



PR24 - Draft Determination

Our response



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The Headlines

Chris Weston

Chief Executive Officer



A challenging Draft Determination

Overview

- £20.7bn plan to deliver improvements for customers and the environment, with an additional £3bn requested for gated schemes
- Requires £3.3 billion in new equity
- Ofwat's draft determination is neither investable nor financeable
- Encouraged by elements with some proposed readjustments
- Our Draft Determination response puts forward proposals to enable a deliverable, financeable and investable plan
- Final Determination due 19 December; Ofwat consulting on delay to Jan-25
- Opportunity to appeal to CMA post Final Determination



Totex

DD totex was £5.3bn lower than our April updated PR24 business plan

£bn (2022/23 real prices)	Our Apr-24 Submission	Ofwat's Draft Determination	Our DD Response
Base (Botex)	12.1	11.0	13.3
Enhancement	7.5	3.6	7.4
Pension deficit repair	0.2	-	-
Core plan	19.8	14.7	20.7
Large gated schemes	-	0.8	1.3
Delivery mechanism	1.9	0.9	1.7
Full Plan	21.7	16.4	23.7





Our DD response

Cathryn Ross

Director of Strategy and External Affairs



A realistic, deliverable plan

Delivering for customers and the environment, and attracting the debt and equity to support it

For Customers and Communities



A reliable, secure & affordable service

647,000
households provided with financial
support

570km (up from 550km)
of ageing water mains replaced

150km
of sewers upgraded

16% reduction
in sewage flooding into properties

For the Environment



Improving our environmental footprint

34%
reduction in storm overflows

21%
reduction in leakage ¹

30%
reduction in pollution incidents

For financeability



Attracting capital to enable delivery

4.6%
Real Weighted Average Cost of Capital

c.30%
Real RCV growth

Below 75%
Average Gearing

Robust
Target credit ratings

1. vs. 2019/20 baseline

Our response to our draft determination

Proposals to enable an investable, financeable and deliverable plan

Cost allowances

A regulatory settlement grounded in reality

Welcome the new deliverability mechanism

Encouraged by use of a large-gated process - requires an in-period funding mechanism to enable efficient delivery

Outcomes

Require targets that are challenging but achievable given our starting point

Risk and return

Require an appropriate balance of risk and return and a weighted average cost of capital, including cost of equity, that appropriately remunerates risk

Turnaround oversight

Require an oversight regime that is proportionate

Require a final determination that allows flexibility in the event of unforeseen, mid-AMP volatility

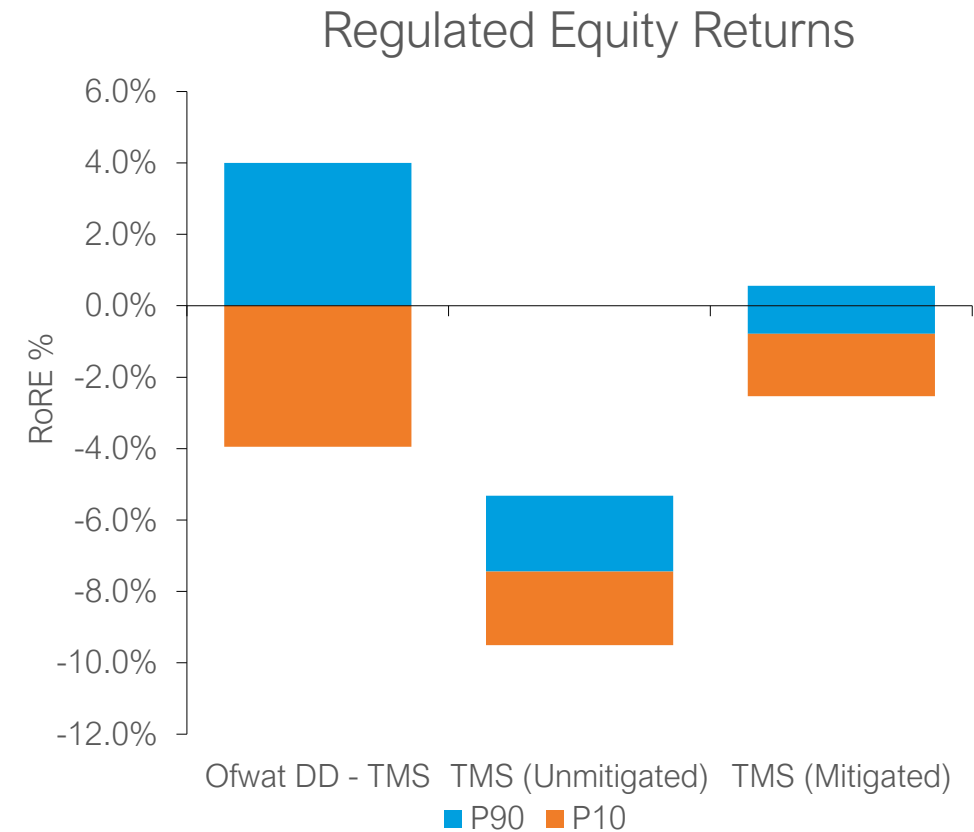
Support introduction of an Aggregate Sharing Mechanism, however with a tighter threshold of 100bps for both costs and outcomes

Aligning risk and return

Returns need to be competitive to secure capital and fully reflect risk profile

Returns

Real CPIH Basis	Ofwat Early View	Ofwat Refreshed Early View	Our Apr-24 Plan	Ofwat Draft Determination	Our DD response
Wholesale WACC	3.23%	3.52%	4.25%	3.66%	4.60%
Gearing (notional)	55%	55%	55%	55%	55%
Cost of equity	4.1%	4.4%	5.7%	4.67%	6.24%
Cost of debt	2.6%	2.9%	3.1%	2.84%	3.26%





Funding Investment

Alastair Cochran

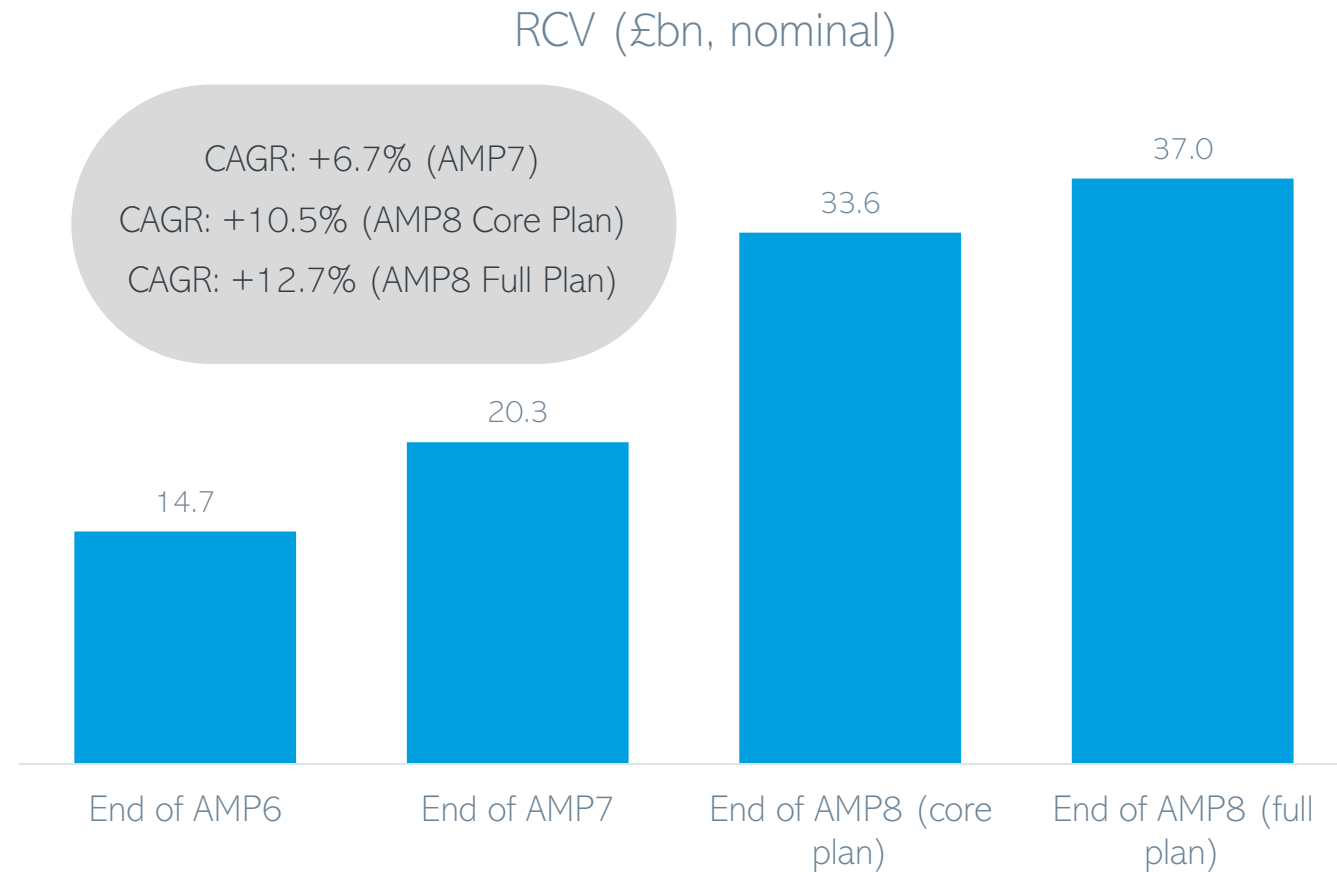
Chief Financial Officer



Investing to improve performance

Record levels of investment and sector-leading RCV growth in AMP8

- Step change in critical investment in AMP8
- Investment funded by
 - Increase in customer bills
 - £13bn in debt issuance (Core Plan)
 - £3.3bn in new equity
- Nominal RCV growth of 65% to 82% in AMP8

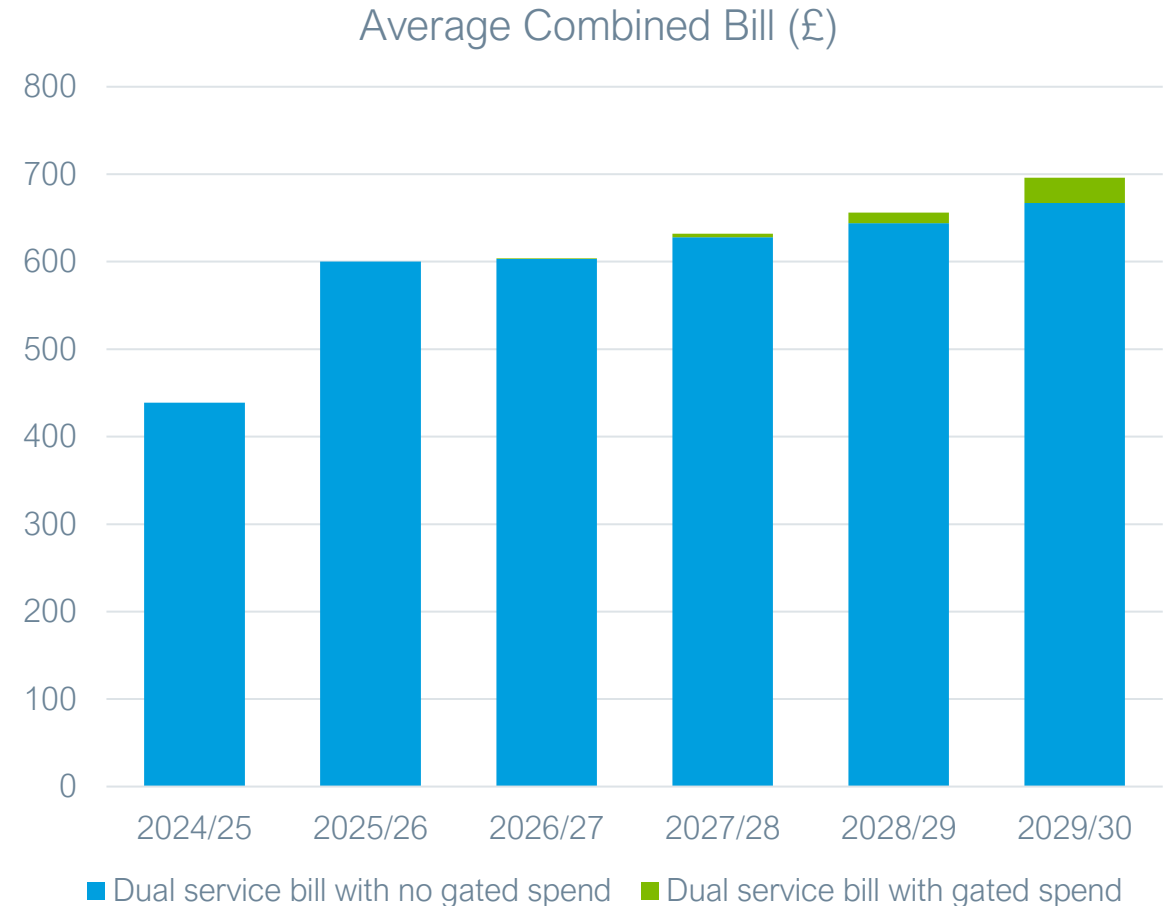


Affordability

Delivering sustainable improvements for customers & stakeholders will require a significant increase in bills

By 2030

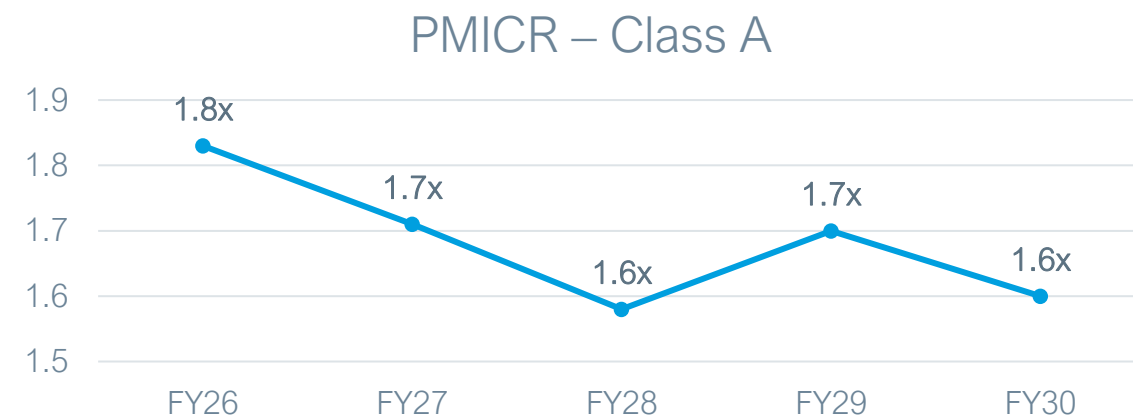
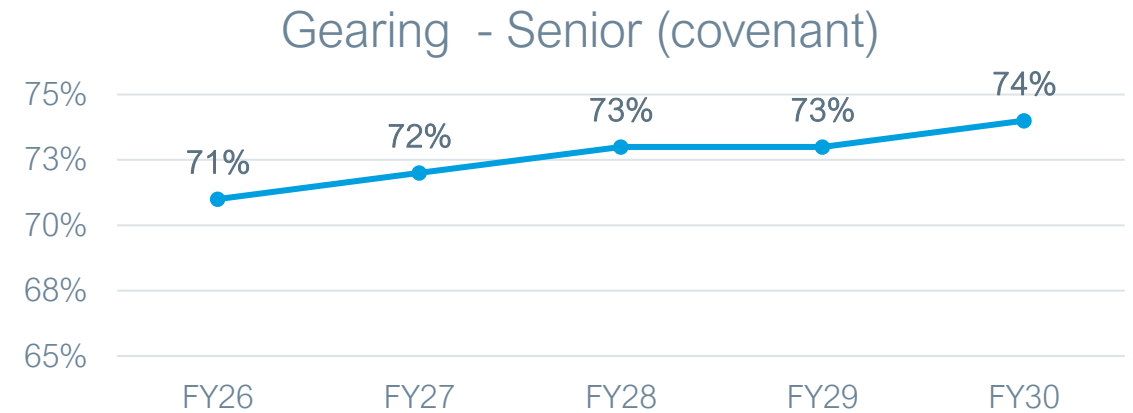
- Proposed real bill increase
 - Core Plan: +52% (including 38% in Year 1)
 - Full Plan: +59%
- On average, dual service bill will represent c.2% of household expenditure
- Increasing support through social tariffs to 647,000 customers



Financeability & investability

New equity will prioritise delivering our plan & turning our business around in AMP8, then lowering gearing

- Targeting credit metrics consistent with Baa1 / BBB+ investment grade ratings
- Projections indicate our plan is resilient to downside sensitivities
- Balanced risk and reward creates a stable platform to finance our PR24 plan



Securing new equity

Focused on securing greater financial resilience

Equity solicitation process

Creditor engagement plan

Draft
Determination
consultation
Jul-Aug'24

Completed

- Update business plan
- Commence pre-marketing

- Commence creditor engagement
- Open data room (historic information)

Pre-Final
Determination
Sep-Dec'24

Ongoing

- Formal launch of equity raise
- Shortlist interested parties

- Finalise and share business plan
- Provide Due Diligence reports
- Meetings between creditor groups, management and advisers
- Consideration of options to extend liquidity and provide a stable platform

Post Final
Determination
Jan'25 – onwards

- Accept FD / appeal to CMA
- Target final binding offers
- Complete equity raise





In summary

Chris Weston

Chief Executive Officer



In summary

Navigating the way forward

- Put forward a measured and deliverable plan
- Constructive proposals to enable investability and financeability
 - Appropriate cost allowances
 - A rebalance of risk and return
 - An appropriate WACC
 - In period funding for gated projects
- Near-term focus to deliver a liquidity extension that delivers for Thames Water and its creditors

Q&A

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