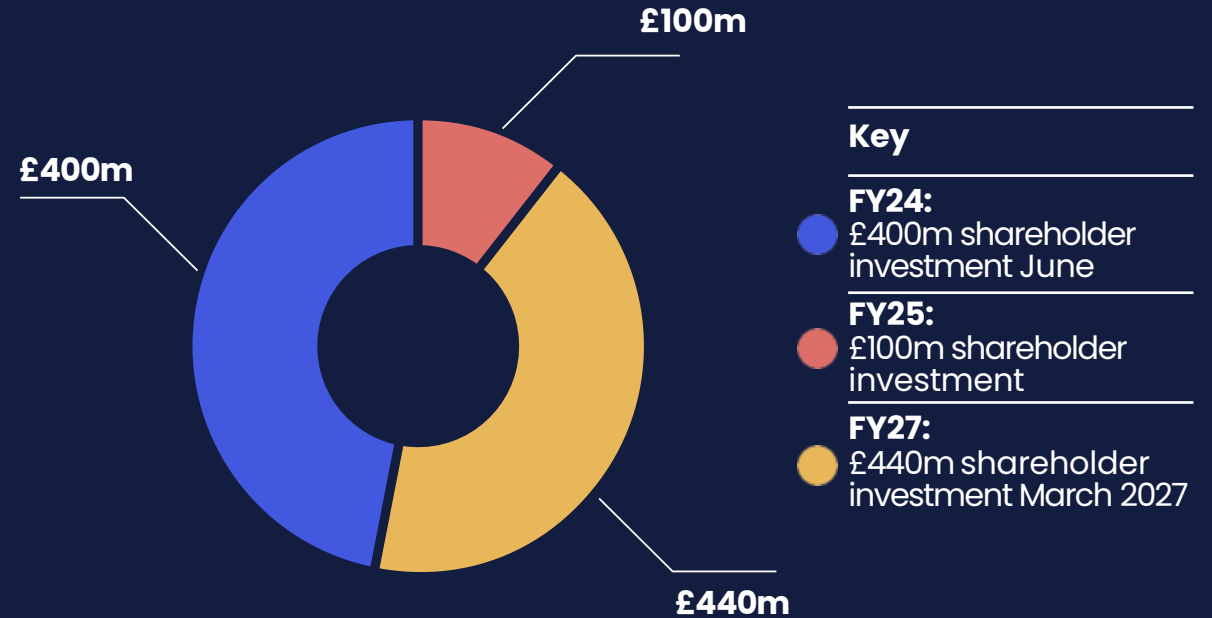
PR 24 funding plan

Total new debt requirement of £3bn across AMP8



- Seek to maintain funding across public markets, MTN's, private placement and bilateral sources

Total shareholder support of £940m across AMP7&8



- No shareholder dividends throughout AMP7
- Dividends paid used to fund Holdco debt costs, or immediately repaid through inter-company loans
- Our AMP8 dividend policy reflects Ofwat's guidance with an explicit link to performance delivered for our customers, and a reduced base yield of 3%
- Any dividend payments in excess of this will be dependent upon financial resilience and overall performance against our plan.

Key metrics

Notional financeability

- Board assurance that plan financeable
- Metrics marginally above threshold for notional company rating
- Encourage Ofwat to revisit WACC methodology to increase headroom within notional metrics
- Gearing of 59% would be above target rating

Financial resilience

- Board assurance that plan financially resilient across AMP8 and beyond
- Significant headroom within core covenanted metrics
- Key metrics above target to maintain current ratings:
 - A- Fitch
 - A- S&P
 - Baa2 Moody's

Key metrics Notional analysis

	Target	AMP8 Avg
Adjusted ICR	1.50	1.56
FFO to debt	9.00%	9.07%
Gearing		59%

Key metrics Actual analysis

	Target	AMP8 Avg
Covenanted Class A ICR	1.30	1.89
Covenanted Senior ICR	1.10	1.78
Covenanted gearing	85%	68%
Agency ICR (Ofwat calculation)	1.30	1.96
Agency Class A FFO to debt (Ofwat calculation)	7.00%	8.59%

Timeline of business plan submission



A summary of our PR24 plan



Plan delivers £7.8bn investment across the region in 2025 – 2030

- Delivers our largest ever environmental investment
- Improves the resilience of our network of pipes to continue to deliver safe, clean water now and in the future
- Makes sure all low income households have access to financial support

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