July 2022

Creating tomorrow, together: Consulting on our methodology for PR24

PR24 submission table guidance – section 2: Risk & return

Ofwat

About this document

Version control

Version	Date published	Description
V1	7/7/2022	Draft methodology
V2		
V3		

Contents

1. Summary purpose of the data tables

What data are we collecting?

1.1 In this section we collect data to inform Ofwat's decisions in relation to the allowed return, financial modelling and our assessment of risk and return, financeability and financial resilience. Some data matches data contained in APRs, while other data are requirements specific to PR24.

Why are we collecting the data?

1.2 We are collecting the data to enable us to:

- Understand the financial ratios and other relevant information that underpins the Board's Assurance of financeability on the basis of the notional capital structure, and of financial resilience of the actual company over 2025-30 and beyond.
- Analyse the debt on companies' balance sheets to help inform our decisions on the allowed return on capital.
- Run the PR24 financial model and calculate allowed revenues and RCV balances – we require inputs into the PR24 to enable us to calculate allowed revenue, RCV balances, indicative average household bills and financial metrics. A number of the tables are designed to be able to be populated directly by copying and pasting output from the PR24 financial model.
- Gain insight into the balance of risk and return contained within companies' business plans.

How is the data aligned with the annual performance report (APR)?

1.3 Where possible tables in this section are the same as the equivalent APR tables and, as such, we expect 2022-23 data to reflect companies' 2022-23 APRs. Some tables are not included within the APR as we only need this information at price reviews.

2. General guidance

2.1 We expect companies to submit a populated PR24 financial model on the basis of the notional capital structure alongside their data tables. The outputs in the submitted financial model should match the outputs included in the submitted data tables.

2.2 Tables RR1 to RR9 will be used to populate the PR24 financial model. Tables RR10 to RR15 are outputs from the PR24 financial model. Tables RR16 and RR17 can be partly populated using inputs from the PR24 financial model. Tables RR18 to RR30 will be used to help assess business plans, and selected data will be used to set the allowed return on capital.

2.3 We have removed the need to populate notional financial statements from the business plan tables and will instead use the PR24 financial model to review these. We will still collect financial statements based on the actual company structure.

Price base and Indexation

The general expectation is that tables are presented in 2022-23 base year prices. CPIH is the general measure of indexation. Where tables require nominal data, we will highlight this in the guidance.

3. RR1 – Revenue recovery inputs

Line	Title	Definition	RAG 4.10 line reference
RR1.1	Wholesale WACC - based on assumed structure (nominal) - Equity - nominal (WR)	Nominal notional Cost of Equity for input into in financial model	
RR1.2	Wholesale WACC - based on assumed structure (nominal) - Equity - nominal (WN)	Nominal notional Cost of Equity for input into in financial model	
RR1.3	Wholesale WACC - based on assumed structure (nominal) - Equity - nominal (WWN)	Nominal notional Cost of Equity for input into in financial model	
RR1.4	Wholesale WACC - based on assumed structure (nominal) - Equity - nominal (BR)	Nominal notional Cost of Equity for input into in financial model	
RR1.5	Wholesale WACC - based on assumed structure (nominal) - Equity - nominal (DUMMY)	Nominal notional Cost of Equity for input into in financial model	
RR1.6	Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal (WR)	Nominal notional Cost of Debt for input into in financial model	
RR1.7	Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal (WN)	Nominal notional Cost of Debt for input into in financial model	
RR1.8	Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal (WWN)	Nominal notional Cost of Debt for input into in financial model	
RR1.9	Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal (BR)	Nominal notional Cost of Debt for input into in financial model	
RR1.10	Wholesale WACC - based on assumed structure nominal - Cost of debt - nominal (DUMMY)	Nominal notional Cost of Debt for input into in financial model	
RR1.11	Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal (WR)	Notional gearing level for input into financial model	
RR1.12	Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal (WN)	Notional gearing level for input into financial model	
RR1.13	Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal (WWN)	Notional gearing level for input into financial model	
RR1.14	Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal (BR)	Notional gearing level for input into financial model	
RR1.15	Wholesale WACC - based on assumed structure (nominal) - Gearing - nominal (DUMMY)	Notional gearing level for input into financial model	

3.1 For RR1.16 to RR1.75 companies should apply the following guidance:

- Base RCV run-off and Base PAYG – these should be stated before any adjustments have been applied, for example to address a financeability constraint on the notional capital structure or to reprofile revenue within the price control period or across periods. Companies should set out the basis for determining base RCV run-off and base PAYG in business plans, which should be in line with the guidance set out in chapter 9 of the draft methodology.

- Adjustment to RCV run-off and PAYG – Companies should set out clearly the rationale for any adjustments to base RCV run-off and base PAYG rates, along with the basis of the calculation for these adjustments. Where companies propose to bring forward revenue in this way, the business plan should set out how the company intends to use the additional revenue.

3.2 The financial model separates RCV into pre 2020 RCV, Post 2020 RCV and Post 2025 Investment RCV. Companies should provide RCV run-off rates for each of these categories for each wholesale control within our narrow band guidance. We do not necessary expect companies to propose different rates for each category of RCV. However, where companies do provide different rates, they should set out sufficient and convincing evidence in business plans to support each rate. We will provide guidance on the narrow bands for RCV run-off in our final methodology.

3.3 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

4. RR2 – Totex (cross referenced to cost assessment)

4.1 This table provides totex information formatted in a way that enables it to be copied and pasted into the PR24 financial model.

4.2 In the final data tables it will be linked to the cost assessment tables so no entering of inputs will be required from companies.

5. RR3 – RCV inputs

Line	Title	Definition	RAG 4.10 line reference
RR3.1	2025 RCV opening balance - Pre 2020 (WR)	Opening RCV balance for the PR24 financial model for the water resources control for RCV existing Pre 2020	
RR3.2	2025 RCV opening balance - Pre 2020 (WN)	Opening RCV balance for the PR24 financial model for the water network control for RCV existing Pre 2020	
RR3.3	2025 RCV opening balance - Pre 2020 (WWN)	Opening RCV balance for the PR24 financial model for the wastewater control for RCV existing Pre 2020	
RR3.4	2025 RCV opening balance - Pre 2020 (BR)	Opening RCV balance for the PR24 financial model for the bioresources control for RCV existing Pre 2020	
RR3.5	2025 RCV opening balance - Pre 2020 (DUMMY)	Opening RCV balance for the PR24 financial model for the additional control for RCV existing Pre 2020	
RR3.6	2025 RCV opening balance - 2020-25 (WR)	Opening RCV balance for the PR24 financial model for the water resources control for existing RCV that was added between 2020 and 2025	
RR3.7	2025 RCV opening balance - 2020-25 (WN)	Opening RCV balance for the PR24 financial model for the water network control for existing RCV that was added between 2020 and 2025	
RR3.8	2025 RCV opening balance - 2020-25 (WWN)	Opening RCV balance for the PR24 financial model for the wastewater control for existing RCV that was added between 2020 and 2025	
RR3.9	2025 RCV opening balance - 2020-25 (BR)	Opening RCV balance for the PR24 financial model for the bioresources control for existing RCV that was added between 2020 and 2025	
RR3.10	2025 RCV opening balance - 2020-25 (DUMMY)	Opening RCV balance for the PR24 financial model for the additional control for existing RCV that was added between 2020 and 2025	

5.1 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

6. RR4 – Financing inputs to financial model

6.1 This table contains financing inputs used by the PR24 financial model. The PR24 financial model is based on a notional financing perspective. However inputs on this tables are used to calculate actual gearing and the subsequent adjustment to tax calculations.

6.2 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

6.3 Ofwat may decide to pre-populate some of these cells (for example notional gearing and proportion of index linked debt) in the data tables published with the final methodology.

6.4 More detailed line definitions will be provided with the final methodology.

7. RR5 – Tax inputs

7.1 This table contains corporation tax inputs used by the PR24 financial model.

7.2 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

7.3 More detailed line definitions will be provided with the final methodology.

8. RR6 – Post financeability inputs

8.1 This table contains post financeability inputs used by the PR24 financial model. The table currently contains reconciliation adjustments and other post financeability assessment inputs.

8.2 The inputs in the table currently match those used at PR19. This is because the current draft PR24 financial model was initially built to reconcile to PR19 models, and therefore contains these inputs. The inputs will be updated before the final methodology to reflect those adjustments that will be applied at PR24. Line definitions will also be provided.

8.3 Companies should set out the supporting evidence for any post financeability adjustments in their business plans.

9. RR7 - Residential retail inputs

9.1 This table contains residential retail inputs used by the PR24 financial model.

9.2 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

9.3 More detailed line definitions will be provided with the final methodology.

10. RR8 – Business retail inputs

10.1 This table contains business retail inputs used by the PR24 financial model.

10.2 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

10.3 More detailed line definitions will be provided with the final methodology.

11. RR9 – Miscellaneous financial model inputs

11.1 This table contains miscellaneous inputs used by the PR24 financial model including:

- Opening balances - retirement benefits
- Reprofiling inputs
- Other opening balances
- Working capital inputs
- Annual Pension inputs
- DPC inputs
- Other adjustments to wholesale revenue
- Other Revenue Adjustments - Non Price Control Income
- Other Revenue Adjustments - Other Income
- Asset balances

11.2 The PR24 financial model is based on a notional financing perspective and all inputs on this table should therefore be notional.

11.3 The table has been drafted in parallel to the development of the PR24 financial model. There may therefore be some alignment issues between the table and the financial model. Any alignment issues will be resolved prior to final methodology.

11.4 More detailed line definitions will be provided with the final methodology.

12. RR10 – Allowed Revenue

12.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the tables by copying and pasting results from the financial model.

12.2 Note that the bioresources table assumes that activity volumes are in line with forecasts.

12.3 Companies should submit a populated financial model with their business plan that reconciles with this table.

13. RR11 – PAYG and run-off outputs

13.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the table by copying and pasting results from the financial model.

13.2 Companies should submit a populated financial model with their business plan that reconciles with this table.

14. RR12 – RCV by control

14.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the table by copying and pasting results from the financial model.

14.2 Companies should submit a populated financial model with their business plan that reconciles with this table.

15. RR13 – Annual RCV

15.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the table by copying and pasting results from the financial model.

15.2 Companies should submit a populated financial model with their business plan that reconciles with this table.

16. RR14 – Bill profile

16.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the table by copying and pasting results from the financial model.

16.2 Companies should submit a populated financial model with their business plan that reconciles with this table.

17. RR15 – Retail margins

17.1 This table is designed to be populated from the PR24 financial model. In the financial model there will be a table with the same layout as this business plan table. We expect users to be able to populate the table by copying and pasting results from the financial model.

17.2 Companies should submit a populated financial model with their business plan that reconciles with this table.

18. RR16 – Financial ratios

Table RR16 line definitions

RAG 4.10 line definitions will be provided, where appropriate, alongside the publication of the final methodology.

Line	Title	Definition	RAG 4.10 line reference
RR16.1	Gearing	Net debt/RCV (calculated at year end) (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.2	Interest cover	FFO (pre interest)/cash interest - NOTE: FFO is calculated before changes in working capital (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.3	Adjusted cash interest cover	(FFO (pre interest) - capital charges) / interest paid on debt (excluding the accretion of index linked debt) (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.4	Adjusted cash interest cover (alternative calculation)	(FFO (pre interest) - capital charges - excess fast money) / interest paid on debt (excluding the accretion of index linked debt) (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.5	FFO/Net Debt	FFO (post interest) / net debt (Where net debt is used in these calculations it excludes pension liabilities) (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.6	FFO/Net Debt (alternative calculation)	FFO (post interest) - accretion of index linked debt / net debt (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.7	Dividend cover	Profit after tax / dividends paid (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.8	RCF/Net Debt	(FFO (post interest) - dividends paid) / net debt (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.9	RCF/Capex	(FFO (post interest) - dividends paid) / capex (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.10	Return on capital employed	(EBIT - tax) / RCV (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.11	RORE	The base RORE should then be adjusted for the following factors net of any tax impact.	

Line	Title	Definition	RAG 4.10 line reference
		1) the company share of totex out or under performance. This should reflect genuine out or underperformance only. Any totex over or underspend which is due to timing (i.e. re-profiling of expenditure within the AMP) should not be recognised as out or under performance for the purpose of the calculation of RORE. 2) The company share of any out or underperformance on retail costs. 3) The impact of any ODI or other penalties or rewards earned in the year, even if they are not payable/receivable until the following AMP. 4) The difference between the actual average interest rate charge on borrowings (in real terms) and the allowed interest rate (real) on notional debt. This should be calculated based on the notional capital structure i.e difference in actual interest rate and allowed interest rate multiplied by notional net debt. Further guidance can be found in the RAGs. (calculated for the notional company pre post financeability adjustments). This will be a financial model output	
RR16.12	Target Credit Rating	Please set out what level of credit rating you are targeting, including the name of the relevant credit rating agency.	
RR16.13	Company proposed ratio A	The company's proposed financial ratio A - based on the notional company structure pre post financeability adjustments	
RR16.14	Company proposed ratio B	The company's proposed financial ratio B - based on the notional company structure pre post financeability adjustments	
RR16.15	Company proposed ratio C	The company's proposed financial ratio C - based on the notional company structure pre post financeability adjustments	
RR16.16	Company proposed ratio D	The company's proposed financial ratio D - based on the notional company structure pre post financeability adjustments	
RR16.17	Company proposed ratio E	The company's proposed financial ratio E - based on the notional company structure pre post financeability adjustments	
RR16.18	Company proposed ratio F	The company's proposed financial ratio F - based on the notional company structure pre post financeability adjustments	
RR16.19	Company proposed ratio G	The company's proposed financial ratio G - based on the notional company structure pre post financeability adjustments	
RR16.20	Company proposed ratio H	The company's proposed financial ratio H - based on the notional company structure pre post financeability adjustments	
RR16.21	Company proposed ratio I	The company's proposed financial ratio I - based on the notional company structure pre post financeability adjustments	

Line	Title	Definition	RAG 4.10 line reference
RR16.22	Company proposed ratio J	The company's proposed financial ratio J - based on the notional company structure pre post financeability adjustments	
RR16.23	Gearing	Copied from RR16.82	
RR16.24	Interest cover	Copied from RR16.85	
RR16.25	Adjusted cash interest cover	Copied from RR16.89	
RR16.26	Adjusted cash interest cover (alternative calculation)	Copied from RR16.94	
RR16.27	FFO/Net Debt	Copied from RR16.98	
RR16.28	FFO/Net Debt (alternative calculation)	Copied from RR16.103	
RR16.29	Dividend cover	Copied from RR16.106	
RR16.30	RCF/Net Debt	Copied from RR16.111	
RR16.31	RCF/Capex	Copied from RR16.116	
RR16.32	Return on capital employed	Copied from RR16.119	
RR16.33	RORE	The base RORE should then be adjusted for the following factors net of any tax impact based on the companies actual structure.	
RR16.34	Target Credit Rating	Please set out what level of credit rating you are targeting, including the name of the relevant credit rating agency.	
RR16.35	Company proposed ratio A	The company's proposed financial ratio A - based on the actual company structure post financeability adjustments	
RR16.36	Company proposed ratio B	The company's proposed financial ratio B - based on the actual company structure post financeability adjustments	
RR16.37	Company proposed ratio C	The company's proposed financial ratio C - based on the actual company structure post financeability adjustments	
RR16.38	Company proposed ratio D	The company's proposed financial ratio D - based on the actual company structure post financeability adjustments	
RR16.39	Company proposed ratio E	The company's proposed financial ratio E - based on the actual company structure post financeability adjustments	
RR16.40	Company proposed ratio F	The company's proposed financial ratio F - based on the actual company structure post financeability adjustments	
RR16.41	Company proposed ratio G	The company's proposed financial ratio G - based on the actual company structure post financeability adjustments	
RR16.42	Company proposed ratio H	The company's proposed financial ratio H - based on the actual company structure post financeability adjustments	
RR16.43	Company proposed ratio I	The company's proposed financial ratio I - based on the actual company structure post financeability adjustments	
RR16.44	Company proposed ratio J	The company's proposed financial ratio J - based on the actual company structure post financeability adjustments	
RR16.45	FFO Pre interest	This will be populated from the PR24 financial model	
RR16.46	Adjustments for post financeability reconciliations	This will be populated from the PR24 financial model	
RR16.47	Capital Charges	This will be populated from the PR24 financial model	

Line	Title	Definition	RAG 4.10 line reference
RR16.48	Excess Fast Money	This will be populated from the PR24 financial model	
RR16.49	Net debt	This will be populated from the PR24 financial model	
RR16.50	RCV balance	This will be populated from the PR24 financial model	
RR16.51	Indexation of index linked loans	This will be populated from the PR24 financial model	
RR16.52	Profit after tax	This will be populated from the PR24 financial model	
RR16.53	FFO Pre interest	Copy from RR16.45	
RR16.54	Adjustments for post financeability reconciliations	Copy from RR16.46	
RR16.55	Further adjustments to FFO	Adjustments to the notional FFO for the actual company structure	
RR16.56	FFO Pre interest - for financial metrics	Sum of RR16.53, RR16.54 and RR16.55 to give FFO Pre interest as expected in the actual company structure	
RR16.57	Capital Charges	Copy from RR16.47	
RR16.58	Adjustments to Capital Charges	Adjustments to the notional capital charges for the actual company structure	
RR16.59	Capital charges - for financial metrics	Sum of RR16.57 and RR16.58 to give RCV balance as expected in the actual company structure	
RR16.60	Interest Income/(Expense)	Copy from RR25.48	
RR16.61	Changes in financing costs due to equity issuance	Changes in interest due to issuing equity in the actual company	
RR16.62	Further adjustments to interest	Further adjustments to the calculated interest charge for the actual company structure	
RR16.63	Interest - for financial metrics	Sum of RR16.60, RR16.61 and RR16.62 to give FFO Pre interest as expected in the actual company structure	
RR16.64	Excess Fast Money	Copy from RR16.48	
RR16.65	Adjustments to excess fast money	Adjustments to the notional excess fast money for the actual company structure	
RR16.66	Excess Fast Money - for financial metrics	Sum of RR16.64 and RR16.65 to give excess fast money expected in the actual company structure	
RR16.67	Net debt	Copy from RR16.49	
RR16.68	Further adjustments to net debt	Adjustments to the notional net debt for the actual company structure	
RR16.69	Net debt - for financial metrics	Sum of RR16.67 and RR16.68 to give RCV balance as expected in the actual company structure	
RR16.70	RCV balance	Copy from RR16.50	
RR16.71	Adjustments to RCV balances	Adjustments to the notional RCV for the actual company structure	
RR16.72	RCV balance - for financial metrics	Sum of RR16.70 and RR16.71 to give RCV balance as expected in the actual company structure	
RR16.73	Indexation of index linked loans	Copy from RR16.51	
RR16.74	Adjustments to indexation of index linked loans	Adjustments to the notional indexation of index linked loans for the actual company structure	

Line	Title	Definition	RAG 4.10 line reference
RR16.75	Indexation of index linked loans - for financial metrics	Sum of RR16.73 and RR16.74 to give indexation of index linked loans as expected in the actual company structure	
RR16.76	Profit after tax	Copy from RR18	
RR16.77	Dividends	Companies expected actual dividends	
RR16.78	Capex	Copy from RR2	
RR16.79	EBIT less tax charge	Copy from RR18	
RR16.80	Net debt - for financial metrics	Copy from RR16.69	
RR16.81	RCV balance - for financial metrics	Copy from RR16.72	
RR16.82	Gearing	Gearing on the actual company structure. RR16.80 divided by RR16.81	
RR16.83	FFO Pre interest - for financial metrics	Copy from RR16.56	
RR16.84	Interest - for financial metrics	Copy from RR16.63	
RR16.85	Interest cover	Interest cover for the actual company structure. RR16.83 divided by RR16.84	
RR16.86	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.87	Capital charges - for financial metrics	copy from RR16.59	
RR16.88	Interest - for financial metrics	copy from RR16.63	
RR16.89	Adjusted cash interest cover	Adjusted interest cover for the actual company structure. (RR16.86 less RR16.87) divided by RR16.88	
RR16.90	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.91	Capital charges - for financial metrics	copy from RR16.59	
RR16.92	Excess Fast Money - for financial metrics	copy from RR16.66	
RR16.93	Interest - for financial metrics	copy from RR16.63	
RR16.94	Adjusted cash interest cover (alternative calculation)	Alternative adjusted interest cover for the actual company structure. (RR16.90 less RR16.91 less RR16.92) divided by RR16.94	
RR16.95	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.96	Interest - for financial metrics	copy from RR16.63	
RR16.97	Net debt - for financial metrics	copy from RR16.69	
RR16.98	FFO/Net Debt	FFO/Net debt ratio for the actual company structure. (RR16.95 less RR16.96) divided by RR16.97	

Line	Title	Definition	RAG 4.10 line reference
RR16.99	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.100	Interest - for financial metrics	copy from RR16.63	
RR16.101	Net debt - for financial metrics	copy from RR16.69	
RR16.102	Indexation of index linked loans - for financial metrics	copy from RR16.75	
RR16.103	FFO/Net Debt (alternative calculation)	FFO/Net debt ratio for the actual company structure. (RR16.99 less RR16.100 less RR16.101) divided by RR16.102	
RR16.104	Profit after tax	copy from RR16.76	
RR16.105	Dividends	copy from RR16.77	
RR16.106	Dividend cover	Dividend cover for the actual company structure. RR16.104 divided by RR16.105	
RR16.107	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.108	Interest - for financial metrics	copy from RR16.63	
RR16.109	Net debt - for financial metrics	copy from RR16.69	
RR16.110	Profit after tax	copy from RR16.76	
RR16.111	RCF/Net Debt	Retained cashflow/Net debt ratio for the actual company structure. (RR16.107 less RR16.108 less RR16.110) divided by RR16.109	
RR16.112	FFO Pre interest - for financial metrics	copy from RR16.56	
RR16.113	Interest - for financial metrics	copy from RR16.63	
RR16.114	Profit after tax	copy from RR16.76	
RR16.115	Capex	copy from RR16.78	
RR16.116	RCF/Capex	Retained cashflow/capex ratio for the actual company structure. (RR16.112 less RR16.113 less RR16.114) divided by RR16.115	
RR16.117	RCV balance - for financial metrics	copy from RR16.72	
RR16.118	EBIT less tax charge	copy from RR16.79	
RR16.119	Return on capital employed	Return on capital employed for the actual company structure. RR16.117 divided by RR16.118	

RR16 Additional guidance

18.1 This table sets out the information that we are asking companies to provide regarding their forecast performance against a set of financial metrics which are defined in

Chapter 8 of the consultation document. Detailed calculations of each metric for the notional company are also included in the financial model.

18.2 We are asking companies to use these metrics to demonstrate how they will be able to raise debt and equity at rates which are consistent with the target credit rating.

18.3 Companies should provide this information to us based on both the Ofwat notional capital structure and each company's projected actual capital structure. Lines RR16.1 to RR16.11 can be populated from the PR24 financial model.

18.4 Companies may also provide further information to us, including using alternative ratio calculations in support of their approach to determining whether they will be able to maintain the target credit rating.

18.5 For the avoidance of doubt, "funds from operations" are defined as cash flows from operating activities excluding working capital movements.

18.6 We expect that notional structure ratios in Block A to be filled in pre post-financeabilty adjustments.

18.7 We expect that the actual structure ratios in Block B will be calculated using data collected in blocks C and D. Where possible this should be consistent with data from the financial model and other data tables.

18.8 The values and ratios on the actual structure should be consistent with the base case reported in tables RR18 to RR20 and against which the scenarios reported in RR17 for stress testing to support the Boards assurance on financial resilience have been applied to.

RR16 Commentary requirement

18.9 Companies should provide an explanation for any adjustments to inputs from the financial model or directly from other data tables in the calculation of actual financial ratios. These include the following:

- any inputs adjusting for the actual structure on lines RR16.55 - Further adjustments to FFO
- any inputs adjusting for the actual structure on lines RR16.58 - Adjustments to Capital Charges
- any inputs adjusting for the actual structure on lines RR16.61 - Changes in financing costs due to equity issuance

- any inputs adjusting for the actual structure on lines RR16.62 – Further adjustments to interest
- any inputs adjusting for the actual structure on lines RR16.65 – Adjustments to excess fast money
- any inputs adjusting for the actual structure on lines RR16.68 – Further adjustments to net debt
- any inputs adjusting for the actual structure on lines RR16.71 – Adjustments to RCV balances
- any inputs adjusting for the actual structure on lines RR16.74 – Adjustments to indexation of index linked loans
- any inputs adjusting for the actual structure on lines RR16.77 – Dividends

18.10 Companies should also provide calculations and commentary in support of any additional financial ratios provided in relation to the notional or actual financial structure.

19. RR17 – Financial metrics by scenario

19.1 To assist with our assessment of companies Board assurance of financial resilience, we propose the following common scenarios that companies should model. Companies should also set out and assess their own combined scenarios and provide details on reverse stress testing. Further details are set out the draft methodology.

Scenario	Description
Scenario A	Totex underperformance (10% of totex) over 5 years. Our expectation is that companies will apply the underperformance in line with the proportion of fast and slow money as per the final determination. If companies do not apply in the same proportions, please provide an explanation as to why.
Scenario B	ODI underperformance payment (3% of RORE) in one year applied in year 2. If the impact of the underperformance falls into different years, companies should provide the details of this.
Scenario C	Inflation below the average of independent forecasts for the UK economy as published by HM Treasury (2% below). This scenario should be applied at 2% below in each year of the price review period.
Scenario D	Deflation of -1% for 2 years, followed by a return to the long-term inflation target. The deflation should be applied in years 1 and 2 to allow time for the return to the long-term inflation target.
Scenario E	Inflation of 10% for year 1 and 5% in years 2 and 3, followed by a return to the long term inflation target.
Scenario F	Increase in the level of bad debt (20%) over current bad debt levels applied in years 2 and 3 of the price review period.
Scenario G	Debt refinanced as it matures, with new debt financed at 200bps above the cost of debt in the business plans. The inputs should be consistent with table RR24.
Scenario H	Financial penalty – equivalent to 6% of one year of Appointee turnover applied in year 2 of the review period.
Combined scenarios	Companies should model combined scenarios to take account of likely combinations of their specific risk factors. In building combinations of scenarios, companies should consider how the scenario may develop over time and the dependencies between individual factors. We expect companies to provide a clear explanation of the development process of each of the combined scenarios. We expect companies to provide a high-quality clear narrative on the impact of the stress tests on their ability to maintain financial metrics, their credit rating, and their ability to service debt. We also expect companies to explain management’s plans to address any concerns arising from the stress testing, including any plans to raise additional debt or equity. We expect companies to set out the links between the combined scenarios in the business plan and those in the long-term viability statements.

Reverse stress testing	Lines 12, 13 and 14 require companies to consider reverse stress testing of each scenario to a certain limit. Companies need to determine the limit by considering their own company specific circumstances. For example, the limit could be headroom to a certain metric or covenant, a downgrade to a certain credit rating or a defined revenue reduction. We expect companies to provide a high-quality clear narrative considering the below points: • What is the limit? • Why has this limit been chosen? • Is this year on year or over several years? We expect companies to explain management's plans to address any concerns arising from the stress testing, including any plans to raise additional debt or equity.

Table RR17 line definitions

19.2 The descriptions below are shown for block A only. The subsequent blocks follow that same approach. RAG 4.10 references, where applicable, will be added at publication of the final methodology.

Line	Title	Definition	RAG 4.10 line reference
RR17.1	Gearing	Net debt/RCV (calculated at year end)	
RR17.2	Interest cover	FFO (pre interest)/cash interest (excluding the accretion of index linked debt) – NOTE: FFO is calculated before changes in working capital	
RR17.3	Adjusted cash interest cover	(FFO (pre interest) – capital charges) / interest paid on debt (excluding the accretion of index linked debt)	
RR17.4	Adjusted cash interest cover (alternative calculation)	(FFO (pre interest) – capital charges – excess fast money) / interest paid on debt (excluding the accretion of index linked debt)	
RR17.5	FFO/Net Debt	FFO (post interest) / net debt (where net debt is used in these calculations it excludes pension liabilities)	
RR17.6	FFO/Net Debt (alternative calculation)	FFO (post interest) – accretion of index linked debt / net debt	
RR17.7	Company proposed financial ratio A	If applicable, please add any financial ratios that you consider relevant to this scenario for your company specific circumstances. Please provide an explanation as to why you have included the financial ratio and how it impacts financial resilience.	
RR17.8	Company proposed financial ratio B	See RR17.7	
RR17.9	Company proposed financial ratio C	See RR17.7	
RR17.10	Company proposed financial ratio D	See RR17.7	

Line	Title	Definition	RAG 4.10 line reference
RR17.11	Company proposed financial ratio E	See RR17.7	
RR17.12	Headroom for reverse stress testing against base case	Please provide the £m figure for the headroom available to the base following the reverse stress testing. Companies should use the base case headroom figure (£m) as per the business plan.	
RR17.13	Extent of stretch required to reach limit	Please add the % of stretch that is required to hit the company limit for each scenario A to F as well as any chosen combined scenarios. For example, for scenario A this could be the % of totex underperformance required to breach a debt covenant. Please provide an explanation as to what you consider to be the limit for your company. For example, the limit could be headroom to covenants, a downgrade to a certain credit rating.	

RR17 Additional guidance

19.3 We require you to show performance under a number of scenarios against a set of financial metrics which are defined in Chapter 12 Aligning risk and return and shown in RR16 – Financial ratios above.

19.4 The scenarios tested above should be stressed against the base case reported in tables RR18 – RR20 and table RR17.

RR17 Commentary requirement

19.5 Companies should include the following commentary to this table:

- An explanation of any company proposed financial metrics (RR17.7-RR17.11) and why you have included the financial ratio and how it impacts financial resilience.
- An explanation of as to what you consider to be the limit for your company for RR17.13

20. RR18 – Income statement – Actual company structure

Table RR18 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR18.1	Revenue	Appointed – Total business revenue that is within the scope of the price control, together with revenue that is outside of the price control but still forms part of regulated activities. Non-appointed – Total business revenue from non- appointed activities as defined by the licence. See appendix 1 for further examples.	1A.1
RR18.2	Operating costs	Historical cost operating costs.	1A.2
RR18.3	Other operating income	Historical cost operating income includes profits or loss on disposal of fixed assets; income arising from exceptional items should also be included. Normally a positive number, but a loss should be negative.	1A.3
RR18.4	Operating profit	Historical cost operating profit. Equal to the sum of lines RR18.1 to RR18.3.	1A.4
RR18.5	Other income	Includes rental income and income from investments (eg, share income); excludes net interest and profit on disposals on fixed assets. **Grants and contributions, adopted assets** Companies may recognise grants and contributions in the income statement under UKGAAP. This may be as revenue, by netting off opex, another income line or by amortisation over the life of the asset. We require that all such income be shown as 'other income' in this line. Amortised credits should be recorded in this line where recognition of the asset is spread over a number of years. This permits a consistent treatment as required in RAG1 paragraphs 4.11-4.13.	1A.5
RR18.6	Interest income	Interest income includes interest received on cash deposits, loans to group companies, etc.	1A.6
RR18.7	Interest expense	Interest expense includes interest paid on loans, leases, debenture, floating rate debt, overdrafts, preference shares and all other borrowings.	1A.7
RR18.8	Other interest expense	Total net interest expenses which are not directly related to deposits and borrowings as defined in RR18.6 and RR18.7. e.g Net interest cost of defined benefit pension schemes.	1A.8
RR18.9	Profit before taxation and fair value movements	Equal to the sum of lines RR18.4 to RR18.8.	1A.9
RR18.10	Fair value gains/(losses) on financial instruments	Any fair value gains/(losses) arising on financial instruments which must be accounted for at fair value on the balance sheet with changes recognised in the income statement.	1A.10
RR18.11	Profit before tax	Historical cost profit on ordinary activities before taxation. Equal to the sum of lines RR18.9 to RR18.10.	1A.11

Line	Title	Definition	RAG 4.10 line reference
RR18.12	UK Corporation tax	The current tax charge on profits from ordinary activities. This will include mainstream corporation tax, income and other taxes. It should exclude any deferred tax charge which is to be reported separately. A positive number for tax credit, negative number for tax charge.	1A.12
RR18.13	Deferred tax	The movement in the deferred tax provision. A positive number for tax credit, negative number for tax charge.	1A.13
RR18.14	Profit for the year	Historical cost profit for the year. To be shown after taxation, but before deduction of dividends. Equal to the sum of lines RR18.11 to RR18.13.	1A.14
RR18.15	Dividends	Dividends declared by the company in the year.	1A.15
RR18.16	Current year	The current tax charge on profits from ordinary activities, excluding any adjustment in respect of prior years. This will include mainstream corporation tax, income and other taxes and any payments for group relief received. It should exclude any deferred tax charge which is to be reported separately. Negative signage is a tax credit, while positive is a tax charge.	1A.16
RR18.17	Adjustment in respect of prior years	The impact on the current tax charge of adjustments in respect of prior years. Negative signage is a tax credit, while positive is a tax charge.	1A.17
RR18.18	UK corporation tax	Sum of RR18.16 and RR18.17. Equal value toRR18.12 but opposite signage. Negative signage is a tax credit, while positive is a tax charge.	1A.18
RR18.19	Imported sludge	Revenue from disposing of sludge from other wastewater undertakers.	1A.19
RR18.20	Tankered waste	Revenue for treating tankered waste brought to WWTWs.	1A.20
RR18.21	Other non-appointed revenue	Other non-appointed revenue not included in RR18.19 or RR18.20.	1A.21
RR18.22	Revenue	Total non-appointed revenue. Sum of RR18.19 to RR18.21.	1A.22

RR18 Additional guidance

20.1 This table is submitted for the actual structure.

20.2 Years 2025-30 should be consistent with the base case against which stress testing to support the Boards assurance on financial resilience has been applied to.

RR18 Commentary requirement

20.3 Companies should provide commentary where this will assist the reader in understanding the accounts, such as where there are material movements from year to year, and for any adjustments between statutory accounts and the appointed company accounts.

21. RR19 – Statement of financial position – Actual company structure

Table RR19 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR19.1	Fixed assets	Historical cost net book value of tangible fixed assets at the end of the financial year.	1C.1
RR19.2	Intangible assets	Total value of any intangible assets (not physical in nature) at the end of the financial year.	1C.2
RR19.3	Investments – loans to group companies	Loans made to other group companies repayable in more than one year.	1C.3
RR19.4	Investment – other	All investments, excluding those in line RR19.3, eg, shares in other group companies.	1C.4
RR19.5	Financial instruments	Difference between book value and fair value of any non-current assets relating to financial instruments, including options, futures, forwards and swaps, which are presented at fair value in the statutory accounts.	1C.5
RR19.6	Retirement benefit assets	The total amount due to employees in the pension scheme for all of the past service completed up to the balance sheet date, less scheme assets. Where this calculation results in a net asset it should be shown in this line.	1C.6
RR19.7	Total non-current assets	Historical cost total fixed assets. Equal to the sum of lines RR19.1 to RR19.6.	1C.7
RR19.8	Inventories	Stocks held at the year end. Stocks consist of consumable stores and work in progress, including chemicals, stationery, petrol, backfill materials, etc.	1C.8
RR19.9	Trade & other receivables	Debtors consist of all amounts owing to the company at the financial year end including trade debtors, prepayments and accrued income. This includes amounts falling due after more than one year. Any assets held for sale should also be included here.	1C.9
RR19.10	Financial instruments	Difference between book value and fair value of any current assets relating to financial instruments, including options, futures, forwards and swaps, which are presented at fair value in the statutory accounts.	1C.10
RR19.11	Cash & Cash equivalents	Cash consists of cash in hand and at bank and short term deposits. Overdraft balances should not be netted off as they should be included separately in 'Trade & other payables'. Equal to the sum of RR23RR21.4 and RR23RR21.5.	1C.11
RR19.12	Total current assets	Equal to the sum of lines RR19.8 to RR19.11.	1C.12
RR19.13	Trade & other payables	Trade creditors, accrued interest and any other accruals or creditors due within one year that are not borrowings, tax creditors, capex creditors or liabilities arising from derivative financial instruments.	1C.13
RR19.14	Capex creditor	Capital expenditure creditors due within one year.	1C.14

Line	Title	Definition	RAG 4.10 line reference
RR19.15	Borrowings	Balances due within one year which comprise: • obligations under leases; • loans due to other group companies; • redeemable debentures; • bonds; • commercial paper; • bills of exchange; • bank loans; and • any other borrowings. Accrued interest on borrowings should not be included.	1C.15
RR19.16	Financial instruments	Difference between book value and fair value of any current liabilities relating to financial instruments, including options, futures, forwards and swaps, which are presented at fair value in the statutory accounts.	1C.16
RR19.17	Current tax liabilities	Corporation tax payable consists of any balances of corporation tax due to HMRC.	1C.17
RR19.18	Provisions	Total provisions for liabilities and charges due within one year. Includes deferred income – grants and contributions and all other provisions including restructuring or reorganisation provisions.	1C.18
RR19.19	Total current liabilities	All creditors due to be paid within one year. Equal to the sum of lines RR19.13 to RR19.18.	1C.19
RR19.20	Net current assets/ (liabilities)	Historical cost net current assets. Equal to the sum of lines RR19.12 and RR19.19.	1C.20
RR19.21	Trade & other payables	Trade creditors, accrued interest and any other accruals or creditors due after more than one year that are not borrowings, tax creditors, capex creditors or liabilities arising from derivative financial instruments.	1C.21
RR19.22	Borrowings	Balances due after more than one year which comprise: • obligations under leases; • loans due to other group companies; • redeemable debentures; • bonds; • commercial paper; • bills of exchange; • bank loans; and • any other borrowings. Accrued interest on borrowings should not be included.	1C.22
RR19.23	Financial instruments	Difference between book value and fair value of any non-current liabilities relating to financial instruments, including options, futures, forwards and swaps, which are presented at fair value in the statutory accounts.	1C.23
RR19.24	Retirement benefit obligations	The total amount due to employees in the pension scheme for all of the past service completed up to the balance sheet date, less scheme assets. Where this calculation results in a net liability it should be shown in this line.	1C.24

Line	Title	Definition	RAG 4.10 line reference
RR19.25	Provisions	Total provisions for liabilities and charges due after one year not included elsewhere in the table. Includes restructuring or reorganisation provisions.	1C.25
RR19.26	Deferred income – grants & contributions	Balance of deferred income relating to capitalised grants and contributions received.	1C.26
RR19.27	Deferred income – adopted assets	Balance of deferred income relating to adopted assets.	1C.27
RR19.28	Preference share capital	Nominal value of the preference share capital.	1C.28
RR19.29	Deferred tax	Provision for tax liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. (A deferred tax asset should be entered as a positive number.)	1C.29
RR19.30	Total non-current liabilities	Total creditors due after one year. Equal to the sum of lines RR19.21 to RR19.29.	1C.30
RR19.31	Net assets	Total assets employed by the business under the historical cost accounting convention. Equal to the sum of lines RR19.7, RR19.20 and RR19.30.	1C.31
RR19.32	Called up share capital	Nominal value of the ordinary shares of the company which are issued and fully paid.	1C.32
RR19.33	Retained earnings and other reserves	Cumulative balance of historical cost profits retained and any other reserves, other than called up share capital.	1C.33
RR19.34	Total Equity	Total of shareholders' funds. The sum of called up share capital, share premium, profit and loss account, and other reserves. This equals line RR19.31.	1C.34

RR19 Additional guidance

21.1 This table is submitted for the actual structure.

21.2 Years 2025-30 should be consistent with the base case against which stress testing to support the Boards assurance on financial resilience has been applied to.

RR19 Commentary requirement

21.3 Companies should provide commentary where this will assist the reader in understanding the accounts, such as where there are material movements from year to year, and for any adjustments between statutory accounts and the appointed company accounts.

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

Table RR4 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR20.1	Operating profit	Operating profit before tax and interest. This is equal to line RR1.4.	1D.1
RR20.2	Other income	The cash impact of 'other income' in line RR18.5.	1D.2
RR20.3	Depreciation	The negative value of depreciation and amortisation of tangible and intangible assets.	1D.3
RR20.4	Amortisation – Grants & contributions	The statutory values in the first column should be offset by adjustments such that any amortisation will be recorded as 'other income' in the regulatory accounts.	1D.4
RR20.5	Changes in working capital	The total movement in working capital.	1D.5
RR20.6	Pension contributions	Any difference between the pension contributions paid in the year and the charge included in the total operating expenditure in 2B.11.	1D.6
RR20.7	Movement in provisions	The negative value of any other non-cash profit and loss items which affect operating profit.	1D.7
RR20.8	Profit on sale of fixed assets	The negative value of net current cost profit/loss on disposal of fixed assets.	1D.8
RR20.9	Cash generated from operations	Net cash flow movement from the operating activities of the company. The sum of lines RR20.1 to RR20.8.	1D.9
RR20.10	Net interest paid	Net of interest received, interest paid, interest on lease rentals and non-equity dividends paid.	1D.10
RR20.11	Tax paid	All cash flows to or from taxation authorities (or other group companies) in respect of the company's revenue and capital profits including corporation tax paid/received and group taxation payments/receipts by the company in the year.	1D.11
RR20.12	Net cash generated from operating activities	The sum of lines RR20.9 to RR20.11.	1D.12
RR20.13	Capital expenditure	Gross purchase price of fixed assets paid before the deduction of any grants and contributions.	1D.13
RR20.14	Grants and contributions	All grants and contributions which are accounted for as reductions in capital expenditure. This may not agree to grants and contributions recorded in table 2E, which covers ALL grants and contributions.	1D.14
RR20.15	Disposal of fixed assets	Cash proceeds received in the year on the sale of fixed assets	1D.15
RR20.16	Other	Other movements not already included in lines RR20.13 to RR20.15.	1D.16
RR20.17	Net cash used in investing activities	The net cash flow of the company relating to the acquisition or disposal of any asset held as a fixed asset. The sum of lines RR20.13 to RR20.16.	1D.17

Line	Title	Definition	RAG 4.10 line reference
RR20.18	Net cash generated before financing activities	The sum of lines RR20.12 and RR20.17.	1D.18
RR20.19	Equity dividends paid	The total equity dividend paid by the company in the year. This includes any special dividends paid in the year.	1D.19
RR20.20	Net loans received	The receipts from any loans taken out in the year. These include the proceeds of any loans taken out from other group companies. Repayments should be netted off.	1D.20
RR20.21	Cash inflow from equity financing	The net proceeds of any share issues received in the year, less the cost of any share buy backs.	1D.21
RR20.22	Net cash generated from financing activities	The net effect on cash flow after repaying the capital element of leases, raising /repaying loans and share issues. The sum of lines RR20.19 to RR20.21.	1D.22
RR20.23	Increase/(decrease) in net cash	The net cash flow of the company in the year measured by the change in the level of cash. The sum of lines RR20.18 and RR20.22.	1D.23

RR20 Additional guidance

22.1 This table is submitted for the actual structure with values as at 31 March each year.

22.2 Years 2025-30 should be consistent with the base case against which stress testing to support the Boards assurance on financial resilience has been applied to.

22.3 We intend to publish a summary table alongside this to capture movements at final methodology.

RR20 Commentary requirement

22.4 Companies should provide commentary where this will assist the reader in understanding the accounts, such as where there are material movements from year to year, and for any adjustments between statutory accounts and the appointed company accounts.

23. RR21 – Net debt analysis (appointed activities)

23.1 Table RR21 is identical to Table 1e from the 2023 Annual Performance Report. We expect that companies will re-submit the version of Table 1e that reflects any amendments following the APR query process.

23.2 Figures for this table should be derived using granular data on financial instruments embedded in company balance sheets. Companies should include all debt relevant to the regulated company, even where this has been taken out by an associate or financing subsidiary. This granular data should be set out in Table RR22: 'Analysis of debt', (a reproduction of Table 4B from the APR) which we are requesting from companies as part of their submission. Unless otherwise indicated, borrowings should be entered as positive numbers in Table RR22.

Table RR21 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR21.1	Borrowings (excluding preference shares)	Borrowings such as: • obligations under leases; • loans due to other group companies; • redeemable debentures; • bonds; • commercial paper; • bills of exchange; • bank loans; and • any other borrowings. **The following should not be included:** • accrued interest on borrowings; • mains deposits; • issuance costs or transaction costs; • premiums or discounts; • fair value accounting adjustments which do not impact on the principal sum outstanding on the debt or the total interest paid. For example when financial instruments, such as interest rate swap agreements are presented at fair value. • liabilities arising per IFRS16 in connection with the recognition of DPC arrangements on the balance sheet of the regulated company. Where there is a difference between 'Borrowings' as reported in column 'Total appointed activities' of table RR19 (i.e. the sum of lines RR19.15 and RR19.22) and table RR21 a reconciliation of the differences should be provided. The reconciliation should clearly explain the rationale for making the adjustment. Where borrowings have been swapped, the principal outstanding should be assigned to categories based on the nature of the payable leg of the swap (e.g. a loan swapped from fixed to floating should be categorized as floating).	1E.1
RR21.2	Preference share capital	Nominal value of the preference share capital. This should equal 'Preference share capital' as reported in column 'Total appointed activities' of table RR19 (i.e. line RR19.28).	1E.2
RR21.3	Total borrowings	The sum of lines RR21.1 and RR21.2.	1E.3
RR21.4	Cash	Cash in hand and at bank at the year-end. This should be entered as a negative number.	1E.4
RR21.5	Short term deposits	Investments which are readily convertible into known amounts of cash. This may include deposits made with group companies. This should be entered as a negative number.	1E.5
RR21.6	Net Debt	The sum of lines RR21.3 to RR21.5.	1E.6
RR21.7	Gearing	Regulatory gearing calculated as net debt in RR21.6 divided by RCV in 4C.26.	1E.7

Line	Title	Definition	RAG 4.10 line reference
RR21.8	Adjusted gearing	Some companies may use a different measure of net debt to calculate gearing for the purposes of financial covenants which are of use to the financial community. If a different measure of debt is commonly used by a company, then the restated gearing level should be inserted in this line.	1E.8
RR21.9	Full year equivalent nominal interest cost	Full year equivalent nominal interest cost as at 31 March. Calculated as the 'Nominal interest rate' multiplied by the 'Principal sum as at 31 March'. Nominal interest rate is defined as the coupon associated with nominal debt or equivalent implied by the coupon of index linked debt. The nominal interest rate should not include accounting adjustments relating to amortisation of issuance costs or premium / discount. Rates entered for borrowings in hedging relationships should be stated at the post hedge interest rate. **Processing rule for nominal interest rate:** Fixed rate instruments: The coupon rate as an input. Floating rate instruments: The margin plus/minus the Reference Interest Rate observed on 31 March. Index-linked instruments: Nominal interest rate = ((1 + real coupon) x (1 + RPI or CPI/CPIH)) – 1. The principal sum outstanding should not be adjusted for accounting adjustments such as unamortised issuance costs. RPI and CPI /CPIH should be the latest annualised March monthly figure reported by ONS. **Processing rule for principal sum:** The principal sum should not include amounts relating to debt issuance costs or premium / discount. Fixed rate and floating rate instruments: In most instances this will be the principal sum at initial recognition of the instrument. For instruments with stepped principal repayments, the principal sum is the sum outstanding as at 31 March not including amounts relating to issuance costs or premium / discount Index-linked instruments: The principal sum outstanding at 31 March, i.e. the principal sum at initial recognition plus indexation of the principal. Foreign currency instruments: The Sterling equivalent upon which interest is calculated. Swaps that are not in designated hedging arrangements: The paid and received legs should be reported separately in the appropriate categories within the table. The notional value of the swap should be reported as the principal sum, with the received leg reported as a negative principal sum.	1E.9

Line	Title	Definition	RAG 4.10 line reference
RR21.10	Full year equivalent cash interest payment	Full year equivalent cash interest payment at 31 March. **Processing rule:** Fixed rate instruments and floating rate instruments: Copied from 'Full year equivalent nominal interest cost'. Index linked instruments: Calculated as the 'Real coupon' multiplied by the 'principal sum as at 31 March'.	1E.10
RR21.11	Indicative weighted average nominal interest rate	RR21.9 divided by the principal sum outstanding as at 31 March for fixed, floating and index linked instruments on which interest payments are calculated. The nominal interest rate on index linked debt should include inflation accretion.	1E.11
RR21.12	Indicative weighted average cash interest rate	RR21.10 divided by the principal sum outstanding as at 31 March for fixed, floating and index linked instruments on which interest payments are calculated.	1E.12
RR21.13	Weighted average years to maturity	Calculated as the multiple of the principal sum and years to maturity for each instrument divided by the principal sum outstanding as at 31 March for fixed, floating and index linked instruments on which interest payments are calculated. **Definition of years to maturity:** • Full years to maturity of the instrument from 31 March. • Where a debt instrument is associated with an interest rate hedge with a different maturity date to the underlying debt, the maturity should be based on the debt instrument. • Where debt instruments have scheduled repayments, each repayment should be treated separately for calculating the weighted average years to maturity. • Instruments with no fixed maturity should be reported as follows: • Instruments that are instantly callable should be classified as loans due in less than one year. • Inter-company loans should be matched with the instrument at group level at the external borrowing rate. Instruments with no fixed maturity that are not instantly callable should be reported with a maturity of 25 years.	1E.13

RR21 Additional guidance

23.3 This table contains inputs required for populating the PR19 Gearing outperformance sharing mechanism reconciliation model and calculating the end of period revenue adjustments to be applied at PR24.

RR21 Commentary requirement

23.4 Companies should include commentary to this table.

24. RR22 – Analysis of debt

24.1 Table RR22 is identical to Table 4B from the Annual Performance Report. We expect that companies will re-submit the version of Table 4B that reflects any amendments following the APR query process.

24.2 Companies should provide information for instruments which are outstanding as at the 31 March end of the reporting year, and any forward-starting instruments which have been arranged prior to this point.

24.3 Companies should report all instruments relevant to the regulated company, even where this has been taken out by an associate or financing subsidiary. Companies should report instruments in the appropriate blocks according to the behaviour of the cashflows associated with that instrument:

- fixed rate (block A);
- floating rate (block B)
- RPI-linked (block C)
- CPI-linked (block D).

Column	Title	Definition
1	Instrument	Descriptive summary text.
2	Issuer	The water company counterparty for the instrument, e.g. 'Yorkshire Water Services Bradford Finance Ltd.'
3	Category	Entry should choose from the following options: Bond, Debenture, Debenture stock or irredeemable, EIB loan, Finance lease, Intercompany loan, Loan (non-EIB), Liquidity facility, Overdraft, Preference shares, Private placement, RCF, Swap - paying leg, Swap - receiving leg, Other. If choosing 'Other', the type of instrument should be explained in Column 30 ('Further information')
4	Maturity type	Entry should choose from the following options: Bullet, Amortising, Callable, Sinkable, Perpetual, Revolving, Other. If choosing 'Other', the maturity type of the instrument should be explained in Column 30 ('Further information')
5	Instrument identifier	For listed bonds this will be the ISIN number. If not available an alternative unique identifier should feature, if applicable.
6	Seniority	Entry should choose from the following options: Super-senior, Senior, Mezzanine/2nd Lien, Junior/Subordinated, Other If choosing 'Other', the seniority of the instrument should be explained in Column 30 ('Further information')
7	Long term issue credit rating	Applies only to debt instruments with a credit rating. This should be the long-term issue credit rating applicable as at 31 March 2022. Ratings from multiple ratings agencies may be entered into the box.
8	Currency	Currency the instrument was originally issued in.

Column	Title	Definition
9	Issue date	Required for all instruments. The issue date should be the relevant date for the contractual arrangements that inform the financial impact of the instrument as at March 31 2021. For swaps this could be the restructuring date or novation date, rather than the original issue date.
10	Issue price	The ratio of issuance proceeds to face value, expressed in parts of 100. E.g. 99 means a ratio of 99:100. For most debt instruments we expect this will be 100, however some listed bonds and other instruments (e.g. Artesian debt) may have a different issue price.
11	Maturity date	Date on which the instrument matures.
12	Years to maturity	This should usually be calculated as number of years from the 31 March 2022 until maturity. Three important exceptions are: a) Amortising debt: This cell should be populated with weighted average years to maturity. b) Irredeemable instruments: Such instruments should have 25 years to maturity assigned. c) Instantly callable instruments: These should be classified as loans due in less than one year.
13	Original issuance / facility size	This should contain the original issuance amount in £m, or where the instrument is a credit facility or RCF, the total size of facility.
14	Principal outstanding	This should contain the principal owed in £m on 31 March 2022, including accretion on index-linked bonds.
15	Amount used to calculate nominal and cash interest cost	Usually this will be the same as 14: 'Principal sum outstanding'. Index-linked bonds should include accretion. The principal associated with the receiving leg of swaps should carry a negative sign.
16	Years to maturity x principal sum	Calculation field.
17	RPI interest rate	The rate associated with the instrument, in RPI-deflated terms.
18	CPI interest rate	The rate associated with the instrument, in CPI-deflated terms.
19	Reference benchmark	Name of floating rate benchmark (e.g. 3 month LIBOR). Only needed for floating rate debt or facilities priced using a benchmark.
20	Reference interest rate	Nominal interest rate of reference benchmark (e.g. 1.55%). Only needed for floating rate debt or facilities priced using a benchmark.
21	Margin over reference rate	The margin applying to the reference rate (e.g. 0.50%). Only needed for floating rate debt or facilities priced using a benchmark.
22	Nominal interest rate	The rate associated with the instrument, in nominal terms.
23	Nominal interest cost	Annualised nominal interest cost associated with the instrument in £m.
24	Cash interest cost	Annualised cash interest cost associated with the instrument in £m.
25	Utilisation fee	The ongoing annualised fee applying to any drawn down amounts from a facility (e.g. 0.10%)
26	Commitment fee	The ongoing annual fee applying to any undrawn amounts from a facility (e.g. 0.20%)
27	Issuance costs	These should be the external costs associated with the original issuance of the underlying instrument (e.g. arrangement fee). Internal staff time should not be capitalised to avoid double counting revenues covered by the totex allowance. The costs of liquidity facilities should not be included. Where issuance costs are capitalised into principal this should be indicated in Column 30 ('Further information').

Column	Title	Definition
28	Value per balance sheet at 31 March 2022	Book value of instrument.
29	Fair value of debt at 31 March 2022	Fair value of instrument.
30	Further information	Additional space to add further detail on the instrument.

24.4 We have included 200 lines per block (800 in total) for companies to report all relevant debt instruments. Companies should not add any columns to the table.

Derivatives

24.5 Where companies have used swaps in a designated hedging arrangement, they must report the paying and receiving legs in separate lines,[1] with an additional line for the underlying debt instrument. The only exception is for instruments in a designated currency swap. In this case, companies may enter details of the post-currency swap characteristics, without splitting out the currency swap line(s).

24.6 If companies are using any other financial derivatives, including for example interest rate swaps, inflation swaps or forex swaps not as part of a designated (or economic) hedging arrangement, we expect companies to report these as separate lines.

24.7 For all financial derivatives we expect companies to clearly report all relevant information, for example the date at which any derivatives expire, as well as any credit breaks and the frequency thereof.

Index linked debt and inflation

24.8 We have separated index linked instruments into RPI and CPI linked issuance.

24.9 We have included columns 17:('RPI interest rate') and 18:('CPI interest rate') to allow reporting of the relevant real CPI or real RPI coupon. Consistent with table 1E we expect companies to use the ONS year on year annualised inflation figure from the most recent March.

24.10 We are aware of some CPI-linked issuance in the sector; however we are unaware of any CPIH linked issuance, and the two inflation metrics track each other closely. We therefore do not currently consider it would be efficient to include a separate block for

[1] The principal for the paying leg should have a positive sign, and for the receiving leg, a negative sign.

CPIH-linked issuance. Where companies issue CPIH-linked instruments these should therefore be input in Block D (CPI-linked instruments).

Additional clarifications

24.11 Companies should report all current (at 31 March) debt instruments irrespective of maturity date. Where companies have arranged forward starting instruments beyond this date we expect companies to report these. Companies should report the start date in the 'Issue date' column.

24.12 Companies should also report all quasi-debt, including, for example, finance leases or preference shares. Operating leases that will be categorised as finance leases under IFRS16 should also be reported. Companies should indicate clearly using the 'Further Information' column if the debt instrument is an operating lease etc.

24.13 We do not require companies to report cash in this table.

24.14 We expect companies to report any revolving credit facilities in the relevant part of the table. Companies should report the ordinary interest rate on drawn funds from such facilities separately from any utilisation fee (reported separately in column 25). Any additional commitment fee can be captured in column 26. The facility size of any revolving facility should be reported in column 13 ('Original issuance / facility size), while the principal sum outstanding should reflect the amount drawn as at 31 March.

24.15 The total fees directly relating to the issuance of an instrument should be reported in column 27 ('Issuance costs'). We anticipate that such costs could include registration, legal, accounting, credit rating and underwriting fees. They should not however include costs of liquidity facilities or costs addressed elsewhere in Table 4B (notably commitment or utilisation fees). Companies should not report capitalised costs as separate lines or reflect costs in the outstanding principal for the instrument. Neither should overhead (e.g. internal staff) costs feature in this figure - as these costs are funded via totex.

24.16 If companies have debt instruments where the interest payable is not directly based on the principal sum outstanding, companies should indicate the principal sum outstanding in column 14 and the figure on which annualised interest costs are based in column 15. If interest payments are based on the principal sum outstanding, companies should simply ensure that this figure is entered in both columns.

Line	Title	Definition
RR22.808	Indicative weighted average nominal interest rate	Calculated as RR22.805 column 23 divided by RR22.805 column 14

Line	Title	Definition
RR22.809	Indicative weighted average cash interest rate	Calculated as RR22.805 column 24 divided by RR22.805 column 14
RR22.810	Floating rate debt as % of total debt (gross)	Calculated as RR22.402 column 14 divided by RR22.805 column 14
RR22.811	Fixed rate debt as % of total debt (gross)	Calculated as RR22.201 column 14 divided by RR22.805 column 14
RR22.812	RPI linked debt as % of total debt (gross)	Calculated as RR22.603 column 14 divided by RR22.805 column 14
RR22.813	CPI linked debt as % of total debt (gross)	Calculated as RR22.804 column 14 divided by RR22.805 column 14
RR22.814	All index (CPI and RPI) linked debt as % of total debt (gross)	Calculated as the sum of RR22.812 and RR22.813
RR22.815	Fixed rate debt and index linked debt as % of total debt (gross)	Calculated as the sum of RR22.811 and RR22.814
RR22.816	Weighted average years to maturity	Calculated as RR22.805 column 16 divided by RR22.805 column 1

RR22 Commentary requirement

24.17 The summary data within the above table (eg. 'Indicative weighted average nominal interest rate') should be consistent with the equivalent figures featuring in table RR21 (‘Net debt analysis’). Where this is not the case, companies should explain why and provide a reconciliation to explain variance against table RR21.

25. RR23 – Financial derivatives

25.1 RR23 is identical to Table 4I from the 2023 Annual Performance Report. We expect that companies will re-submit the version of Table 4I that reflects any amendments following the APR query process.

Table RR23 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR23.1	Floating to fixed rate	Financial instruments through which floating interest rate liabilities are converted into fixed rate interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.1
RR23.2	Floating from fixed rate	Financial instruments through which floating interest rate liabilities are converted from fixed rate interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.2
RR23.3	Floating to index linked	Financial instruments through which floating interest rate liabilities are converted into inflation linked interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.3
RR23.4	Floating from index linked	Financial instruments through which floating interest rate liabilities are converted from inflation linked interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.4
RR23.5	Fixed to index-linked	Financial instruments through which fixed interest rate liabilities are converted into inflation linked interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.5
RR23.6	Fixed from index-linked	Financial instruments through which fixed interest rate liabilities are converted from inflation linked interest rate liabilities. Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	4I.6

Line	Title	Definition	RAG 4.10 line reference
RR23.7	Index linked to index-linked	Financial instruments through which inflation linked interest rate liabilities are converted from to other forms of inflation linked interest rate liabilities (e.g. RPI-linked to CPI-linked). Where the rate payable on an instrument is designated as a margin over a specified reference rate (e.g. 6 Month Libor plus X%), please include an assumption of the reference rate to determine the rate payable. Please provide details of any assumptions that have been made in a note to the table.	41.7
RR23.8	Total	The total of the interest rate swaps. The sum of table RR23 lines 1 to 7.	41.8
RR23.9	Cross currency swap USD	Financial instruments which convert debt liabilities from US Dollars into Pounds Sterling.	41.9
RR23.10	Cross currency swap EUR	Financial instruments which convert debt liabilities from Euro into Pounds Sterling.	41.10
RR23.11	Cross currency swap YEN	Financial instruments which convert debt liabilities from Yen into Pounds Sterling.	41.11
RR23.12	Cross currency swap Other	Financial instruments which convert debt liabilities from currencies other than US Dollars, Euro or Yen into Pounds Sterling.	41.12
RR23.13	Total	Total of currency swap financial instruments. The sum of table RR23 lines 9 to 12.	41.13
RR23.14	Currency interest rate swaps USD	Financial instruments which convert currency in which interest is paid or payable from US Dollars into Pounds Sterling.	41.14
RR23.15	Currency interest rate swaps EUR	Financial instruments which convert currency in which interest is paid or payable from Euro into Pounds Sterling.	41.15
RR23.16	Currency interest rate swaps YEN	Financial instruments which convert currency in which interest is paid or payable from Yen into Pounds Sterling.	41.16
RR23.17	Currency interest rate swaps Other	Financial instruments which convert currency in which interest is paid or payable from currencies other than US Dollars, Euro or Yen into Pounds Sterling.	41.17
RR23.18	Total	Total of instruments which convert the currency in which interest is paid between sterling and another currency. The sum of table RR23 lines 14 to 17.	41.18
RR23.19	Forward currency contracts USD	Forward contracts which convert future debt obligations from US Dollars into Pounds Sterling.	41.19
RR23.20	Forward currency contracts EUR	Forward contracts which convert future debt obligations from Euro into Pounds Sterling.	41.20
RR23.21	Forward currency contracts YEN	Forward contracts which convert future debt obligations from Yen into Pounds Sterling.	41.21
RR23.22	Forward currency contracts CAD	Forward contracts which convert future debt obligations from Canadian Dollars into Pounds Sterling.	41.22
RR23.23	Forward currency contracts AUD	Forward contracts which convert future debt obligations from Australian Dollars into Pounds Sterling.	41.23
RR23.24	Forward currency contracts HKD	Forward contracts which convert future debt obligations from Hong Kong Dollars into Pounds Sterling.	41.24
RR23.25	Forward currency contracts Other	Forward contracts which convert future debt obligations from currencies other than US, Canadian, Australian or Hong Kong Dollars, Euro or Yen into Pounds Sterling.	41.25

Line	Title	Definition	RAG 4.10 line reference
RR23.26	Total	Total of forward contracts which convert debt between currencies. The sum of table RR23 lines 19 to 25.	4I.26
RR23.27	Other financial derivatives	Other financial derivatives (e.g. power) not already included in lines RR23.1 to RR23.24. Where the nature of other derivatives results in an inability to provide this information prevents a full reconciliation with Table 1C, companies should provide a note explaining why.	4I.27
RR23.28	Total financial derivatives	The sum of table RR23 lines 8, 13, 18, 26 and 27. The 'Mark to Market' should equal the 'Financial instruments' totals from table RR23 (i.e. the sum of lines RR23.5, RR23.10, RR23.16 and RR23.23).	4I.28

RR23 Additional guidance

25.2 Figures for this table should be based on company financial instruments, which we have requested companies set out in Table RR22, which we are requesting from companies as part of their submission. We expect entries to table 4I to be consistent with the derivative positions reported in Table RR22 'Analysis of Debt' (itself a duplicate of Table 4B APR). Out-of-the-money (liability) positions should be presented as positive, in-the-money (asset) positions should be presented as negative. A footnote should be included with the table explaining that this is the case.

25.3 Where the mark to market position for total financial derivatives (RR23.27) is different to the financial instruments position reported in table RR19 (net position of RR23.5, RR23.10 and RR23.16), please provide a reconciliation.

25.4 Where financial derivative instruments contain the provision for break dates, the instrument should be reported in accordance with the expected maturity date.

RR23 Commentary requirement

25.5 Companies should flag instances of derivatives which do not fit the reporting categories in this table.

26. RR24 – Debt balances and interest costs

26.1 Companies are required to complete this table with their assumptions regarding the evolution and cost of debt balances over the period 2025-30. This information may be used in assessing the Board assurance of financial resilience and may help inform the proportion of new and embedded debt in our allowed return on capital.

26.2 **Block A** tracks balances for four different types of debt (fixed, floating, RPI-linked and CPI(H) linked. Companies should input forecasts for quantum of debt issued, paid down and (where applicable) indexed, over 2025-30.

26.3 **Block B** sets out interest rates corresponding to the four different types of debt. Companies should give their best estimate of prevailing rates for each type of debt over 2025-30.

26.4 **Block C** sets out interest rates and annualised interest costs relevant to calculating financial metrics based on companies' actual financial structure. With the exception of a line to add additional interest costs not already captured in the calculations, no further user input is necessary.

RR24 - Additional clarifications

26.5 The interest rates reported for the fixed rate and index-linked debt should be the coupon rate before indexation. This table should exclude any amounts which have been reported as derivative financial instruments. If companies have capitalised any interest in any year, then this should be reported as debt issued during the year.

RR25 – Commentary requirement

26.6 Companies should state in their commentary what RPI and CPI(H) forecast they are assuming for each year of 2025-30 to calculate indexation of index-linked borrowings.

27. RR25 – Allowed return on of capital for the Appointee

27.1 This table sets out parameter assumptions on the allowed return on capital applicable to the Appointee (i.e. both wholesale and retail units).

27.2 Figures should represent the company's view of average financing costs for the period 2025-30, and should be expressed for an efficient company under the notional financing structure, and in CPIH-real terms, using a long-term assumption of 2.0% CPIH.

Table RR25 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR25.1	Gearing	Net debt to RCV	n/a
RR25.2	Total Market Return (TMR)	Total Market Return (TMR)	n/a
RR25.3	Risk free rate (RFR)	The Risk Free Rate (RFR)	n/a
RR25.4	Equity Risk Premium (ERP)	The premium over the risk free rate required to invest in equities	n/a
RR25.5	Debt beta	Debt beta	n/a
RR25.6	Raw equity beta for listed company comparator	Raw equity beta estimate for listed company comparator at a gearing consistent with row 7	n/a
RR25.7	Actual gearing of listed company comparator	Actual gearing of listed company comparator consistent with line 6, using the definition Net Debt / Enterprise Value	n/a
RR26.8	Unlevered beta	Equity beta assuming zero gearing and zero debt beta.	n/a
RR25.8	Asset beta	Asset beta, consistent with debt beta assumption in row 5	n/a
RR25.9	Re-levered equity beta	Re-levered beta, consistent with appointee gearing (notional or actual, as applicable)	n/a
RR25.10	Overall cost of equity (used in WACC)	The calculated cost of equity using the capital asset pricing model: risk free rate + (equity risk premium x equity beta)	n/a
RR25.11	Cost of embedded debt	Average cost of debt embedded in notional company balance sheet	n/a
RR25.12	Cost of new debt	Average cost of new debt to notional company over the next AMP	n/a
RR25.13	Ratio of embedded to new debt	Ratio of embedded debt to new debt	n/a
RR25.14	Issuance and liquidity costs	Issuance and liquidity costs	n/a
RR25.15	Overall cost of debt (used in WACC)	Total cost of debt, including new and embedded debt, weighted: (cost of embedded debt x weighting of embedded debt) + (cost of new debt x weighting of new debt)	n/a
RR25.16	WACC ~ vanilla (pre-tax cost of debt and post-tax cost of equity)	The weighted average cost of capital, expressed using a pre-tax cost of debt and post-tax cost of equity	n/a

Line	Title	Definition	RAG 4.10 line reference
RR25.17	Tax (marginal rate of corporation tax)	The marginal rate of corporation tax	n/a
RR25.18	WACC ~ fully post-tax	The weighted average cost of capital, expressed using a post-tax cost of debt and post-tax cost of equity.	n/a
RR25.19	Retail margin deduction	Retail margin deduction	n/a
RR25.20	Wholesale WACC	Wholesale WACC = Appointee WACC - Retail Margin	n/a

RR25 Additional guidance

27.3 We will provide details of the notional capital structure and our initial view of the appointee and wholesale allowed return for PR24 in our Final Methodology document and accompanying appendices.

RR25 Commentary requirement

27.4 Lines 1-3, 5-8, 11-15, 18 and 20 are input cells, with the remainder being calculations. Where companies use different input assumptions to those used to derive our 'early view' of the allowed return for PR24, we expect companies to explain the reasoning for such differences clearly.

28. RR26 – Weighted average cost of capital by wholesale price control

28.1 This table sets out company assumptions on the appropriate allowed return applying to individual wholesale controls. We state in our methodology that we propose to apply the same wholesale allowed return to each wholesale control, however we allow for companies to set out a different allowed return by control, should they wish to do so.

28.2 Figures should represent the company's view of average financing costs for the period 2025-30, and should be expressed for a company under the notional financing structure, and in CPIH-real terms, using a long-term assumption of 2.0% CPIH.

Table RR26 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR26.1	Notional gearing	Net debt to RCV.	n/a
RR26.2	Total Market Return (TMR)	Total Market Return (TMR).	n/a
RR26.3	Risk free rate (RFR)	The Risk Free Rate (RFR).	n/a
RR26.4	Equity Risk Premium (ERP)	The premium over the risk free rate required to invest in equities.	n/a
RR26.5	Debt beta	Debt beta.	n/a
RR26.6	Raw equity beta for listed company comparator	Asset beta corresponding to the business risks of this control.	n/a
RR26.7	Actual gearing of listed company comparator	Re-levered beta, consistent with gearing from row 1 and debt beta assumption in row 5.	n/a
RR26.8	Unlevered beta	Equity beta assuming zero gearing and zero debt beta.	n/a
RR26.9	Asset beta	Asset beta, consistent with debt beta assumption in row 5	n/a
RR26.10	Re-levered equity beta	Re-levered beta, consistent with appointee gearing (notional or actual, as applicable)	n/a
RR26.11	Overall cost of equity (used in WACC)	The calculated cost of equity using the capital asset pricing model: risk free rate + (equity risk premium x equity beta)	n/a
RR26.12	Cost of embedded debt	Average cost of debt embedded in notional company balance sheet	n/a
RR26.13	Cost of new debt	Average cost of new debt to notional company over the next AMP	n/a
RR26.14	Ratio of embedded to new debt	Ratio of embedded debt to new debt	n/a
RR26.15	Issuance and liquidity costs	Issuance and liquidity costs	n/a
RR26.16	Overall cost of debt (used in WACC)	Total cost of debt, including new and embedded debt, weighted: (cost of embedded debt x weighting of embedded debt) + (cost of new debt x weighting of new debt)	n/a

Line	Title	Definition	RAG 4.10 line reference
RR26.17	Wholesale WACC	The wholesale weighted average cost of capital (WACC), expressed using a pre-tax cost of debt and post-tax cost of equity.	n/a

RR26 Additional guidance

28.3 Where Table RR24 features a positive retail margin adjustment, this means the wholesale WACC should not be the same as the Appointee WACC. Companies in this situation should back-work the unlevered beta assumption which results in a wholesale WACC that is the same as that featured in RR24.

RR26 Commentary requirement

28.4 Where control-level parameter values provided by companies in this table vary from those provided for the Appointee in RR25, companies should provide a written commentary explaining why this is the case.

28.5 In addition, our default expectation would be that the RCV-weighted average WACC of these controls should reconcile to the wholesale WACC featured in Table RR25. Where this is not the case, companies should provide a full explanation.

29. RR27 – Revenue analysis & wholesale control reconciliation

Table RR27 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR27.1	Unmeasured	Total revenue from wholesale water charges, other than on a measured basis. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.1
RR27.2	Measured	Total revenue from wholesale water charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non- household connections. This should include revenue from large users and special agreements.	21.2
RR27.3	Third party revenue	Third party revenue covered by the wholesale water price control, e.g., supplies of non-potable water to customers.	21.3
RR27.4	Total	Total revenue from wholesale water charges. The sum of RR27.1 to RR27.3.	21.4
RR27.5	Unmeasured – foul charges	Total revenue from wholesale wastewater foul charges, other than on a measured basis. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.5
RR27.6	Unmeasured – surface water charges	Total revenue from wholesale wastewater surface water charges, other than on a measured basis. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.6
RR27.7	Unmeasured – highway drainage charges	Total revenue from wholesale wastewater highway drainage charges, other than on a measured basis. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.7
RR27.8	Measured – foul charges	Total revenue from wholesale wastewater foul charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non-household connections. This should include revenue from trade effluent, large users and special agreements.	21.8
RR27.9	Measured – surface water charges	Total revenue from wholesale wastewater surface water charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non-household connections. This should include revenue from trade effluent, large users and special agreements.	21.9

Line	Title	Definition	RAG 4.10 line reference
RR27.10	Measured – highway drainage charges	Total revenue from wholesale wastewater highway drainage charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non-household connections. This should include revenue from trade effluent, large users and special agreements.	21.10
RR27.11	Third party revenue	Third party revenue covered by the wholesale wastewater price control.	21.11
RR27.12	Total wholesale wastewater revenue	Total revenue from wholesale wastewater charges. The sum of RR27.5 to RR27.11.	21.12
RR27.13	Unmeasured	Total revenue from wholesale additional control charges, other than on a measured basis. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.13
RR27.14	Measured	Total revenue from wholesale additional control charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non-household connections. This should include revenue from large users and special agreements.	21.14
RR27.15	Third party revenue	Third party revenue covered by the additional price control, e.g., supplies of non-potable water to customers.	
RR27.16	Total	Total revenue from wholesale additional control charges. The sum of RR27.13 to RR27.15.	21.15
RR27.17	Wholesale Total	The sum of lines RR27.4, RR27.12 and RR27.16.	21.16
RR27.18	Unmeasured	Total revenue from retail charges, other than on a measured basis. This should be split between household and non-household connections.	21.17
RR27.19	Measured	Total revenue from retail charges, where all or some of the charges are based on measured quantities of volume. This should be split between household and non- household connections.	21.18
RR27.20	Retail third party revenue	Any third-party revenue relating to retail activities.	21.19
RR27.21	Total	Total revenue from retail charges. The sum of RR27.18 to RR27.20.	21.20
RR27.22	Bulk supplies - water	Bulk supply charges received for providing a bulk supply (for potable or non-potable supplies) to another water undertaker.	21.21
RR27.23	Bulk supplies - wastewater	Bulk supply charges for providing wastewater connection agreements with another wastewater undertaker.	21.22

<table>
<tr><th>Line</th><th>Title</th><th colspan="2">Definition</th><th>RAG 4.10 line reference</th></tr>
<tr><td>RR27.24</td><td>Bulk supplies – additional control</td><td colspan="2">Bulk supply charges for agreements between the additional control and another undertaker.</td><td></td></tr>
<tr><td>RR27.25</td><td>Other third-party revenue – non price control</td><td colspan="2">All other sources of revenue received from third parties for which costs are not covered by the wholesale price control. E.g. rechargeable works where the appointee is a monopoly supplier and Excluded charges.</td><td>21.23</td></tr>
<tr><td>RR27.26</td><td>Other appointed revenue</td><td colspan="2">All other sources of revenue that are not reported elsewhere in the table but are classed as appointed business. E.g. recreational use of protected land.</td><td>21.24</td></tr>
<tr><td>RR27.27</td><td>Total appointed revenue</td><td colspan="2">The sum of lines RR27.17, RR27.21, RR27.22, RR27.23, RR27.24, RR27.25 and RR27.26. This should equal RR1.1 (appointed business activities column).</td><td>21.25</td></tr>
<tr><td>RR27.28</td><td>Wholesale water third party revenue</td><td colspan="2">Percentage split of wholesale water third party revenue between residential and business supplies as an average for the 5 years of the price control.</td><td></td></tr>
<tr><td>RR27.29</td><td>Wholesale wastewater third party revenue</td><td colspan="2">Percentage split of wastewater third party revenue between residential and business supplies as an average for the 5 years of the price control.</td><td></td></tr>
<tr><td>RR27.30</td><td>Additional control third party revenue</td><td colspan="2">Percentage split of additional control third party revenue between residential and business supplies as an average for the 5 years of the price control.</td><td></td></tr>
<tr><td>RR27.31</td><td>foul charges</td><td>foul charges element of an unmeasured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td>foul charges element of a measured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td></td></tr>
<tr><td>RR27.32</td><td>surface water charges</td><td>surface water charges element of an unmeasured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td>surface water charges element of a measured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td></td></tr>
<tr><td>RR27.33</td><td>highway drainage charges</td><td>highway drainage charges element of an unmeasured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td>highway drainage charges element of a measured wastewater bill on average over the 5 years of the price control, expressed as a percentage.</td><td></td></tr>
</table>

30. RR28 – Historic cost analysis of tangible fixed assets

Table RR28 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR28.1	At 1 April 20xx	The historical cost value of the assets brought forward from the previous year.	2D.1
RR28.2	Disposals	The reduction in value of assets caused by disposal of assets, by type.	2D.2
RR28.3	Additions	Increase in value of assets by type caused by purchase.	2D.3
RR28.4	Adjustments	Any adjustments to the ‘cost’ value, this will include revaluations.	2D.4
RR28.5	Assets adopted at nil cost	The fair value of any adopted assets	2D.5
RR28.6	At 31 March 20xx	This is the historical cost value at the end of the year. The sum of lines RR28.1 to RR28.5.	2D.6
RR28.7	At 1 April 20xx	Accumulated depreciation brought forward on assets by type at the beginning of the year. This should be entered as a negative number.	2D.7
RR28.8	Disposals	The reduction in accumulated depreciation caused by disposal of assets by type. Enter as a positive.	2D.8
RR28.9	Adjustments	Any adjustments to the accumulated depreciation value, this will include the impact of any impairments.	2D.9
RR28.10	Charge for the year	Depreciation charge. Enter as a negative.	2D.10
RR28.11	At 31 March 20xx	Accumulated depreciation carried forward by asset type at the end of the charging year. The sum of lines RR28.7 to RR28.10.	2D.11
RR28.12	Net book amount at 31 March 20xx	Net book value by asset type at the year end. The sum of lines RR28.6 and RR28.11.	2D.12
RR28.13	Net book amount at 1 April 20xx	Net book value by asset type at the beginning of the year. The sum of lines RR28.1 and RR28.7.	2D.13
RR28.14	Principal services	Depreciation charge on assets used to deliver ‘principal services’ as set out in appendix 1. Enter as a negative.	2D.14
RR28.15	Third party services	Depreciation charge on assets used to deliver ‘third party services’ as set out in appendix 1. Enter as a negative.	2D.15
RR28.16	Total	Total depreciation charge (sum of lines 14 and 15) which will agree to line RR28.10.	2D.16

31. RR29 – Asset lives

31.1 RAG 4.10 references will be provided alongside publication of the final methodology.

Table RR29 line definitions

Line	Title	Definition	RAG 4.10 line reference
RR29.1	Average asset lives for all fixed assets ~ wholesale water resources	Forecast average asset lives of all wholesale water resources tangible fixed assets (legacy and new additions).	
RR29.2	Average asset lives for all fixed assets ~ wholesale water network plus	Forecast average asset lives of all wholesale water network plus tangible fixed assets (legacy and new additions).	
RR29.3	Average asset lives for all fixed assets ~ wholesale wastewater network plus	Forecast average asset lives of all wholesale wastewater network plus tangible fixed assets (legacy and new additions).	
RR29.4	Average asset lives for all fixed assets ~ wholesale bioresources	Forecast average asset lives of all wholesale bioresources tangible fixed assets (legacy and new additions).	
RR29.5	Average asset lives for all fixed assets ~ wholesale additional control	Forecast average asset lives of all additional price control tangible fixed assets (legacy and new additions).	
RR29.6	Average asset lives for all fixed assets ~ residential retail	Forecast average asset lives of all residential retail tangible fixed assets (legacy and new additions).	
RR29.7	Average asset lives for all fixed assets ~ business retail	Forecast average asset lives of all business retail tangible fixed assets (legacy and new additions).	
RR29.8	Total average asset lives for all fixed assets ~ legacy assets plus new additions	Forecast average asset lives of all tangible fixed assets (legacy and new additions).	
RR29.9	Include accumulated depreciation in financial model	Switch to include accumulated depreciation on fixed assets in PR19 financial model.	

RR29 Commentary requirement

31.2 Companies should provide commentary where this will assist the reader in understanding the asset lives presented, such as where there are material movements from year to year.

31.3 Companies should set out the basis for calculating the average asset lives for each control.

32. RR30 – RoRE analysis

32.1 Table RR30 is intended as a pro forma to record companies low (P10) and high (P90) scenarios for the purpose of generating RoRE risk ranges.

Table RR30 line definitions

Line	Title	Definition
RR30.1	Wholesale Water costs – high case	High case for wholesale water costs.
RR30.2	Wholesale Wastewater costs – high case	High case for wholesale wastewater costs.
RR30.3	Retail costs – high case	High case for retail costs.
RR30.4	Bioresources costs – high case	High case for bioresources costs.
RR30.5	Dummy control costs – High case	High case for dummy control costs.
RR30.6	Totex Scenarios – High case ~ total	Sum of line 1 to 5.
RR30.7	Wholesale Water ODIs – high case	High case for ODIs relating to wholesale water. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.8	Wholesale Wastewater ODIs – high case	High case for ODIs relating to wholesale wastewater. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.9	Retail ODIs – high case	High case for ODIs relating to retail controls. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.10	ODI Scenarios – High case ~ total	Sum of line 7 to 9
RR30.11	New debt issuance – high costs	High case for financing performance for issuing new debt.
RR30.12	Inflation – high costs	High case for financing performance linked to inflation. This should be based on a 1% inflation variation from the long-term inflation assumption.
RR30.13	Financing Scenarios – High case ~ total	Sum of line 11 and 12.
RR30.14	C-MeX – high case	High case for C-MeX. This should assume that the maximum reward is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.15	D-MeX – high case	High case for D-MeX. This should assume that the maximum reward is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.16	BR – MeX – high case	High case for BR – MeX. This should assume that the maximum reward is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.17	Customer measures of excellence Scenarios – High case ~ total	Sum of line 14 to 16.

Line	Title	Definition
RR30.18	Revenue – high case	High case for revenue impacts.
RR30.19	Other – high case ~ Please specify	High case for other impacts – please specify.
RR30.20	Revenue & Other Scenarios – High case ~ total	Sum of line 18 and 19.
RR30.21	Wholesale Water costs – low case	Low case for Wholesale Water costs.
RR30.22	Wholesale Wastewater costs – low case	Low case for wholesale wastewater costs.
RR30.23	Retail costs – low case	Low case for retail costs.
RR30.24	Bioresources costs – low case	Low case for bioresources costs.
RR30.25	Dummy control costs – low case	Low case for dummy control costs.
RR30.26	Totex Scenarios – Low case ~ total	Sum of lines 21 to 25
RR30.27	Wholesale Water ODIs – low case	Low case for ODIs relating to wholesale water. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.28	Wholesale Wastewater ODIs – low case	Low case for ODIs relating to wholesale wastewater. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.29	Retail ODIs – low case	Low case for ODIs relating to retail controls. The impact of ODIs should be an aggregated view of the performance across all performance commitments.
RR30.30	ODI Scenarios – Low case ~ total	Sum of lines 27 to 29.
RR30.31	New debt issuance – low case	Low case for financing performance for issuing new debt.
RR30.32	Inflation – low case	Low case for financing performance linked to inflation. This should be based on a 1% inflation variation from the long-term inflation assumption.
RR30.33	Financing Scenarios – Low case ~ total	Sum of line 31 and 32
RR30.34	C-MeX – low case	Low case for C-MeX. This should assume that the maximum penalty is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.35	D-MeX – low case	Low case for D-MeX. This should assume that the maximum penalty is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.36	BR – MeX – low case	Low case for BR – MeX. This should assume that the maximum penalty is applicable unless there is a sufficient and convincing reason as to why a different approach has been taken.
RR30.37	Customer measures of excellence Scenarios – Low case ~ total	Sum of lines 34 to 36
RR30.38	Revenue – low case	Low case for revenue impacts
RR30.39	Other – low case ~ Please specify	Low case for other impacts – please specify
RR30.40	Revenue & Other Scenarios – Low case ~ total	Sum of line 38 and 39.

Line	Title	Definition
RR30.41	Regulatory Capital Value	RCV taken as a Financial model output.
RR30.42	Notional Gearing	Notional debt to RCV
RR30.43	Regulated Equity	Line 41 * (1 – Line 42)
RR30.44	Totex RoRE – high case	Line 6 / Line 43
RR30.45	Outcome performance incentives RoRE – High case	Line 10 / Line 43
RR30.46	Financing RoRE – High case	Line 13 / Line 43
RR30.47	Customer measures of excellence RoRE – high case	Line 17 / Line 43
RR30.48	Revenue & Other RoRE – high case	Line 20 / Line 43
RR30.49	RoRE – High Case ~ Total	Sum of lines 44 to 48
RR30.50	Totex RoRE – low case	Line 26 / Line 43
RR30.51	Outcome performance incentives RoRE – low case	Line 30 / Line 43
RR30.52	Financing RoRE – low case	Line 33 / Line 43
RR30.53	Customer measures of excellence – Low case	Line 37 / Line 43
RR30.54	Revenue & Other – Low case	Line 40 / Line 43
RR30.55	RoRE – Low Case ~ Total	Sum of lines 50 to 54
RR30.56	Item 1– High Case	Proposed high case impact of uncertainty mechanism or notified item.
RR30.57	Item 2– High Case	Proposed high case impact of uncertainty mechanism or notified item.
RR30.58	Item 3– High Case	Proposed high case impact of uncertainty mechanism or notified item.
RR30.59	Item 4– High Case	Proposed high case impact of uncertainty mechanism or notified item.
RR30.60	Other items – High case ~ total	Sum of lines 56 to 59
RR30.61	Item 1– Low Case	Proposed low case impact of uncertainty mechanism or notified item
RR30.62	Item 2– Low Case	Proposed low case impact of uncertainty mechanism or notified item
RR30.63	Item 3– Low Case	Proposed low case impact of uncertainty mechanism or notified item
RR30.64	Item 4– Low Case	Proposed low case impact of uncertainty mechanism or notified item
RR30.65	Other items – Low case ~ total	Sum of lines 61 to 64
RR30.66	Other items – High Case	Line 60 / Line 43
RR30.67	Other items – Low case	Line 65 / Line 43

RR30 Additional guidance

32.2 This table guidance should be considered alongside the recommendations to companies in Section 2.3 of Appendix 10 'Aligning risk and return'.

32.3 High and low scenarios refer to the reasonable high (P90) and reasonable low (P10) scenarios we set out in this appendix. In addition, the sign convention is that outperformance against the base case should be positive and underperformance negative. Figures reported in this table should be:

- adjusted for the headline rate of corporation tax for PR24,
- presented in the base year prices of 2022/23 financial year average, and
- presented after consideration of uncertainty mechanisms.

RR30 Commentary requirement

32.4 We propose that companies should explain:

- How each of the low and high scenarios have been calculated for each of the contributing areas of RoRE.
- What mitigating factors have been considered as part of the RoRE analysis.

32.5 It should be very clear from companies' commentaries how each of the areas have been calculated and why they have been calculated in this way.

32.6 Companies should explain (where applicable) how they have carried out aggregation of individual risk ranges to area-level risk ranges.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA
Phone: 0121 644 7500

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Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.