AFW143 Centrus report

Board Assurance Report - Affinity Water Draft Determination Representation

August 2024



TREASURY & DERIVATIVES | CAPITAL RAISING | FINANCIAL PLANNING & STRATEGY | ASSET MANAGEMENT

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London | Dublin

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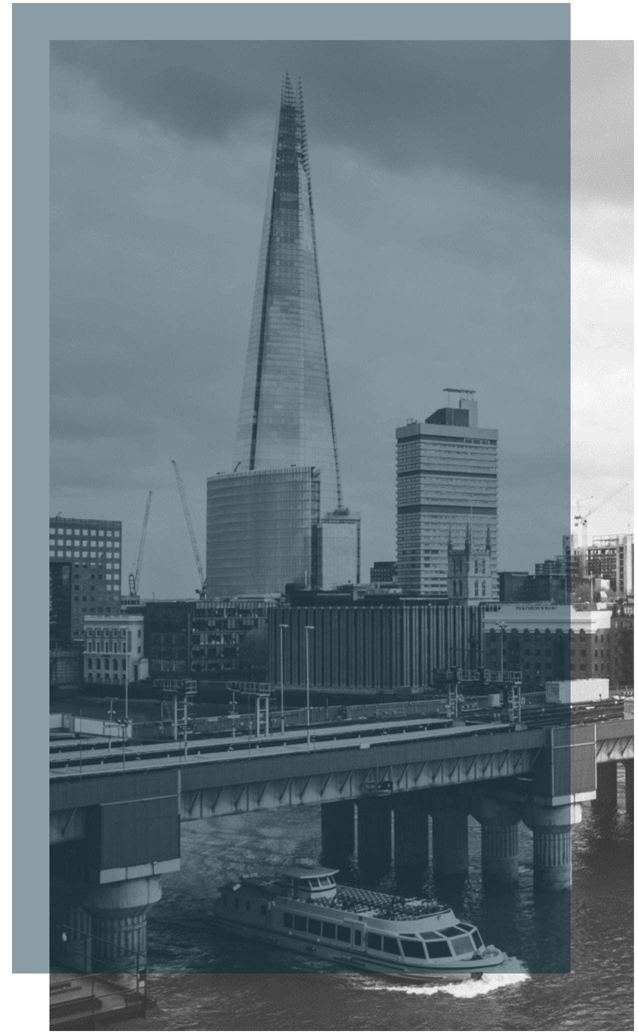
Contents

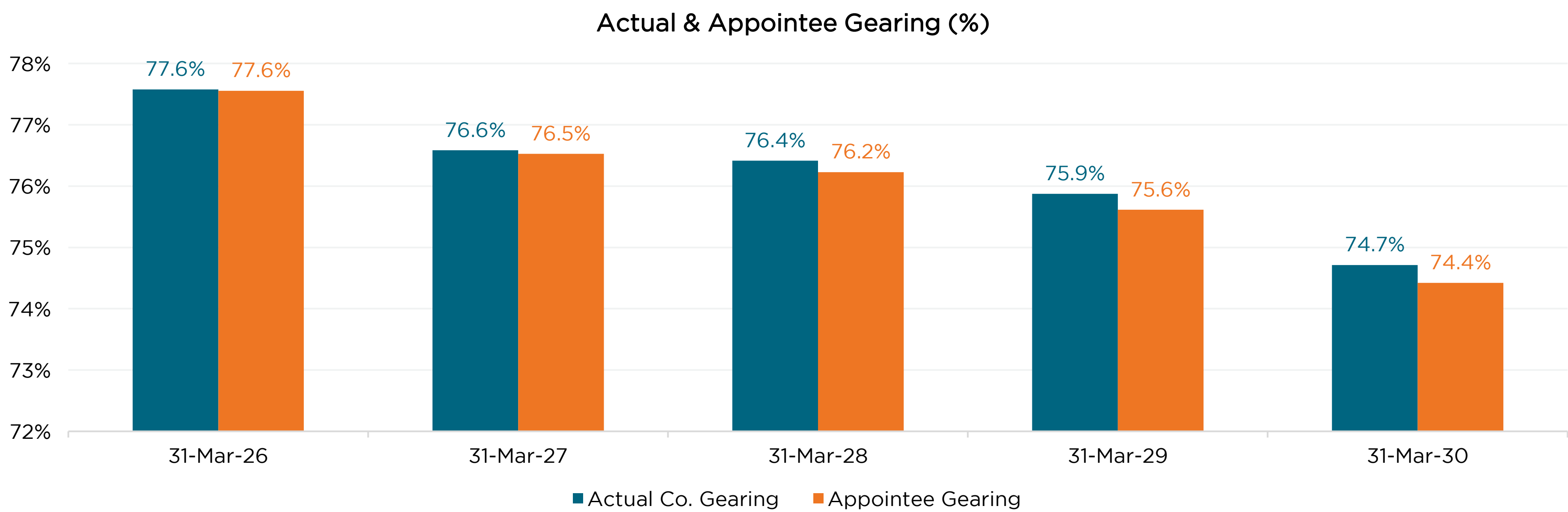


Capital Structures

As part of its AMP8 submission, Affinity Water has appointed Centrus to assess the financial resiliency of its Draft Determination Representation capital structure with a higher WACC than identified by Ofwat's PR24 Draft Determination

Draft Determination Representation (DD Representation): The £150m new equity injection is removed in this case but no dividends are paid from the appointee through AMP8. As a result, high initial gearing moderates through AMP8. The WACC is set at 4.23% and compares to 3.66% as per Ofwat's DD.

In this paper, we examine the DD Representation capital structure for both Actual Company (Actual Co.) and Appointee Company (Appointee Co.). Actual Co. benefits from non-appointed cash flows, which enhance cash flow metrics such as Covenant ICR, Moody's AICR, and FFO. However, these extra inflows do not affect gearing as the current modelling assumes that these additional cash flows are distributed.



Board Assurance | Response to DD- Actual and Actual Appointee Co

Affinity Water Ltd and Appointee Co are Baa1 / BBB+ under the DD Represenation capital structure under the current Moody's and S&P rating methodology. We are, however, on notice of a potentially material negative change to Moody's current industry view

Question	Centrus Assessment
Is the Actual Company (AWL Ltd) Baa1 / BBB+	▪ We have performed a shadow credit analysis on the DD Representation capital structure presented for the Actual Company using both Moody's and S&P methodology. The rating metrics are commensurate with a Baa1 / BBB+ rating for this capital structure ▪ Through-out AMP8 the AICR metric is significantly above 1.30x and gearing is below 80% in line with Moody's current rating guidance for Baa1 entities which Moody's have flagged that it may be adjusted to 1.40x and 75% if Ofwat continues to cause upward pressure on business risk for companies ▪ Through-out AMP8, the FFO to Net Debt is in line with S&P's rating guidance for BBB+ entities
Is the Actual Appointee Baa1 / BBB+	▪ Like the Actual Company, the Appointee Company has credit metrics commensurate with a Baa1 / BBB+ rating and maintains that under the base case through-out AMP8 ▪ The Appointee Company is assumed to have a securitisation in place, therefore, the only difference between the Actual and Actual Appointee is the non-appointed revenues that the Actual Company has which benefit cash flow metrics such as FFO but have no impact on gearing as these inflows are assumed to be distributed
Actual Company and Appointee rating following potential Moody's changes	▪ Moody's has signalled that they may downgrade the "Stability and Predictability of Regulatory Regime" and "Cost and Investment Recovery (Ability and Timeliness)" elements of their scorecard. They have also signaled that they may reduce the structural enhancement notching from 1.5 notches to 1.0. Should Moody's implement these changes, Affinity Water's capital structure could risk a downgrade from Baa1 to Baa2 ▪ It should be noted that, given the robust performance of the Moody's AICR ratio, there is a possibility that Moody's may choose to flexibly interpret target gearing ratios and not downgrade the company, instead opting to maintain the Baa1 rating for this capital structure

Board Assurance | Response to DD Financial Resilience - Actual and Actual Appointee Co

Having calculated headroom in the financial structure, we have assessed financial resilience prior to mitigating action and will sustain a rating higher to Baa3 / BBB-

Question	Centrus Assessment
Is the Actual Company (AWL Ltd) financially resilient? Is the Actual Appointee financially resilient?	**Moody's Baa3 Rating** – Resilient across all scenarios under both the actual and appointee company across both Moody's gearing and AICR ratios. **S&P Baa3 Rating** – Both the Actual Company and Appointee fail the inflationary scenario (10% spike in inflation), 10% totex and combined scenario 3 with the DD Representation capital structure. In the 10% Totex increase sensitivity, both the Actual Company and the Appointee fail marginally (£3m and £9m respectively) and could be restored with management actions, particularly in Actual Company. We note that S&P has shown flexibility with this ratio in AMP7, waiting for inflation to ease away The Actual Company is compliant with all financial covenants under all scenarios
Financial Resilience Assessment	▪ We consider this structure to be financially resilient under both the actual and the appointee co. Under the high inflation sensitivities, the FFO to Net Debt is lower than the current downgrade trigger across all capital structures. However, as we have seen in AMP7, S&P were willing to overlook this and wait for inflation to ease.

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Draft Determination Response | Actual Company

Actual Company | Moody's Scorecard

Centrus' shadow credit rating assessment of the Actual Company utilizing Moody's methodology suggests a Baa1 rating, satisfying the financeability criteria

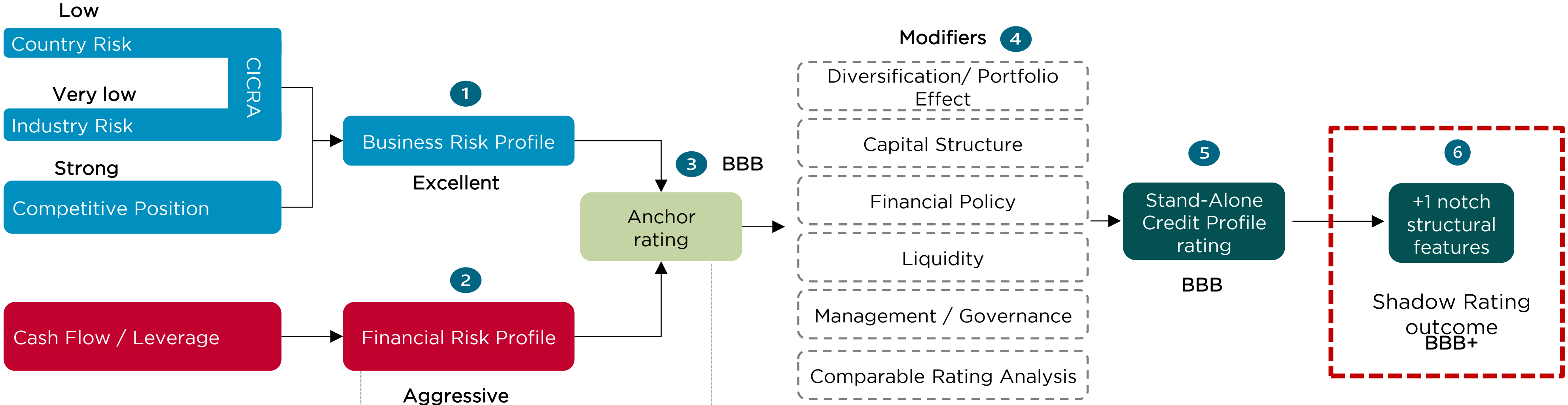
		Moody's Scorecard		Centrus Assessment		
		Weighting	Moody's Guidance	Sub-Factor Outcome Detail		Scorecard-Indicated Outcome
REGULATORY ENVIRONMENT AND ASSET OWNERSHIP MODEL	Stability and Predictability of Regulatory Regime	15.0%	As per the latest Moody's report on AWL Ltd	*Assumed that these ratings will remain unchanged through-out AMP8 although is important to note that Moody's has indicated a potential consideration for downgrading the sector*	-->	Aa
	Asset Ownership Model	5.0%	Aa as per Moody's Affinity Water's latest report		-->	Aa
	Cost and Investment Recovery (Ability and Timeliness)	15.0%	A as per Moody's Affinity Water's latest report		-->	A
	Revenue Risk	5.0%	Aa as per Moody's Affinity Water's latest report		-->	Aa
SCALE AND COMPLEXITY OF CAPITAL PROGRAM	Scale and Complexity of Capital Program	10.0%	Baa: total annual capex 8%-12% of RCV	*9.13% on AMP8 average*	-->	Baa
FINANCIAL POLICY	Financial Policy	10.0%	Ba: total annual capex 12%-20% of RCV	*Assumed this will remain unchanged.*	-->	Ba
LEVERAGE AND COVERAGE	Adjusted Interest Coverage Ratio (AMP8 average)	12.5%	Baa: 1.5-2.5x Ba: 1.2 -1.5x	*2.32x*	-->	Baa
	Net Debt / RCV (AMP8 average)	10.0%	A: 40-55% Baa: 55%-70%	*76.9%*	-->	Ba
	FFO / Net Debt (AMP8 average)	12.5%	Baa: 10-15% Ba: 6-10%	*8.7%*	-->	Ba
	RCF / Net Debt (AMP8 average)	5.0%	Baa: 6-10% Ba: 4-6%	*8.1%*	-->	Baa
	Scorecard-Indicated Outcome Before Notch Lift					Baa2

Notch Lift:	Structural Considerations and Sources of Notch Uplift From Creditor Protection	Benefits from securitization features		+1.5 notches
	Scorecard-Indicated Outcome			Baa1

In accordance with Moody's criteria for a Baa1 rating on a highly covenanted structure, the Actual Company must maintain an Adjusted Interest Coverage Ratio (AICR) above 1.3x and a gearing ratio below 80%.

Actual Company | S&P

Centrus’ shadow credit analysis based on S&P’s methodology estimates that the Actual Company would be rated BBB+



Financial Risk Table	Core Ratios	
Risk	FFO/debt (%)	Debt/EBITDA (x)
Minimal	35+	Less than 2
Modest	23-35	Less than 2
Intermediate	13-23	2-3
Significant	9-13	3-4
Aggressive	6-9	4-5
Highly Leveraged	Less than 6	Greater than 6

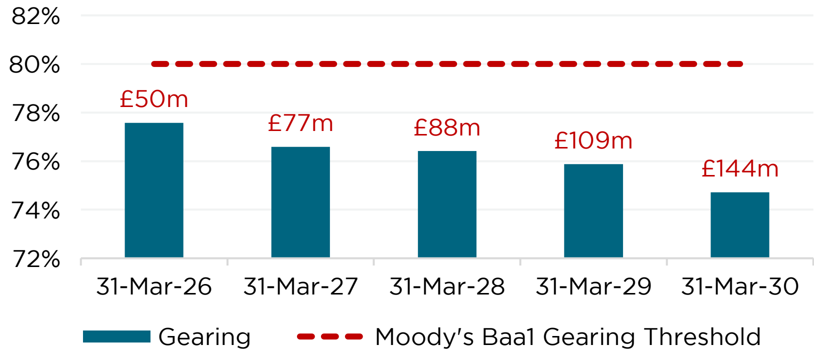
Combining the Business & Financial Risk Profiles to Determine the Anchor	Business Risk Profile					
Financial Risk Profile	1 (excellent)	2 (strong)	3 (satisfactory)	4 (fair)	5 (weak)	6 (vulnerable)
1 (minimal)	aaa / aa+	aa / aa-	a / a-	bbb / bbb-	bb+	bb-
2 (modest)	aa	a+ / a	bbb+	bbb-	bb+	bb-
3 (intermediate risk)	a+ / a	a- / bbb+	bbb / bbb-	bb+	bb	bb- / b+
4 (significant)	a-	bbb	bbb- / bb+	bb	bb-	b+
5 (aggressive)	bbb	bb+	bb	bb-	b+	b
6 (highly leveraged)	bbb- / bb+	bb	b+	b	b / b-	b-

To be inline with S&P’s guidance for a BBB+ rating and structurally enhanced debt criteria, the Actual Company needs to maintain an FFO to Net Debt ratio for Class A at 6% and Class B 5%

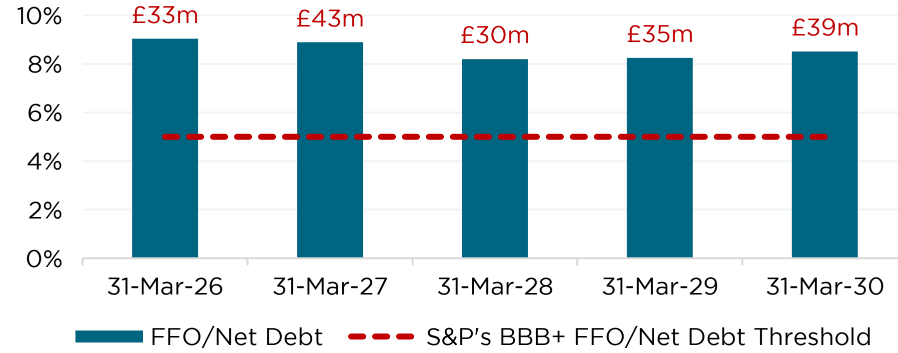
Actual Company | Rating Metrics

The Actual Company under all capital structure scenarios, is in line with all key credit ratios for both Moody's and S&P under a base case scenario

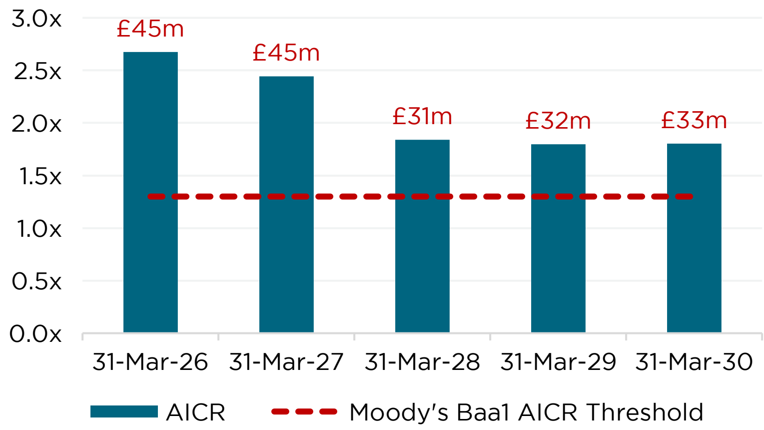
Gearing



S&P's FFO to Debt



Moody's AICR



Key: £m, Headroom

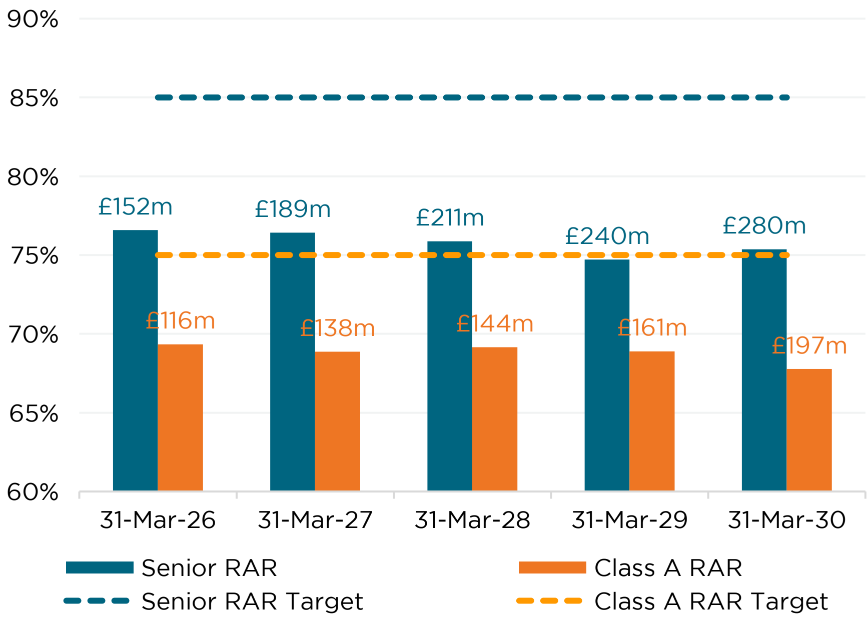
- This capital structure's base case is in line with all key credit ratios for both Moody's and S&P
- The AICR for all capital structures consistently exceeds both the 1.3x threshold for downgrades and the 1.5x threshold set by Moody's for an upgrade to A3 in their March 2024 report. We note that Moody's did signal that they are considering on calibrating the rating thresholds moving Affinity's downgrade threshold to 1.4x and gearing <=75%
- The AICR in AMP8 has significantly improved, primarily due to the price review adjustments that have been recalibrated based on actual market and industry conditions, including an increase in WACC and a reset of allowances
- The FFO to net debt ratio is above the S&P's rating threshold with Class A being above 6.0% and Class B as shown by the graph above 5.0%

The threshold used are in line with a Baa2 scorecard outcome for Moody's and BBB anchor rating for S&P (taking into account an additional notch to get to Baa1 for Moodys and BBB+ for S&P

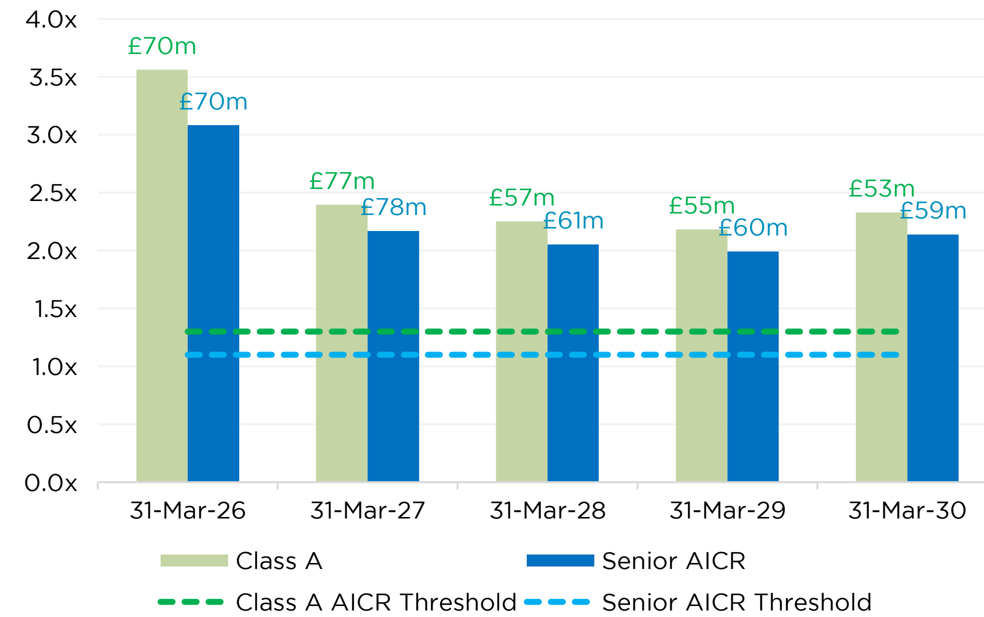
Actual Company | Covenant Metrics

The Actual Company has significant headroom from its key lock-up covenant levels

Class A & Senior RAR



Class A & Senior AICR



- Both Class A and Senior RAR have significant headroom to their respective covenant triggers of 75% and 85%, respectively.

- Both Class A and Senior AICR's are above their respective trigger thresholds of 1.3x and 1.1x.

Key: £m, figures refer to borrowing headroom

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Actual Company | Sensitivities

	Covenants	Gearing		AICR		FFO to Net Debt	
		AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.
Base Case (live)	✓	✓	✓	✓	✓	✓	✓
Totex underperformance (10% of totex) over 5 years.	✓	✓	✓	✓	✓	✗	✓
ODI underperformance payment (3% RoRE) in years 3-5	✓	✓	✓	✓	✓	✓	✓
Inflation 2% below the base case in the business plan in each year of the price review	✓	✓	✓	✓	✓	✓	✓
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	✓	✓	✓	✓	✓	✓	✓
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	✓	✓	✓	✓	✓	✗	✗
Increase in the level of bad debt (20%) over current bad debt levels.	✓	✓	✓	✓	✓	✓	✓
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	✓	✓	✓	✓	✓	✓	✓
Financial penalty – equivalent to 6% of one year of Appointee turnover	✓	✓	✓	✓	✓	✓	✓
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	✓	✓	✓	✓	✓	✓	✓
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	✓	✓	✓	✓	✓	✓	✓
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	✓	✓	✓	✓	✓	✗	✓

Actual Company | Sensitivities

We have assessed the extend of the breaches under the failed sensitivities, quantifying the impact in terms of both FFO and Net Debt

	Covenants	Gearing		AICR		FFO to Net Debt	
		AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.
Totex underperformance (10% of totex) over 5 years	✔	✔	✔	✔	✔	FFO £3m Net Debt £52m	✔
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	✔	✔	✔	✔	✔	FFO £12m Net Debt £247m	FFO £53m Net Debt £1,062m
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	✔	✔	✔	✔	✔	FFO £41m Net Debt £819m	✔

Key: In order to satisfy the FFO to Net Debt ratings metric, either the FFO can be increased or Net Debt can be decreased. FFO figures represent the increase in FFO required to satisfy rating metrics, whilst the Net Debt figure represents the reduction in Net Debt required to satisfy ratings metrics

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Draft Determination Response | Appointee

Appointee | Moody's Scorecard

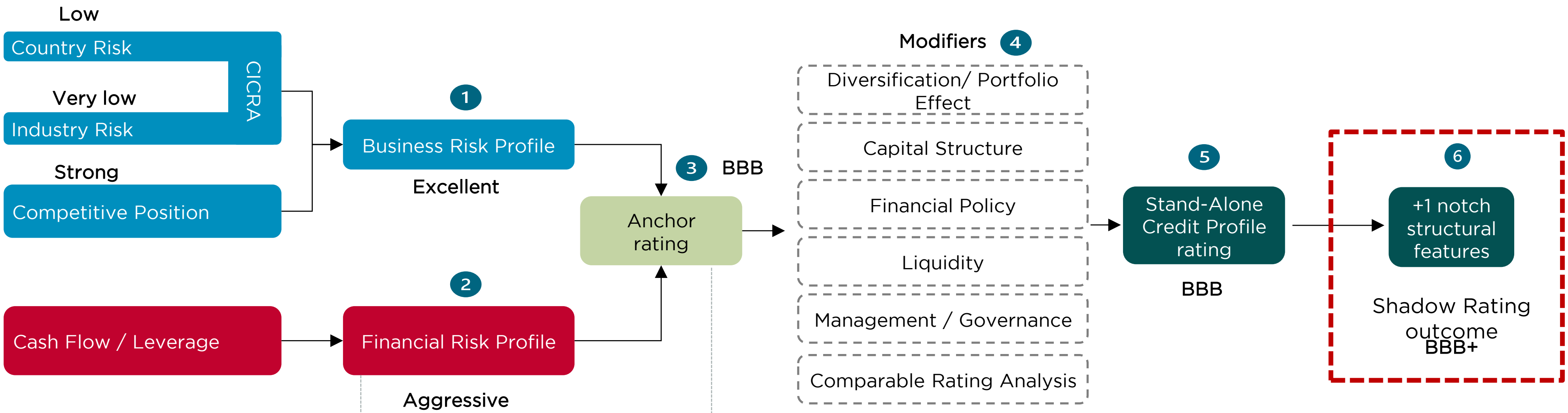
Centrus' shadow credit rating assessment of the Appointee utilizing Moody's methodology suggests a Baa1 rating, satisfying the financeability criteria

		Moody's Scorecard		Centrus Assessment		
		Weighting	Moody's Guidance	Sub-Factor Outcome Detail		Scorecard-Indicated Outcome
REGULATORY ENVIRONMENT AND ASSET OWNERSHIP MODEL	Stability and Predictability of Regulatory Regime	15.0%	As per the latest Moody's report on AWL Ltd	*Assumed that these ratings will remain unchanged through-out AMP8 although is important to note that Moody's has indicated a potential consideration for downgrading the sector*	-->	Aa
	Asset Ownership Model	5.0%	Aa as per Moody's Affinity Water's latest report		-->	Aa
	Cost and Investment Recovery (Ability and Timeliness)	15.0%	A as per Moody's Affinity Water's latest report		-->	A
	Revenue Risk	5.0%	Aa as per Moody's Affinity Water's latest report		-->	Aa
SCALE AND COMPLEXITY OF CAPITAL PROGRAM	Scale and Complexity of Capital Program	10.0%	Baa: total annual capex 8%-12% of RCV	*9.13% on AMP8 average*	-->	Baa
FINANCIAL POLICY	Financial Policy	10.0%	Ba: total annual capex 12%-20% of RCV	*Assumed this will remain unchanged.*	-->	Ba
LEVERAGE AND COVERAGE	Adjusted Interest Coverage Ratio (AMP8 average)	12.5%	Baa: 1.5-2.5x Ba: 1.2 -1.5x	*2.44x*	-->	Baa
	Net Debt / RCV (AMP8 average)	10.0%	A: 40-55% Baa: 55%-70%	*76.8%*	-->	Ba
	FFO / Net Debt (AMP8 average)	12.5%	Baa: 10-15% Ba: 6-10%	*6.7%*	-->	Ba
	RCF / Net Debt (AMP8 average)	5.0%	Baa: 6-10% Ba: 4-6%	*8.4%*	-->	Baa
	Scorecard-Indicated Outcome Before Notch Lift					Baa2
Notch Lift:	Structural Considerations and Sources of Notch Uplift From Creditor Protection		Benefits from securitization features			+1.5 notches
	Scorecard-Indicated Outcome					Baa1

In accordance with Moody's criteria for a Baa1 rating on a highly covenanted structure, the Appointee must maintain an Adjusted Interest Coverage Ratio (AICR) above 1.3x and a gearing ratio below 80%.

Appointee | S&P

Centrus' shadow credit analysis based on S&P's methodology estimates that the Appointee would be rated BBB+



Financial Risk Table

Risk	Core Ratios: FFO/debt (%)	Core Ratios: Debt/EBITDA (x)
Minimal	35+	Less than 2
Modest	23-35	Less than 2
Intermediate	13-23	2-3
Significant	9-13	3-4
Aggressive	6-9	4-5
Highly Leveraged	Less than 6	Greater than 6

Combining the Business & Financial Risk Profiles to Determine the Anchor

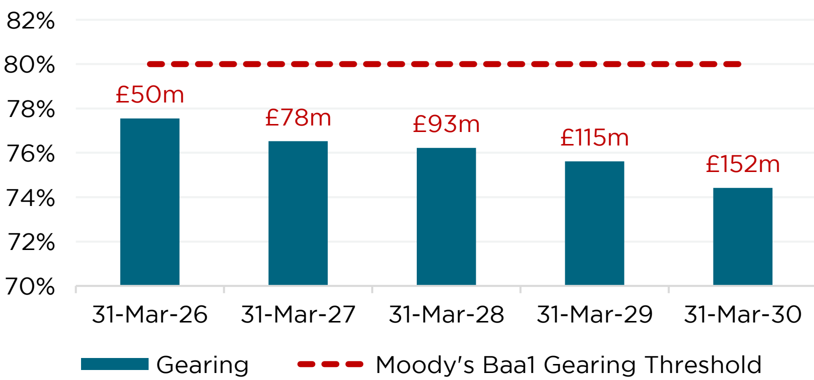
Financial Risk Profile	Business Risk Profile: 1 (excellent)	2 (strong)	3 (satisfactory)	4 (fair)	5 (weak)	6 (vulnerable)
1 (minimal)	aaa / aa+	aa / aa-	a / a-	bbb / bbb-	bb+	bb-
2 (modest)	aa	a+ / a	bbb+	bbb-	bb+	bb-
3 (intermediate risk)	a+ / a	a- / bbb+	bbb / bbb-	bb+	bb	bb- / b+
4 (significant)	a-	bbb	bbb- / bb+	bb	bb-	b+
5 (aggressive)	bbb	bb+	bb	bb-	b+	b
6 (highly leveraged)	bbb- / bb+	bb	b+	b	b / b-	b-

To be inline with S&P's guidance for a BBB+ rating and structurally enhanced debt criteria, the Actual Company needs to maintain an FFO to Net Debt ratio for Class A at 6% and Class B 5%

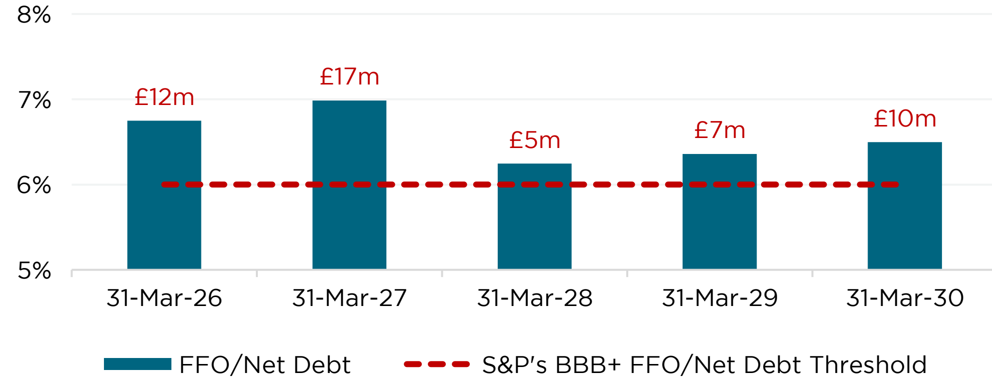
Appointee | Rating Metrics

The Appointee's Base Case satisfies all three key rating agency metrics thresholds for Baa1/BBB+ under all capital structure scenarios

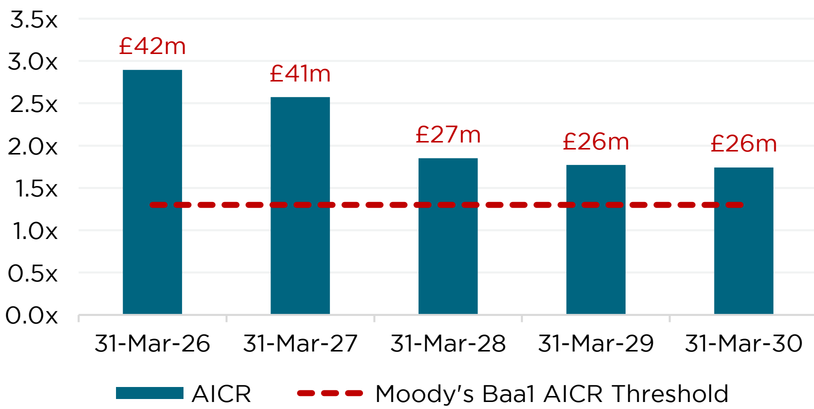
Gearing



S&P FFO to Net Debt



Moody's AICR



- Throughout AMP8, the gearing levels of the Appointee remain below Moody's 80% threshold for a Baa1 rating.
- The Appointee's AICR across all capital structure scenarios consistently exceeds Moody's thresholds for both Baa1 and A3 rating during AMP8 subject to Moody's calibrating the thresholds
- FFO/Net Debt ratios is higher than S&P's BBB+ threshold of 6.0% across all years of AMP8.

Key: £m, figures refer to borrowing headroom

Appointee | Sensitivities

	Gearing		AICR		FFO to Net Debt	
	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.
Base Case (live)	✔	✔	✔	✔	✔	✔
Totex underperformance (10% of totex) over 5 years.	✔	✔	✔	✔	✖	✖
ODI underperformance payment (3% RoRE) in years 3-5	✔	✔	✔	✔	✔	✔
Inflation 2% below the base case in the business plan in each year of the price review	✔	✔	✔	✔	✔	✔
Deflation of -1% for 2 years, followed by a return to the long term inflation target	✔	✔	✔	✔	✔	✔
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	✔	✔	✔	✔	✖	✖
Increase in the level of bad debt (20%) over current bad debt levels.	✔	✔	✔	✔	✔	✔
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	✔	✔	✔	✔	✔	✔
Financial penalty – equivalent to 6% of one year of Appointee turnover	✔	✔	✔	✔	✔	✔
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	✔	✔	✔	✔	✔	✔
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	✔	✔	✔	✔	✔	✔
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	✔	✔	✔	✔	✖	✔

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Appointee | Sensitivities

We have assessed the extend of the breaches under the failed sensitivities, quantifying the impact in terms of both FFO and Net Debt

	Gearing		AICR		FFO to Net Debt	
	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.	AMP8 Avg.	3 Year Avg.
	✓	✓	✓	✓	FFO £9m Net Debt £175m	FFO £3m Net Debt £52m
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	✓	✓	✓	✓	FFO £19m Net Debt £384m	FFO £59m Net Debt £1,186m
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	✓	✓	✓	✓	FFO £47m Net Debt £946m	✓

Key: In order to satisfy the FFO to Net Debt ratings metric, either the FFO can be increased or Net Debt can be decreased. FFO figures represent the increase in FFO required to satisfy rating metrics, whilst the Net Debt figure represents the reduction in Net Debt required to satisfy ratings metrics

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Appendix I | Draft Determination Response Actual Company

Actual Company | Moody's Gearing

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Moody's Gearing Threshold	85%	85%	85%	85%	85%	85%	85%
Base Case	77.6%	76.6%	76.4%	75.9%	74.7%	76.2%	76.9%
Totex underperformance (10% of totex) over 5 years.	79.2%	80.4%	82.2%	83.5%	84.1%	81.9%	80.6%
ODI underperformance payment (3% RoRE) in years 3-5	77.6%	76.6%	77.4%	78.1%	78.2%	77.6%	77.2%
Inflation 2% below the base case in the business plan in each year of the price review	77.9%	77.3%	77.6%	77.6%	77.2%	77.5%	77.6%
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	78.0%	77.6%	77.4%	76.8%	75.7%	77.1%	77.6%
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	77.0%	75.3%	74.3%	73.7%	72.6%	74.6%	75.5%
Increase in the level of bad debt (20%) over current bad debt levels.	77.6%	76.7%	76.7%	76.2%	75.1%	76.5%	77.0%
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	77.7%	76.9%	77.3%	77.3%	76.9%	77.2%	77.3%
Financial penalty – equivalent to 6% of one year of Appointee turnover	77.6%	76.6%	77.2%	77.5%	77.3%	77.2%	77.1%
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	78.2%	78.1%	78.8%	79.2%	79.0%	78.7%	78.4%
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	80.6%	80.6%	80.6%	80.0%	79.0%	80.2%	80.6%
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	78.2%	78.2%	77.2%	76.1%	74.2%	76.8%	77.8%

Actual Company | Moody's AICR

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Moody's AICR Threshold	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Base Case	2.67	2.44	1.84	1.80	1.80	2.11	2.32
Totex underperformance (10% of totex) over 5 years.	1.98	1.74	1.31	1.25	1.22	1.50	1.68
ODI underperformance payment (3% RoRE) in years 3-5	2.67	2.44	1.33	1.27	1.24	1.79	2.15
Inflation 2% below the base case in the business plan in each year of the price review	2.66	2.42	1.80	1.74	1.68	2.06	2.29
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	2.66	2.41	1.80	1.76	1.77	2.08	2.29
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	2.71	2.50	1.94	1.89	1.86	2.18	2.38
Increase in the level of bad debt (20%) over current bad debt levels.	2.67	2.44	1.83	1.79	1.79	2.10	2.31
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	2.54	2.15	1.48	1.41	1.39	1.79	2.06
Financial penalty – equivalent to 6% of one year of Appointee turnover	2.67	2.44	1.44	1.40	1.38	1.87	2.19
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	2.43	2.18	1.62	1.56	1.54	1.87	2.08
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	2.05	2.06	1.66	1.66	1.66	1.82	1.92
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	2.37	2.13	1.43	1.43	1.46	1.76	1.98

Actual Company | S&P's FFO to Net Debt

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
S&P FFO/Net Debt Threshold	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Base Case	7.1%	7.5%	6.6%	6.7%	6.9%	7.0%	7.1%
Totex underperformance (10% of totex) over 5 years.	5.4%	5.6%	4.6%	4.5%	4.5%	4.9%	5.2%
ODI underperformance payment (3% RoRE) in years 3-5	7.1%	7.5%	5.0%	4.9%	4.9%	5.9%	6.5%
Inflation 2% below the base case in the business plan in each year of the price review	8.7%	8.8%	7.7%	7.8%	7.8%	8.1%	8.4%
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	9.3%	9.3%	6.5%	6.6%	6.8%	7.7%	8.3%
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	-1.0%	4.0%	3.4%	7.0%	7.1%	4.1%	2.1%
Increase in the level of bad debt (20%) over current bad debt levels.	6.9%	7.4%	6.4%	6.6%	6.8%	6.8%	6.9%
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	7.0%	7.2%	5.8%	5.7%	5.8%	6.3%	6.6%
Financial penalty – equivalent to 6% of one year of Appointee turnover	7.1%	7.5%	5.3%	5.4%	5.4%	6.1%	6.6%
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	7.2%	7.4%	6.3%	6.4%	6.4%	6.7%	7.0%
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	5.5%	6.4%	5.7%	6.1%	6.3%	6.0%	5.9%
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	7.9%	8.0%	0.4%	0.5%	0.5%	3.5%	5.4%

Actual Company | Covenant Gearing

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Covenant Gearing Threshold	85%	85%	85%	85%	85%	85%	85%
Base Case	77.6%	76.6%	76.4%	75.9%	74.7%	76.2%	76.9%
Totex underperformance (10% of totex) over 5 years.	79.2%	80.4%	82.2%	83.5%	84.1%	81.9%	80.6%
ODI underperformance payment (3% RoRE) in years 3-5	77.6%	76.6%	77.4%	78.1%	78.2%	77.6%	77.2%
Inflation 2% below the base case in the business plan in each year of the price review	77.9%	77.3%	77.6%	77.6%	77.2%	77.5%	77.6%
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	78.0%	77.6%	77.4%	76.8%	75.7%	77.1%	77.6%
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	77.0%	75.3%	74.3%	73.7%	72.6%	74.6%	75.5%
Increase in the level of bad debt (20%) over current bad debt levels.	77.6%	76.7%	76.7%	76.2%	75.1%	76.5%	77.0%
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	77.7%	76.9%	77.3%	77.3%	76.9%	77.2%	77.3%
Financial penalty – equivalent to 6% of one year of Appointee turnover	77.6%	76.6%	77.2%	77.5%	77.3%	77.2%	77.1%
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	78.2%	78.1%	78.8%	79.2%	79.0%	78.7%	78.4%
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	80.6%	80.6%	80.6%	80.0%	79.0%	80.2%	80.6%
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	78.2%	78.2%	77.2%	76.1%	74.2%	76.8%	77.8%

Actual Company | Covenant Class A AICR

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Class A AICR Trigger	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Base Case	3.81	3.56	2.39	2.25	2.18	2.84	3.25
Totex underperformance (10% of totex) over 5 years.	3.38	2.63	1.72	1.57	1.44	2.15	2.58
ODI underperformance payment (3% RoRE) in years 3-5	3.81	3.56	1.90	1.66	1.55	2.50	3.09
Inflation 2% below the base case in the business plan in each year of the price review	3.72	3.46	2.29	2.13	1.99	2.72	3.16
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	3.69	3.43	2.34	2.21	2.14	2.76	3.15
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	4.18	3.82	2.65	2.40	2.28	3.07	3.55
Increase in the level of bad debt (20%) over current bad debt levels.	3.76	3.49	2.34	2.20	2.13	2.78	3.20
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	3.59	3.07	1.88	1.73	1.65	2.39	2.85
Financial penalty – equivalent to 6% of one year of Appointee turnover	3.81	3.56	2.02	1.80	1.70	2.58	3.13
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	3.52	3.13	2.07	1.91	1.81	2.49	2.91
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	3.58	2.56	2.07	2.03	2.00	2.45	2.73
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	3.47	3.05	2.18	1.96	1.91	2.51	2.90

Actual Company | Covenant Senior AICR

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Class A AICR Trigger	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Base Case	3.21	3.08	2.17	2.05	1.99	2.50	2.82
Totex underperformance (10% of totex) over 5 years.	2.87	2.30	1.57	1.44	1.34	1.90	2.25
ODI underperformance payment (3% RoRE) in years 3-5	3.21	3.08	1.72	1.52	1.42	2.19	2.67
Inflation 2% below the base case in the business plan in each year of the price review	3.15	3.00	2.08	1.95	1.83	2.40	2.74
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	3.12	2.97	2.13	2.01	1.95	2.44	2.74
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	3.50	3.27	2.37	2.17	2.06	2.67	3.05
Increase in the level of bad debt (20%) over current bad debt levels.	3.18	3.02	2.12	2.01	1.94	2.45	2.77
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	3.06	2.71	1.74	1.61	1.54	2.13	2.50
Financial penalty – equivalent to 6% of one year of Appointee turnover	3.21	3.08	1.83	1.65	1.56	2.27	2.71
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	2.98	2.72	1.88	1.75	1.66	2.20	2.53
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	3.04	2.25	1.89	1.86	1.84	2.17	2.39
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	2.94	2.65	1.98	1.79	1.74	2.22	2.52

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Appendix II | Draft Determination Response Appointee

Appointee | Moody's Gearing

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Moodys Gearing Threshold	85%	85%	85%	85%	85%	85%	85%
Base Case	77.6%	76.6%	76.4%	75.9%	74.7%	76.2%	76.9%
Totex underperformance (10% of totex) over 5 years.	79.2%	80.4%	82.2%	83.5%	84.1%	81.9%	80.6%
ODI underperformance payment (3% RoRE) in years 3-5	77.6%	76.6%	77.4%	78.1%	78.2%	77.6%	77.2%
Inflation 2% below the base case in the business plan in each year of the price review	77.9%	77.3%	77.6%	77.6%	77.2%	77.5%	77.6%
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	78.0%	77.6%	77.4%	76.8%	75.7%	77.1%	77.6%
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	77.0%	75.3%	74.3%	73.7%	72.6%	74.6%	75.5%
Increase in the level of bad debt (20%) over current bad debt levels.	77.6%	76.7%	76.7%	76.2%	75.1%	76.5%	77.0%
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	77.7%	76.9%	77.3%	77.3%	76.9%	77.2%	77.3%
Financial penalty – equivalent to 6% of one year of Appointee turnover	77.6%	76.6%	77.2%	77.5%	77.3%	77.2%	77.1%
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	78.2%	78.1%	78.8%	79.2%	79.0%	78.7%	78.4%
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	80.6%	80.6%	80.6%	80.0%	79.0%	80.2%	80.6%
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	78.2%	78.2%	77.2%	76.1%	74.2%	76.8%	77.8%

Appointee | Moody's AICR

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
Moody's AICR Threshold	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Base Case	2.81	2.50	1.80	1.73	1.70	2.11	2.37
Totex underperformance (10% of totex) over 5 years.	2.06	1.77	1.29	1.22	1.17	1.50	1.71
ODI underperformance payment (3% RoRE) in years 3-5	2.81	2.50	1.25	1.18	1.14	1.78	2.19
Inflation 2% below the base case in the business plan in each year of the price review	2.79	2.46	1.74	1.65	1.56	2.04	2.33
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	2.79	2.44	1.76	1.69	1.66	2.07	2.33
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	2.84	2.60	1.95	1.85	1.78	2.20	2.46
Increase in the level of bad debt (20%) over current bad debt levels.	2.81	2.50	1.80	1.72	1.69	2.10	2.37
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	2.81	2.27	1.46	1.37	1.32	1.84	2.18
Financial penalty – equivalent to 6% of one year of Appointee turnover	2.81	2.50	1.38	1.32	1.29	1.86	2.23
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	2.54	2.22	1.58	1.50	1.45	1.86	2.12
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	2.21	2.16	1.65	1.62	1.59	1.85	2.01
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	2.47	2.16	1.40	1.40	1.42	1.77	2.01

Appointee | S&P's FFO to Net Debt

	01-Apr-25 31-Mar-26	01-Apr-26 31-Mar-27	01-Apr-27 31-Mar-28	01-Apr-28 31-Mar-29	01-Apr-29 31-Mar-30	AMP8 Average	3 year Average
FFO/Net Debt Threshold	5%	5%	5%	5%	5%	5%	5%
Base Case	6.7%	7.0%	6.2%	6.4%	6.5%	6.6%	6.7%
Totex underperformance (10% of totex) over 5 years.	5.2%	5.2%	4.3%	4.3%	4.1%	4.6%	4.9%
ODI underperformance payment (3% RoRE) in years 3-5	6.7%	7.0%	4.6%	4.6%	4.5%	5.5%	6.1%
Inflation 2% below the base case in the business plan in each year of the price review	8.3%	8.3%	7.3%	7.4%	7.3%	7.7%	8.0%
Deflation of -1% for 2 years, followed by a return to the long term inflation target.	8.9%	8.7%	6.1%	6.2%	6.3%	7.3%	7.9%
10% spike in inflation with a 2% increase in wedge between RPI and CPIH, followed by two years at 5% and a 1% increase in wedge.	-1.3%	3.6%	3.2%	6.7%	6.8%	3.8%	1.8%
Increase in the level of bad debt (20%) over current bad debt levels.	6.6%	6.8%	6.1%	6.2%	6.3%	6.4%	6.5%
Debt refinanced as it matures, with new debt financed at 2% above the forward projections.	6.7%	6.8%	5.5%	5.5%	5.4%	6.0%	6.4%
Financial penalty – equivalent to 6% of one year of Appointee turnover	6.7%	7.0%	5.0%	5.0%	5.0%	5.8%	6.2%
Combined scenario 1 - Sustained poor performance & macro economic pressure - Inflation -1%, Totex +2%, ODIs 0.5% RoRE & Bad debt +10% for 5 years	6.9%	6.9%	6.0%	6.0%	6.0%	6.4%	6.6%
Combined scenario 2 - Massive asset failure cost & penalties - Yr 1 Capex +£60m & Opex +£20m, Yr 2 Opex +£10m & Yr3 Opex +£5m	5.3%	5.9%	5.5%	5.8%	5.9%	5.7%	5.6%
Combined scenario 3 - repeat of AMP7 low inflation -2% Yr 1-2 & +5% opex pressure, high inflation +8% Yr 3-5 & +10% Opex & +4% Capex	7.6%	7.4%	0.1%	0.3%	0.2%	3.1%	5.0%

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