



Investor Roundtable

3 October 2013

Where we were and where we are going

Goodbye Ofwat setting companies' plans

Hello company ownership of business plans

Goodbye outputs for regulators

Hello outcomes for customers

Goodbye capex bias

Hello totex

Goodbye regulation of integrated business

Hello wholesale/retail split

Goodbye forced one-stop-shop

Hello choice for business customers

Wholesale: risk and reward

Companies to propose wholesale remuneration

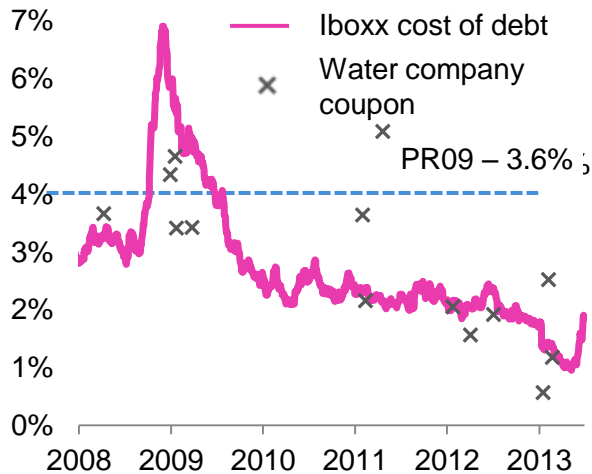
Companies to propose their own WACC

Some companies will be within a reasonable range

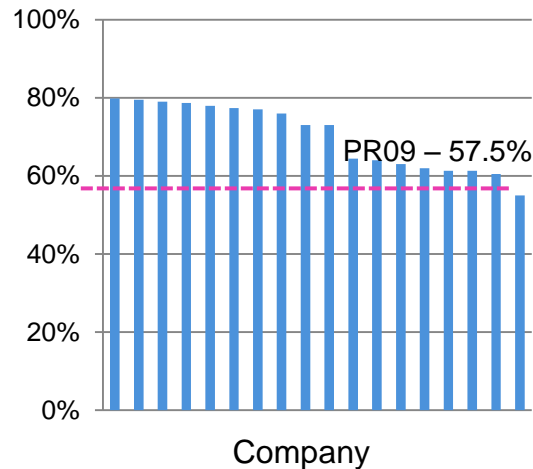
We will compare submissions with trends in the market to determine what is reasonable

Market trends point to declining cost of capital

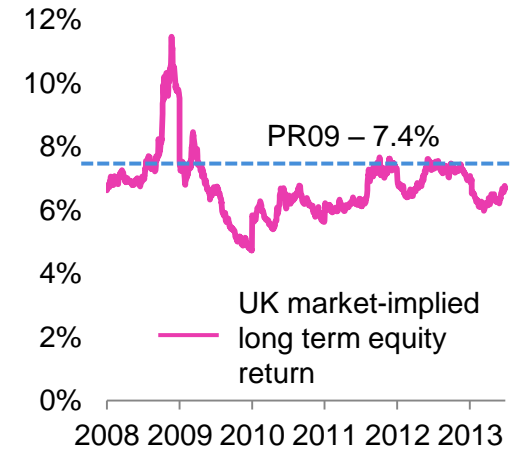
Cost of debt has declined



Gearing has increased

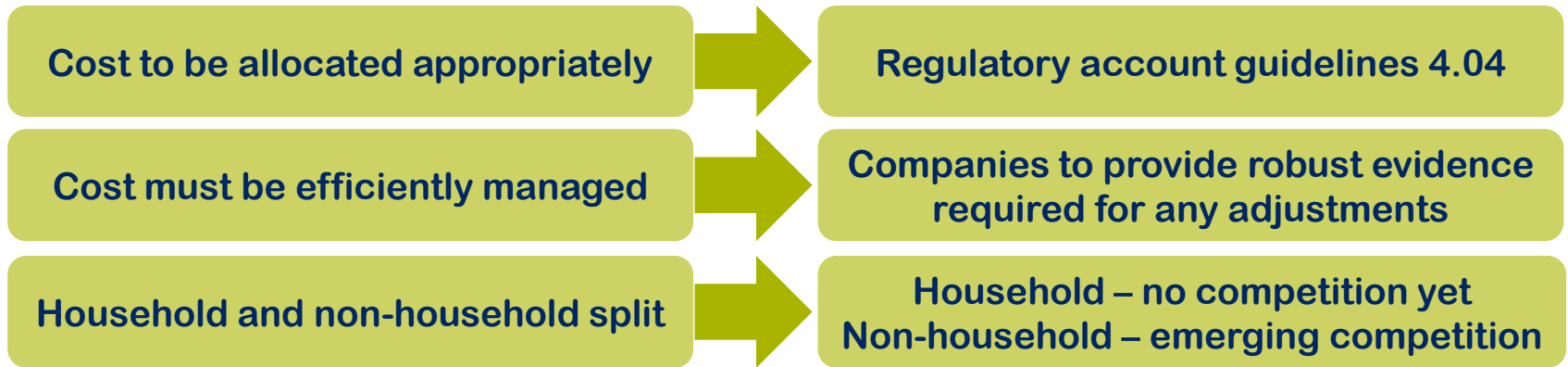


Market-implied cost of equity has been below PR09



Note: Market data as of June 2013

Retail: costs and risk and reward

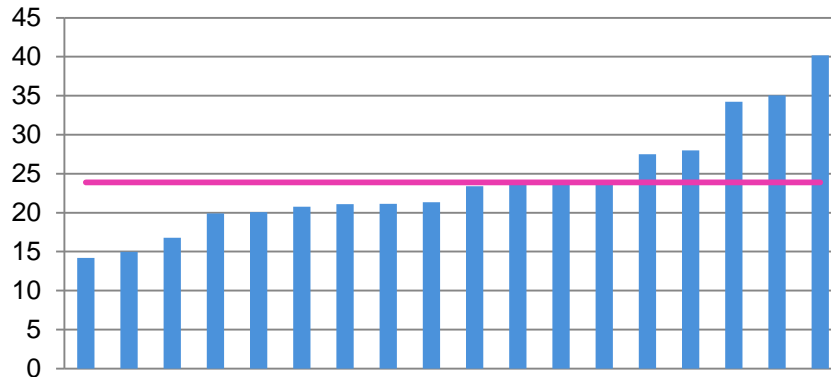


Household

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

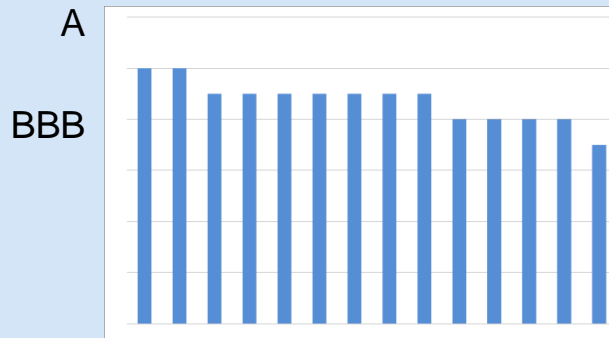
Company: financeability and affordability

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



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

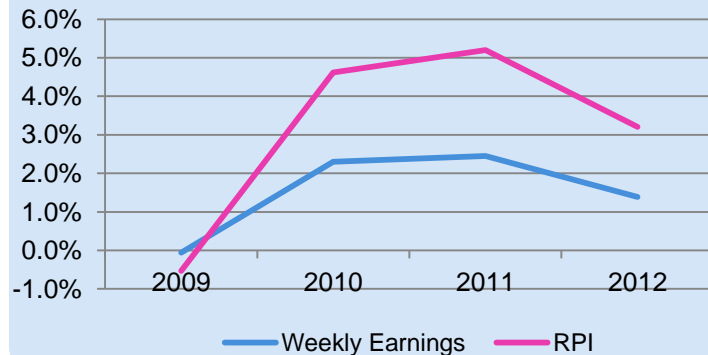
Affordability

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 Co plc


Water Co plc
10 Water Road
Manchester
M5 6WC
0141 353 4664


Account no	3436 36 3638
Amount due	£360
Date due	30 September 2013

Your bill

	Water	£x
	Sewerage	£x
	Surface water drainage	£x
	Environment	£x
	Customer service	£x
	Total	£360

 Request a meter 0800 143 5689

 Report a leak 0800 157 7686

 Customer helpline 0800 983 7878

Average bill 2019-20*

Worst case
£350

Central case
£330

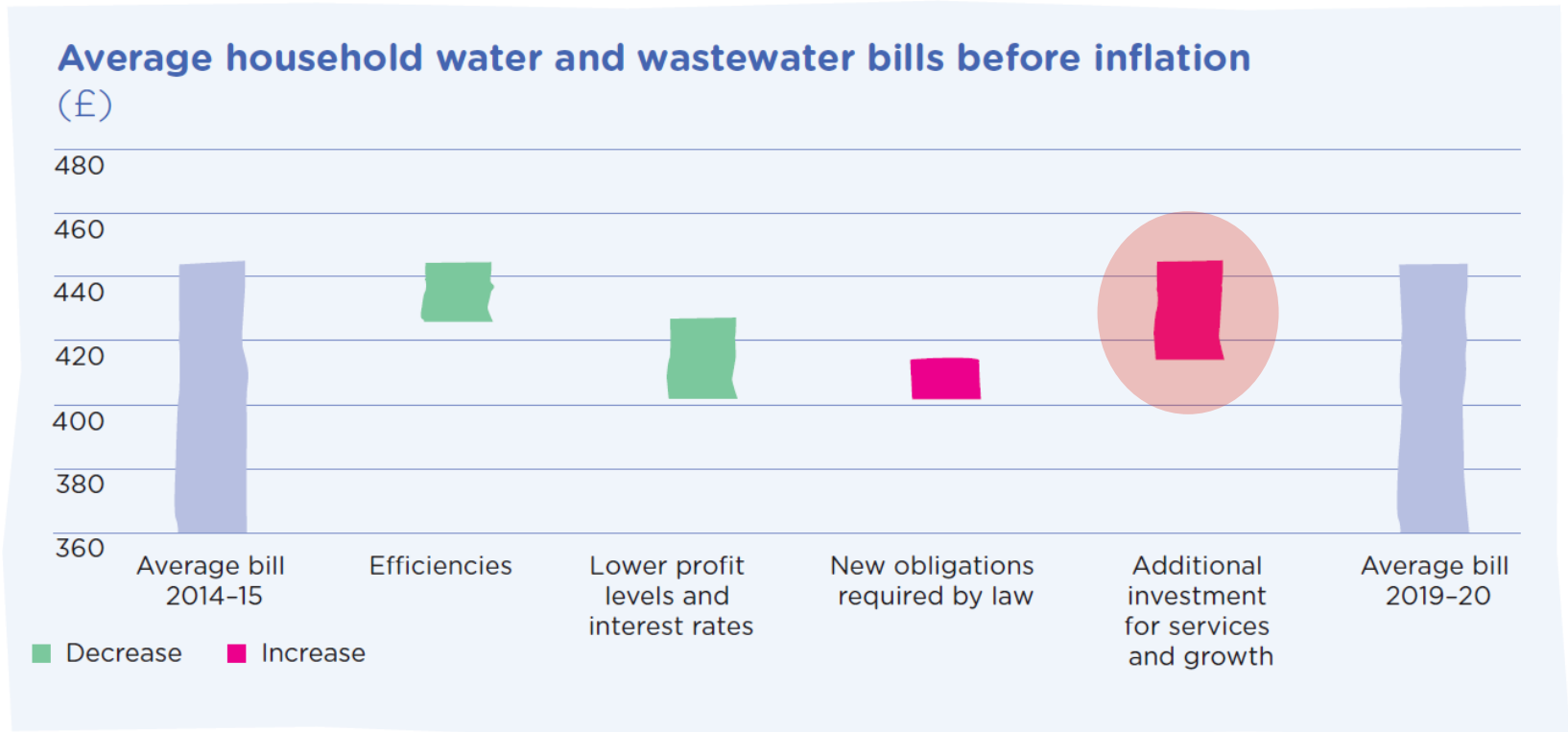
Best case
£315

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?



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

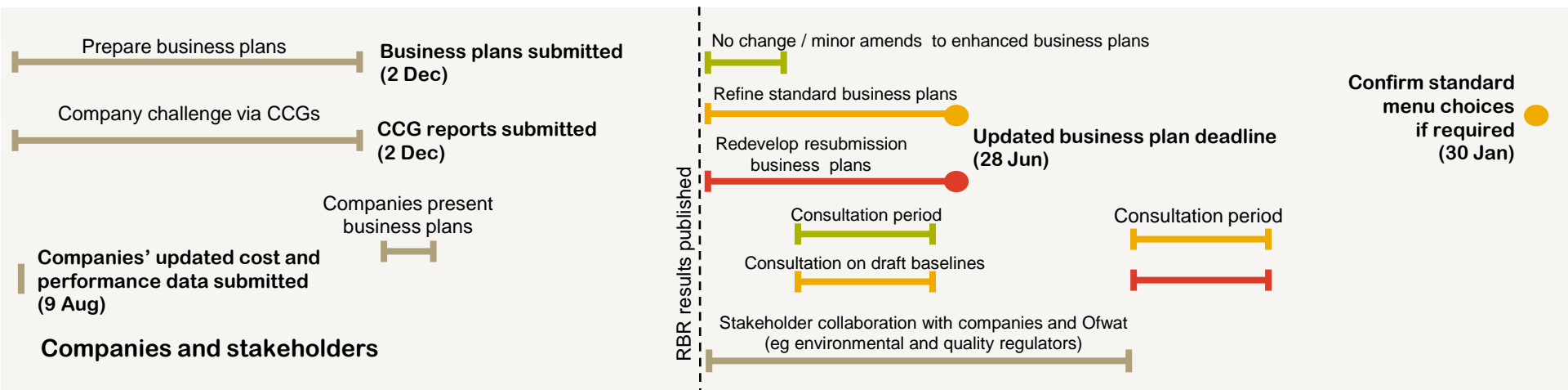
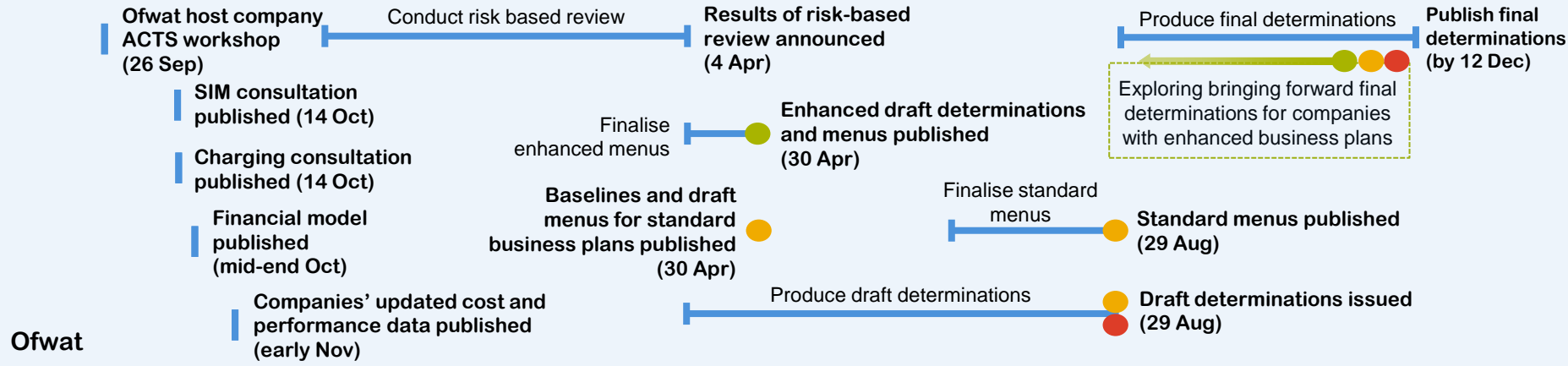
Give companies greater freedom, with significant scope to outperform the allowed return if they can deliver efficiencies

PR14 Plan

PHASE 1:
Clarification

PHASE 2:
Restricted Communications

PHASE 3:
Risk-based Review Categorisation



Key: ● Enhanced business plans ● Standard business plans ● Resubmission business plans Plan elements are subject to change