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LONDON

UK Water – Will Thames Open The Floodgates?

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5 December 2024

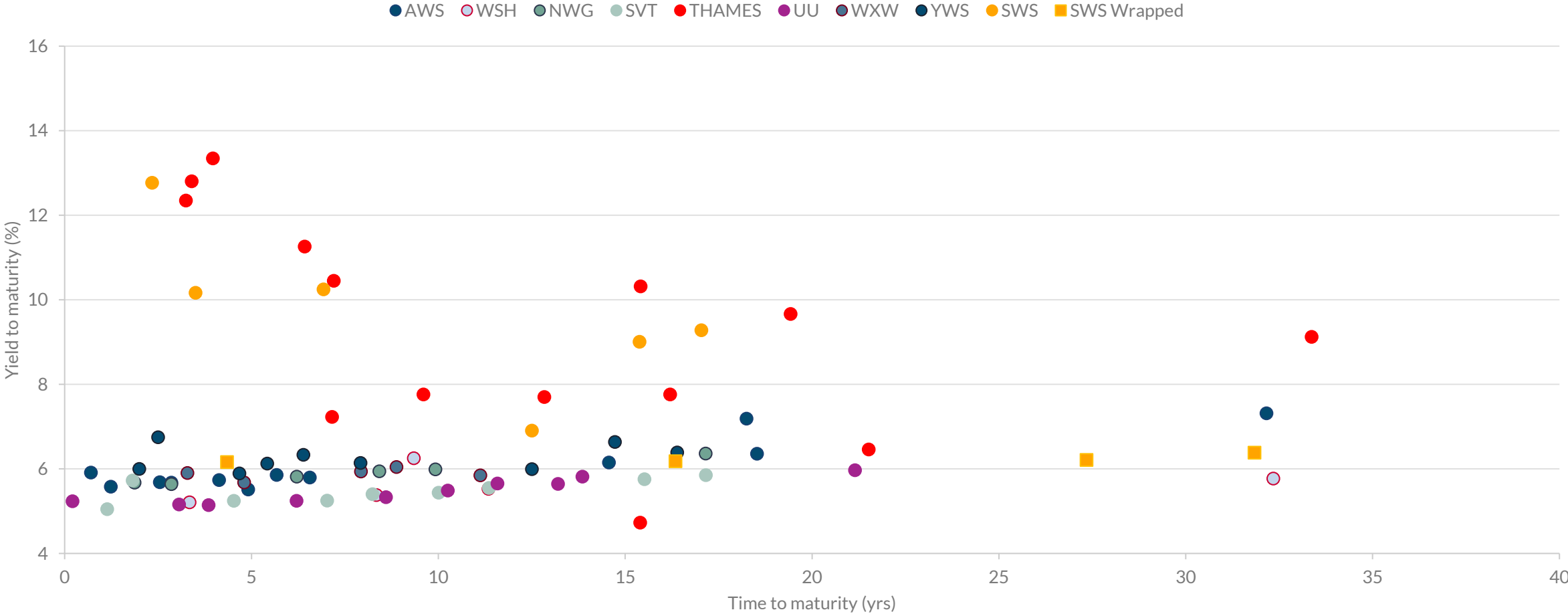


Domino Dancing

*“All day, all day, domino dancing,
All day, all day, watch them all fall down.....”*

The goodies and the baddies

UK water companies GBP bond yields



Southern – the next domino?

Thames Water

- Highly geared WBS – RAR~82% (FY24)
- Poor operational performance
- Turnaround plan
- £500 mn equity in AMP7
- **Shareholders have said “no more – uninvestible”**
- Holdco Kemble has defaulted
- Liquidity only to March 2025⁽¹⁾
- Court approval sought for £3 bn facility
- Thames says alternative would be a SAR
- Further restructuring will be required
- Assuming reasonable FD, or CMA, would seek additional equity
- Macquarie linked with situation – rightly or wrongly

Southern Water

- Highly geared WBS – RAR~72% (FY24)
- Poor operational performance
- Turnaround plan
- £1.65 bn equity in AMP7
- **Key shareholder has reiterated support**
- Intended £650 mn equity in FY26/27
- Liquidity to March 2026⁽²⁾
- Technical EoD if two ratings are HY
- Macquarie reputational risk?

Water company metrics FY24

Key UK water company metrics

	Nominal RCV (Mar 24)	Regulatory Gearing	FFO Net debt	Adjusted ICR	Div. Yield	RoRE (notional)	Derivatives as % of RCV	Lowest monitored credit rating
Water and Sewerage Companies (WaSCs)								
Thames Water	19,947	81.3%	6.2%	1.25	5.2%	-1.4%	1.4%	CC CW Negative
United Utilities	13,969	67.0%	8.4%	1.30	4.1%	8.4%	-0.7%	BBB+ Negative
Severn Trent Water	11,886	61.0%	8.0%	0.94	6.4%	8.5%	-0.3%	Baa1/BBB+ Stable
Anglian Water	10,676	68.9%	7.7%	1.29	2.2%	-3.5%	6.1%	A3/A- CW Negative
Yorkshire Water	9,132	68.6%	8.4%	2.47	2.9%	6.2%	19.5%	Baa2 Negative
Dwr Cymru	7,476	61.1%	5.4%	0.65	0.0%	-0.7%	5.9%	A3/A- CW Negative
Southern Water	6,788	71.6%	3.6%	-0.89	0.0%	-8.4%	23.1%	Ba1 CW Negative
Northumbrian Water	5,443	70.2%	6.2%	0.77	4.1%	5.7%	1.9%	Baa1/BBB+ Negative
South West Water	4,838	68.3%	6.5%	0.74	N/A	2.8%	-0.6%	Baa1 Negative
Wessex Water	4,305	68.8%	5.5%	0.73	5.0%	3.8%	0.0%	Baa1 Negative
Hafren Dyfrdwy	118	60.3%	-1.6%	-2.17	0.0%	21.1%	0.0%	BBB+ Stable
Total WaSC RCV (£ mn)	94,576 (Mar 24)							
Water Only Companies (WOCs)								
South East Water	1,736	77.8%	4.6%	0.92	0.0%	-3.1%	0.0%	Baa3 CW Negative
Affinity Water	1,851	75.2%	4.6%	0.25	0.0%	4.9%	0.2%	Baa1/BBB+ CW Negative
South Staffs Water	541	68.7%	11.3%	1.44	2.7%	2.0%	-0.2%	Baa2 Stable
SES Water	347	79.1%	3.7%	-0.38	0.0%	-4.3%	0.0%	Baa1 Negative
Portsmouth Water	256	50.0%	8.1%	1.10	1.8%	-3.3%	0.6%	Baa2 Stable
Total WOC RCV (£ mn)	4,731 (Mar 24)							
Total Sector RCV (£ mn)	99,307 (Mar 24)							

Where's the risk?

UK water company comparison

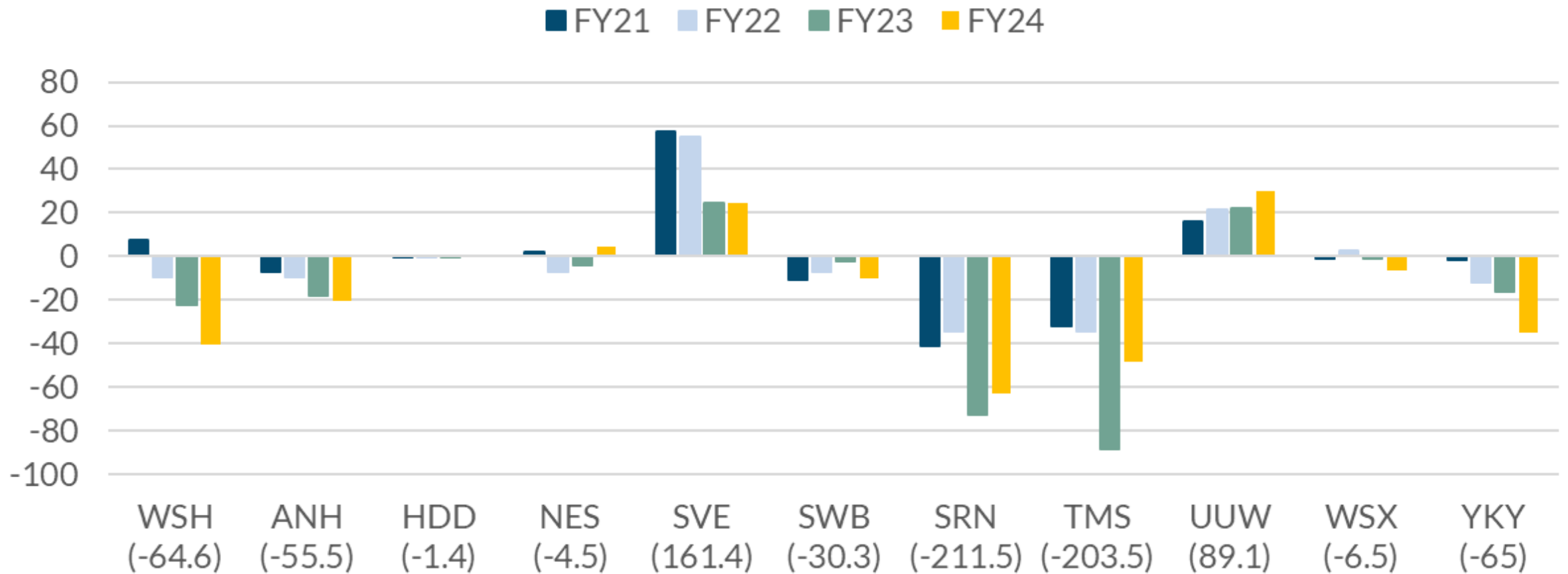
Company	Business plan quality	Gearing above 70%	Rating at regulatory lock up	Derivative MtM (% of RCV)	Financial resilience	Environmental performance score	FY24 ODI (% of NRE)	Company performance
WaSCs								
Thames Water	Inadequate	Yes	Yes	1.4%	Action required/Active	2 star	-0.77%	Average
United Utilities	Standard (no intervention)	No	No	-0.7%	Standard	4 star	0.67%	Average
Severn Trent Water	Outstanding	No	No	-0.3%	Standard	4 star	0.66%	Average
Anglian Water	Standard (no intervention)	No	No	6.1%	Standard	2 star	-1.21%	Lagging
Yorkshire Water	Standard (no intervention)	No	Yes	19.5%	Elevated concern	2 star	-1.22%	Average
Dwr Cymru	Standard (intervention)	No	No	5.9%	Standard	2 star	-0.87%	Lagging
Southern Water	Inadequate	Yes	Yes	23.1%	Action required	2 star	-2.93%	Lagging
Northumbrian Water	Standard (no intervention)	Yes	No	1.9%	Elevated concern	3 star	0.27%	Average
South West Water	Outstanding	No	No	-0.6%	Standard	2 star	-0.78%	Average
Wessex Water	Inadequate	No	No	0.0%	Elevated concern	4 star	-0.50%	Average
Hafren Dyfrdwy	Standard (no intervention)	No	No	0.0%	Standard	N/A	-0.40%	Average
WOCs								
South East Water	Lacking ambition	Yes	Yes	0.0%	Action required	N/A	-1.04%	Average
Affinity Water	Standard (no intervention)	Yes	No	0.2%	Elevated concern	N/A	-0.71%	Average
South Staffs Water	Standard (intervention)	No	No	-0.2%	Elevated concern	N/A	-0.36%	Average
SES Water	Standard (no intervention)	Yes	No	0.0%	Elevated concern	N/A	0.38%	Average
Portsmouth Water	Standard (no intervention)	No	Yes	0.6%	Elevated concern	N/A	-1.71%	Average

Where's the risk?

UK water company comparison

Company	Business plan quality	Gearing above 70%	Rating at regulatory lock up	Derivative MtM (% of RCV)	Financial resilience	Environmental performance score	FY24 ODI (% of NRE)	Company performance
WaSCs								
Thames Water	Red	Red with ★	Red	Green	Red with ★	Red with diagonal lines	Red	Yellow
United Utilities	Green with diagonal lines	Yellow	Green	Green	Green	Green	Green	Yellow
Severn Trent Water	Green with diagonal lines	Green	Green	Green	Green	Green	Green	Yellow
Anglian Water	Green with diagonal lines	Yellow	Green	Yellow	Green	Red with diagonal lines	Red	Yellow
Yorkshire Water	Green with diagonal lines	Yellow	Red	Red	Yellow	Red with diagonal lines	Red	Yellow
Dwr Cymru	Yellow	Green	Green	Yellow	Green	Red with diagonal lines	Red	Yellow
Southern Water	Red	Red	Red	Red	Red	Red with diagonal lines	Red	Yellow
Northumbrian Water	Green with diagonal lines	Red	Green	Green	Yellow	Yellow	Green with diagonal lines	Yellow
South West Water	Green	Yellow	Green	Green	Green	Red with diagonal lines	Red	Yellow
Wessex Water	Red	Yellow	Green	Green	Yellow	Green	Yellow	Yellow
Hafren Dyfrdwy	Green with diagonal lines	Green	Green	Green	Green	Yellow	Yellow	Yellow
WOCs								
South East Water	Red with diagonal lines	Red	Red	Green	Red	Yellow	Red	Yellow
Affinity Water	Green with diagonal lines	Red	Green	Green	Yellow	Yellow	Red with diagonal lines	Yellow
South Staffs Water	Yellow	Yellow	Green	Green	Yellow	Yellow	Yellow	Yellow
SES Water	Green with diagonal lines	Red	Green	Green	Yellow	Yellow	Green with diagonal lines	Yellow
Portsmouth Water	Green with diagonal lines	Green	Green	Green	Yellow	Yellow	Red	Yellow

WaSC ODI rewards and penalties (£ mn) for the first four years of AMP7



Water company Totex proposals for AMP8

Company	AMP7	PR24 BP	PR24 DD	DD vs BP	PR24 company representations	Representation vs DD	Change from BP to representations
Anglian Water	6,847	9,522	9,074	-5%	10,407	15%	9.3%
Dŵr Cymru	3,794	5,627	4,978	-12%	5,917	19%	5.1%
Hafren Dyfrdwy	205	256	221	-14%	262	18%	2.2%
Northumbrian Water	3,617	6,020	5,608	-7%	6,294	12%	4.6%
Severn Trent Water	7,969	13,316	11,282	-15%	14,639	30%	9.9%
South West Water	3,028	4,469	4,098	-8%	4,585	12%	2.6%
Southern Water	4,317	7,172	6,715	-6%	9,381	40%	30.8%
Thames Water	11,640	21,403	16,312	-24%	23,719	45%	10.8%
United Utilities	7,169	13,831	11,414	-17%	13,671	20%	-1.2%
Wessex Water	2,710	5,416	3,622	-33%	4,984	38%	-8.0%
Yorkshire Water	5,477	7,682	7,123	-7%	8,019	13%	4.4%
Affinity Water	1,850	2,127	1,828	-14%	2,323	27%	9.2%
Portsmouth Water	252	346	401	16%	361	-10%	4.4%
South East Water	1,217	1,889	1,278	-32%	1,954	53%	3.4%
South Staffs Water	760	817	785	-4%	806	3%	-1.3%
SES Water	334	413	329	-20%	414	26%	0.1%
Industry total	61,187	100,305	85,068	-15%	107,736	27%	7.4%

Average bill increases

Average proposed bills (£) and percentage increases for WaSCs post DD

	Actual average bill	BP proposed ave. bill		DD proposed ave. bill		Company representation proposed ave. bill	
	2024-25	2029-30	% Ch.	2029-30	% Ch.	2029-30	% Ch.
Anglian Water	491	573	17%	557	13%	614	25%
Dŵr Cymru	455	602	32%	603	33%	626	38%
Hafren Dyfrdwy	392	560	43%	524	34%	568	45%
Northumbrian Water	415	471	14%	460	11%	501	21%
Severn Trent Water	398	546	37%	496	25%	580	46%
Southern Water	420	727	73%	603	43%	772	84%
South West Water	497	596	20%	561	13%	613	23%
Thames Water	436	627	44%	535	23%	667	53%
United Utilities	442	554	25%	536	21%	584	32%
Wessex Water	508	690	36%	497	-2%	658	29%
Yorkshire Water	430	569	32%	537	25%	583	35%
Weighted average bill	439	585		535		615	
Percentage ave. increase		33%		22%		40%	

Potential ODI penalties in AMP8 after DD

CreditSights calculated ODIs from Ofwat model

	Anglian Water	Welsh Water	N'brian Water	SVT Water	SW Water	Southern Water	Thames Water	UU	Wessex Water	Yorkshire Water
WSI	-11.3	1.0	2.5	-2.4	1.3	-11.6	-41.5	2.8	0.0	-3.2
CRI	0.0	0.0	-19.2	-12.7	0.0	-7.8	0.0	0.0	-0.3	-13.1
WQC	-36.5	-2.8	-21.6	-11.0	-5.9	-36.2	21.2	13.9	-3.2	-11.9
ISF	-5.4	3.2	1.8	2.8	12.5	-11.9	-81.5	-97.6	0.0	-57.7
ESF	-52.0	-12.5	-1.2	15.7	4.4	8.3	-1130.1	37.8	-7.1	32.6
BIO	-10.1	-10.6	-4.8	5.9	0.8	-8.9	-3.7	-6.1	-5.0	2.3
OGW	6.5	-0.5	-0.5	-10.7	-0.5	-3.0	-3.6	-5.6	-0.1	-0.5
OGWW	-26.4	-0.5	-0.6	-55.0	-0.8	-5.6	-4.1	-35.9	-1.2	-29.1
LEA	-31.4	-78.9	0.9	-5.3	-0.6	-4.1	-11.4	2.2	0.0	-5.6
PCC	-7.2	-12.0	-8.3	6.2	-1.0	-18.5	-37.3	3.1	-5.2	-37.8
NHH	-0.5	-0.1	-33.4	-11.2	0.1	0.0	-21.7	-3.7	-1.3	-1.1
POL	-81.1	-20.6	-1.1	-0.2	-15.3	-96.0	-230.1	21.6	-17.4	30.0
SPL	0.0	0.0	0.0	0.0	0.0	0.0	-47.2	0.0	-8.7	0.0
DPC	0.0	0.0	0.0	-31.2	0.0	-23.5	0.0	0.0	-23.5	0.0
BWQ	-40.0	-43.3	-33.5	-	-3.4	-60.4	0.0	-57.2	-33.7	-8.7
SOF	-0.9	-57.6	-1.7	0.0	-1.9	-13.9	-6.2	-3.1	-20.7	-61.4
MRP	-12.1	0.0	-4.8	-5.4	0.0	-20.7	-13.0	1.3	-8.8	-41.7
UNO	9.1	13.2	-21.8	29.2	7.7	-21.1	22.5	52.5	-12.7	13.7
SCO	0.0	0.7	0.2	-17.8	10.0	-1.6	1.0	0.1	-2.2	40.4
Total	-299.2	-221.1	-147.2	-102.9	7.4	-336.3	-1586.8	-73.9	-151.2	-152.8
Ave. reg equity	5,192	3,521	2,872	6,314	2,181	3,686	9,022	6,676	2,184	4,386
RE %	-5.8%	-6.3%	-5.1%	-1.6%	0.4%	-9.3%	-16.4%	-1.1%	-6.9%	-3.4%

What do we expect from the final determination on 19 December?

- An increase in the allowed cost of debt (2.84% in the DD)
 - Update to include latest market data
- A more balanced ODI regime
 - Extensive company and investor pushback
 - Consultation on Outturn Adjustment Mechanism (OAM)
- An increase in Totex
 - Companies present more detailed evidence
 - Evolving regulatory requirements
- An increased allowed return on equity (4.8% in DD)
 - Market risk assessment should result in higher equity beta
 - Water company debt issues in 2024 have an average nominal coupon of 6.35% (compare with nominal 6.8% return on equity)

The FD will be crucial in re-establishing the investibility of the sector
And in solidifying the rating agency view of the sector risks

Resetting the system – what to expect

“A reset of the water sector must consider the regulatory framework, the regulators and the incentives that govern the water industry model and strategic water planning. It should create the conditions needed in the private regulated model to attract the investment required to improve environmental performance, bring more accountability, rebuild public trust and confidence, and secure a resilient, innovative water sector and framework that will work for decades to come.”

The sector should become one of growth and opportunity, which will restore our rivers, lakes and seas to good health, deliver a resilient and efficient water supply in the face of a changing climate, and ultimately ensure that the water sector works for customers and the environment.”

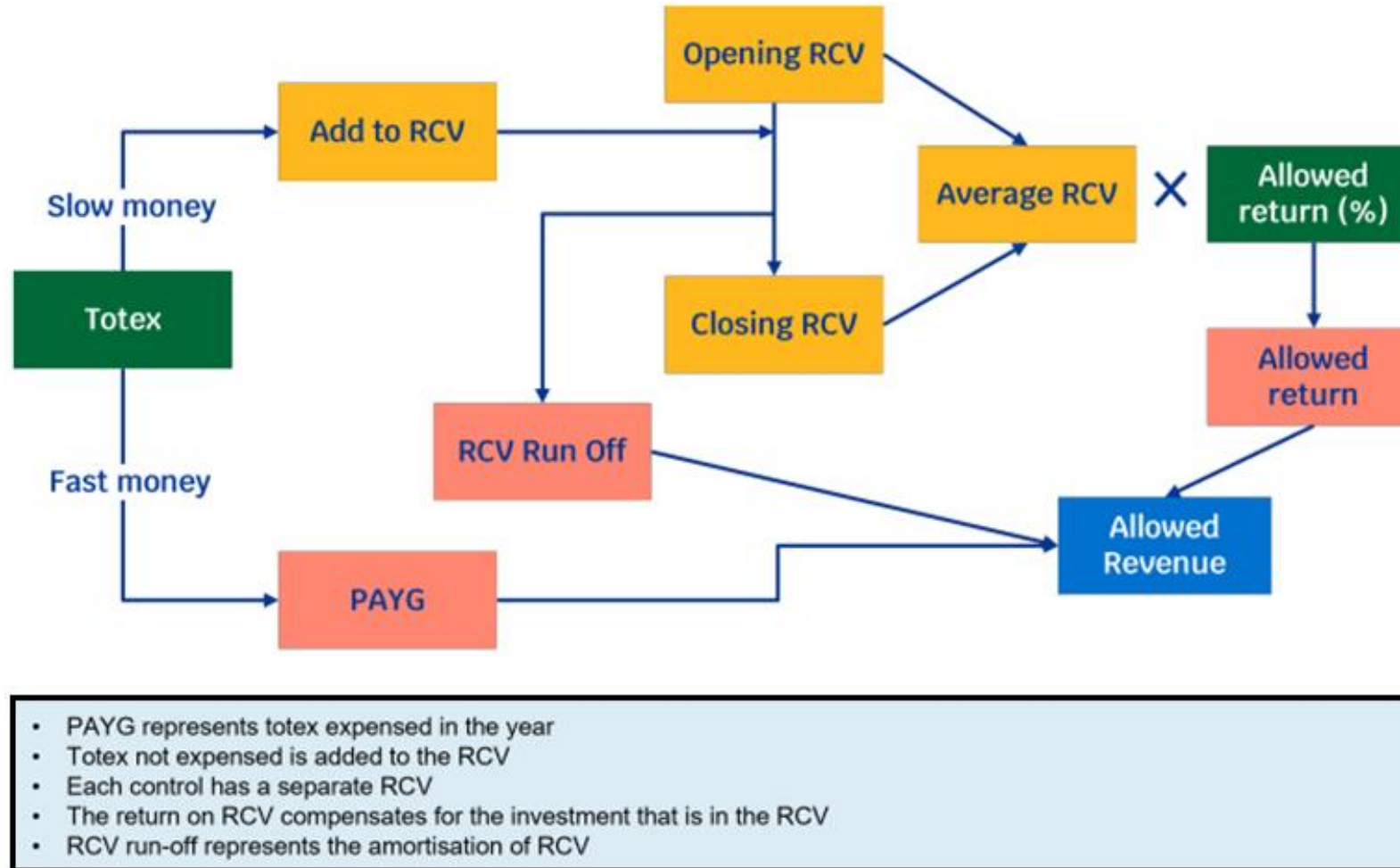
Defra, October 2024

The commission is expected to report in 2Q25

Water company revenue building blocks
Wastewater non-compliance investigations

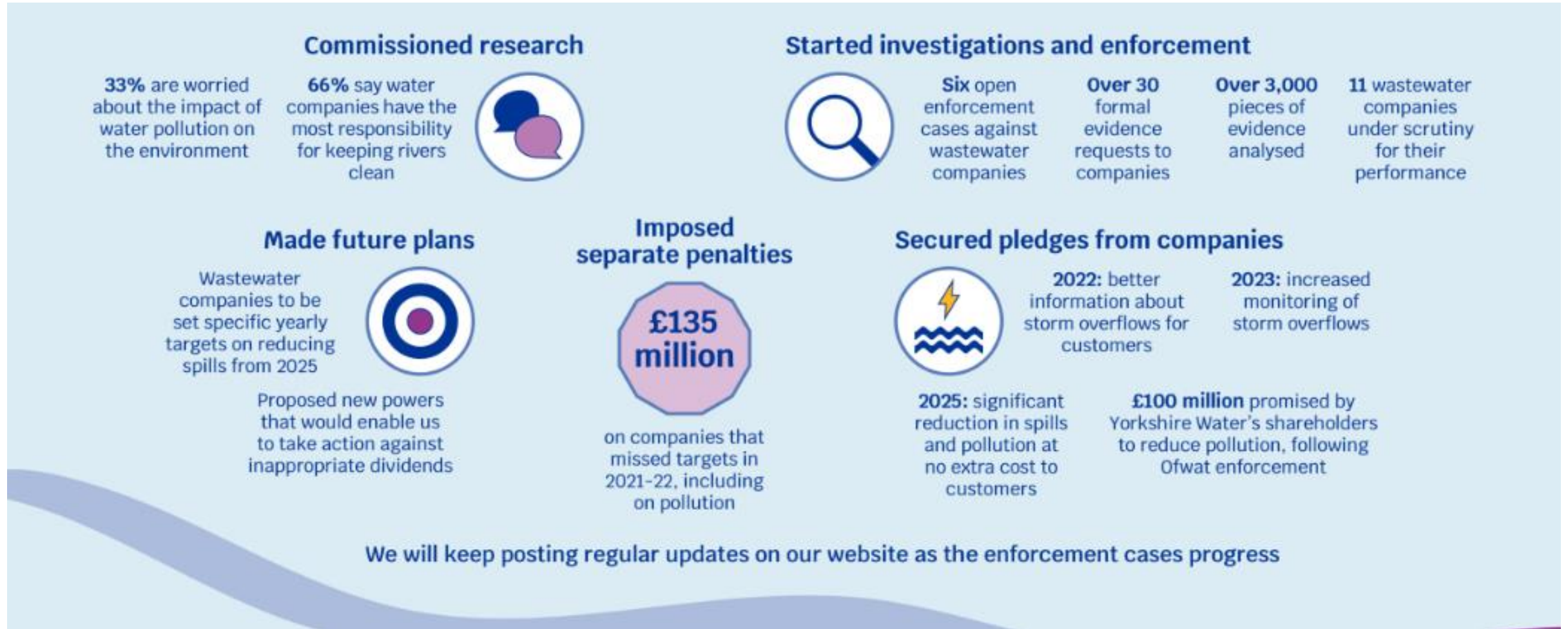
Water company allowed revenue

Regulatory building blocks and cost recovery



Wastewater non-compliance investigations

Launched in November 2021, investigating how all wastewater companies manage their treatment works



Wastewater non-compliance investigation

The situation so far

- All 11 wastewater companies have enforcement actions underway
 - No indication of a date by which the investigation will reach a conclusion
 - Ofwat penalty is limited to 10% of the regulated turnover in the relevant year
 - Potential penalties imposed by the Environment Agency for an environmental offence can be unlimited
- Southern Water
 - Financial penalty of £126 mn imposed in 2019
 - This included a fine (10%) and underperformance penalties which the company had avoided by misreporting of data
 - Ofwat continues to monitor steps Southern Water is taking to secure its compliance via the package of commitments it made following this enforcement action
- Draft decision on Thames, Yorkshire and Northumbrian in August 2024
 - Proposed combined financial penalty of £168 mn
 - Thames Water proposed fine of £104mn, Yorkshire Water, £47mn and Northumbrian Water, £17mn
- Enforcement cases open on the other wastewater companies
 - Anglian, Dwr Cymru, Hafren Dyfrdwy, Severn Trent, South West, United Utilities, Wessex water

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