



TMS57 PR24 Data Table Commentary - Risk and Return

At the point of submission, the Risk and Return data tables have not been through external third line review. Our external third line assurer will be commencing this work from 23 October. If there are any material findings, we will inform Ofwat promptly.

RR1 - Revenue cost recovery inputs

RR2 - Totex inputs to cross reference with CA

RR3 - RCV opening balances

RR3 do not contained any proposed regulatory adjustments, rather this has been reflected as an overlay in the populated financial model for PR24 that has been submitted to Ofwat.

RR4 - Financing financial model inputs

RR5 - Tax opening balances

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR5	Whole Table	<p>Use of Regulatory Capital Values to determine proportion of income/expenditure that should be allocated to each price control</p> <p>As Thames Water does not record data in line with the prescribed price controls (WR, WN, WWN, BR, ADD1 and ADD2), the Spring 2023 Regulatory Capital Values ("RCV") were used to calculate the proportion of income/expenditure that should be allocated to each price control. ADD1 relates to Tideway. ADD2 is left blank.</p> <p>To calculate the proportionate RCV of each price control, the closing RCV for each price control was divided by the total closing RCV.</p>
	Lines RR5.1 – RR5.6: Opening current tax liabilities – control – nominal	<p>The draft FY23 corporation tax computation, prepared to support the tax accounting disclosures in Thames Water Utilities Ltd ("TW")'s FY23 financial statements, is used as the starting point in calculating the opening current tax liabilities. Tax written down values of the capital allowance pools, carry forward tax losses and other tax adjustments carried forward have been extracted from the draft computation in order to forecast the tax reliefs on historic items available in FY24 and FY25.</p>

		<p>The opening current tax liability is nil due primarily to forecasted losses before tax for FY23, FY24 and FY25, coupled with significant tax written down allowance pools brought forward and the availability of 100% and 50% first year allowances on new capital expenditure qualifying for the main rate and special rate capital allowance pools.</p>
	<p>Lines RR5.7 – RR5.12: Opening tax loss balance – wholesale - nominal</p>	<p>The opening tax loss balance is estimated based on the submitted FY22 corporation tax computation, adjusted for taxable losses/profits included in the draft FY23 corporation tax computation used for preparation of the tax accounting disclosures included in the FY23 financial statements. It is assumed that all trading tax losses relate to the appointed business. We understand that tax losses are required to be shown as positive numbers in order to be properly treated in the Ofwat model.</p> <p>For each accounting period between FY23 - FY25, the forecasted profit before tax has been adjusted for known temporary and permanent tax adjustments to calculate the taxable loss / liability for the period. The permanent tax adjustments made have been based on those included in the submitted FY22 corporation tax computation and are discussed further in RR5.98 onwards.</p> <p>As per the draft FY23 corporation tax computation, carry forward trading losses of £122.7m are expected to arise in FY23 even after maximum capital allowance disclaimers. No further corporation tax losses are forecast to arise in FY24 or FY25 due to disclaimed capital allowances.</p> <p>Capital allowances are only claimed in FY23 – FY25 to reduce taxable profits to nil (when possible) or disclaimed as far as possible in a loss-making period to avoid increasing tax losses carried forward (as, due to the loss restriction rules, tax losses carried forward are less tax efficient than higher capital allowance pools carried forward). This increases capital allowances for use in future periods. The opening tax written down values and corporation tax losses at 1 April 2025 for PR24 reflect the actual expected balances. In line with Ofwat guidance, capital allowances (including first year allowances) have been claimed in full in for both AMP8 and AMP9.</p>

		<p>Depreciation of capitalised revenue expenditure must be claimed in the year the expenditure is incurred and such claims have been assumed in the model. A deduction for capitalised revenue expenditure has been calculated using the FY22 corporation tax computation values (for 125-year and 25-year assets), applying a straight-line depreciation policy on historic assets and current year additions. As agreed with HMRC, 50% of the annual depreciation has been claimed in the accounting period of addition.</p> <p>No disposals of assets have been forecast.</p> <p>The opening corporation tax losses as at 1 April 2025 have been split between price controls by way of RCV % split as information on tax adjustments for specific price controls is not available. The group's deduction allowance of £5m in respect of carried forward corporation tax losses has been fully allocated to the appointed business.</p> <p>Group relief between different legal entities is paid for at the corporation tax rate applicable to the accounting period in which the corporation tax losses are surrendered.</p>
	<p>Lines RR5.13 – RR5.18: Opening deferred tax balances – control - nominal</p>	<p>The deferred tax liability (“DTL”), as at 1 April 2023 has been pro rated across price controls using the RCV % split. We have then considered the temporary differences expected to arise in the FY24 – FY25 periods based on the temporary differences included in the FY23 financial statements for which deferred tax has been provided for / recognised, including:</p> <ul style="list-style-type: none"> • Depreciation* • Capital allowances (based on forecasted data/workings) • Carry forward losses • IFRS16 adoption unwind • Pensions spreading adjustments. <p>*£23m represents depreciation of assets that would not qualify for capital allowances and therefore no deferred tax movement arises on these assets.</p> <p>Temporary differences movements in FY24 and FY25 have been forecast:</p> <p>- by reference to the nature of the temporary difference</p>

		<p>(e.g. pension spreading year on year movement, IFRS 16 adoption straight line unwind);</p> <p>- in line with the forecasted movement in tax base and accounts base (e.g. capital allowances and depreciation on qualifying assets, generation/utilisation of carry forward losses).</p> <p>Deferred tax arising on financial instruments is assumed to remain constant on the basis the corporate model does not forecast the future fair value movements.</p> <p>We understand that DTLs are required to be shown as positive numbers in order to be properly treated in the Ofwat model.</p>
	Line RR5.19: Current tax liabilities – Appointee b/f - nominal	Similar to lines RR5.1 – RR5.6, the opening current tax liabilities for the appointee is nil, driven by forecasted losses before tax for FY23, FY24 and FY25, coupled with significant tax written down allowance pools brought forward and the availability of 100% and 50% first year allowances on new capital expenditure qualifying for the main rate and special rate capital allowance pools.
	Capital allowances – AMP7	This section covers the production of the forecast tax data for the period FY24 to FY25 which involved analyses of over 4,000 lines of project data covering c.£2.9bn of forecast capex. (See below for AMP8 & AMP9 data which is relevant for RR5.20-RR5.25).
	Lines RR5.20 - RR5.25: Proportion of new capital expenditure qualifying for a full deduction - opening	<p>Companies investing in plant and machinery can benefit from a temporary full deduction for qualifying capital expenditure incurred on or after 1 April 2023 but before 1 April 2026 - this is the 100% first-year allowance (“FYA”) for main rate pool expenditure, known as “full expensing”.</p> <p>Companies may also claim a full deduction in relation to capex that qualifies for the £1m Annual Investment Allowance (“AIA”). The AIA has been allocated to the special rate pool to accelerate the capital allowances claimed.</p> <p>As the 50% FYA for special rate pool expenditure is not a full deduction, it has not been included in RR5.20-RR5.25 and instead included in RR5.62-RR5.67.</p>

		<p>The proportion of new capital expenditure qualifying for the full deduction has been calculated by dividing the qualifying amount for each price control by the total capital expenditure for the same price control.</p>
	<p>Lines RR5.26 – RR5.31 Opening Capital allowance balance – main rate pool – new capital expenditure - control - nominal - Balance at 1/4/2025</p>	<p>The main rate pool balance as at 1 April 2025 has been estimated in the corporate model by taking:</p> <ul style="list-style-type: none"> • the latest actual balance for this pool as at 31 March 2023 (being the balance shown in the draft corporation tax computation used for the FY23 financial statements) of £2,759m less an adjustment of £36m to reflect Retail assets (as Retail as no RCV and Retail assets all assumed to be in the general pool); the pool has been split by price control on the basis of the RCV; • the tax written down value at 31 March 2023 for non-appointed assets eligible for this pool has not been deducted on grounds of materiality; these assets could be excluded from the price review because they were not funded by customers. • plus forecast additions to the general pool (by price control) in the years ended 31 March 2024 and 2025; these are a combination of expenditure on existing capital schemes (which have been given the same tax treatment as in the FY22 submitted tax computations and earlier periods) and expenditure on new capital schemes, which have been computed in accordance with the same principles as discussed in the AMP8 forecast methodology in Appendix 1; • less capital allowances claimed in the corporate model for the years ended 31 March 2024 and 2025 at the rate of 18% reducing balance (subject to any disclaimers made); it has been assumed for this purpose that capital allowance disclaimers are made in the two years to 31 March 2025 to remove/reduce any tax losses which TWUL would have created each year; this gives the most accurate forecast of the "actual" position the company expects to be in at 1 April 2025; • no disposal proceeds are assumed; this is reasonable because relatively few disposal proceeds are deducted from this pool in the submitted tax computations (for example, only £1.2m in FY22) and

		<p>disposals are not forecast in AMP8, other than for Tideway land sales and intra-group transfers to the Ventures business, which do not affect this pool as the disposals are of land, not of assets qualifying for capital allowances in the general pool;</p> <ul style="list-style-type: none"> capital allowances disclaimers have been made by TWUL for a number of recent years on this pool, in order to create taxable profits to offset tax losses available in a group company (Thames Water Utilities Holdings Ltd, "TWUH") via group relief; these disclaimers have increased the balance of the pool carried forward, which results in more tax relief in future than if the disclaimers were not made. <p>The result of these calculations is that RR5 shows an estimated balance for this pool for the five price controls, the sum of which is equal to the estimated balance for the whole company as at 1 April 2025, excluding non-appointed assets (nil) and Retail (£36m).</p>
	<p>Lines RR5.32 – RR5.37 Opening Capital allowance balance – special rate pool – new capital expenditure - control – nominal - Balance at 1/4/2025</p>	<p>The special rate pool balance as at 1 April 2025 has been estimated in the corporate model by taking:</p> <ul style="list-style-type: none"> the latest actual balance for this pool as at 31 March 2023 (being the balance shown in the tax computation used for the FY23 financial statements) of £3,703m; the pool has been split by price control on the basis of the RCV; plus forecast additions to the special rate pool (by price control) in the years ended 31 March 2024 and 2025; these are a combination of expenditure on existing capital schemes (which have been given the same tax treatment as in the FY22 submitted tax computations and earlier periods) and expenditure on new capital schemes, which have been computed in accordance with the same principles as discussed in the AMP8 forecast methodology in Appendix 1; less capital allowances claimed in the corporate model each year at the rate of 6% reducing balance (subject to any disclaimers made on this pool, noting disclaimers would be made first on the general pool because of the cash flow benefit); no disposal proceeds are assumed; this is reasonable because no disposal proceeds are normally deducted from this pool in the submitted tax computations; there are forecast sales of assets on the Tideway project, but although the Tideway project

		<p>is primarily infrastructure assets, the Tideway sales will be of land which will be taxed through the capital gains tax regime, and not of infrastructure assets, which would have been taxed through the long life assets pool.</p> <p>It is assumed that no adjustment is required for Retail as Retail is unlikely to have any assets in the special rate pool. The result of these calculations is that RR5 shows an estimated balance for this pool for the five price controls, the sum of which is equal to the estimated balance for the whole company as at 1 April 2025, excluding non-appointed assets (nil) and Retail (nil).</p>
	<p>Lines RR5.38 – RR5.43 Opening Capital allowance balance – Structures & Buildings pool – new capital expenditure - control - nominal - Balance at 1/4/2025</p>	<p>The Structures & Buildings Allowances (“SBA”) pool (or “long life pool”) balance as at 1 April 2025 has been estimated in the corporate model by taking:</p> <ul style="list-style-type: none"> • the latest actual balance for this pool as at 31 March 2023 (being the balance shown in the tax computation used for the FY23 financial statements) of £17.2m; the pool has been split by price control on the basis of the RCV; • plus forecast additions to the SBA pool (by price control) in the years ended 31 March 2024 and 2025; these are a combination of expenditure on existing capital schemes (which have been given the same tax treatment as in the FY22 submitted tax computations and earlier periods) and expenditure on new capital schemes, which have been computed in accordance with the same principles as discussed in the AMP8 forecast methodology in Appendix 1; • less capital allowances claimed in the corporate model each year at the rate of 3% (flat rate writing down allowances); • new assets have been assumed to be “brought into the use of the trade” in the year of the expenditure is incurred and SBAs claimed immediately to pass on the tax benefit to customers; no disclaimer of SBAs is permitted; • no disposal proceeds are assumed; this is reasonable because no disposal proceeds are normally deducted from this pool in the submitted tax computations; there are forecast sales of assets on the Tideway project, but although the Tideway project is primarily infrastructure assets, the Tideway sales will be of land which will be taxed through the capital

		<p>gains tax regime, and not of infrastructure assets, which would have been taxed through the long life assets pool.</p> <p>It is assumed that no adjustment is required for Retail as Retail is unlikely to have any assets in the SBA pool. The result of these calculations is that RR5 shows an estimated balance for this pool for the five price controls, the sum of which is equal to the estimated balance for the whole company as at 1 April 2025, excluding non-appointed assets (nil) and Retail (nil).</p>
	Lines RR5.44 – RR5.46: Capital allowance rates	<p>Writing down allowances rates have been claimed in accordance with the rates substantively enacted at time of submission:</p> <ul style="list-style-type: none"> • 18% for main rate pool; • 6% for special rate pool; • 3% for structures & buildings rate pool.
	Lines RR5.47 – RR5.49: First year allowance rates	<p>For qualifying expenditure incurred on or after 1 April 2023 but before 1 April 2026, companies can claim:</p> <ul style="list-style-type: none"> • a 100% first-year allowance (“FYA”) for main rate pool expenditure – known as “full expensing”; and • a 50% FYA for special rate pool expenditure. <p>No FYA is available in respect of expenditure in the Structures & Buildings Allowance pool.</p>
	Capital allowances – AMP8 and AMP9	<p>This section covers the production of the forecast data for the period FY26 to FY30 which involved analyses of over 2,300 lines of project data covering c.£12.9bn of forecast capex. In addition, a high level analysis of c.£17.2bn forecast capex in AMP9 was undertaken and allocated to capital allowances pools based on allocations derived from the AMP8 capex analysis.</p> <p>In line with Ofwat guidance, capital allowances (including first year allowances) have been claimed in full in for both AMP8 and AMP9. In reality, as permitted in tax legislation, capital allowance disclaimers are likely to be made in tax computations submitted to HMRC, either to reduce tax losses being carried forward in TWUL or to create taxable profits in TWUL to enable group relief to be claimed from Thames Water Utilities Holdings Ltd (“TWUH”).</p>

	<p>Lines RR5.50 – RR5.55 Proportion of new capital expenditure qualifying for the main rate pool - control</p>	<p>This is the proportion of new capital expenditure qualifying for the general capital allowance pool, i.e. expenditure classed as “P&M”, for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for the relevant price control. The calculation is performed separately for each year of AMP8.</p> <p>Ofwat guidance says that these lines should include the proportion expected for both the standard and high level first year rates. However, as the 100% full deduction is already included in RR5.20-RR5.25, it has not been included here again in order to avoid double counting. Therefore, in FY26, these lines have 0.00% for all price controls whereas in all subsequent years the lines reflect the proportion of capex qualifying for allowances at 18%.</p>
	<p>Lines RR5.56 - RR5.61 Proportion of new capital expenditure qualifying for high level deduction main rate pool</p>	<p>This is the proportion of new capital expenditure qualifying for first year allowances in the general capital allowance pool, i.e. expenditure classed as “P&M”, for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for the relevant price control. However, as the 100% full deduction is already included in RR5.20-RR5.25, it has not been included here again in order to avoid double counting. Therefore, in FY26 these lines have 0.00% for all price controls, and also 0.00% for all subsequent years as first year allowances are not available from FY27 onwards.</p>
	<p>Lines RR5.62 - RR5.67 Proportion of new capital expenditure qualifying for the special rate pool - control</p>	<p>This is the proportion of new capital expenditure qualifying for the special rate capital allowance pool, i.e. expenditure classed as “LLP”, for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for the relevant price control. The calculation is performed separately for each year of AMP8.</p> <p>Ofwat guidance says that these lines should include the proportion expected for both the standard and high level first year rates. Therefore, the 50% first year allowance (per RR5.48) has been included in these lines. However, as the £1m Annual Investment Allowance is already included in RR5.20-RR5.25, it has not been included here again in order to avoid double counting.</p>

	<p>Lines RR5.68 - RR5.73 Proportion of new capital expenditure qualifying for high level deduction special rate pool</p>	<p>This is the proportion of new capital expenditure in the special rate capital allowance pool qualifying for 50% first year allowances for each of the price controls. The proportion is obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the new capital expenditure qualifying for the special rate pool for the relevant price control (rather than as a percentage of the total capital expenditure for the relevant price control, as for other capex data lines). The calculation is performed separately for each year of AMP8 but under current tax legislation the high level deduction is only available for FY26.</p> <p>As noted above, as the £1m Annual Investment Allowance is already included in RR5.20-RR5.25, it has not been included here again in order to avoid double counting.</p>
	<p>Lines RR5.74 - RR5.79 Proportion of new capital expenditure qualifying for the structures and buildings pool - control</p>	<p>This is the proportion of new capital expenditure qualifying for the SBA capital allowance pool, for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for the relevant price control. The calculation is performed separately for each year of AMP8.</p> <p>Ofwat guidance says that these lines should include the proportion expected for both the standard and high level first year rates. However, no first year allowance is available in respect of expenditure in the SBA pool.</p>
	<p>Lines RR5.80 - RR5.85 Proportion of new capital expenditure qualifying for high level deduction structures and buildings pool</p>	<p>No SBA related expenditure was considered to qualify for first year allowances.</p>
	<p>Lines RR5.86 – RR5.91 Proportion of new capital expenditure not qualifying for any capital allowances</p>	<p>This is the proportion of new capital expenditure not qualifying for any tax relief, i.e. expenditure classed as “NQ”, for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for all price controls. The calculation is performed separately for each year of AMP8.</p>

	<p>Lines RR5.92 – RR5.97 New capital expenditure - Proportion of capitalised revenue expenditure (infra & non infra)</p>	<p>This is the proportion of new capital expenditure treated as deferred revenue expenditure, i.e. the sum of expenditure classed as “Rev” or “Infra Rev” for each of the price controls, obtained using the AMP8 Forecast methodology in Appendix 1, expressed as a percentage of the total capital expenditure for the relevant price control. The calculation is performed separately for each year of AMP8.</p>
	<p>Other Tax Inputs Lines RR5.98 – RR5.103: P&L expenditure not allowable as a deduction from taxable trading profits – control - nominal</p>	<p>Expenditure which falls into this category in the submitted tax computations for recent years is considered below:</p> <ul style="list-style-type: none"> • Fines and court costs for pollution incidents: It is assumed fines are incurred at the company's expense (rather than customers') and so they are not factored in to the PR24 process. • Disallowable entertaining: It is assumed these costs incurred at the company's expense (rather than customers') and so they are not factored in to the PR24 price review. • Legal fees: Costs incurred for the purposes of prosecutions in which fines have been issued have been assumed to be incurred at the company's expense (rather than customers') and so they are not factored in to the PR24 price review. • Fixed Penalty Notices (FPN) issued for streetworks activity: Streetworks activity may result in FPNs being issued for incorrect / incomplete paperwork. A disallowable amount has been assumed based on the average of the last 3 submitted tax computations. This is relevant for the network price controls WN+ and WWN+ only. Disallowable amounts are approximately £1.25m per annum of which £0.69 million is WWN+ and £0.56 million is WN+ based on a RCV proportional split. • Qualifying charitable donations: Qualifying charitable donations fall outside of the appointed business and have therefore been excluded from PR24 calculations. • Finance costs: Any Corporate Interest Restriction (“CIR”)

		<p>disallowance would be allocated outside of the appointed business therefore we have assumed all net finance costs of TWUL Group are deductible. There are no other disallowances of finances costs under the unallowable purpose, transfer pricing or other anti-avoidance rules.</p> <ul style="list-style-type: none"> • Transfer pricing adjustments: <p>Transfer pricing adjustments relate to TWUL and its financing subsidiary Thames Water Utilities Finance plc (“TWUF”), as per prior year submitted corporation tax computations, which are both included in the appointed business. As the transfer pricing adjustments net to nil, no adjustment is required.</p>
	<p>Lines RR5.104 – RR5.109: Other adjustments to taxable profits – control - nominal</p>	<p>We have considered adjustments in respect of the following:</p> <ul style="list-style-type: none"> • Capitalised interest: <p>In the statutory accounts, some interest payable is treated as capitalised as a fixed asset. In the tax computations for HMRC, under the loan relationship rules, a full tax deduction is available on capitalised interest in the year the interest is capitalised. As the Ofwat model does not assume that any interest is capitalised, no adjustment has been made.</p> <ul style="list-style-type: none"> • Pollution provision: <p>This provision is not deductible for corporation tax purposes. As the cost of the pollution provision is not reflected in the Ofwat model, no adjustment has been made.</p> <ul style="list-style-type: none"> • Fair value gains on infrastructure (FV income): <p>This type of income is capital in nature but relates to the deemed income for asset adoptions and is therefore not taxable. No FV amounts are reflected in the Ofwat model and therefore no adjustment has been made.</p> <ul style="list-style-type: none"> • Profits/losses arising from the non-appointed business: <p>The Tideway project is considered outside the TWUL appointed business. as the original construction cost is incurred by Bazalgette Tunnel Limited (“BTL”). TWUL collects revenue on behalf of BTL and passes the revenue collected to BTL. Although this is in essence a pass-through cost for TWUL, the statutory accounting results in revenue in TWUL (recognised on behalf of BTL) and will result (on</p>

		<p>commissioning) in a finance lease in TWUL for the asset leased from BTL (reflecting the c.£4bn value of the asset constructed by BTL but used exclusively by TWUL) less a finance lease liability for amounts payable by TWUL to BTL. In its tax computations for HMRC, TWUL must include taxable profits arising from the taxable revenue billed by TWUL on behalf of BTL, less the capital allowances expected to be available to TWUL as lessee, once the Tunnel has been commissioned, currently assumed to be in FY27. Up to FY26, the net amount is a taxable profit in TWUL, but for FY27 to FY34, capital allowances are expected to exceed revenue creating a net tax loss in TWUL; in FY35, revenue is expected to exceed capital allowances creating a net taxable profit in TWUL. Over the life of the Tunnel, the revenue collected and capital allowances claimed should broadly net out. It is expected that the appointed business will give free tax losses to the BTL part of the non-appointed business (as they are part of the same legal entity) to cover the net taxable profits up to FY26 (this is consistent with the basis on which the APR has been prepared). Similarly, the appointed business will benefit from the free use of tax losses from the BTL part of the non-appointed business for FY27 onwards, which will reduce the taxable profits of TWUL for those years (we would expect to reflect this in future APR submissions). Overall for AMP8, net deductions have been included of £350.0m, and £112.7m deductions for AMP9; these are all included within ADDN1 as the amounts relate to the Tideway Tunnel.</p> <ul style="list-style-type: none"> • Capital gains / losses on disposals: The accounting profit / loss on disposal of a chargeable asset is not taxable/deductible. Disposals are taxable under capital gains tax (“CGT”) legislation, calculated separately for each individual sale. The taxable amount for each sale is calculated as the sale proceeds less direct sale costs, less original cost of the property sold (apportioned as necessary for part disposals) including any direct acquisition costs, less indexation (an inflation adjustment) up to Dec 2017 on the original cost. Capital gains and losses on properties are netted off each other in the same year and any net capital gain could be covered by any capital losses brought forward, or by trading losses in TWUL in the same year or trading losses carried back from the following year. Any capital gains which cannot be covered by capital losses or by
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		<p>trading losses could lead to tax payable by TWUL. This is relevant because the Tideway land sales are agreed with Ofwat to be on a no gain / no loss basis which is interpreted by TWUL to be net of any tax payable so any tax cost actually payable to HMRC should be part of this calculation so that TWUL does not lose out. If a net capital gain were to arise on which cash tax is likely to be payable, "rollover relief" may be available to cover some / all of the gain; rollover relief is a tax relief which allows the deferral of capital gains if the proceeds are re-invested in qualifying expenditure. Most of the disposals in AMP8 relate to the sale of Tideway land / properties as the tunnel moves towards commissioning date; however, such disposals are expected to generate capital losses. The remaining disposals relate to intra-group transfers to the Ventures business and so these would be treated as no gain/no loss under CGT rules, and in any case are treated as negative capex.</p> <ul style="list-style-type: none">• Pension costs: In the submitted tax computations, tax relief is claimed on all pension contributions paid, including deficit repair payments on defined benefit ("DB") pension schemes, instead of amounts which have been booked to the profit and loss account. No adjustments are being made in these lines in respect of DB pension costs capitalised as fixed assets (reducing the cost in the P&L), as the DB schemes are closed and in run-off so the P&L cost and amount capitalised are not expected to be material. Other than for Retail (see RR5.142-RR5.147) there are no inputs in RR5 for pension contributions or pension cost in the P&L as these feed through automatically to the Ofwat tax computations from other tables. Pension spreading rules have been considered but appear not to be relevant in AMP8 (these would defer some tax relief if the contributions paid in a year are significantly more (as defined in tax legislation) than paid in the previous year).• Intercompany loan interest: In the submitted tax computations, interest receivable from Thames Water Utilities Holdings Ltd ("TWUH") is taxable income. However, as this loan is not taken into consideration for the Ofwat model, interest receivable from TWUH has already been excluded from the tax funding calculation. The loan from TWUL to TWUHL is forecast to be fully repaid during FY26 and so no interest arises from FY27
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		<p>onwards.</p> <ul style="list-style-type: none"> Financial instruments: <p>No adjustment is required in relation to financial instrument derivatives / swaps. We understand that the Ofwat model includes finance expenses and income in relation to swaps on an accruals basis, excluding any fair value movements. TWUL prepares its statutory accounts under IFRS which recognises fair value movements on swaps. However, these fair value movements are disregarded for tax purposes by TWUL when it prepares its tax return. Therefore, no adjustment is required to be made in the Ofwat model.</p> <ul style="list-style-type: none"> Other adjustments: <p>In the submitted tax computations, some tax deductions and add backs are being spread over a number of years, in respect of cost or income in the accounts for prior years. To reflect these in the Ofwat model, an adjustment is included for tax deductions on IFRS restatements (IFRS 16 on leases and IFRS 9 impairment on financial instruments), for allowable tax deductions in respect of former finance leased assets and taxable amounts in respect of certain derivatives. The net effect of these adjustments is a tax deduction each year.</p> <p>The tax adjustments have been split between the price controls by using the RCV % split, apart from the “Losses arising from non-appointed business” which is all allocated to ADDN1 as it relates to the Tideway Tunnel.</p>
	<p>Lines RR5.110 – RR5.115: Disallowable expenditure – Change in general provisions – control - nominal</p>	<p>Per the submitted corporation tax computations, general provisions remain at a relatively similar total level in most years and by their nature, general provisions are hard to predict, as such we have not included an annual change in general provision for PR24 purposes.</p>
	<p>Lines RR5.116 – RR5.121: Finance lease depreciation – control - nominal</p>	<p>There are no existing finance leases as at 31 March 2023 and no new forecast finance leases to consider other than the Thames Tideway Tunnel (“TTT”). Any depreciation included in the P&L in relation to finance leases relates to the depreciation of TTT. TTT is a long funding plant and machinery lease and therefore for tax purposes capital expenditure incurred by the lessor, Bazalgette Tunnel Limited (“BTL”), qualifies for capital allowances in the lessee, TWUL, and as such any finance lease depreciation in the P&L in TWUL is non tax</p>

		deductible. On the basis that the TTT falls outside the appointed business as the original cost is incurred by BTL, there are no finance lease depreciation amounts to include in RR5 for any price control.
	Lines RR5.122 – RR5.127: P&L expenditure relating to renewals not allowable as a deduction from taxable trading profits – control - nominal	Since IFRS has been applied (1 April 2015 onwards), no amounts in opex in respect of infrastructure renewals work have been treated as capital, because of the accounting policy for all infrastructure renewals type work which leaves only small repairs in opex and capitalises the rest. As there is no predicted change to the accounting policy, we do not expect any infrastructure renewals in opex to be treated as capital in PR24. Therefore, the amount is £nil for all lines for all years.
	Lines RR5.128 – RR5.133: Tax cashflow initial balance – nominal	On the basis the corporation tax liability from FY23 – FY25 is nil, the tax cashflow initial balance is also nil for all price controls.
	Line RR5.134: Tax allowance – nominal	The carried forward tax loss allowance for the appointed business is £5m each year applicable from 1 April 20217 onwards.
	Line RR5.135: Statutory Corporation tax rate	The UK corporation tax rate is 25%, which applies from 1 April 2023 onwards, was substantively enacted on 24 May 2021.
	Lines 136 – 141: Adjustment to tax payment – nominal	There are no manual adjustments to tax payments.
	Lines RR5.142 – RR5.147: Charge for defined benefit (“DB”) pension schemes - residential retail – control - real	<p>The proportion of DB pension scheme charges allocated to Retail is 0.03% which results in an immaterial amount. Hence these lines have been left as £nil.</p> <p>Adjustments in respect of contributions in excess of P&L charges for the non-Retail business have been considered in RR5.104 – RR5.109.</p>
	Lines RR5.148 – RR5.153: Other taxable income – Amortisation on grants and contributions - control – nominal	In the submitted corporation tax computations, TWUL taxes income for infrastructure charges over time, following the current accounting treatment under IFRS, which is amortisation of the income in the P&L over a period of time corresponding to the useful lives of the

		<p>related assets. This tax treatment was agreed with HMRC in 2011. As the income is actually included as negative capex for Ofwat modelling purposes, these lines exclude any amounts which have already been taxed via the capital allowance calculations (depreciation on capitalised revenue over 125 years), to avoid a double count.</p>
	<p>Lines RR5.154 – RR5.159: Other taxable income – Grants and contributions taxable on receipt - control – nominal</p>	<p>In the submitted corporation tax computations, TWUL taxes income for diversions and requisitions on receipt, following the current accounting treatment under IFRS which is immediate recognition of the income in the P&L.</p> <p>For diversions, this is on the basis that the income is received in respect of an asset, for which the relevant expenditure is treated as deferred revenue expenditure because it is considered that there is no improvement to the network, and therefore deductions for the cost follow the accounting treatment in the form of depreciation; the corresponding income is therefore also taxed following the accounting treatment. Income in respect of requisitions has followed the accounting since 2001. As the income is actually included as negative capex for Ofwat modelling purposes, these lines exclude any amounts which have already been taxed via the capital allowance calculations (depreciation on capitalised revenue over 125 years), to avoid a double count.</p> <p>Income in respect of new service connections (“NSC”) is also recognised in full in the P&L, but this is taxable through capital allowances because the income is received in respect of assets which are eligible for capital allowances (7% general pool and 93% long life pool).</p>
	<p>Lines RR5.160 – RR5.165: Allowable depreciation on capitalised revenue – control – nominal</p>	<p>As set out in Appendix 1, depreciation on capitalised revenue expenditure is assumed to have either 125 or 25 year useful life depending on the nature of asset. As agreed with HMRC, only 50% of the annual depreciation has been claimed in the year the revenue expenditure is capitalised as on average assets would be commissioned half way through the year.</p> <p>This is the sum of allowable depreciation on capitalised revenue expenditure with an average 25 year life for Deferred Revenue Expenditure (“DRE”), non-infrastructure assets, and on capitalised revenue expenditure with an average 125 year life for DRE, infrastructure assets. These amounts are calculated in the corporate model and are based on the expenditure in</p>

		<p>the two TB53 pools as at 31 March 2023, plus DRE additions estimated each year up to 31 March 2035. Additions up to 31 March 2025 are a combination of expenditure on continuing capital schemes (those with some spend up to 31 March 2022, which are given the same tax treatment as in the submitted tax computations for FY22) and expenditure on new capital schemes, which are computed in accordance with the principles used in RR5.92-RR5.97. Additions in the 10 years up to 31 March 2035 are computed in accordance with the principles used for lines RR5.92-RR5.97 above. The allowable depreciation each year is calculated as 1/25 (and 1/125) of the opening DRE costs and half of 1/25 (and half of 1/125) of the new DRE additions in the year respectively. Once historic spend is fully depreciated, no further deductions are available.</p>
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RR6 - Post financeability adjustments inputs

RR7 - Residential retail

RR8 - Business retail

RR9 - Miscellaneous inputs

RR10 - Allowed Revenue Outputs

RR11 - PAYG and RCV run-off outputs

RR12 - RCV by control

RR13 - Annual RCV balances

RR14 - Bill profile for 2025-30 before inflation

RR15 - Retail margins 2025-30 (nominal price base)

RR16 - Financial ratios

RR17 - Financial metrics by scenario

RR18 - Income statement - actual structure

RR19 - Statement of financial position - actual structure

RR20 - Statement of cashflows - actual structure

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR20	RR20.21: Cash inflow from equity financing	<p>In AMP7 all proceeds are assumed to be equity funded by external shareholders – amounting to £1.25bn.</p> <p>In AMP8, £2.5bn in 2027/28 is assumed to be equity funded by external shareholders. Amounts in excess are assumed to be sourced from raising incremental debt at the Holding level company i.e. Kemble Water Finance Ltd. The 'amounts in excess' reflect a standard modelling assumption for the split of capital structure between TWUL and the Holding level company. This assumption is maintained for consistency and is purely indicative.</p> <p>The capital structure of TWUL and at the Holding level company will be reviewed when there is greater clarity on (i) the regulatory framework for AMP8 and (ii) the level of shareholder funding for TWUL, which is currently indicated to be in the region of £2.5 billion.</p>

RR21 - Net debt analysis (appointed activities)

Table RR21 / Table 1E commentary

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR21	Whole table	The data gathered for Table RR21 - Net debt analysis comes directly from Table RR22, except cash, short term deposits and adjusted gearing. Please refer to the Table RR22 methodology statement for more details.

	RR21.1 Borrowings	<p>This is the same as the total of Table RR22 column “Principal sum outstanding as at 31 March 2023 (excluding unamortised debt issue costs)” for the fixed rate instruments, floating rate instruments and RPI linked instruments sections of RR22, with the information categorised on the post-swap basis. TWUL’s Borrowings includes all debt relevant to the regulated company, even where this has been taken out by a financing subsidiary i.e. the table has been prepared on a TWUL Group basis. Borrowings includes: bonds, loans, private placements, net derivative financial liabilities (related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate on cross currency swaps) and obligations under leases. Borrowings excludes accrued interest, issuance or transaction costs and premiums or discounts.</p> <p>Where there is a difference to the total borrowings as reported in Table 1C, a reconciliation is provided.</p>
	RR21.2 Preference share capital	Same as line RR19.28
	RR21.3 Total borrowings	Sum of lines RR21.1 + RR21.2
	RR21.4 Cash	Cash in hand and at bank at year-end balance is the total cash balance from Table RR19, Statement of Financial Position less value in RR21.5 Short term deposit. Entered as a negative value.
	RR21.5 Short term deposits	Short term deposits held relate to investment in money market funds and those money market deposits which have next working day maturity. Entered as a negative value.
	RR21.6 Net Debt	Sum of lines RR21.3 to RR21.5, for Total column
	RR21.7 Gearing	Regulatory gearing level is obtained by dividing the net debt number in row RR21.6 by total RCV as published by Ofwat.
	RR21.8 Adjusted Gearing	This is the covenant gearing obtained from TWUL covenant workings.
	RR21.9 Full year equivalent nominal interest cost	Total of Table RR22 column “Nominal Interest Cost (Full year equivalent)” for fixed rate instruments, floating rate instruments and RPI linked instruments sections.
	RR21.10 Full year equivalent cash interest payment	<p>Total of Table RR22 column “Cash Interest Cost (Full year equivalent)” for fixed rate instruments, floating rate instruments and RPI linked instruments sections.</p> <p>The only difference between the values in this row and RR21.9 is inflation accretion related to index linked instruments, as accretion is excluded from cash interest payments. Note that accretion is taken into account</p>

		within the principal amount on which the interest is calculated, within Table RR22.
	RR21.11 Indicative weighted average nominal interest rate	The interest amount in RR21.9 is divided by total borrowings RR21.3 for the relevant column.
	RR21.12 Indicative weighted average cash interest rate	The interest amount in RR21.10 is divided by total borrowings RR21.3 for the relevant column.
	RR21.13 Weighted average years to maturity	The multiple of the principal sum (RR22) and years to maturity (RR22) for each debt instrument (i.e. excluding swaps except for cross currency swaps) divided by the principal sum outstanding of all debt instruments (RR22). The Ofwat guidance does not indicate how foreign-currency debt should be treated. We utilise the post cross-currency swap notional for this calculation and note this assumption. The denominator is the sum of the notional of debt instruments, again including foreign currency instruments on a post cross currency swap notional basis.

RR22 - Analysis of debt

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR22	Whole table	<p>Thames Water Utilities Limited's ("TWUL") financial debt portfolio consists of various fixed, floating and index-linked debt and its derivative portfolio includes interest rate swaps, index-linked swaps and cross currency swaps. Table RR22 – Analysis of debt table includes details of all these debt and derivative instruments included on the Statement of financial position as at 31 March, even where this has been taken out by a financing subsidiary i.e. the table has been prepared on a TWUL Group basis. The table also includes leases. Information related to leases is provided by the Financial Control team.</p> <p>TWUL maintains a Group Loan Summary ("GLS") spreadsheet for all its debt and derivatives including detailed relevant information. It forms part of the deliverables listing provided to PwC for the year-end audits. This spreadsheet currently holds detailed information on financial instruments including start date, maturity date, notional value, book value, mark to market value, type of instrument, financial instrument currency, interest rates and unamortised debt issuance costs. The Table 4B as at 31 March 2023 is used as a basis for compiling the information required for table RR22. The Table 4B as at 31 March 2023 is based on GLS as at 31 March 2023. The GLS is compiled in excel using</p>

		<p>information downloaded from City Financials, the Treasury Management System (TMS) used by TWUL Group, and information from underlying agreements. The data on the GLS is updated and a new Regulatory working file is saved to reflect</p> <p>Ofwat guidelines and information on hedging plus other assumptions such as:</p> <p>where commitment fees or margin are based on a credit rating grid, information included on the table reflects the margin percentage rate which is currently applicable</p> <p>where a derivative has been used as a hedge, the maturity date of the underlying debt instruments have been used for compiling years to maturity</p> <p>foreign currency debt is shown after incorporating the impact of the relevant cross currency swap, hence such swaps are not included in the table. These swaps fall under Swap category D, aside from one Yen swap which is Category A due to a break clause</p> <p>asset and liability legs for swaps have been reported in their relevant section depending on the nature of the interest payable / receivable</p> <p>where one swap has been linked to more than one piece of debt, the swap has been split across multiple rows of the table so that the relevant debt's maturity date can be applied to the relevant part of the swap. The line description includes actual month of the swap maturity and the split information.</p> <p>2058 and 2060 maturity swaps each constitute three restructured transaction components, whilst the table shows the combined position</p> <p>the fair value of all receive legs and pay legs of the relevant swap should be added together to calculate the total fair value of a swap (dirty value i.e. accrued interest not deducted)</p> <p>where margin is variable a weighted average over the life of the swap is shown</p> <p>facility related unamortised fees have been included in the column "Issuance costs"</p> <p>Lease liabilities information is provided by the Financial Control team.</p> <p>The relevant updated GLS working file name for 31 March 2023 is ["Group loan summary 31 March 2023 -</p>
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		<p>Regulatory]”.</p> <p>The following procedures are followed to compile data for each column of the table RR22:</p> <p>Instrument</p> <p>This column includes description of the instrument.</p> <p>Issuer</p> <p>This column includes the name of the issuer.</p> <p>Category</p> <p>This column contains the category of the instruments, the relevant option is selected from the drop-down options provided by Ofwat.</p> <p>Maturity type</p> <p>This column contains the maturity type of the instruments, the relevant option is selected from the drop-down options provided by Ofwat.</p> <p>Instrument identifier</p> <p>International Securities Identification Number (ISIN) for each listed external debt is included on this column. For swaps, a code is included so that the pay and receive leg of a swap can be matched together.</p> <p>Seniority</p> <p>The seniority of each debt and derivative is specified in this column, as per Ofwat guidance.</p> <p>Long term issue credit rating</p> <p>This information is based on credit rating agency reports, applicable as at 31 March 2023. All our public Class A debt has been rated BBB, on stable outlook by S&P and Baa1 with stable outlook by Moody’s. For Class B debt, the rating is BB+, on stable outlook by S&P and Ba1 with stable outlook by Moody’s.</p> <p>Currency</p> <p>Even though we have issued foreign currency debt, these are economically hedged by transacting cross-currency swaps, hence, reporting currency for all instruments is GBP.</p> <p>Issue date</p> <p>For debt instruments, the issue date is the relevant issue date according to the contractual arrangements and for swaps, this is either the effective date (which may be in the future) or the novation date.</p> <p>Issue price</p>
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		<p>This column refers to the ratio of issuance proceeds to face value of the debt, expressed in parts of 100.</p> <p>Maturity date</p> <p>This column indicates the maturity date for the financial instruments. In the case of swaps, if the maturity date is different from the underlying debt then the underlying debt's maturity has been used, as per guidance.</p> <p>Years to maturity</p> <p>This column indicates the remaining years to maturity for the financial instruments. In the case of amortising instruments, weighted average time to maturity is included on the table rather than the final maturity. Perpetual instruments (if any) are shown with 25 years to maturity, per Ofwat guidance.</p> <p>Where the swap's maturity date is different from the underlying debt, the swap's maturity date is used, per Ofwat 'Consultation on regulatory reporting for 2022-23 Responses document'.</p> <p>Where one swap has been linked to more than one piece of debt, the swap has been split on multiple rows of the table so that the hedging relationship for the relevant part of the swap can be indicated.</p> <p>In case of leases (where the liability amortises), the actual years to maturity period is divided by two to calculate the weighted average time to maturity.</p> <p>Where debt is repayable on demand of the lender, the years to maturity is shown at less than one year (0.99), in line with Ofwat guidance.</p> <p>Original issuance/facility size</p> <p>This column refers to the original issuance amount in £m, in the case where the instrument is a facility the amount refers to the total size of the facility.</p> <p>Principal sum outstanding as at 31 March 2023 (excluding unamortised debt issue costs)</p> <p>Principal sum includes principal plus accretion for debt and notional plus accretion for swaps. For credit facilities it is the amount drawn. For leases, this is the amount in £m of the lease liability.</p> <p>Amount used to calculate nominal interest cost and cash interest payment (might be equal or differ from principal sum outstanding)</p> <p>Almost all of the numbers in this column are equal to column "Principal sum outstanding as at 31 March 2023 (excluding unamortised debt issue costs)", except:</p> <p>Certain swaps where accretion has already been paid is</p>
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		<p>added back, as interest payable is calculated on the basis of cumulative accretion i.e. ignoring accretion which has been paid.</p> <p>One swap where accretion is added back as interest is received on principal plus accretion already paid</p> <p>Years to maturity x principal sum</p> <p>This is an automated column.</p> <p>RPI interest rate</p> <p>This is an automated column for fixed rate and floating rate instruments which uses the latest annualised March monthly RPI figure reported by ONS. For indexed linked instruments, this column indicates the Real RPI coupon interest rate, which is directly obtained from GLS. For Leases, the interest rates are similarly deflated by RPI ...</p> <p>CPI Interest rate</p> <p>This is an automated column for fixed rate and floating rate instruments which uses the latest annualised March monthly CPI/CPIH figure reported by ONS. For indexed linked instruments, this column is blank in the RPI section per Ofwat format and the CPI section is not currently applicable to TWUL.</p> <p>Reference benchmark</p> <p>This column is only required for floating rate instruments and includes the relevant interest rate benchmark details.</p> <p>Reference benchmark rate</p> <p>This column is only required for floating rate instruments and includes the relevant benchmark rate as published for 31 March 2023.</p> <p>Margin over reference benchmark rate</p> <p>Similar to reference interest rate, this column is required only for floating rate instruments and is obtained from the terms of each floating deal included on the GLS. For leases, this is derived by deducting the reference benchmark rate from the rate applicable to the lease.</p> <p>Nominal Interest Rate</p> <p>For fixed rate instruments, the coupon rate would be the nominal interest rate, which is sourced from GLS. For leases, under the fixed rate instruments section, the fixed rate of interest applicable to the lease as provided by the Financial Control has been included. This column is automated for floating rate and index linked instruments.</p> <p>Nominal Interest Cost (Full year equivalent)</p> <p>This is an automated column.</p>
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		<p>Cash Interest Payment (Full year equivalent)</p> <p>This is an automated column.</p> <p>Utilisation fee</p> <p>This column provides information on applicable utilisation fees, relevant for certain instruments.</p> <p>Commitment fee</p> <p>This column provides information on applicable commitment fees, relevant for certain instruments.</p> <p>Issuance costs</p> <p>This column includes information related to external costs associated with the original issuance including issuance costs and discounts.</p> <p>Value per balance sheet as at 31 March 2023</p> <p>This column includes the book value from GLS or of the lease.</p> <p>Fair value of debt at 31 March 2023</p> <p>The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels one to three based on the degree to which the fair value is observable.</p> <p>Level 1: Quoted prices in active markets for identical assets or liabilities that can be accessed</p> <p>Level 2: Significant inputs other than within Level 1 that are observable for the asset or liability, either directly or indirectly</p> <p>Level 3: Inputs for the assets or liabilities that are not based on observable market data and require management assumptions or inputs from unobservable markets.</p> <p>Unless otherwise stated, all of the TWUL Group's inputs to valuation techniques are level two – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index-linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result, it has been concluded as at 31 March 2023 that it is appropriate to continue to classify the derivative instruments as level</p>
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		<p>two.</p> <p>Fair values for derivative financial instruments are calculated by our Treasury team. Unadjusted valuation is verified based on 2-way check process, where the unadjusted fair valuation produced using Bloomberg MARS is compared with information received from counterparties. Any differences beyond acceptable limits are investigated, resolved and documented. The unadjusted fair valuation is then adjusted for Bilateral Credit Value Adjustment (“BCVA”) produced using Bloomberg XVA. The adjusted fair valuations are used for accounting and reporting as required by International Financials Reporting Standards (IFRSs). There is one LPI swap where Bloomberg Valuation is not supported, in this case the counterparty valuation (after adjustment for credit risk) is used for accounting and reporting. The fair values are also independently audited by PwC.</p> <p>In the case of a swap, the receive legs and the pay legs are included on different sections depending on whether the relevant leg includes fixed rate, floating rate or index-linked interest. Due to this, fair values included on all receive legs and pay legs of the relevant swap should be added together to calculate the total fair value of the swap. [and Intercompany Loans]</p> <p>As foreign currency debt is presented with the post cross currency swap position, the fair value on that line relates to the fair value of the debt and cross currency swap together.</p> <p>The fair value of GBP debt is obtained from Bloomberg, for publicly traded debt, or is valued on City Financial Treasury Management System by our Treasury team.</p> <p>The fair value for debt and derivatives presented is the dirty value (i.e. without the deduction of accrued interest).</p> <p>Fair Value of Leases has been assumed to be the book value as per the balance sheet.</p> <p>Swap Category</p> <p>The category of each derivative is specified in this column (A to D), as per Ofwat guidance.</p> <p>Further information</p> <p>This column includes additional information regarding the financial instruments including details of any margin changes.</p> <p>Leases</p> <p>This methodology statement does not cover lease information which has been provided by Financial Control Team and added to this table, except where lease</p>
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	information received has been updated to present as required in the table.
	The interdependencies with other business plan tables The summary data within the table RR22 is consistent with the equivalent figures featuring in table RR21.

RR23 - Financial derivatives

Introduction

The TWUL Group's financial derivatives portfolio consists of various interest rate swaps, index-linked swaps and cross currency swaps. This methodology statement covers the calculation of the Nominal value by maturity (net), mark to market value, total accretion (net of historical accretion paydowns) for index linked swaps and weighted average interest rate for the 12 months to 31 March 2023 for all the financial derivatives in the TWUL Group.

TWUL maintains a Group Loan Summary (GLS) spreadsheet for all its debt and derivative information. It forms part of the deliverables listing provided to the statutory auditors ("PwC") for the year-end audit of 31 March 2023. This spreadsheet currently holds all the necessary information on financial instruments including start date, maturity date, notional value, book value, mark to market value, type of swap, financial instrument currency and interest rates. The data on this table is populated from the Treasury Management System ("TMS") used by the TWUL Group and information from underlying instruments.

The different types of interest rate swaps currently held by the TWUL Group are floating to fixed rate, floating from fixed rate, floating to index linked, floating from index linked and fixed to index linked. TWUL Group also holds cross currency swaps (pay GBP receive foreign currency) consisting of USD/GBP, EUR/GBP, JPY/GBP and CAD/GBP. After classifying all the swaps accordingly, various pivot tables are created using information sourced for each swap e.g. notional value, accretion (net of historical accretion paydowns), fair value and interest rate. These pivot tables are filtered based on swap type and maturity profile to compile the information required for Table RR23.

Nominal value by maturity (net)

Nominal value by maturity is sourced from the following pivot table. This takes into account the nominal values of the financial instruments classified by their maturity profile.

Sum of Notional Value	Column Labels				ASSET Total	LIABILITY				LIABILITY Total	Grand Total			
	-ASSET					-ASSET								
Row Labels	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years						
Cross currency swap EUR	439,599.09	1,428,697.03	1,077,017.76		2,945,313.87	-	453,230.00	-	1,414,398.97	-	1,059,596.71	-	2,927,225.68	18,088.20
Cross currency swap Other				149,494.71	149,494.71								143,554.41	5,940.30
Cross currency swap USD	161,812.30	501,618.12	320,388.35	230,582.52	1,214,401.29	-	128,783.00	-	510,160.34	-	272,572.92	-	200,436.04	1,111,952.29
Cross currency swap YEN		121,828.28			121,828.28				153,550.86				153,550.86	31,722.59
Fixed to index-linked		3,158,901.16		940,000.00	4,098,901.16				3,158,901.16				940,000.00	0.00
Floating from index linked														
Floating to fixed rate		2,100,000.00		150,000.00	2,250,000.00				2,100,000.00				150,000.00	-
Floating to index linked		500,000.00	20,000.00		520,000.00				500,000.00		20,000.00		520,000.00	-
Floating from fixed rate		1,920,901.93			1,920,901.93				1,920,901.93				1,920,901.93	-
Grand Total	601,411.38	9,731,946.52	1,417,406.11	1,470,077.23	13,220,841.25	(582,013.00)	(9,757,913.26)	(1,352,169.63)	(1,433,990.44)	(13,126,086.33)				94,754.92

For swaps with a break date, the expected maturity of the swap is used (which is the final maturity date) For swaps with accretion paydowns, the nominal value on that leg is reduced by any paydowns which have occurred.

Total accretion at 31 March 2023

Total accretion is sourced from the following pivot table. These accretion numbers are the cumulative values as at 31 March 2023 and are reduced by any historical accretion pay downs and derivative settlements. A note is included to state that in some cases accretion will be paid down prior to maturity, despite the wording in the guidance 'This inflation-uplift will not be paid or received until maturity of the relevant swap instrument'.

Sum of Indexation	Column Labels				ASSET Total	LIABILITY				LIABILITY Total	Grand Total
	ASSET	LIABILITY	LIABILITY Total	Grand Total		0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		
Row Labels	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		
Cross currency swap EUR	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cross currency swap Other	-	-	-	0.00	0.00	-	-	-	0.00	-	0.00
Cross currency swap USD	-	0.00	0.00	0.00	0.00	-	0.00	-	-	-	0.00
Cross currency swap YEN	-	-	-	-	-	-	0.00	-	-	-	0.00
Fixed to index-linked	-	0.00	-	-	0.00	-	674,866.52	-	106,538.97	781,405.48	781,405.49
Floating from index linked	-	-	-	-	-	-	-	-	-	-	-
Floating to fixed rate	-	-	-	-	-	-	-	-	-	-	-
Floating to index linked	-	-	-	-	-	-	137,199.32	-	7,843.80	145,043.12	145,043.12
Floating from fixed rate	-	0.00	-	-	0.00	-	-	-	-	0.00	-
Grand Total	(0.00)	(0.00)	(0.00)	0.00	(0.00)	0.00	(812,065.83)	(7,843.80)	(106,538.97)	(926,448.60)	(926,448.60)

Mark to market value

Mark to market values for financial instruments are calculated by our treasury team. Unadjusted valuation is verified based on a 2-way check process, where the unadjusted fair valuation produced using Bloomberg MARS is compared with information received from counterparties. Any differences beyond acceptable limits are investigated, resolved and documented. The unadjusted fair valuation is then adjusted for Bilateral Credit Value Adjustment ("BCVA") produced using Bloomberg XVA. The adjusted fair valuations are used for accounting and reporting as required by International Financials Reporting Standards (IFRSs). There is one LPI swap where Bloomberg Valuation is not supported, in this case the counterparty valuation (after adjustment for credit risk) is used for accounting and reporting. The fair values are also independently audited by PwC. The fair value is sourced from the following pivot table and then adjusted by the accrued interest.

Sum of TOTAL FAIR VALUE - 31/03/2023	Column Labels				ASSET Total	LIABILITY				LIABILITY Total	Grand Total
	ASSET	LIABILITY	LIABILITY Total	Grand Total		0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		
Row Labels	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years		
Cross currency swap EUR	(13,697,576.80)	(838,292.34)	0.00	0.00	(14,535,869.14)	0.00	(25,053,591.35)	(775,438.02)	-	(25,829,029.37)	(40,364,898.51)
Cross currency swap Other	-	-	-	0.00	0.00	-	-	-	8,207,962.81	8,207,962.81	8,207,962.81
Cross currency swap USD	31,864,056.00	15,110,954.06	50,655,279.30	0.00	97,630,289.36	0.00	(9,758,329.84)	0.00	34,363,099.34	24,604,769.51	122,235,058.87
Cross currency swap YEN	(34,631,559.79)	-	-	-	(34,631,559.79)	0.00	-	-	-	-	(34,631,559.79)
Fixed to index-linked	(579,459,052.78)	-	-	0.00	(579,459,052.78)	-	(434,828,288.09)	-	(126,132,515.39)	(560,960,803.48)	(1,140,419,856.26)
Floating from index linked	-	-	-	-	0.00	-	-	-	-	0.00	0.00
Floating to fixed rate	-	0.00	-	0.00	0.00	-	254,295,666.83	-	3,088,869.91	257,384,536.74	257,384,536.74
Floating to index linked	-	(202,723,014.87)	(7,126,138.58)	-	(209,849,153.44)	-	(189,017,515.79)	0.00	-	(189,017,515.79)	(398,866,669.23)
Floating from fixed rate	-	(316,294,091.94)	-	-	(316,294,091.94)	-	0.00	-	-	0.00	(316,294,091.94)
Grand Total	18,166,479	(1,118,835,058)	43,529,141	0	(1,057,139,438)	0	(404,362,058)	(775,438)	(80,472,589)	(485,610,086)	(1,542,749,523)

The following adjustments are incorporated to the above fair value pivot table information for the final information to be used for table RR23:

- Floating to fixed rate: Total fair value from the pivot table less accrued interest
- Floating from fixed rate: Total fair value from the pivot table less accrued interest
- Floating to index linked: Total fair value from the pivot table less total unpaid accretion and accrued interest
- Floating from index linked: Total fair value from the pivot table less total unpaid accretion and accrued interest
- Fixed to index – linked: Total fair value from the pivot table less total unpaid accretion and accrued interest
- Cross currency swap YEN: Accrued interest and impact of year end foreign currency revaluation is deducted from the total fair value.
- Cross currency swap Other: Accrued interest and impact of year end foreign currency revaluation is deducted from the total fair value.
- Cross currency swap USD: Accrued interest and impact of year end foreign currency revaluation is deducted from the total fair value.
- Cross currency swap EUR: Accrued interest and impact of year end foreign currency

revaluation is deducted from the total fair value.

Sum of Accrued Interest	Column Labels				
Row Labels	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years	Grand Total
Cross currency swap EUR	(1,591,883.26)	(3,202,810.17)	(2,604,248.67)		(7,398,942.10)
Cross currency swap Other				319,804.56	319,804.56
Cross currency swap USD	131,750.44	1,963,692.24	722,047.74	78,659.40	2,896,149.82
Cross currency swap YEN		(2,012,482.16)			(2,012,482.16)
Fixed to index-linked		31,916,463.56		1,654,901.79	33,571,365.35
Floating from index linked					
Floating to fixed rate		4,353,486.62		52,702.20	4,406,188.82
Floating to index linked		1,346,315.52	3,005.93		1,349,321.45
Floating from fixed rate		(5,342,159.50)			(5,342,159.50)
Grand Total	(1,460,132.82)	29,022,506.11	(1,879,195.00)	2,106,067.95	27,789,246.24

Weighted average interest rate for 12 months to 31 March 2023

For fixed rate legs of financial instruments, annual interest is calculated by multiplying the notional value with the fixed annual interest rate. For inflation-linked instruments the real rate plus the annualised inflation rate for the month of March 2023 are used in the formula $((1 + \text{real coupon}) \times (1 + \text{annualised inflation}) - 1) \times \text{the notional value of financial instruments on which interest is calculated (i.e. with accretion paydowns added back onto the notional)}$. For floating rate legs, interest is calculated by using the applicable rate i.e. SONIA+CAS as at 31 March 2023, and adding the spread, as applicable, and in one case increasing the notional by accretion paydowns. The weighted average interest rates are calculated by first calculating interest for each instrument within the relevant category.

Sum of Interest	Column Labels					ASSET Total	LIABILITY					LIABILITY Total	Grand Total
Row Labels	0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years			0 to 1 years	Over 5 years	2 to 5 years	1 to 2 years			
Cross currency swap EUR	835.24	45,707.31	27,282.62		73,825.17	73,825.17	(4,494.81)	(62,124.45)	(41,431.67)		(108,050.94)	(34,225.76)	
Cross currency swap Other				4,297.97	4,297.97	4,297.97			(3,296.50)	(3,296.50)		1,001.48	
Cross currency swap USD	6,504.85	23,084.14	12,545.15	8,231.80	50,365.94	50,365.94	(5,537.67)	(21,987.28)	(10,100.42)	(4,640.45)	(42,265.82)	8,100.12	
Cross currency swap YEN		3,995.97			3,995.97	3,995.97		(10,101.34)			(10,101.34)	(6,105.38)	
Fixed to index-linked		151,892.30		29,507.53	181,399.83	181,399.83		(23,631.83)		2,788.61	(20,843.23)	160,556.61	
Floating from index linked					0.00	0.00						0.00	
Floating to fixed rate		93,544.25		6,686.10	100,230.35	100,230.35		(38,341.98)		(5,159.25)	(43,501.23)	56,729.13	
Floating to index linked		21,055.99	1,371.06		22,427.05	22,427.05		(4,087.50)	(194.30)		(4,281.80)	18,145.25	
Floating from fixed rate		20,806.33			20,806.33	20,806.33		(85,564.03)			(85,564.03)	(64,757.71)	
Grand Total	7,340.09	360,086.30	41,198.82	48,723.40	457,348.61	457,348.61	(10,032.48)	(245,838.42)	(51,726.39)	(10,307.58)	(317,904.88)	139,443.74	

The total of the relevant interest under each category is divided by the sum of the notional values (asset and liability) to arrive at the weighted average interest payable rate and interest receivable rate. When this total interest is divided by notional values, the notional in the denominator is reduced to the extent of accretion paydowns.

	Asset					Liability				
	Sum of Interest	Accretion for the year	Total Interest and accretion	Notional Value	Interest Rate	Sum of Interest	Accretion for the year	Total Interest and accretion	Notional Value	Interest Rate
	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
Cross currency swap EUR	73,825.17		73,825.17	2,945,313.87	2.5%	(108,050.94)		(108,050.94)	(2,927,225.68)	3.7%
Cross currency swap Other	4,297.97		4,297.97	149,494.71	2.9%	(3,296.50)		(3,296.50)	(143,554.41)	2.3%
Cross currency swap USD	50,365.94		50,365.94	1,214,401.29	4.1%	(42,265.82)		(42,265.82)	(1,111,952.29)	3.8%
Cross currency swap YEN	3,995.97		3,995.97	121,828.28	3.3%	(10,101.34)		(10,101.34)	(153,550.86)	6.6%
Fixed to index-linked	181,399.83		181,399.83	4,096,901.16	4.4%	(20,843.23)	(621,970.44)	(642,813.68)	(4,098,901.16)	15.7%
Floating from index linked	0.00	5,051.38	5,051.38	0.00	0.0%	0.00		0.00	0.00	0.0%
Floating to fixed rate	100,230.35		100,230.35	2,250,000.00	4.5%	(43,501.23)		(43,501.23)	(2,250,000.00)	1.9%
Floating to index linked	22,427.05		22,427.05	520,000.00	4.3%	(4,281.80)	(100,441.28)	(104,723.08)	(520,000.00)	20.1%
Floating from fixed rate	20,806.33		20,806.33	1,920,901.93	1.1%	(85,564.03)		(85,564.03)	(1,920,901.93)	4.5%

Assumptions

The following guidelines and assumptions have been used:

- Interest rate payable and receivable for floating leg of derivatives is determined using year end (31 March) reference rate.
- Instruments which change from "fixed to index linked" to "floating to index linked" during their life have been classified according to their interest rate profile at 31st March.
- Mark to Market is presented on a clean basis (accrued interest is deducted).

- Out-of-the money (liability) positions for Thames Water are presented as positive and in-the-money (asset) positions are presented as negative.

RR24 - Debt balances and interest costs

RR25 - Allowed return on capital for the Appointee

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR25	RR25.5: Debt beta	Adjusted to reflect 15 bps aim up which would normally be added to RR25.11 (Overall cost of equity (used in WACC))

RR26 - Allowed return on capital by wholesale price control

Data Table	Applicable to Whole Table or Individual Line/s	Commentary
RR26	RR26.5: Debt beta	Adjusted to reflect 15 bps aim up which would normally be added to RR26.11 (Overall cost of equity (used in WACC))

RR27 - Revenue analysis and RR27a - Revenue analysis

Commentary not applicable.

RR28 - Historic cost analysis of tangible fixed assets

Commentary not applicable.

RR29 - Asset lives

Commentary not applicable.

RR30 - RORE Analysis

Ofwat requires companies to submit data in relation to risk analysis as part of PR24 business plans. This included populating RR30 data tables with the high (P90) and low (P10) case estimates for following areas: totex, ODIs, financing, revenue and measure of experience.

RR30 table in our plan is populated based on the risk analysis in this annex and reflect our business plan (e.g. our proposed risk mitigations in the plan). The RR30 table has been populated by estimates for an average year in the overall price control period. Range estimates already capture intra-year correlations. We note that, although we propose a RAM mechanism as a potential mitigation of operational risk, the RR30 table has been populated prior the application of the RAM.

Below we provide commentary on each area of the RR30 table and explain how risk ranges from our analysis have been mapped to the RR30 tables.

Totex (wholesale and retail cost) scenarios

Ofwat's RR30 table splits totex into price control costs (e.g., water totex, wastewater totex, bioresources totex, retail totex and totex associated with additional controls) and assumes that scenarios for totex from different price controls are fully additive. Hence, Ofwat's data tables do not account for interlinkages between probabilities underlying these scenarios when deriving the overall totex exposure.

Wholesale totex RoRE risk range in this annex is estimated through Monte-Carlo simulation and our estimate of the range (which is a result of aggregation of wholesale water and wastewater ranges) is narrower than implied by RR30 (figure 24 below).

We have not amended the RR30 tables and populated them as required by Ofwat's guidance. However, we note that Monte Carlo aggregated range for wholesale totex is more accurate than a fully additive range implied by RR30.

Figure 24: Totex RoRE risk ranges

Totex category	RR30	Our analysis
Water	-2.7%/+1.9%	-3.8%/+1.9%
Wastewater network plus	-2.5%/+1.1%	
Bioresources	-0.4%/+0.4%	
Retail costs	-0.7%/+0.7%	-0.7%/+0.7%
Total	-6.3%/+4.2%	-4.5%/+2.6%

ODI and measure of experience scenarios

We are proposing zero cap on downside exposure on ODIs and C-Mex to capture our circumstances of turnaround plan. We have populated ODI and measures of experience sections in RR30 table with zero exposure in the downside scenarios and small upside opportunity on ODIs post mitigations.

Ofwat's RR30 table requires to split ODI scenarios into price control categories. Our total ODI risk estimate is based on aggregating risk ranges of individual PCs through Monte-Carlo simulation. We note that water and wastewater ODIs are not fully additive and therefore the ODI upside RoRE scenario implied by RR30 is wider than our estimate of 0.10% (figure 25

below).

Figure 25: ODI RoRE risk ranges

Totex category	RR30	Our analysis
Water ODI	0%/0.05%	0%/0.10%
Wastewater ODIs	0%/0.09%	
Total	0%/0.14%	0%/0.10%

Financing scenarios

Ofwat's RR30 table does not allow populating risks related to embedded debt performance in the financing scenarios section. Our analysis of financing risk (as set out in this annex) captures embedded debt performance risk, therefore financing risk estimated in this annex is higher than implied by RR30 (figure 26).

Figure 26: Financing RoRE risk ranges

Financing category	RR30	Our analysis
Inflation	-1.48%/1.37%	-1.48%/1.37%
New debt	-0.07%/+0.06%	-0.07%/+0.06%
Embedded debt	-	-0.34%/+0.27%
Total	-1.55%/+1.43%	-1.90%/+1.70%

Revenue and QAA scenarios

We have not assessed revenue and QAA risk and therefore retained Ofwat's proposed range in PR24 FM and populated RR30 tables accordingly.

Appendix 1: AMP8 and AMP9 Capex – Capital Allowances Methodology

Commentary

This methodology covers the production of the forecast data for the period FY26 to FY30 (AMP8) and is relevant to lines RR5.50 to RR5.97. The resulting allocations to capital allowances pools for AMP8 were used as the basis to allocate forecast capex in AMP9 to capital allowances pools.

Principles of allocating capital expenditure for capital allowance purposes

In this document the following abbreviations for tax categories are used and the methodology is documented re how the split between tax categories has been derived:

P&M	Plant and machinery eligible for 18% capital allowances
LLP	Long life P&M and integral features eligible for 6% capital allowances
NQ	Capital expenditure which is non-qualifying, i.e. does not receive any tax relief
SBA	Structures and buildings expenditure eligible for 3% SBAs
Rev	Capital expenditure on non-infrastructure expenditure which is not an improvement is classed as deferred revenue expenditure (“DRE”); TWUL has agreed with HMRC that it receives tax relief equivalent to depreciation over an average life of 25 years
Infra Rev	Capital expenditure on infrastructure expenditure which is not an improvement and so is classed as DRE; TWUL has agreed with HMRC that it receives tax relief equivalent to depreciation over an average life of 125 years

Capital expenditure in the submitted tax computations for each year is normally allocated between tax categories by considering whether the expenditure is an improvement or not for tax purposes, combined with the accounting life of the asset, unless a particular tax treatment is known to override this default assumption or if more accurate tax information is available for a particular capital scheme. More accurate tax information would be available for a large capital project if, for example, the expenditure has been reviewed for tax purposes by a quantity surveyor (see Tideway below) or if more detailed engineering costing information is available for a particular capital scheme; information such as this is only sought when the exact engineering solution has been selected and costed, which is usually when money is about to be, or is already being, spent. For PR24, therefore, it is appropriate to decide the tax treatment based on whether the expenditure is an improvement or not for tax purposes, combined with the accounting life of the asset, subject only to cases where a particular tax treatment is known to override this default assumption.

To determine whether the expenditure is an improvement or not for tax purposes in the TWUL tax return, we often rely on the analysis of the capital expenditure for Ofwat reporting purposes between QBEG categories, which stand for “Q” Quality, “B” Base, “E” Enhancement and “G” Growth. Q, E and G markers usually imply improvements to assets to meet new Quality requirements, various Enhancements and Growth of the network respectively, and therefore expenditure which is coded to Q, E and G is usually an improvement for tax purposes. However, a B marker usually implies no improvements to assets as the expenditure is usually incurred to maintain a Base level of service, and therefore expenditure which is coded to B is not usually an

improvement for tax purposes and is therefore usually treated as capitalised revenue expenditure, also known as DRE.

There are some exceptions to this default assumption regarding whether expenditure classed as Base is DRE. One is that assets where the entirety is substantially replaced or fully replaced are always considered to be capital in nature for tax purposes; therefore, expenditure on replacement standalone plant such as new vehicles and furniture is treated as improvement even if it has a Base marker. In addition, some assets in areas of rapid technological change, primarily hardware, software and major control system / automation (SCADA) upgrades are always treated as an improvement, even if they have a Base marker. Where a whole process at a works is replaced, this would also be treated as an improvement for tax because of the “Entirety” agreement; this is rare but would apply if an inlet works is replaced for example. These exceptions would be identified by a review of capex solution titles and usually accelerate the tax relief available compared with treatment as DRE.

DRE does not earn capital allowances (which are only available on improvement type spend) but instead receives tax relief following HMRC Tax Bulletin 53 (“TB53”); TB53 confirms that DRE should receive tax relief each year which is equivalent to the accounting depreciation on the expenditure in the year. To simplify the calculation of this tax relief, TWUL reached an agreement with HMRC in 2016 to use average depreciation lives for DRE for expenditure in tax years 2013/14 onwards; the agreement allows TWUL to use an average 25 year life for DRE incurred on non-infrastructure assets, and an average 125 year life for DRE on infrastructure assets. Furthermore, in the year in which the DRE is incurred, it is assumed that the assets would be commissioned on average in the middle of the year, so only ½ a year’s deduction is claimed. In the table below, DRE with an accounting life of less than 80 years is shown as Rev, and DRE with an accounting life of 80 years or more is shown as Infra Rev because the average life calculations were derived using that split. The deductions available on DRE are shown in lines RR5.92 to RR5.97].

Plant and machinery expenditure which is an improvement in nature and which has a useful life of less than 25 years is normally added to the general pool, whereas plant and machinery expenditure which is an improvement in nature and which has a useful life of 25 years or more is added to the LLP. In addition to the above principles, there are some other tax rules which can affect capital allowances. These are:

- Integral features – this is expenditure on plant and machinery which is integral to a building, for example lights, lifts and hot water systems. TWUL gives this expenditure an asset life of 15 years, so this would normally be expected to be treated as P&M, being plant and machinery expenditure with a life of less than 25 years. However, tax legislation requires that this expenditure receives capital allowances at the rate of 6% and it is therefore included in the LLP in the submitted corporation tax computations and in the PR24 calculations for Ofwat, and therefore is classed as LLP in the default mapping table below.
- Industrial buildings – the tax category of industrial buildings includes expenditure on industrial buildings, fencing and roads and car parks; it is usually abbreviated to “IBA”. The tax relief on this expenditure was completely withdrawn by 31 March 2011 so expenditure on these assets no longer receives any tax relief. As this is equivalent to non-qualifying expenditure, the expenditure is shown as “NQ” in the table below, rather than as IBA.
- “Genuine Structures” – TWUL incurs some expenditure on civil assets which are not used as part of the water treatment processes covered by the Structures agreement with HMRC (which is explained below). These assets therefore do not benefit from the agreement with HMRC to treat structures as LLP expenditure. Continuing expenditure on existing schemes

this type of expenditure is therefore shown as “NQ”. For new schemes this expenditure has been treated as qualifying for SBA, as the new schemes begin so far after the SBA commencement provisions that it is unlikely they will fail to qualify as a result of having a contract date prior to the commencement provisions. The relevant assets are listed in tax legislation and the main ones relevant to TWUL are bridges, jetties, weirs, aqueducts and raw water reservoirs (storage reservoirs); TWUL tax department refers to them as “Genuine Structures” to distinguish them from the civils assets eligible for LLP allowances.

Applying the above methodology produces a default tax mapping into the following categories for capex expenditure with the following useful economic lives for accounting as shown in the table below:

life (years)	Base	QEG	Apply the following exceptions
3	P&M	P&M	Only relevant asset class is computers which is P&M even if Base
4	Rev	P&M	exceptions: keep Base vehicles as P&M
5	Rev	P&M	exceptions: keep Base SCADA, vehicles, hardware, software, furniture as P&M
7	Rev	P&M	exceptions: keep Base SCADA, vehicles, hardware, software, furniture as P&M
9	Rev	P&M	exceptions: keep Base SCADA, vehicles, hardware, software, furniture as P&M
10	Rev	P&M	exceptions: keep Base SCADA, vehicles, hardware, software, furniture as P&M, boundary fencing treated as SBA where QEG
15	Rev	LLP	no exceptions (all relevant asset classes are “integral features” in nature = LLP)
20	Rev	P&M	office building structure treated as SBA
25	Rev	LLP	no exceptions
30	Rev	LLP	exception: buildings and bridges as IBA / genuine structures = SBA
40	Rev	LLP	exception: bridges and sluices as genuine structures = SBA
50	SBA	SBA	no exceptions (all relevant asset classes are office buildings)
60	Rev	LLP	exceptions: jetties, buildings, roads and car parks as IBA / genuine structures = SBA
80	Infra Rev	LLP	exception: aqueducts as genuine structures = SBA
100	Infra Rev	LLP	exception: weirs as genuine structures = SBA
150	Infra Rev	LLP	no exceptions

200	Infra Rev	LLP	no exceptions
250	Infra Rev	NQ	Only relevant asset class is storage reservoirs which are genuine structures = SBA
land	NQ	NQ	no exceptions
Periodic review study costs	Rev	Rev	no exceptions
Assets Under Construction	Infra rev/rev	LLP/P&M	<p>Some schemes were not given a distinct asset class within the forecast Capex data, and were instead simply labelled as Assets Under Construction. They had, however, been split between Infra and non-infra. Where no prior year analysis had been completed for these schemes a standard approach was taken as follows:</p> <ul style="list-style-type: none"> • Infra assets treated as Infra rev if Base, and LLP if QEG. • Non-infra assets treated as Rev if Base, and 48.22% P&M, 51.78% LLP based on the standard asset life workings provided in the forecast data.

The table above is applied to expenditure data by asset class in FY24-25 and all years of AMP8 for schemes where no prior analysis had been undertaken.

In addition to the above rules, there are two further aspects which cannot easily be reflected in the default mapping rules but must be reflected afterwards as high level adjustments:

- There is an agreement reached by the water industry with HMRC which is usually referred to as the “Structures” agreement. This agreement was reached with HMRC in 2013 regarding the capital allowance treatment of civils expenditure at operational sites (these are mainly metal and concrete tanks and are usually referred to for tax purposes as Structures) and regarding the capital allowance treatment of plant and machinery attached to those Structures so that they work together. The agreement confirmed firstly that civils assets at operational sites could be treated as additions to the LLP, with 6% writing down allowances; this expenditure is therefore shown as mapping to LLP in the table above. Secondly, the agreement confirmed that a proportion of plant and machinery expenditure attached to the metal or concrete Structures would be treated as additions to the LLP instead of the general pool, therefore earning 6% capital allowances instead of 18%. The method applied in the submitted tax computations calculates 5.63% of Water process P&M and 15.35% of Waste process P&M and moves these amounts to the LLP; P&M network assets, such as meters, pumping stations and Tideway P&M, and any P&M assets not used in treatment processes, e.g. software and vehicles, are all ignored and remain as P&M. We have applied this same method to calculate the adjustment each year.
- Companies may also claim a full deduction in relation to assets that qualify for the £1m Annual Investment Allowance (“AIA”). The AIA has been allocated to the special rate pool to accelerate the capital allowances claimed as noted for RR5.20 - RR5.25 above.

Summary of tax treatment for capital expenditure in price controls WR / WN+ / WWN+ / BR

The modelling for the price review applies all the above principles and assumptions to the capital expenditure in the four price controls WR / WN+ / WWN+ / BR, but not in the case of expenditure on the Tideway price control which is explained separately below. This produces amounts of spend for the P&M, LLP, SBA, NQ, FYA and DRE categories for those four price controls, for which the mapping to tax categories may be summarized in the following table:

P&M	P&M eligible for 18% capital allowances: <ul style="list-style-type: none"> • less amounts treated as eligible for 100% capital allowances under full expensing rules, • less amounts treated as LLP instead of P&M under the Structures agreement
P&M - full expensing	P&M eligible for 100% capital allowances under full expensing rules
LLP	Long life P&M eligible for 6% capital allowances: <ul style="list-style-type: none"> • including integral features, • plus amounts treated as LLP instead of P&M under the Structures agreement. • less amounts eligible for 50% capital allowances under special rate pool first year allowance ("FYA")
LLP - FYA	Long life P&M eligible for 50% capital allowances under special rate pool FYA
SBA	Structures and buildings eligible for 3% SBAs
NQ	Capital expenditure which is non-qualifying, i.e. does not receive any tax relief, including amounts which would be IBA and "genuine structures"
DRE	Capital expenditure on non-infrastructure and infrastructure which is not an improvement and so is classed as "Rev" and "Infra Rev" and receives tax relief equivalent to depreciation over an average life of 25 and 125 years respectively.

Tax treatment for capital expenditure in price control "ADDN1" – Thames Tideway Tunnel ("Tideway", "TTT")

This section of the methodology is applicable to the capital expenditure incurred by TWUL directly on the Tideway project, and does not apply to amounts payable by TWUL to Bazalgette Tunnel Ltd ("BTL", the infrastructure provider for the Tideway project) which are not included in capital expenditure in TWUL. A separate calculation has been prepared to calculate the impact on the appointed business of taxable profits and losses arising from the revenue billed to customers by TWUL on behalf of BTL less the capital allowances expected to be available to TWUL as lessee on BTL capital expenditure once the Tunnel has been commissioned. See "RR5.104 – RR5.109: Other adjustments to taxable profits – control – nominal" for further details.

Expenditure on the Tideway price control has an opinion from an external quantity surveyor, originally obtained in 2017 and periodically updated, which is being used instead of the methodology explained above for the other four price controls; this is explained further below. Property transactions relating to the Tunnel were not analysed by the external quantity surveyors and have been considered separately. Expenditure on Tideway is expected to take place on the capex solutions as shown below.

For the Tideway price control, the capital expenditure incurred by TWUL (rather than by BTL) comprises work on the Tunnel (originally started on capital project 5LYG and now on D383). There are also interface works currently on capital project D382. We have agreed with HMRC that this can be analysed for tax purposes in accordance with the latest version of the report prepared by quantity surveyors (dated June 2023) which considers the tax treatment of the whole combined expenditure on the Tunnel by TWUL and by BTL (which ultimately is the expenditure on which TWUL will receive capital allowances), and which shows the following profiles:

	Whole Tunnel
P&M	4.46%
P&M – Full expensing	0.00%
LLP	91.32%
LLP - FYA	0.00%
NQ (including IBA)	4.21%
DRE	0.01%
Total	100.00%

There are eight capex solutions in the Tideway price control for work in AMP8 which are dealt with as follows:

- AM.PR24.210 “Land No Pain No Gain (Excluding Land Sale Income)” £24.7million spend in AMP8. Treated as NQ as land related.
- AM.PR24.209 “TTT Project Closeout Costs (AMP8 TIG)” £4.5million spend in AMP8. Treated in line with the percentages laid out above, based on the scheme name.
- AM.PR24.211 “London Tideway Tunnels driven Capital Schemes” £49.1million spend in AMP8. Treated in line with the percentages laid out above, based on the scheme name.
- AM.PR24.212 “Stakeholder Engagement and Corporate Costs” £0.6million spend in AMP8. Treated as NQ as does not appear to have sufficient nexus to the assets installed to qualify for relief.
- AM.PR24.213 “Optimisation Costs” £56.9million spend in AMP8. Treated in line with the percentages laid out above, based on the scheme name.
- CS006 “We've simplified and standardised retailer/non-household processes to make our services easier” £0.02million spend in AMP8. Treated as P&M, in line with the computer software asset class.
- EA003 “Asset Health - Below Ground Assets” £0.22million spend in AMP8. Treated as P&M, in line with the computer software asset class.
- EA005 “Asset Modelling” £0.11million spend in AMP8. Treated as P&M, in line with the computer software asset class.

A calculation has been produced, applying the above methodology to calculate the tax categories for all the capital expenditure for each price control.



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