<table>
<thead>
<tr>
<th>Goodbye</th>
<th>Hello</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ofwat setting companies’ plans</td>
<td>company ownership of business plans</td>
</tr>
<tr>
<td>outputs for regulators</td>
<td>outcomes for customers</td>
</tr>
<tr>
<td>capex bias</td>
<td>totex</td>
</tr>
<tr>
<td>regulation of integrated business</td>
<td>wholesale/retail split</td>
</tr>
<tr>
<td>forced one-stop-shop</td>
<td>choice for business customers</td>
</tr>
</tbody>
</table>
Wholesale: risk and reward

Companies to propose wholesale remuneration

Companies to propose their own WACC
Some companies will be within a reasonable range
We will compare submissions with trends in the market to determine what is reasonable

Market trends point to declining cost of capital

Cost of debt has declined

Gearing has increased

Market-implied cost of equity has been below PR09

Note: Market data as of June 2013
Retail: costs and risk and reward

- Cost to be allocated appropriately
- Cost must be efficiently managed
- Household and non-household split

- Regulatory account guidelines 4.04
- Companies to provide robust evidence required for any adjustments
- Household – no competition yet
  Non-household – emerging competition

Household
Companies will have to provide robust evidence to deviate from average cost to serve

Non-household*
Companies to demonstrate default tariffs do not discriminate between customers

*Approach in Wales is different to England

Retail returns based on margin on sale not cost of capital
Margin to cover risk and capital employed
Company: financeability and affordability

**Financeability**

Companies are responsible for demonstrating financeability

Our primary duties are to protect consumers and to ensure efficient companies can finance their functions

**Companies’ KPI credit rating**

A

BBB

We will continue to assess the financeability of business plans at the whole company level

**Affordability**

Companies responsible for demonstrating affordability

Companies need to be alert to customers’ views and macroeconomic considerations

Companies are best placed to understand the issues facing their own customers

**Average earning and inflation**

We will consider companies’ evidence as part of our risk-based review
What could we expect from bills in 2015-20?

**Water today, water tomorrow**

### Average bill 2019-20*

- **Worst case**: £350
- **Central case**: £330
- **Best case**: £315

---

**Level of investment based on 2010-15**

**Cost of capital savings and efficiency savings – opportunity**

---

*Expressed in 2012-13 prices*
What are companies doing to promote legitimacy?

Average household water and wastewater bills before inflation (£)

- Average bill 2014-15
- Efficiencies
- Lower profit levels and interest rates
- New obligations required by law
- Additional investment for services and growth
- Average bill 2019-20

© Anglian Water
Role of the City

Investors have a key role to play

**Role of investors**
- Challenge management teams to develop credible plans and to deliver on them

**Ofwat will**
- Ensure that an efficient company can raise finance on reasonable terms – our primary statutory duty
- Commit to “no surprises” in setting prices
- Introduce needed regulatory changes gradually and after full consultation
- Retain RCV framework and RPI linkage for wholesale activities for the foreseeable future
- Give companies greater freedom, with significant scope to outperform the allowed return if they can deliver efficiencies
Exploring bringing forward final determinations for companies with enhanced business plans

**PR14 Plan**

**Phase 1: Clarification**
- Ofwat host company ACTS workshop (26 Sep)
- SIM consultation published (14 Oct)
- Charging consultation published (14 Oct)
- Financial model published (mid-end Oct)
- Companies' updated cost and performance data published (early Nov)

**Phase 2: Restricted Communications**
- Conduct risk based review
- Results of risk-based review announced (4 Apr)
- Enhanced draft determinations and menus published (30 Apr)
- Finalise enhanced menus
- Baselines and draft menus for standard business plans published (30 Apr)

**Phase 3: Risk-based Review Categorisation**
- Produce draft determinations
- Produce final determinations (by 12 Dec)
- Finalise standard menus
- Standard menus published (29 Aug)
- Enhanced draft determinations and menus published (30 Apr)

**Timeline**

**Aug 2013**
- Prepare business plans
- Ofwat host company ACTS workshop (26 Sep)
- SIM consultation published (14 Oct)
- Charging consultation published (14 Oct)
- Financial model published (mid-end Oct)
- Companies' updated cost and performance data published (9 Aug)

**Sep 2013**
- Business plans submitted (2 Dec)
- CCG reports submitted (2 Dec)
- Companies present business plans
- Companies present business plans

**Oct 2013**
- No change / minor amends to enhanced business plans
- Refine standard business plans

**Nov 2013**
- Redevelop resubmission business plans
- Updated business plan deadline (28 Jun)
- Consultation period
- Consultation on draft baselines
- Stakeholder collaboration with companies and Ofwat (eg environmental and quality regulators)

**Dec 2013**
- Confirmation of standard menu choices if required (30 Jan)
- Plan elements are subject to change

**Jan 2014**
- Confirm standard menu choices if required (30 Jan)
- Finalise enhanced menus
- Baselines and draft menus for standard business plans published (30 Apr)
- Produce draft determinations
- Produce final determinations (by 12 Dec)

**Aug 2014**
- Finalise standard menus
- Standard menus published (29 Aug)
- Enhanced draft determinations and menus published (30 Apr)
- Conduct risk based review
- Results of risk-based review announced (4 Apr)
- Enhanced draft determinations and menus published (30 Apr)

**Aug 2015**
- Produce final determinations (by 12 Dec)
- Publish final determinations

**Key:**
- Enhanced business plans
- Standard business plans
- Resubmission business plans

**Water today, water tomorrow**