



# SSCDD11 Risk and Return - RoRE

## RoRE

### Ofwat view of Draft Determination

In our Draft Determination, Ofwat present the RoRE range as follows:

Component of risk	Reasonable downside (P10)	Reasonable upside (P90)
Totex	-2.07%	2.07%
Retail costs	-0.30%	0.30%
Outcome delivery incentives	-2.48%	1.48%
Financing	-0.40%	0.90%
Customer measures of experience	-0.95%	0.95%
Revenue incentive mechanisms	-0.05%	0.00%
<b>Total</b>	<b>-6.26%</b>	<b>5.70%</b>

We have the largest RoRE range of any company based on Ofwat's analysis.

### Company view of Draft Determination

We have calculated our own PR24 RoRE risk range based on the Draft Determination and this is set out below:

Component of risk	Reasonable downside (P10)	Reasonable upside (P90)
Totex	-1.80%	1.81%
Retail costs	-0.41%	0.41%
Outcome delivery incentives	-2.71%	0.94%
Financing	-0.42%	0.90%
Customer measures of experience	-0.95%	0.95%
Revenue incentive mechanisms	-0.05%	0.00%
<b>Total</b>	<b>-6.34%</b>	<b>5.01%</b>

Overall, our RoRE range is similar to the Draft Determination except for ODIs which is skewed to downside. Details of how this range has been calculated is set out below.

## Totex

We have used Ofwat's view of a totex range of +/- 8.5%.

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>Totex</b>						
Totex	£m	138.386	143.587	144.023	146.489	138.385
High case	%	8.5%	8.5%	8.5%	8.5%	8.5%
Low case	%	-8.5%	-8.5%	-8.5%	-8.5%	-8.5%
High case (post tax)	£m	8.822	9.154	9.181	9.339	8.822
Low case (post tax)	£m	-8.822	-9.154	-9.181	-9.339	-8.822
Cost sharing rate - High case		50.0%	50.0%	50.0%	50.0%	50.0%
Cost sharing rate - Low case		50.0%	50.0%	50.0%	50.0%	50.0%
<b>RORE impact - High case</b>		<b>4.411</b>	<b>4.577</b>	<b>4.591</b>	<b>4.669</b>	<b>4.411</b>
<b>RORE impact - Low case</b>		<b>-4.411</b>	<b>-4.577</b>	<b>-4.591</b>	<b>-4.669</b>	<b>-4.411</b>

## Retail costs

We have retained our view from the Business Plan of an out/under performance level on retail of +/-10%.

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>Retail costs</b>						
Retail costs		14.664	14.835	14.881	14.931	14.973
High case	%	10.0%	10.0%	10.0%	10.0%	10.0%
Low case	%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
<b>RORE impact - High case (post tax)</b>	£m	<b>1.100</b>	<b>1.113</b>	<b>1.116</b>	<b>1.120</b>	<b>1.123</b>
<b>RORE impact - Low case (post tax)</b>	£m	<b>-1.100</b>	<b>-1.113</b>	<b>-1.116</b>	<b>-1.120</b>	<b>-1.123</b>

## PCDs

We have followed Ofwat's approach in the Draft Determination regarding the impact of timing of PCDs on out/under performance.

The upside case assumes that 95% of activity is delivered on time and 5% is delayed. The downside scenario assumes that 65% of activity is delivered on time and 35% is delayed.

We have applied the Time Incentive PCD rates for each activity to calculate the overall net payment.

The calculation is set out below:

### Mains renewals – High case

		2025-26	2026-27	2027-28	2028-29	2029-30
PCD	km	26.71	53.55	80.53	107.63	134.86
Upside	%	95%	95%	95%	95%	95%
Downside	%	5%	5%	5%	5%	5%
Upside	m	25,377	50,877	76,501	102,249	128,121
Downside	m	1,336	2,678	4,026	5,382	6,743
Tim incentive rate - Upside	£/m	2.73	2.73	2.73	2.73	2.73
Tim incentive rate - Downside	£/m	10.93	10.93	10.93	10.93	10.93
<b>On time reward</b>	<b>£m</b>	<b>0.069</b>	<b>0.139</b>	<b>0.209</b>	<b>0.279</b>	<b>0.350</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.015</b>	<b>-0.029</b>	<b>-0.044</b>	<b>-0.059</b>	<b>-0.074</b>
<b>Late penalty</b>	<b>£m</b>	<b>0.055</b>	<b>0.110</b>	<b>0.165</b>	<b>0.221</b>	<b>0.276</b>

### Mains renewals – Low case

		2025-26	2026-27	2027-28	2028-29	2029-30
PCD	km	26.71	53.55	80.53	107.63	134.86
Upside	%	65%	65%	65%	65%	65%
Downside	%	35%	35%	35%	35%	35%
Upside	m	17,363	34,811	52,343	69,960	87,662
Downside	m	9,349	18,744	28,185	37,671	47,203
Tim incentive rate - Upside	£/m	2.73	2.73	2.73	2.73	2.73
Tim incentive rate - Downside	£/m	10.93	10.93	10.93	10.93	10.93
<b>On time reward</b>	<b>£m</b>	<b>0.047</b>	<b>0.095</b>	<b>0.143</b>	<b>0.191</b>	<b>0.240</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.102</b>	<b>-0.205</b>	<b>-0.308</b>	<b>-0.412</b>	<b>-0.516</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.055</b>	<b>-0.110</b>	<b>-0.165</b>	<b>-0.221</b>	<b>-0.277</b>

## Supply Demand Balance – Metering – High Case

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - New installations</b>	Number	32,291	64,582	96,873	129,164	161,455
Upside	%	95%	95%	95%	95%	95%
Downside	%	5%	5%	5%	5%	5%
Upside	m	30,677	61,353	92,030	122,706	153,383
Downside	m	1,615	3,229	4,844	6,458	8,073
Tim incentive rate - Upside	£/m	2.85	2.85	2.85	2.85	2.85
Tim incentive rate - Downside	£/m	11.38	11.38	11.38	11.38	11.38
<b>On time reward</b>	<b>£m</b>	<b>0.087</b>	<b>0.175</b>	<b>0.262</b>	<b>0.349</b>	<b>0.437</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.018</b>	<b>-0.037</b>	<b>-0.055</b>	<b>-0.074</b>	<b>-0.092</b>
<b>Net</b>	<b>£m</b>	<b>0.069</b>	<b>0.138</b>	<b>0.207</b>	<b>0.276</b>	<b>0.345</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - Upgrades</b>	Number	4,657	9,314	13,971	18,628	23,285
Upside	%	95%	95%	95%	95%	95%
Downside	%	5%	5%	5%	5%	5%
Upside	m	4,424	8,848	13,272	17,696	22,120
Downside	m	233	466	699	931	1,164
Tim incentive rate - Upside	£/m	0.63	0.63	0.63	0.63	0.63
Tim incentive rate - Downside	£/m	2.54	2.54	2.54	2.54	2.54
<b>On time reward</b>	<b>£m</b>	<b>0.003</b>	<b>0.006</b>	<b>0.008</b>	<b>0.011</b>	<b>0.014</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.001</b>	<b>-0.001</b>	<b>-0.002</b>	<b>-0.002</b>	<b>-0.003</b>
<b>Net</b>	<b>£m</b>	<b>0.002</b>	<b>0.004</b>	<b>0.007</b>	<b>0.009</b>	<b>0.011</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - Replacements</b>	Number	15,880	26,339	36,799	47,258	57,718
Upside	%	95%	95%	95%	95%	95%
Downside	%	5%	5%	5%	5%	5%
Upside	m	15,086	25,022	34,959	44,896	54,832
Downside	m	794	1,317	1,840	2,363	2,886
Tim incentive rate - Upside	£/m	1.21	1.21	1.21	1.21	1.21
Tim incentive rate - Downside	£/m	4.83	4.83	4.83	4.83	4.83
<b>On time reward</b>	<b>£m</b>	<b>0.018</b>	<b>0.030</b>	<b>0.042</b>	<b>0.054</b>	<b>0.066</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.004</b>	<b>-0.006</b>	<b>-0.009</b>	<b>-0.011</b>	<b>-0.014</b>
<b>Net</b>	<b>£m</b>	<b>0.014</b>	<b>0.024</b>	<b>0.033</b>	<b>0.043</b>	<b>0.052</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>On time reward</b>	<b>£m</b>	<b>0.108</b>	<b>0.210</b>	<b>0.313</b>	<b>0.415</b>	<b>0.517</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.023</b>	<b>-0.044</b>	<b>-0.066</b>	<b>-0.087</b>	<b>-0.109</b>
<b>Net</b>	<b>£m</b>	<b>0.086</b>	<b>0.166</b>	<b>0.247</b>	<b>0.327</b>	<b>0.408</b>

#### Supply Demand Balance – Metering – Low Case

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - New installations</b>	Number	32,291	64,582	96,873	129,164	161,455
Upside	%	65%	65%	65%	65%	65%
Downside	%	35%	35%	35%	35%	35%
Upside	m	20,989	41,978	62,968	83,957	104,946
Downside	m	11,302	22,604	33,906	45,207	56,509
Tim incentive rate - Upside	£/m	2.85	2.85	2.85	2.85	2.85
Tim incentive rate - Downside	£/m	11.38	11.38	11.38	11.38	11.38
<b>On time reward</b>	<b>£m</b>	<b>0.060</b>	<b>0.119</b>	<b>0.179</b>	<b>0.239</b>	<b>0.299</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.129</b>	<b>-0.257</b>	<b>-0.386</b>	<b>-0.515</b>	<b>-0.643</b>
<b>Net</b>	<b>£m</b>	<b>-0.069</b>	<b>-0.138</b>	<b>-0.207</b>	<b>-0.276</b>	<b>-0.345</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - Upgrades</b>	Number	4,657	9,314	13,971	18,628	23,285
Upside	%	65%	65%	65%	65%	65%
Downside	%	35%	35%	35%	35%	35%
Upside	m	3,027	6,054	9,081	12,108	15,135
Downside	m	1,630	3,260	4,890	6,520	8,150
Tim incentive rate - Upside	£/m	0.63	0.63	0.63	0.63	0.63
Tim incentive rate - Downside	£/m	2.54	2.54	2.54	2.54	2.54
<b>On time reward</b>	<b>£m</b>	<b>0.002</b>	<b>0.004</b>	<b>0.006</b>	<b>0.008</b>	<b>0.010</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.004</b>	<b>-0.008</b>	<b>-0.012</b>	<b>-0.017</b>	<b>-0.021</b>
<b>Net</b>	<b>£m</b>	<b>-0.002</b>	<b>-0.004</b>	<b>-0.007</b>	<b>-0.009</b>	<b>-0.011</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>PCD - Replacements</b>	Number	15,880	26,339	36,799	47,258	57,718
Upside	%	65%	65%	65%	65%	65%
Downside	%	35%	35%	35%	35%	35%
Upside	m	10,322	17,120	23,919	30,718	37,517
Downside	m	5,558	9,219	12,880	16,540	20,201
Tim incentive rate - Upside	£/m	1.21	1.21	1.21	1.21	1.21
Tim incentive rate - Downside	£/m	4.83	4.83	4.83	4.83	4.83
<b>On time reward</b>	<b>£m</b>	<b>0.012</b>	<b>0.021</b>	<b>0.029</b>	<b>0.037</b>	<b>0.045</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.027</b>	<b>-0.044</b>	<b>-0.062</b>	<b>-0.080</b>	<b>-0.097</b>
<b>Net</b>	<b>£m</b>	<b>-0.014</b>	<b>-0.024</b>	<b>-0.033</b>	<b>-0.043</b>	<b>-0.052</b>

		2025-26	2026-27	2027-28	2028-29	2029-30
<b>On time reward</b>	<b>£m</b>	<b>0.074</b>	<b>0.144</b>	<b>0.214</b>	<b>0.284</b>	<b>0.354</b>
<b>Late penalty</b>	<b>£m</b>	<b>-0.160</b>	<b>-0.310</b>	<b>-0.461</b>	<b>-0.611</b>	<b>-0.761</b>
<b>Net</b>	<b>£m</b>	<b>-0.086</b>	<b>-0.166</b>	<b>-0.247</b>	<b>-0.327</b>	<b>-0.408</b>

## Outcome delivery incentives

The calculation of the high and low ODI cases is set out below:

ODIs		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity		247.158	260.120	274.162	288.806	302.420
High case	%	1.64%	1.36%	0.85%	0.57%	0.30%
Low case	%	-2.71%	-2.66%	-2.68%	-2.67%	-2.81%
<b>RORE impact - High case</b>	<b>£m</b>	<b>4.053</b>	<b>3.538</b>	<b>2.330</b>	<b>1.646</b>	<b>0.907</b>
<b>RORE impact - Low case</b>	<b>£m</b>	<b>-6.698</b>	<b>-6.919</b>	<b>-7.348</b>	<b>-7.711</b>	<b>-8.498</b>

For more information on the ODI skew, please see section 1 of 'SSCDD01 Representations on Ofwat's Draft Determination'

## Measures of experience

We have applied Ofwat's proposed penalty range for each measure of experience

CMEX		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.5%	0.5%	0.5%	0.5%	0.5%
Low case	%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
<b>RORE impact - High case</b>	<b>£m</b>	<b>1.236</b>	<b>1.301</b>	<b>1.371</b>	<b>1.444</b>	<b>1.512</b>
<b>RORE impact - Low case</b>	<b>£m</b>	<b>-1.236</b>	<b>-1.301</b>	<b>-1.371</b>	<b>-1.444</b>	<b>-1.512</b>

DMEX		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.25%	0.25%	0.25%	0.25%	0.25%
Low case	%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%
<b>RORE impact - High case</b>	<b>£m</b>	<b>0.618</b>	<b>0.650</b>	<b>0.685</b>	<b>0.722</b>	<b>0.756</b>
<b>RORE impact - Low case</b>	<b>£m</b>	<b>-0.618</b>	<b>-0.650</b>	<b>-0.685</b>	<b>-0.722</b>	<b>-0.756</b>



<b>BR-Mex</b>		<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>2029-30</b>
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.2%	0.2%	0.2%	0.2%	0.2%
Low case	%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
<b>RORE impact - High case</b>	<b>£m</b>	<b>0.494</b>	<b>0.520</b>	<b>0.548</b>	<b>0.578</b>	<b>0.605</b>
<b>RORE impact - Low case</b>	<b>£m</b>	<b>-0.494</b>	<b>-0.520</b>	<b>-0.548</b>	<b>-0.578</b>	<b>-0.605</b>

## Financing risk

We have used Ofwat's assumptions on financing risk for the notional company and used the same RORE range in our calculations.

<b>Revenues</b>		<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>2029-30</b>
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.00%	0.00%	0.00%	0.00%	0.00%
Low case	%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%
<b>RORE impact - High case</b>	<b>£m</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>RORE impact - Low case</b>	<b>£m</b>	<b>-0.124</b>	<b>-0.130</b>	<b>-0.137</b>	<b>-0.144</b>	<b>-0.151</b>

<b>Financing - Inflation</b>		<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>2029-30</b>
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.90%	0.90%	0.90%	0.90%	0.90%
Low case	%	-0.37%	-0.37%	-0.37%	-0.37%	-0.37%
<b>RORE impact - High case (post tax)</b>	<b>£m</b>	<b>1.668</b>	<b>1.756</b>	<b>1.851</b>	<b>1.949</b>	<b>2.041</b>
<b>RORE impact - Low case (post tax)</b>	<b>£m</b>	<b>-0.686</b>	<b>-0.722</b>	<b>-0.761</b>	<b>-0.801</b>	<b>-0.839</b>

<b>Financing - New debt</b>		<b>2025-26</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>2029-30</b>
Regulated Equity	£m	247.158	260.120	274.162	288.806	302.420
High case	%	0.30%	0.30%	0.30%	0.30%	0.30%
Low case	%	-0.19%	-0.19%	-0.19%	-0.19%	-0.19%
<b>RORE impact - High case (post tax)</b>	<b>£m</b>	<b>0.556</b>	<b>0.585</b>	<b>0.617</b>	<b>0.650</b>	<b>0.680</b>
<b>RORE impact - Low case (post tax)</b>	<b>£m</b>	<b>-0.352</b>	<b>-0.371</b>	<b>-0.391</b>	<b>-0.412</b>	<b>-0.431</b>

## Company view of representation

We make representations on the ODI skew and details are set out in section 1 of ‘SSCDD01 Representations on Ofwat’s Draft Determination’.

We have estimated the impact on our representations on the likely RoRE range and recalculated this as follows:

ODIs post representation		2025-26	2026-27	2027-28	2028-29	2029-30
Regulated Equity		247.158	260.120	274.162	288.806	302.420
High case	%	0.42%	0.49%	0.43%	0.45%	0.47%
Low case	%	-1.81%	-1.58%	-1.45%	-1.30%	-1.21%
RORE impact - High case	£m	1.038	1.275	1.179	1.300	1.421
RORE impact - Low case	£m	-4.474	-4.110	-3.975	-3.754	-3.659

This gives a revised RoRE risk range after our representations as follows:

Component of risk	Reasonable downside (P10)	Reasonable upside (P90)
Totex	-1.80%	1.80%
Retail costs	-0.41%	0.41%
Outcome delivery incentives	-1.47%	0.45%
Financing	-0.42%	0.90%
Customer measures of experience	-0.95%	0.95%
Revenue incentive mechanisms	-0.05%	0.00%
<b>Total</b>	<b>-5.10%</b>	<b>4.51%</b>

There is still an overall negative skew driven by the range on ODIs and is similar to Ofwat’s view in the Draft Determination, recognising it is partly a function of our own specific characteristics. However, the risk range is smaller as a result of our proposed adjustments to ODI incentive rates.