PR24 Data Table Commentary
Section 2. Risk & Return

1. Contents

2. RR1 – Revenue recovery inputs

Wholesale WACC (RR1.1 – RR1.18)

There have been material increases in the cost of debt since Ofwat published its early view of WACC in September 2022. Ofwat has stated that it will update its view of WACC for latest market data and that companies may adopt an allowed return in line with its methodology updated for more recent market data within their plan. We have sought two independent expert opinions which reflect Ofwat's approach to WACC but with market data updated to July 2023 and have used this independent evidence to set a real-CPIH wholesale WACC of 3.60% for our plan which is consistent with Ofwat's methodology. Further detail on this wholesale WACC can be found in data table RR26.

The figures in RR1 are the nominal equivalent (reflecting a long term CPIH assumption of 2.0%) of the real-CPIH WACC figures included within data table RR26.

Further details on the individual elements within table RR1, together with the assumptions behind the WACC included for the 2030-35 period can be found within Section 9.5 of our plan and the accompanying appendix: WACC assessment.

PAYG rates (RR1.19 – RR1.36)

The base PAYG rate has been calculated in accordance with Ofwat guidance as the total of the operational expenditure (including grants and contributions) divided by the total net Totex (operational expenditure plus capital expenditure less grants and contributions).

The costs have been extracted from the data contained within tables CW1, CWW1 and RR2.

We have not proposed any adjustment to the base PAYG rates.

Further details on the methodology and calculations used to determine our PAYG rates can be found within Section 9.6 of our plan and the accompanying appendix: Cost recovery rates.

RCV run off rates (RR1.37 – RR1.72)

We have derived the base run-off rates primarily from an analysis of current depreciation rates reported within our Annual Report and Financial Statement (ARFS) and APR over the last two years, together with a comparison against past run-off rates. This approach is consistent with the one adopted by Ofwat in determining their run-off rate guidance.

We have not proposed any adjustment to the base run-off rates.

Further details on the methodology and calculations used to determine our run-off rates can be found within Section 9.6 of our plan and the accompanying appendix: Cost recovery rates.

Long-term inflation (RR1.73)

We have used the long-term CPIH inflation assumption of 2.0%, as used by Ofwat in their December 2022 methodology.

RPI-CPIH wedge for RPI index linked debt indexation

We have used a wedge consistent with the inflation assumptions for index linked debt included within data table PD1.27 and PD1.28

3.RR3 – RCV Inputs.

This is an output from the PR24 RCV adjustment model, the values have been taken from the outputs tab.

4. RR4 – Financing inputs to financial model.

Notional structure assumptions (RR4.1 – RR4.8)
Notional Target Gearing (RR4.1-RR4.6), the notional proportion of opening index linked debt (RR4.7) and proportion of RPI ILD (RR4.8) have all been set in accordance with the guidance per Ofwat's Appendix 10 Aligning risk and return of the PR24 final methodology released in December 2022.

Opening debt balances (RR4.9 – RR4.26)
The total opening debt reflects the March 2025 forecast debt reported in table RR19 (which is reported in APR table 1C format) updated to reflect APR table 1E format to ensure consistency with APR table 4B format.

The total debt has been allocated between fixed rate, floating rate and index-linked debt on a consistent basis to the allocation within APR table 4B.

The opening RCV at 1st April 2025 post midnight adjustments (detailed in PD11) has been used to apportion the opening debt balances by price control.

Interest rates (RR4.27 – RR4.44 and RR4.51 – RR4.54)
Notional interest rates have been included based on the overall cost of debt reported in data table RR25, the allowed return on capital for the Appointee. The CPIH-real figures within RR25 have been inflated to nominal values using the CPIH long term inflation rate reported in data table PD1.

Opening cash (RR4.45 – RR4.50)
The total opening cash equals the March 2025 forecast cash reported in table RR19. The opening RCV at 1st April 2025 post midnight adjustments (detailed in PD11) has been used to apportion the opening cash balances by price control.

Equity (RR4.63 – RR4.85)
The total opening equity equals the March 2025 forecast cash reported in table RR19. The opening RCV at 1st April 2025 post midnight adjustments (detailed in PD11) has been used to apportion the opening equity balances by price control.

Equity dividends paid (RR4.63)

The Wholesale nominal equity dividends paid equals the "Dividend – wholesale – nominal" calculated in Ofwat's financial model for the years 2025/26 to 2029/30. The years 2030/31 to 2034/35 have been intentionally left blank.

No shares are assumed to be issued throughout AMP8 (RR4.65-RR4.70)

There are no opening dividend creditor balances forecast (RR4.71 – RR4.76)

No override is considered necessary (RR4.77), the cells have been left intentionally blank.

Real dividend growth (RR4.78) has been agreed at 0%.

A reduced dividend yield of 3.0% has been included, reflecting our desire to retain equity in the business to support financial resilience. (RR4.79)

Base dividends are assumed to be paid as a final dividend at the year end. There is no opening dividend cashflow balance forecast (RR4.80-85)

5. RR5- Financing inputs to financial model

Tax opening balances

Opening current tax liabilities
Opening current tax liabilities refer to tax liabilities owed to HMRC. We are expected to have £nil corporation tax liabilities to pay to HMRC at 31 March 2025 as the company has had no tax liabilities nor is expected to have tax liabilities owed to HMRC through AMP7.

Opening tax loss balance
Estimated tax trading losses at 31 March 2025 have been split between price controls based on the estimated RCV balances at 31 March 2025. At PR19 we did not have tax losses, however, the capital allowance 'super-deduction' on plant and machinery, available in FY22 and FY23 has created tax losses for us, some of which are expected to be available at 31 March 2025.

Opening deferred tax balance

Our forecast deferred tax liability has been split between price controls based on the estimated RCV balances at 31 March 2025.

Capital allowances

Brought forward capital allowance pools

In line with Ofwat guidance, the opening capital allowance pool balances reflect the actual full value available to the company and have not been adjusted to reflect the impact of any previous disclaimers. The pools have been apportioned between price controls on the basis of RCV split at 31 March 2025. There is no opening balance for us in relation to expenditure qualifying for a full deduction.

Capital allowance rates and first year allowance rates
Rates used are those that are enacted into legislation and expected to be applicable for the relevant years.

New capital expenditure

New capital expenditure for 2025-2030 has been analysed to determine its allocation between the defined categories of capital allowance pools. Given the nature of expenditure forecast on capital solutions for 2025-30 the percentage split is more weighted toward new schemes than maintenance/repairs activity. As such, percentages in relation to expenditure on capital that qualifies for a tax deduction based on depreciation is lower than at PR19.

Other tax inputs
Profit & Loss (P&L) expenditure not allowable as a deduction from taxable trading profits

We have very few operating costs that are non-deductible for tax purposes. Furthermore, all P&L expenditure relating to renewals is tax deductible and no changes in general provisions are forecast.

Other adjustments to taxable profits
We were required to spread a tax deduction for a historical finance payment made by the business in relation to some of its swaps portfolio. This reduces taxable profits, and the benefit has been split between price controls on the basis of RCV.

Finance lease depreciation
Historical deductions in relation to terminated finance leases must be spread over a number of years.

Other taxable income

Amortisation on grants and contributions reflects the taxable release of deferred income in relation to developer services income such as infrastructure connection charges, requisitioned mains and sewers and diversions.

Allowable depreciation on capitalised revenue
New capital expenditure for 2025-30 has been analysed to determine its allocation between the defined categories for capital allowances. Repairs, deductible for tax purposes when depreciated, have had the associated depreciation calculated in line with the rates we have historically used.

6. RR6 – Financing inputs to financial model

RR6.1 – 12 and RR6.25-26 are outputs from the PR24 revenue adjustment model.
RR6.13 – RR6.18 has been left blank.
RR6.19 – 24 has been left blank for this submission as per the guidance.

7.RR7 – Residential retail inputs

RR7.2 – RR7.7 - RESIDENTIAL RETAIL - COST TO SERVE
This is the retail average cost to serve for AMP8 and has been calculated by dividing the cost to serve on Ret1.18 by the number of customers in RR7.8 – RR7.13.
AMP9 forecast for ACTS has been matched to 2029/30 value as we do not have a forecast for AMP9 retail costs.

RR7.8 – RR7.13 - RESIDENTIAL RETAIL - HH CONNECTED
The information required in this section of RR7 is aligned to the average customer numbers in SUP1A, however shown in a more compact format. To extend beyond AMP8 the working paper for SUP1A was extended with the Domestic meter optants (DMO) and new connections forecasts extended to cover AMP9.

RR7.28 and RR7.34

The retail creditor months (row 34) has been aligned to the external retail customer debtor days and rounded to the nearest number of months, assuming that the retailer would pay the wholesaler in the same timescales as it is able to receive the payments itself.

The retail creditor to the wholesale business (row 28) has been calculated based on 2 months (2/12) of the income forecast for the year, using the number of months included in row 34.

Only the opening balance has been included in row 28 as subsequent years appear to be being calculated directly by the financial model on the same basis.

RR7.57

The fixed asset book value shown includes both tangible and intangible fixed assets.

RR7.38-41, RR7.44-47 & RR8.22-25, RR8.28-30

These inputs are used to allocate the forecast percentage of wholesale revenues between residential and business customers. These percentages are used within the allocation of revenues in RR27 and RR27a.

We have used the assumption that the revenue allocation for residential remains in line with our 2023/24 forecast of 76.55% water and 79.79% for wastewater.

The cells that are not populated within RR8 have been left intentionally blank.

8. RR9 – Miscellaneous financial model inputs

The final salary pension scheme (Defined benefit) is closed to new entrants. The cost continues to reduce at circa 4.2%, this run rate has been continued up to 2034/5.

Increases to Defined contribution reflects new entrants to the scheme.

Pension deficit recovery included in PR19 has now ceased.

Allocations across price controls, Wholesale Waste / Wholesale Water & Business Retail have been determined using individual employee time splits produced as part of the Annual Performance Report.

Lines 190, 195 and 202 capture the bill impact on customers of schemes which are to progress via Direct Procurement for Customers (DPC). This is the cost that will be paid to the Competitively Appointed Provider (CAP) by customers. Costs are not expected to be incurred by customers until assets are in operation. This leads to a position of having no bill impact in AMP8.

Criteria for selection of what qualifies as a DPC is laid out in detail through Ofwat guidance. We used expert support from Arup and Baringa to interpret and confirm the result of this guidance. Values used in the table come directly from the EDA system, via Strategic Asset Managers.

Whilst DPC was a feature of PR19, we had no qualifying schemes, so there is no data to compare with past submissions.

9.RR10 – Allowed Revenue

This table is populated from the Ofwat PR24 financial model.

10. RR11 – PAYG and run-off outputs

This table is populated from the Ofwat PR24 financial model.

11. RR12– RCV by control

Rows 1-3 have been calculated from the PR19 FD / CMA / IDoK closing RCV balances as at 31 March 2025 section on table PD11, the values were adjusted from 2017-18 CPIH average to 2022-23 CPIH average prices
Rows 4-10 have been populated from the Ofwat PR24 financial model.

12. RR13 – Annual RCV

This table is populated from the Ofwat PR24 financial model.

13. RR14 - bill profile for 2025-30 before inflation

AMP8 bill values have been populated from the Ofwat financial model.

Lines 2-3 are not mandatory and therefore have not been populated.

14. RR15 – retail margins 2025-30 (nominal price base)

This table is populated from the Ofwat PR24 financial model.

15. RR16 – Bill profile

Financial ratios in relation to the notional capital structure.

RR16.1-RR16.12 – The financial ratios in relation to the notional capital structure have been populated from the output of the Ofwat financial model. All figures are pre-financeability adjustments.

RR16.13 – As detailed in section 9.8 of our plan we are targeting credit ratings for the notional company of Baa1 for Moody's and BBB+ for S&P and Fitch in accordance with Ofwat's PR24 methodology.

RR16.14 – We have included an additional notional gearing ratio as the gearing ratio in RR16.1 calculated by Ofwat's financial model has an inconsistency in the inflation base used for the RCV and debt figures, with debt calculated using a year-end inflation index, whereas RCV is calculated based on an average-year inflation index. Within our additional gearing metric RCV is restated at a year-end nominal price base rather than year average. This seeks to provide a gearing calculation more reflective of the year-end financial position.

Inputs and adjustments used to calculate financial metrics in relation to the actual capital structure.

RR16.47 – RR16.53 have been populated from the output of Ofwat's financial model.

RR16.56 Further adjustments to FFO have been made to agree RR16.57- FFO Pre interest – for financial metrics to the FFO expected for the actual capital structure for the business plan.

RR16.59 Further adjustments to RCV run-off have not been made.

RR16.61 Interest Income/(Expense) is taken from RR24 which calculates an interest charge based on the assumptions included within RR24; however given the restricted nature of assumptions within RR24 the interest charge does not exactly agree to our forecast interest costs. RR16.61 also represents total nominal interest costs including non-cash items such as indexation; however the interest used within financial metrics reflects only the cash costs.

RR16.63 Further adjustments to the interest within RR16.61 have been made to remove non-cash items such as indexation and to eliminate the differences in the calculation within RR16.61 detailed above.

RR16.66 Further adjustments to excess Fast Money have not been made.

RR16.69 Further adjustments to net debt have been made to convert the notional net debt in RR16.68 to that of the actual capital structure, such that RR16.70 – Net debt for financial metrics, agrees to the value of net debt disclosed in RR24.

RR16.71 RCV balance has been populated from the output of Ofwat's financial model in the year average nominal price base. As noted re RR16.14 above we have included adjustments within RR16.72 to convert the RCV balance from an average year index to a year end index.

RR16.75 Adjustments to indexation of index linked loans have been made to convert the notional indexation figure in RR16.74 to an actual indexation figure based on our actual capital structure, such that RR16.76 – Indexation of index linked loans for financial metrics agrees to the value of RPI and CPI indexation disclosed in RR24.13 and RR24.14.

RR16.77 - Profit after tax is populated from the Profit for the year figure shown in RR18.14

RR16.78 – Dividends are populated from the dividends figure shown in RR18.15

RR16.79 – Capex is populated from the sum of the Gross capital expenditure by price control shown in RR2.1-RR2.6, less the sum of Grants and contributions capital expenditure by price control shown in RR2.25-RR2.30.

RR16.80 – EBIT less tax charge is populated from the operating profit (RR18.4) plus other income (RR18.5), UK corporation tax (RR18.12) and deferred tax (RR18.13).

Financial ratios in relation to the actual capital structure.

RR16.24-RR16.34 - Financial ratios in relation to the actual capital structure have been calculated within the data tables using the financial metrics above per the calculation in RR16.

RR16.35 – RORE (actual structure) has been calculated as the base RORE (used within Ofwat's financial model to calculate notional RORE in RR16.12) plus or minus financing performance, divided by the actual equity.

Financing performance has been calculated by comparing the forecast total interest rate based on the information included in RR24 versus the notional cost of debt included in RR25.

No adjustment is made for Totex, retail, or ODI out/under performance as we have not included any within our plan.

Actual equity has been calculated based on the average debt reported each year in RR24.

RR16.36 - As detailed in Section 9.9 of our plan we have targeted maintaining an average rating of Baa1/BBB+ across all three agencies, rather than seeking to maintain a certain rating with each agency. Our current Class A ratings have an average rating of Baa1/BBB+ across the three ratings agencies and we have included these current ratings within RR16.36: Fitch: A- (stable), S&P: A- (negative outlook), Moody's Baa2 (stable)

Company Proposed Financial Metrics.

As detailed in Appendix: Financial resilience and our last LTV statement we primarily assess long term viability and financial resilience by comparing performance to the trigger and default levels on key metrics within our financial covenants and the key metrics most commonly reference and utilised by the ratings agencies in relation to our chosen target ratings.

We consider the adjusted cash interest cover (alternative calculation) within RR16.27 to be applicable for testing performance against our target ratings with Moody's and Fitch; however the standard metrics within RR16.24-16.34 are not applicable to the financial covenants within our securitised debt structure, or the key metric used by S&P when assessing our target rating; therefore we have included the following additional metrics.

RR16.37 – We have included our covenanted gearing ratio as this is one of the key ratios within our securitised debt structure. The calculation of covenanted gearing is similar to Ofwat's calculation of gearing (RR16.24), except IFRS16 lease liabilities

and the discount on RPI inflation linked swaps are excluded from the calculation of net debt.

RR16.38 – We have included our covenanted Class A ICR ratio as this is one of the key ratios within our securitised debt structure. The calculation of the covenanted class A ICR is similar to the Adjusted Cash Interest Cover alternative calculation (RR16.27), except working capital movements are included and only interest on Class A instruments is considered.

RR16.39 - We have included our covenanted senior ICR ratio as this is one of the key ratios within our securitised debt structure. The calculation of the covenanted senior ICR is similar to the calculation of Adjusted Cash Interest Cover alternative calculation (RR16.27), except working capital movements are included.

RR16.40 - We have included a company alternative Class A FFO/Debt ratio as we consider this to most closely approximate the key metric used by S&P when assessing our current issuer Class A rating. The calculation is similar to the FFO/Net Debt (alternative calculation) (RR16.29), except only interest, accretion and the value of Class A net debt are considered.

16. RR17 - Financial metrics by scenario

Further details on the scenarios tested, the assessment approach, reverse stress testing and the targets chosen can be found in Section 9.9 of our plan and the accompanying appendix: Financial resilience.

The analysis has all been completed within our own financial model, which has been reconciled to Ofwat's financial model. Metrics reported in rows 1 to 6 (and repeated) have been calculated on a consistent basis to the equivalent notional metrics included within Ofwat's financial model.

Company Combined Scenarios I, J and K.

The combined scenarios I, J and K are three of the scenarios included in our 2023 Annual Report and Financial Statements (ARFS) long term viability (LTV) statement.

Scenario I is the ARFS LTV Severe ODI scenario, where multiple risks are assumed to occur simultaneously in a combined scenario leading to service failure resulting in ODI penalties in each year equivalent to 1% of RoRE.

Scenario J is the ARFS LTV Extreme principal risk scenario, where multiple risks are assumed to occur simultaneously in a combined scenario leading to an increase in costs, equivalent to c10% Totex overspend in AMP8 to ensure base performance levels are maintained.

Scenario K is the ARFS LTV High principal risk scenario, where multiple risks are assumed to occur simultaneously in a combined scenario leading to an increase in costs, equivalent to c8% Totex overspend in AMP8 to ensure base performance levels are maintained.

Company Proposed Financial Metrics.

As detailed in Appendix: Financial resilience and our last LTV statement we primarily assess long term viability and financial resilience by comparing performance to the trigger and default levels on key metrics within our financial covenants and the key metrics most commonly reference and utilised by the ratings agencies in relation to our chosen target ratings.

We consider the adjusted cash interest cover (alternative calculation) within RR17.4 to be applicable for testing performance against our target ratings with Moody's and Fitch; however the standard metrics within RR17.1-17.6 are not applicable to the financial covenants within our securitised debt structure, or the key metric used by S&P when assessing our target rating; therefore we have included the following additional metrics.

RR17.7 – We have included our covenanted gearing ratio as this is one of the key ratios within our securitised debt structure. The calculation of covenanted gearing is similar to Ofwat's calculation of gearing (RR17.1), except IFRS16 lease liabilities and the discount on PRI inflation linked swaps are excluded from the calculation of net debt.

RR17.8 – We have included our covenanted Class A ICR ratio as this is one of the key ratios within our securitised debt structure. The calculation of the covenanted class A ICR is similar to the Adjusted Cash Interest Cover alternative calculation (RR17.4), except working capital movements are included and only interest on Class A instruments is considered.

RR17.9 - We have included our covenanted senior ICR ratio as this is one of the key ratios within our securitised debt structure. The calculation of the covenanted senior ICR is similar to the calculation of Adjusted Cash Interest Cover alternative calculation (RR17.4), except working capital movements are included.

RR17.10 - We have included a company alternative Class A FFO/Debt ratio as we consider this to most closely approximate the key metric used by S&P when assessing our current issuer Class A rating. The calculation is similar to the FFO/Net Debt (alternative calculation) (RR17.6), except only interest, accretion and the value of Class A net debt are considered.

Headroom and extent of stretch required to reach limit for scenario for the reverse stress test (RR17.12-13 and repeated)

The two key default levels within the financial covenants in our securitised debt structure are as follows:

- Covenanted Class A ICR > 1.0 times (RR17.8)
- Covenanted gearing < 95.0% (RR17.7)

The cashflow based Class A ICR metric is much more sensitive to scenario analysis than the gearing measure; therefore we have assessed the level of headroom for reverse stress testing against this target level of 1.0 times for the covenanted class A ICR reported in RR17.8

For all scenarios, the headroom for the reverse stress test (RR17.12) is the £m amount of EBITDA that would be required to reduce the Covenanted Class A interest coverage ratio down to the default level of 1.0 times.

The extent of stretch reflects the amount by which the scenario would need to be increased for either the covenanted Class A ICR or Covenanted gearing to meet the default levels above, with the amount being determined on whichever limit is breached first.

In all cases the extent of stretch reported reflects the minimum amount of stretch required to breach the target level in any one of the five years within the 2025-30 period, when that level of stretch has been applied cumulatively in each of the proceeding years. For example, the 8% additional interest rate reported in Scenario G causes the default level to be breached in the 2029/30 year after an 8% increase has been applied in each of the proceeding four years. A higher level

of stretch would be required to breach target levels in earlier years, but this has not been separately calculated. Further details on the level of stretch reported within each of the scenarios is provided below.

Scenario A – 17% additional Totex spend applied consistently in every year, with no mitigating actions, would lead to a breach of the target level in 2025-26 and 2029/30.

Scenario B – A 3.1% ODI penalty in year 2 (2026/27), with no mitigating actions, would lead to a breach of the target level in 2028/29.

Scenario C – Inflation 10% below the base case in every year of the plan, with no mitigating actions, would lead to a breach of the target level in 2029/30.

Scenario D – Deflation of -9%, with no mitigating actions, would lead to a breach of the target level in 2025/26.

Scenario E – The cells have been left blank within this scenario, as increasing inflation improves the key metrics; therefore a stretch level is not applicable.

Scenario F – The cells have been left blank within this scenario, as the current levels of bad debt are relatively low meaning the level of stretch would have to be in the region of 860%, therefore a stretch level is not considered to be applicable.

Scenario G – An 8% increase in interest rates, with no mitigating actions, would lead to a breach of the target level in 2029/30.

Scenario H – A financial penalty of 13% turnover, with no mitigating actions, would lead to a breach of the target level in 2026/27.

Scenario I - 2.6% ODI penalties in every year of AMP8, with no mitigating actions, would lead to a breach of the target level in 2029/30.

Scenario J – A 29% increase in the costs assumed in Yorkshire Water's LTV extreme principal risk scenario, with no mitigating actions, would lead to a breach of the target level in 2026/27.

Scenario K – A 86% increase in the costs assumed in Yorkshire Water's LTV high principal risk scenario, with no mitigating actions, would lead to a breach of the target level in 2026/27.

17. RR18 - Income statement – Actual company structure

Revenue is consistent with the output from the Ofwat model, adjusted for AMP7 revenue correcting items and expected ODI penalty adjustments.
Operating costs are consistent with the output from the Ofwat model, adjusted for the difference between a bottom up calculation of depreciation, compared to the modelled top down estimate included within the model.
Interest income and expense and dividends have also been adjusted to reflect the actual company gearing level, rather than the notional gearing level.
The interest income reduced from 2023 levels due to an injection of shareholder funding in June 2023 and reduces again in 2027 as the loan to shareholders (excluded from the notional income statement and balance sheet) is fully repaid.
No fair value gains or losses on financial instruments have been included in AMP8.

18. RR19 - Statement of financial position – Actual company structure

Fixed asset movements reflect the capital programme profile and associated depreciation charges.
Loans to group companies are forecast to reduce and then be completely re-paid during AMP8. This reflects an injection of funds of by group shareholders in 2023/24, a further £100m received in 2024/25 and complete repayment in 2026/27.
Financial instruments reflect no movement in balances across the AMP, consistent with the income statement assumptions.
Cash and borrowings movements across the AMP reflect the requirements of the business to fund operations, financing and the capital programme profiled expenditure.

19. RR20 – Statement of cash flows – Actual company structure

All movements in the cash flow statement reflect movements in the income statement and balance sheet.
Other income in AMP8 includes third party income as well as the increasing level of expected NAV activity which can be seen in the growth of other income across the AMP.
Disposals of fixed assets are assumed to occur on assets with a nil net book value, resulting in the profit on sale will be equivalent to the cash received. There were some notable large land sales in AMP7 including sale of office site in Leeds in 2023/24 which was not fully depreciated. There are no equivalent large value sales planned in AMP8.

20. RR21 – Net debt analysis (appointed activities)

Table RR21 is identical to Table 1E from the 2023 Annual Performance Report (APR).

There have not been any amendments or queries to this table following the APR query process.

21. RR22 – Analysis of deb

Table RR22 is identical to Table 4B from the 2023 Annual Performance Report (APR).

There have not been any amendments or queries to this table following the APR query process.

Figures are consistent with table RR21.

Swap Category and further information cells in Rows RR22.1 – RR22.20 are left intentionally blank.

22. RR23 - Financial derivatives

RR23 mirrors lines 4I.1 to 4I.28 of Table 4I from the 2023 Annual Performance Report. There have not been any amendments or queries to this table following the APR query process.

Interest rates payable and receivable for floating legs of derivatives have been determined using compounded Sterling Overnight Index Average (SONIA) rates for either 6 months or 12 months with 5 day lookback, dependent on the relevant swap as at 31 March 2023.

Within Table RR19 - Statement of financial position – Actual company structure, in accordance with generally accepted accounting principles, financial derivatives are stated at fair value rather than the mark to market value.

The fair value of a swap is essentially the mark to market value of the swap adjusted to take into account the potential impact of the risk of swap counterparties defaulting (the counterparties being Yorkshire Water and the bank or financial institution providing the swap) as well as a number of other valuation adjustments.

Table RR23 – Financial derivatives requests information on swap mark to market values rather than swap fair values.

The table below reconciles the mark to market values shown in Table RR23 to the fair value amounts shown within Table RR19 at 31 March 2023, the latter being reflected within our published financial statements.

Derivative type	Table RR23 - mark to market values – liabilities shown as negative and assets shown as positive	Valuation adjustment to reflect the day 1 loss/gain on exchange transaction on exchanged swaps in line with IFRS accounting	Credit risk and other adjustments required under FRS102 accounting	Table RR19
	£m	£m	£m	£m
Floating to fixed rate	-6.989		0.379	-6.610
Floating from fixed rate	-32.042		0.747	-31.295
Floating from index linked	-1,995.200	65.821	259.952	-1,669.427
Cross currency swap USD	30.127		-0.121	30.006
Cross currency swap Other	-6.693		0.002	-6.691
Other financial derivatives	4.638		-0.019	4.619
Total	**-2,006.159**	**65.821**	**260.940**	**-1,679.398**

Table RR19	£m
Non-current assets: Financial instruments	226.166
Current assets: Financial instruments	31.043
Non-Current liabilities: Financial instruments	-1,929.916
Current liabilities: Financial instruments	-6.691
Total	**-1,679.398**

Out-of-the-money (liability) positions are presented as positive, in-the-money (asset) positions are presented as negative. This signage convention is reversed in the Table RR23 to Table RR19 reconciliation presented above.

23. RR24 - Debt balances and interest costs

The opening balances of fixed, floating and index linked debt for the 2024/25 and 2025/26 years are the balances reported in Table 4B of the 2023 APR updated for actual and forecast debt issuance, maturities, accretion, accretion paydowns, forecast effect on Yorkshire Water's Cash position and amounts drawn on its banking facilities ("RCF") across the 2023/24 and 2024/25 financial years as per our current approved business plans for those years. The figures have been amended to remove the notional value of swaps in accordance with the PR24 guidance.

New debt issuances between 2025/26 and 2029/30 have been calculated within our own internal financial model as the amounts of new debt required to finance the PR24 plans submitted. New debt issued is assumed to be split between fixed rate debt and CPI index linked debt in order to maintain a consistent level of index-linked debt.

Debt repayments between 2024/25 and 2029/30 represent repayments due on our existing debt portfolio, and contractual accretion payments in relation to index-linked swaps.

Indexation of index-linked loans has been calculated by applying the inflation forecasts contained within PD01 to our existing and forecast new index linked debt.

Existing interest rates have been entered as the expected interest rate for the debt instrument at the financial year end, equivalent to the rate we would report in Table 4B of the APR. Inflation (RPI and CPI) and interest rate (SONIA) forecasts have been aligned to those used elsewhere within the PR24 data tables.

New nominal fixed interest rates of 5.97% reflects the cost of new debt assumed in the WACC with the 0.15% adjustment added back, ((1+3.74%+0.15%)*(1.02%)-1). The equivalent real CPI stripped rate for index linked debt has been assumed to be 3.89%, which is the cost of new debt plus assumed in the WACC, 3.74%, plus 0.15%.

Cash balances are assumed to earn interest at the forecast SONIA rate.

Bank overdraft and working capital financing costs are forecast as SONIA plus 0.65%.

Interest Receivable (other) shown in 2024/25 is capitalised interest and has been included to aid reconciliation to the financial statements. As it is a non-cash item it has not been forecast going forward.

Weighted interest rates have been calculated using the same methodology as table 4B of the APR, as the sum of balances outstanding at the year-end multiplied by the year end interest rate, divided by the total balance outstanding at the year end.

Floating rate debt interest paid represents the cash interest payment (full year equivalent), as it would have been calculated in table 4B of the APR. Floating rate debt interest paid is negative, as the interest receivable legs of our index-linked swaps are floating rate.

RR24.16, RR24.18, RR24.20, RR24.22, RR24.30 and RR24.43 have been intentionally left blank where we do not expect to raise the type of new debt , do not have customers in this area or do not expect another interest cost.

The opening debt reported in RR24 and RR4 can be reconciled to closing borrowings included within RR19 with the following adjustments. These are equivalent to the adjustments shown between Table 1E and 1C in the APR.

Opening Balances	2024/25	2025/26
	£m	*£m*
Current Liability Borrowings RR19.15	*6.5*	*6.0*
Non-current liability Borrowings RR19.22	*6,120.6*	*6,192.3*
RR19 - Borrowings	*6,127.1*	*6,198.3*
Adjustments:		
(i) Fair value adjustments of bonds held in subsidiary companies included in table 1C but not included in in table 1E	*16.2*	*16.2*
(ii) Accretion of IL swaps not included in table 1C but included in table 1E.	*237.2*	*324.7*
(iii) The difference in the book value of internal loans that were exchanged. 1C includes the value reported in Yorkshire Water Services Limited and 1E includes the embedded value of the loans taken out by the financing subsidiary.	*(10.1)*	*(10.1)*

(iv) Unamortised issue costs are included in table 1C but not included in table 1E.	*116.5*	*109.3*
(v) Accrued interest adjustments	*(1.5)*	*(3.0)*
Total adjustments	*358.3*	*437.2*
RR24 – Debt	*6,485.4*	*6,635.5*

24. RR25 - Allowed return on of capital for the Appointee.

There have been material increases in the cost of debt since Ofwat published its early view of WACC in September 2022. Ofwat has stated that it will update its view of WACC for latest market data and that companies may adopt an allowed return in line with its methodology updated for more recent market data within their plan. We have sought two independent expert opinions which reflect Ofwat's approach to WACC but with market data updated to July 2023 and have used this independent evidence to set an appointee WACC of 3.66% for our plan which is consistent with Ofwat's methodology.

Further details on the individual elements within table RR25 can be found within Section 9.5 of our plan and the accompanying appendix: WACC assessment.

The figures are stated in CPIH-real terms, using a long-term assumption of 2.0% CPIH.

25. RR26 - Allowed return on capital by wholesale price control

In accordance with Ofwat's PR24 methodology we have applied the same wholesale allowed return to each wholesale control.

The retail margin adjustment of 0.06% within table RR25 has been applied to the wholesale WACC in RR26 by adjusting the unlevered beta assumption, in accordance with Ofwat guidance.

Further details on the individual elements within table RR26 can be found within Section 9.5 of our plan and the accompanying appendix: WACC assessment.

The figures are stated in CPIH-real terms, using a long-term assumption of 2.0% CPIH.

26. RR27 and RR27a - Revenue analysis & wholesale control reconciliation

Interactions between tables/lines

RR27 shows the equivalent revenue analysis as table 2I within the annual performance report, RR27a shows the forecasted:

- third party revenue for AMP8 from RR27 and shows the percentage that is in residential and in business,
- wastewater charges for foul, surface water and highway drainage for AMP8 from RR27 and shows the percentage that is in residential and in business

RET2 shows the AMP7 forecast for retail revenue recovery as per the PR19 residential retail reconciliation model, the total retail revenues are also shown in RR27.

RR7.38-41, RR7.44-47 and RR8.22-25, RR8.28-30 show the forecast percentage of wholesale revenues that are allocated to measured/unmeasured residential and business customers. These percentages are used within the allocation of revenues in RR27 and RR27a.

RR27 - revenue analysis

AMP7 forecast wholesale revenues recovery in 2023/24 and 2024/25 are assumed to be in line with the revenue allowances that have been included in table PD5 Revenue reconciliation.

AMP8 forecast wholesale revenue has been taken from table RR10, excluding the grants and contribution allowances.

The allocation for both AMP7 and 8 has been based on the measured/unmeasured residential/ business revenue percentage values shown in RR7.38-41, RR7.44-47 and RR8.22-25, RR8.28-30.

The allocation across Foul/Surface water/Highway drainage for wastewater was based on the reported splits in table 2I of the submitted 2022/23 APR table.

Third party revenue has been aligned to RR9.215 for water and RR9.216 for wastewater.

Bulk supply revenues has been aligned to RR9.208/209 for water and RR9.210/211 for wastewater.

Other third party revenue – non price control and been aligned to RR9.178-181

Other appointed revenue has been aligned to RR9.202-205

RR27a - Residential: business split / Wastewater charges split AMP8

This table has been calculated using the data in table RR27:

- third party revenue for AMP8 from RR27 and shows the percentage that is in residential and in business,
- wastewater charges for foul, surface water and highway drainage for AMP8 from RR27 and shows the percentage that is in residential and in business.

27. RR28 - Historic cost analysis of tangible fixed assets

Forecast asset values are obtained from three distinct datasets which are then aggregated:

- Existing assets, capitalised and held on the balance sheet at 31 March 2023;
- AMP7 Year 4&5 expenditure;
- AMP8 forecast capital expenditure.

Asset additions

Asset additions are forecast to increase significantly over the AMP8 period due to investment in the storm overflow programme and continued investment in the WINEP programme.

Price control	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Residential Retail	0.095	8.168	5.041	0.000	0.000	0.000	0.000	0.000
Business Retail	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Water resources	26.959	17.794	9.601	45.013	58.509	46.368	30.540	18.890
Water Network+	166.378	177.152	103.506	337.833	295.770	303.267	286.193	280.217
Waste Network+	255.514	467.557	375.919	407.444	584.899	643.698	634.976	467.555
Bioresources	17.223	33.331	25.955	52.844	63.703	71.671	67.836	50.094
Total	**466.169**	**474.242**	**520.022**	**843.134**	**1002.881**	**1065.004**	**1017.881**	**816.756**

Adjustments

The adjustment figure in 2022/23 mostly relates to the Value in Use adjustment recorded in the 2022/23 APR. No further adjustments are forecast.

Disposals

Disposals included are largely the disposal of fully depreciated assets at zero net book value with the exception of a number of specific land disposals in 2023/24.

Depreciation charge

Depreciation is calculated using actual and forecast asset lives as detailed in the methodology statement. Depreciation is forecast to increase over the AMP8 period in line with higher levels of investment, particularly in Wastewater Network Plus.

Price control	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Residential Retail	3.135	2.814	3.301	3.157	2.247	2.108	1.674	1.008
Business Retail	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Water resources	11.119	11.246	12.989	13.624	14.840	15.567	16.219	16.219
Water Network+	123.301	129.873	128.836	129.196	134.155	142.651	150.638	157.448
Waste Network+	148.268	168.025	180.056	185.982	199.541	212.740	227.928	239.145
Bioresources	19.522	23.780	25.093	25.973	27.516	30.041	32.471	33.626
Total	**305.345**	**335.738**	**350.275**	**357.932**	**378.299**	**403.107**	**428.930**	**447.446**

Assets adopted at nil cost

The tables include a forecast value of £15m per year relating to the fair value of adopted sewers. This is an estimate based on a typical year as the figure is dependent on requests from developers.

28. RR29 – Asset lives

The asset life data in RR29 is compiled from three distinct datasets:

- Assets existing at 31st March 2023 including assets under construction;
- AMP7 Year 4&5 expenditure;
- AMP8 expenditure.

Weighted average asset lives for each price control for tangible assets are compiled from an aggregate of the three datasets.

For each financial year within each dataset, the weighted average asset lives are based on the total cost value of the assets held at the end of that year, and the individual asset lives ascribed to those assets.

Average asset lives are summarised below:

Price control	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Water resources	69	67	65	64	64	64
Water Network+	60	60	59	58	58	58
Waste Network+	58	58	58	57	57	57
Bioresources	35	35	34	34	34	34
Residential Retail	9	10	11	11	13	15
Business Retail	0	0	0	0	0	0
Total	**58**	**57**	**57**	**56**	**56**	**56**

Water resources

Asset lives for water resources show a slow decline over the period to 2030. This is because much of the existing asset value at 31st March 2023 relates to reservoirs with long asset lives, whereas expenditure in this area in the remainder of AMP7 and AMP8 includes an element shorter-life assets, for example plant & machinery at borehole sites.

Water Network Plus

Asset lives for water network plus assets also show a slow decline over the period. Although much expenditure in this area relates to water main replacements, there

is a large programme of customer meter replacements forecast which have a 15-year asset life.

Waste Network Plus

Asset lives for wastewater network plus assets are broadly static over the period. There is a large programme of investment in storm overflows and sewer replacements. While sewer replacements will tend to have asset lives of 80 years, work at storm overflows may involve structural work and/or plant & machinery replacements, which will have a variety of asset lives.

Bioresources

Bioresources asset lives are broadly static over the period.

Residential Retail

The average asset life of residential retail assets increases over the period as shorter-life assets such as IT equipment become fully depreciated and longer life assets such as offices remain. No further investment in tangible residential retail assets has been forecast in AMP8.

Business Retail

There are no assets in the Business Retail price control therefore cells are left blank.

29. RR30 - RoRE analysis

The data in this table shows our view of the level of risk in our business plan. It includes upside (high case) and downside (low case) risks for various components of our plan, for example T20otex or ODIs. In line with the guidance to present the RCV in nominal prices, any £m values in table RR30 are also shown in nominal prices.

At an overall level the figures show what our levels of upside and downside risk are, expressed as percentages of our regulated equity. Upside figures (high cases) are expressed as positive numbers, and downside figures (low case) are expressed as negative numbers.

Our approach to calculating these values is set out in detail in our Appendix to Chapter 9 of our plan (Uncertainty Mechanisms and RoRE Risk Analysis).

Rows RR30.5, RR30.9, RR30.10, RR30.20, RR30.21, RR30.30, RR30.31, RR30.41 are all intentionally left blank.