United Utilities 2019/20 Annual Performance Report

United Utilities
Water for the North West

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Introduction

A regulated water and wastewater company

United Utilities Water Limited (UUW) provides water and wastewater services to seven million customers in the North West of England and represents the principal activity of the United Utilities group. UUW is regulated by Ofwat, the economic regulator of the water sector in England and Wales.

Five-year price reviews

One of the key aspects of the regulatory framework is the price review process, which determines required service levels and expected company revenues for five-year asset management planning (AMP) periods.

2019/20 is the final year of the April 2015 to March 2020 period (AMP6), with the assumed price, investment and service package that customers should receive being set as part of the 2014 price review process (PR14). The PR14 process also defined the incentive regimes which reward or penalise companies depending upon how their actual performance and expenditure compares to the assumed performance, revenue and expenditure levels.

The Annual Performance Report

The Annual Performance Report is designed to provide customers and other stakeholders with a detailed and transparent commentary on our performance in 2019/20. It also summarises the performance over the full five-year period and set out how this performance compares to the expectations set in the last price review.

The 2019 Price review (PR19)

We published our business plan for the next five-year period April 2020 to March 2025 period (AMP7) in September 2018. This plan set out our proposed price, investment and service package for the AMP7 period, with the plan also taking account of the impact of the AMP6 incentive regimes. The AMP6 incentive assessment was based upon actual performance up to 2018/19 and predicted performance during 2019/20.

In Ofwat's initial assessment of companies' plans, UU was one of only three companies in the industry to be categorised as fast track. Ofwat said that it had set high standards for companies at PR19 and that the fast track companies had submitted plans that set a new standard for the sector. Overall, UUW scored highest on Ofwat's criteria. As a result of the fast track status UUW received an early draft determination in April 2019, with the final determination of the price, investment and service package required for the AMP7 period being published in December 2019.

Although the focus of this annual performance report remains on the company's performance during 2019/20, we have also provided **additional detail within this year's APR on the performance for the full 2015 – 2020 period** and summarised how any changes in performance in 2019/20 compared to the performance levels assumed will be accommodated in the PR19 process.

We have also published a more detailed document setting out how performance during the AMP6 performance impacted upon revenues for the AMP7 period.

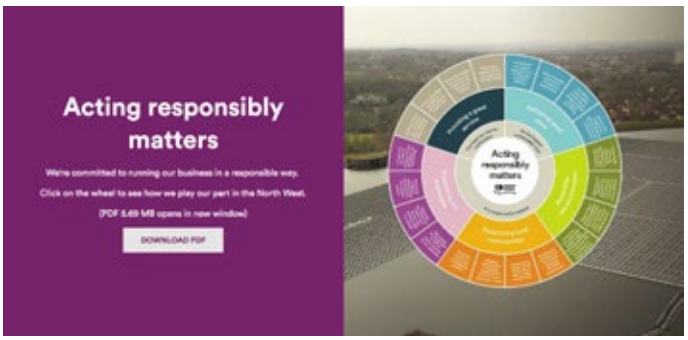
Transparent reporting

This Annual Performance Report (APR) is one of a number of publications on our website that are designed to work together to ensure that UUW and the United Utilities Group's performance reporting is reliable, accurate and transparent.

The key report from a corporate and financial perspective is the **United Utilities Group PLC Annual Report and Financial Statements**.

This report is now published as an interactive web site on a dedicated micro site within the UU website. This website, pictured above and available via this link, is designed to provide detailed information on the financial position and governance of the group and is mainly targeted at equity and debt investors.

To complement this report, the United Utilities Water Limited Annual Report and Financial Statements provides detailed information on the financial position of UUW and forms the basis of the Regulatory Accounts, which are set out within this document.



Our integrated annual report and the responsibility pages of our corporate website describe the way we operate in a responsible manner and how we strive to deliver the highest standards of performance with respect to communities, customers, employees, the environment and stakeholders. 39 metrics are published annually across these commitments to demonstrate our Business Principles performance.

Independent assessment of our reporting

As part of Ofwat's approach to monitoring and assuring delivery it expects companies to have processes in place to ensure that the information they publish can be trusted. In the first three years of the AMP6 period Ofwat undertook and published an annual assessment of the quality of each company's information. This assessment was based upon the "company monitoring framework" – a series of assessments of the quality of each company's information.

In Ofwat's final assessment (2018/19) assessment UUW was one of only three companies to achieve the highest rating of "self-assurance" and was the only company to have achieved this rating in all three years of the assessment. This assessment meant that there was a greater degree of confidence in the quality of our reporting and as such UUW was allowed more discretion in the assurance that we put in place and in the way that we consulted with stakeholders on our plans and assurance.

Although Ofwat no longer publishes its company monitoring assessments, it still requires companies to comply with the principles within the framework and as such we have continued to actively seek feedback to continue to improve the quality of our assurance and the content and transparency of our reporting. To support this objective, during the year we published and consulted on a "Risks, strengths and weaknesses and draft assurance report" and then following feedback published our "Final Assurance Plan" for our 2019/20 reporting. These publications are available on our website.

YourVoice

The YourVoice panel has played an integral role in monitoring, challenging and reporting on the delivery of the company's 2015-2020 business plan commitments.

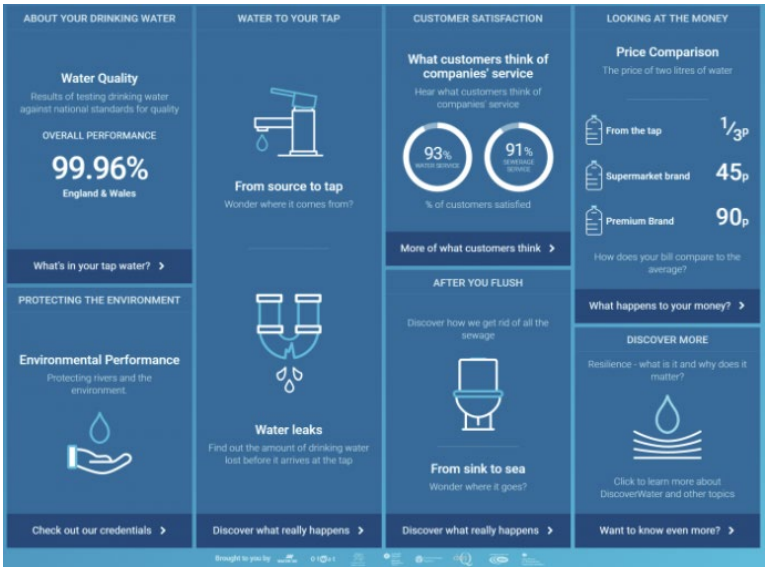
As an independent body of individuals from different sectors and backgrounds and with a variety of different areas of expertise, YourVoice looks at how the company can continue to capture and strengthen the views of its customers in its activities. You can read more about the work of the panel here.

Comparing our performance against our peers

Operational performance

As companies generally developed their AMP6 performance measures independently, similar sounding measures can have different definitions. To provide clarity on the definitions that we have used, we have published detailed definitions, explanations and supporting information for our performance commitments on the United Utilities website.

Discover Water – To allow a more meaningful comparison to be made, we have worked with regulators and the rest of the water industry to develop a suite of comparative information and performance measures. These measures are still subject to different interpretations between companies but do provide a view of relative performance. This information is available on the Discoverwater website.



Ofwat – An annual service delivery report is published on the Ofwat website. This report provides useful comparative information on total expenditure and outcomes delivered to customers reported by the 17 largest companies within England and Wales. The report provides comparative information on important areas of performance and is intended to supplement the more detailed information in companies' APRs.

As part of the PR19 process all water and wastewater companies adopted 11 common performance commitments, together with a number of bespoke performance commitments, that reflected individual companies' requirements or customer expectations. A summary of UUW's performance commitments for the AMP7 period is published on Ofwat's website, with fuller details of the operation of these measure published on the United Utilities website.

Financial performance

As well as describing our operational performance against the expectations set out in the PR14 price review, our Annual Performance Report also compares our financial performance against the PR14 expectations.

Our APR contains information on a wide range of financial measures and metrics. Probably the key measure that Ofwat used to set expectations on the range of potential returns that companies could achieve during the AMP7 period, was RORE (return on regulatory equity). Our APR provides a summary of how our reported RORE for 2019/20 and for the full AMP6 period compares against the assumptions set out as part of PR14.

The RORE metric is based upon a theoretical, efficient company with a notional capital structure. Ofwat introduced a new APR table 1F financial flows in 2018/19, which was designed to improve the transparency concerning actual financial flows to investors under actual capital structures and incorporating additional outperformance measures such as tax. This table is set out and explained in detail within Section 2 of this report.

Ofwat – An annual financial resilience report is published on the Ofwat website. This report is intended to enhance the visibility and accessibility of each company's financial performance and the financial structures in the sector by sharing key metrics, rather than drawing any conclusions on the financial performance of any individual company. This enables Ofwat and other stakeholders (including investors and potential investors, ratings agencies, analysts, government and customers) to monitor the businesses which Ofwat regulate and to challenge the sector in its identification and management of risk.

A range of publications

We have sought to continually improve the coverage and presentation of our reporting by taking on board the feedback we receive to increase the engagement with our reporting.

During 2019/20, we continued to report performance to YourVoice on a quarterly basis to allow the panel to evaluate how we are performing in delivering our commitments to customers.

We have also sought the panel's views on how we should communicate this performance to customers, with this feedback helping to shape the suite of documents and supporting information that we publish on our website.

This report, the "Annual Performance Report" (APR), is designed to provide a detailed review of performance in the year. We do, however, recognise that this format and level of detail does not suit all customers and we have therefore complimented this document with a range of additional publications.

We have sought to provide a modern and digital presentation of our reporting on our website. This offers selected direct content together with an animation which helps to explain the key points and messages from the main APR.

We also publish a shorter customer-focused version of the report which achieves the Crystal Mark for plain English. This is "Our performance 2019-20: a summary guide and provides a succinct and more accessible summary of our performance – good and bad – and our progress in delivering against our performance commitments.

We have also published a number of more detailed technical documents on our website, to provide greater detail and transparency to some of the information, terminology and assumptions used within the main reports. The key regulatory reports that are published alongside this main APR document are set out in the table below:

Annual Performance Report	A comprehensive, detailed and assured account of our performance (this document)
Delivering our promises: a summary guide	An overview of our annual performance in line with the five customer commitments that underpin our business plans
Outcome definition document	Detailed technical information on the nature, calculation and assumptions underpinning each of our outcomes and performance commitment
Accounting Methodology Statement	An overview of the process used to prepare the upstream services tables in the APR, with a commentary on significant movements
YourVoice customer panel reflections	Independent reflections and feedback on UUW's performance during 2019/20

Coverage of this report

We have retained the same overall structure for this report that we used in previous years.

We have continued to include a UUW Board overview of our performance and the company's actions during the year, which was introduced in our 2017/18 report, with this year's statement focusing on compliance with Ofwat's Board leadership, transparency and governance principles.

We have provided commentary of our performance over the full five-year period (2015-20) as well as additional details on our performance in the last year of AMP6.

We have provided additional information on our financial performance and financial flows, both within the Executive summary and within the more detailed regulatory accounts. The key sections within the APR are summarised below.

We have also provided information to set baseline performance targets for a number of our AMP7 ODIs.

Our 2019/20 Annual Performance Report contains the following sections:

Introduction	Puts the document in context and helps the reader to navigate within the document
Board statement	UUW Board overview of the way we have complied with Ofwat's Board Leadership, transparency and governance principles
Executive summary and overview	Sets out the key elements and conclusions of the report
Risk and compliance statement	Board confirmation that UUW has complied with its relevant obligations in 2019/20
Annual performance	Detailed commentary on our performance in 2019/20
Regulatory accounts	Detailed regulatory accounting data and disclosures, including copies of Ofwat's pro forma data tables
Appendix 1 Assurance summary and findings	A summary of the assurance undertaken to support this report, including the findings from this assurance
Appendix 2 Outcome incentive calculations	Provides the detailed calculations that support the index-based performance commitments
Appendix 3 baseline and performance commitments	Updates for leakage and per capita consumption baselines and AMP7 performance commitment updates
Appendix 4 delegated authority	Certificate to demonstrate the delegated authority to sign off the Condition I certificate (ring fencing)

2019/20 United Utilities Water Board statement

Ofwat's revised board leadership, transparency and governance (BLTG) principles came into effect from 1 April 2019 and were embedded into the licence on 1 August 2019. These require UUW to meet the objectives of the principles and to explain in an effective, accessible and clear manner how they have done so.

This statement demonstrates how the United Utilities Water Limited's board of directors (the Board), have met the BLTG objectives during 2019/20. The statement also references the provisions set out within the guidance when explaining how we are delivering against these objectives.

This statement also briefly summarises how, by implementing this approach, the company is delivering for its customers and other stakeholders. Further detail to support this statement is set out within the UUW Annual Performance Report, the United Utilities Water Limited statutory accounts and the United Utilities Group PLC Annual Report and Financial Statements (ARFS); we provide references to this material below.

A) The board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Board, supported by the executive team, is committed to achieving the very best results for the Company, the customers it serves and its wider stakeholders.

We believe our purpose, strategy, vision and values will promote the long-term sustainable success of the Company, customers' interests, create value for shareholders and take account of our other stakeholders. Our intention is to hand over the business to our successors in a better and more resilient position for the future. As individual directors, we are mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters to as set out in s172 (1) (a-f) of the Companies Act 2006.

i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.

As established by the Board, our company's purpose, vision, values and strategy, were revised during the year, following initial work by the UU corporate responsibility committee. We engaged the services of Corporate Citizenship and Edmonds Elder to help us provide a clearer articulation of why we exist and to recommend how we can communicate this more effectively to all our stakeholders. A representation of this can be found on page 16 of the ARFS.

As a provider of an essential service in our region, our purpose is to provide great water and more for the North West. Our culture of behaving responsibly has been part of the United Utilities ethos for many years and aligns with our purpose. Our vision is to be the best UK water and wastewater company through three strategic themes of providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In reviewing the Company's purpose, the Board took into account information and views from stakeholders. This included utilising much of the research and engagement that contributed to our PR19 business plan submission and the feedback obtained from customers as part of the Company's brand refresh undertaken during the year.

For the year ended 31 March 2020, the Board is satisfied that the formulation of our aspirations in terms of our purpose, vision, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all.

ii. The Board makes sure that the company's strategy, values and culture are consistent with its purpose.

Our vision is to be the best UK water and wastewater company. To ensure that we deliver our purpose and work towards our vision, we have developed three strategic themes, which define the way we operate and three core values, which provide the cultural framework within which we work.

- The best service to customers – This means that we put customers at the heart of everything we do. As well as delivering a reliable water service and removing wastewater, we proactively keep customers informed about any work we are doing in their area and communicate with them in ways that meet their individual needs. We seek to be available when they need to contact us, always interacting in a friendly and helpful manner, and offering tailored support and assistance for customers when they need it. As well as these day-to-day interactions, it also means consulting on what matters to them. This shapes what we do; for example, we redesigned our bills based on customer research and feedback.
- At the lowest sustainable cost – In order to run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep them down in the long term without compromising on resilience or the quality of

service we deliver. When we develop our plans and assess different options for consideration, we look to minimise the whole-life cost through a holistic approach. Our Systems Thinking approach helps us look holistically at all options, and operating our entire network as a system rather than discrete assets opens up new avenues that would otherwise not have been available.

- In a responsible manner – Our purpose drives us to deliver our services in an environmentally sustainable, economically beneficial and socially responsible manner, looking after the interests of the stakeholders with whom we interact. We promote a safe, healthy and engaging workplace for our employees, support local communities on issues that matter to them, and work with local schools and training facilities to promote skills for the future. Above all it means we are open, honest and transparent in our dealings and in reporting our performance.

Our core values are:

- Customer focused – Customers are at the heart of everything we do, and we aim to provide a great and resilient service at the most efficient cost.
- Innovative – We continually look for new ways to make our services better, safer, faster and cheaper.
- Trustworthy – We make promises knowingly and keep them, behaving responsibly towards all of our stakeholders.

The AFRS demonstrates how these strategic themes run through everything we do. For further information and explanation of our approach, we would refer in particular to the Strategic Report (pages 16 to 105), our key performance indicators (pages 46 to 51), our risk management framework (pages 79 to 83) and our description of governance (pages 103 to 104).

iii. The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment, it takes corrective action.

Our values demonstrate how we behave individually and collectively as the Board and how we ask our employees to behave. Our employees are fundamental to delivering our strategy and achieving our purpose.

Our values of being customer focused, trustworthy and innovative underpin our culture of behaving as a responsible business in the way we interact with all the stakeholders we serve. We must continually reinforce these values so that the right behaviours cascade throughout the organisation, ensuring our culture of behaving responsibly drives what we do. Key to this is taking action to address any issues where there is misalignment with the company's culture. As well as our engagement survey we run regular employee barometers to ask employees what they are seeing, hearing and feeling. This approach allows us to act quickly if there are any areas of misalignment and take immediate actions.

Our employees are at the heart of the culture of our business and further insight and evidence, as part of the board's assessment and monitoring of culture, has been gathered, and fed back to the board by Alison Goligher, the current designated non-executive director for engagement with the workforce. During the year Alison has met with employees and visited a number of the company's sites. Furthermore, Alison chairs the newly formed Employee Voice panel formed from representatives of a number of employee groups and employee networks already in existence (such as gender, ethnicity and LGBT) and with representatives drawn from across the geographical region. Alison is keen to ensure, through these interactions, that there is a two-way flow of communication and information between the board and the workforce.

In addition to the existing reporting, management has developed a dashboard of cultural metrics in order to provide a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The dashboard comprises relevant metrics derived from the annual employee engagement survey; human resources policies in relation to diversity and associated training; whistleblowing reporting; health, safety and wellbeing policies and practices; and business principles measures and other key performance indicators.

The AFRS demonstrates how these strategic themes run through everything we do. For further information and explanation of our approach, we would refer in particular to the Strategic Report (pages 16 to 105), our key performance indicators (pages 56 to 57), our risk management framework (pages 92 to 101) and our description of governance (pages 108 to 191).

B) The Appointee has an effective board with full responsibility for all aspects of the Appointee's business for the long term.

The group operates a structure that allows directors to be members of the Boards of both UUW and its ultimate holding company, United Utilities Group PLC (UUG). These arrangements have been in place since March 2011 and were in place throughout the year ended 31 March 2020.

As a listed company UUG has applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the Code), for the year ended 31 March 2020.

The Boards of both UUG and UUW fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. We are satisfied that current practices and the application of the Code at both holding company and regulated company levels are entirely consistent with the Ofwat principles.

Provisions:

i. **The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.**
The UUW Board has full responsibility for all aspects of its business as an appointee. Furthermore there are no items/topics relating to the regulated activities of UUW contained within UUG Board's schedule of matters reserved for its own decision, a copy of which can be found on the United Utilities website.

UUW and UUG are distinct legal entities and are operated as such. Notwithstanding that the same individuals are directors for both companies and scheduled board meetings of each company are held on the same day, they are held as separate meetings with board packs and agendas being prepared for each company's meeting, thereby creating distinction between meetings. Given that UUW represents 98 per cent of UUG's revenues, decisions taken for UUW are unlikely to be in conflict with those of UUG. Were that to be the case, the directors would be responsible for taking decisions on behalf of each entity in accordance with s172 of the Companies Act 2006, and acting in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The company secretary would advise on any potential conflict of interest, and the board would seek independent advice on any matter if thought necessary.

ii. **Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company**
The UUW board has delegated specific powers, subject to certain limits, relating to the capital investment programme to the UUW Capital Investment Committee and in relation to financing, by way of power of attorney, to the Chief Financial Officer and/or the Treasurer. UUW does not duplicate board committees already in operation at the UUG level (the board committees). The activities of the board committees, as required in accordance with the Code, whose members are made up entirely of independent non-executive directors (who are also directors of the company) are necessarily targeted towards UUW matters, given that UUW represents 98 per cent of UUG's revenues. The alignment of the interests of UUW and UUG ensures that the interests of UUW and its customers are safeguarded, and avoids unnecessary duplication. The group has operated in this manner since 2011.

iii. **The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.**
Meetings of the Board are fully focused on the company's regulated obligations and activities as an appointee in accordance with its Licence as a provider of water and wastewater services[1] and the Board is supported by the director of strategy and regulation. Typically, Board meetings receive the following standing items: operational activities and incidents; review of performance against operational and financial KPIs; regulatory updates and customer updates.

The Board (whose directors' biographies can be found on pages 108 to 111 ARFS), includes a strong independent non-executive representation with a diverse range of backgrounds, skills and experience. As part of the director recruitment process, potential conflicts of interest would be assessed to ensure the suitability of the candidate in this respect (amongst others). A register of directors' interests is maintained and directors are asked to identify any potential conflicts of interest on any subject matter on the Board's agenda at each meeting.

[1] United Utilities Water Limited (the appointee) is regulated under the Water Industry Act 1991, the Water Act 2003, the Water Act 2014 and its Conditions of Appointment ('Licence')

C) The board of the Appointee's leadership and approach to transparency and governance engenders trust in the appointee and ensures accountability for their actions.

Excellent governance is part of who we are, and United Utilities was delighted to secure the Fair Tax Mark in July 2019 and to have attained World Class ranking in the Dow Jones Sustainability Index for 13 consecutive years. We also adhere to the highest levels of corporate governance. Fairness and transparency are key to the way we report, the way we operate, and the way we interact with all our stakeholders.

In recent years the UK water sector has faced challenges to its legitimacy, amplified by some specific issues at a small number of companies. Consequently, trust has been eroded and questions raised about the ownership structure of the sector. We have responded to these challenges by having open and transparent reporting around all of our equity and debt financing arrangements, we do not use offshore financing vehicles, and our reporting is trusted by Ofwat which awarded us "self-assurance status" for regulatory reporting for three consecutive years during AMP6 reflecting the highest level of trust and confidence in our transparency and reporting. UUW was the only company in the sector to achieve this record three years running.

Our human rights policy can be found on our website, with links to other related policies including our modern slavery policy and sustainable supply chain charter. We work with suppliers and contractors whose business principles, conduct and standards align with our own. Our key suppliers have committed to our sustainable supply chain charter. We support the appointment of a small business commissioner to investigate companies who do not treat suppliers fairly, are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers. During the current COVID-19 pandemic, we have engaged with our supply chain to get a better understanding of the financial difficulties that many are experiencing, and have committed to altering payment terms with suppliers in the short term, paying them within seven days where possible to assist with their cash flow.

Further details of the Company's approach to transparency and governance can be found in the corporate governance report contained within pages 108 to 191 of the ARFS.

Provisions:

i. A detailed explanation of the structure of the United Utilities group is set out on page 125 of the ARFS.

ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees).

Full details of the UUW dividend policy for the 2015-20 period and dividends paid during 2019/20 are set out within section 2.4 Accounting policies of the UUW Annual Performance Report.

AMP6 dividends

In relation to the policy reflecting the 2015-20 period, the payment of dividends has been maintained at a prudent level, with a base dividend which was well supported by assumptions embedded in the AMP6 final determination and distributions above this level being related to non-regulated activity or demonstrable outperformance of FD assumptions.

Dividend payments have taken proper account of the company's duties and responsibilities towards customers, other stakeholders (including to employees) and other obligations. During the AMP we secured and maintained robust credit metrics with amongst the strongest credit ratings in the sector and one of the lowest levels of gearing. We delivered a strong funding position for the employee pension scheme and also undertook significant elective investment in services – beyond the assumptions made in the final determination – by reinvesting a portion of outperformance to secure better long term outcomes and meet short term operational challenges which arose during the AMP. We also provided substantial company funding for financial support for customers in challenging financial situations.

During the AMP we have highlighted more than £400m of company funding of broader stakeholder benefits mainly comprising the following:

£165m of company funding for improved resilience and service performance (£330m of investment before application of the totex sharing mechanism)

£50m of company funding during AMP6 to support AMP7 "flying start" initiatives (£100m of investment before totex sharing)

£60m of company funding for customer financial support schemes (not rebalanced onto customer bills)

£125m of elective company funding (outside price limits) to put the company pension scheme into "low dependency" status, giving confidence that The Pensions Regulator would assess future valuations as "Fast Track".

Through these actions the company has demonstrated a broader and longer term perspective on stakeholder benefits and has shared the available funds arising from the company's outperformance in AMP6 to directly benefit customers, employees and the environment as well as deliver a reasonable return for investors.

AMP7 dividends

In January 2020 the Board set UUW's AMP7 dividend policy. This included a reduced assumption in relation to the base dividend compared to AMP6. In addition, the Board has committed to a significant number of additional considerations which will ensure that dividend payments continue to be taken subject to consideration of the interests of a broad range of

stakeholders who have interests in the performance of the company. This approach includes commitments on financial assistance schemes for customers, safeguards about the level of company gearing, sharing of future outperformance, consideration of financial resilience, delivery of statutory obligations and delivery against performance targets. Further details of these policies are provided on pages 161 to 162 of the APR.

Decision in relation to UUW 2020/21 base dividend
Over recent months, the UK has become engulfed by the COVID-19 pandemic, although throughout this period, our services have been maintained and we have retained a robust liquidity and financial position.

However, it is probable that the UK is entering a recessionary period from which the rate of recovery, as well as the lasting impact on the economy, is uncertain. The UUW board has a clear view that financial resilience must be retained as a priority – this being outlined above as one of the key considerations for 2020-25 dividends – and has therefore adopted a prudent approach to near term dividend payments.

As such, the UUW board has reviewed its approach to the base dividends in the context of current events and future uncertainty and has determined that there should be no dividend payments made by UUW during the 2020/21 financial year, which should result in c£150m of cash being retained within the company. This demonstrates the application of the checks and balances outlined in the 2020-25 dividend policy, prior to the distribution of any base dividends.

The deferral of the 2020/21 base dividend payment will be kept under review by the UUW Board, with a view to reinstating the dividend later in the AMP7 period at such time as there is more certainty in relation to the prevailing economic conditions following the pandemic.

iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.
The principal risks and uncertainties to the success of the business and the ways in which these risks are managed, monitored and mitigated are set out on pages 80 to 91 of the ARFS.

iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.
Board attendance table for the year ended 31 March 2020 – set out below are the number of scheduled meetings attended and the maximum number of scheduled meetings that could have been attended.

Sir David Higgins[1]	8/8
Dr John McAdam[2]	5/7
Steve Mogford	9/9
Russ Houlden	9/9
Steve Fraser[3]	4/4
Mark Clare	9/9
Sara Weller	9/9
Brian May	9/9
Stephen Carter	9/9
Alison Goligher	9/9
Paulette Rowe	9/9

1. Sir David Higgins was appointed to the board on 13 May 2019.
2. Dr John McAdam was unable to attend two meetings of the board due to unforeseen circumstances. He resigned on 31 December 2019.
3. Steve Fraser resigned on 31 August 2019.

Details of the attendance at meetings of the board committees can be found on page 120 of the UUG AFRS.

v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.

A detailed explanation of the group's directors' remuneration policy during 2019/20 is set out on pages 156 to 185 of the UUG ARFS. Details of remuneration for the directors of UUW is set out within Section 2.5 of the UUW Annual Performance Report, page 126 to 129 of the UUW Limited Statutory Accounts and pages 163 to 170 of the AFRS. The criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied, with executive pay arrangements aligned to our purpose, vision, values and strategy, thereby incentivising great customer service and the creation of long-term value for all.

In the last weeks of 2019/20, we saw the emergence of the COVID-19 pandemic. Recognising the difficulty being experienced by many customers in our region, all members of the board volunteered a 20 per cent reduction to their salary/fees for three months, with the money instead being shared with organisations supporting those in the front line helping communities cope with COVID-19.

For AMP7, the company has committed to ensuring that performance pay for executive directors will show further alignment to delivery for customers, embed stretching targets and continue to be rigorously applied. We will continue to provide transparent reporting on executive pay each year.

D) The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

The group operates a structure with the same directors sitting on the Boards of both UUW and UUG, thereby increasing the efficiency and effectiveness of the corporate governance structure. As a result, and given that UUW represents 98 per cent of UUG's revenues, the Company does not duplicate the board committees already operating at the UUG level. Full details of the UUG Board and board committees are set out within the corporate governance report that can be found on pages 108 to 191 in the UUG Annual Report and financial statements.

Provisions:

i. **Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.**
The Board and the board committees have an appropriate combination of skills, experience and knowledge, biographies of the directors are set out on pages 108 to 111 and the skills matrix of directors is set out on page 129 of the ARFS. Consideration is given to the length of service of the Board as a whole and membership is regularly refreshed. Appointments to the board are subject to a formal, rigorous and transparent procedure, and an effective succession plan is maintained for board and senior management.

ii. **Independent non-executive directors are the largest single group on the board.**
There are six independent non-executive directors on the Board out of a total of eight, their biographies can be found on pages 99 to 103 of the ARFS. Independence is tested against the criteria set out in the Code.

iii. **The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.**
Sir David was appointed to the Board in May 2019, as chairman designate and in line with the BLTG provisions he was independent on appointment when assessed against the circumstances set out in the Code. The roles and responsibilities of the Chairman are set out as part of the group's governance framework.

iv. **There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.**
A board evaluation is conducted annually, with an independent assessment every third year, as has been the case for a number of years. Full details, including recommendations, can be found on pages 130 to 131 of the UUG ARFS.

v. **There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.**
Details of the approach to board succession can be found on pages 126 to 129 of the UUG AFRS.

vi. **To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.**
Prior to his appointment, Sir David Higgins met with representatives of Ofwat on 28 March 2019, as have all non-executive directors since April 2016.

vii. **There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.**
Independent non-executive directors form the members of the board committees and chair the audit and remuneration committees.

Delivering for customers and stakeholders

We are a purpose-led company, driven by what matters to customers and other stakeholders. This focus has helped us deliver a significant and sustainable transformation in our operational performance and customer service in recent years. This year saw the completion of the 2015–20 price review period (AMP6), during which we exceeded our targets and exit the regulatory period as one of the best performers in the industry.

Since 2015, we have reduced significant water quality incidents by 69 per cent and reduced water supply interruptions by 39 per cent. We have been the joint top performing company over the last five years under the Environment Agency's (EA) annual assessment, and we are an industry leader in reducing pollution.

The Board has actively monitored the delivery of this transformation and as set out in our previous Board statements have recognised where we needed to refocus our attention to ensure that corrective action could be taken in these areas. We recognised that our water metrics over the first three years of the regulatory period had been impacted by a number of big bursts on our network and set out to minimise the impact of these events on customers and improve performance in this area by, for example, increasing investment in emergency supply vehicles which pump water into the system on a short term basis whilst repairs are ongoing. We were therefore pleased that in 2018/19 we met all but one of our water service performance commitments.

Our regulatory targets this year were the toughest to date, and we have risen to the challenge, earning a net outperformance payment against our outcome delivery incentives (ODIs) for the year and a cumulative net outperformance payment for the five-year period in total. Strong performance in 2019/20 was delivered in the face of many challenges. It has been a year of significant rainfall, culminating in severe flooding caused by storms Ciara and Dennis in February 2020.

Behaving in a responsible manner is one of our three strategic themes and has always been a core part of how we operate. We have a strong track record of performance across all the components of environmental, social and governance (ESG) performance. We have reduced our carbon footprint by 73 per cent since 2005/06, ahead of the target we set ourselves for 2020, with 95 per cent of the electricity we use having zero emissions. We also achieved our World Class rating in the Dow Jones Sustainability Index for the thirteenth consecutive year.

We are delivering a low cost of debt which helps set industry benchmarks for efficient financing costs. The efficient delivery of our investment plan and our approach to innovation and Systems Thinking has allowed us to deliver totex outperformance of £100 million against our AMP6 allowance, on a like for like basis.

In our 2018/19 Board statement we committed to sharing £350m of our anticipated net outperformance by reinvesting to improve resilience for the benefit of customers and to allow us to provide an early start on the work required to meet some of the tougher targets for the 2020-2025 period. During the year we implemented these programmes and accelerated a further £50m of AMP7 expenditure into the AMP6 period to ensure that we are well placed to start the AMP7 period as possible.

The COVID-19 (coronavirus) pandemic has created further challenges, with enormous practical implications on the way we work and economic impacts for our communities. The pandemic has required us to adapt the way we operate, and we are proud of the way our people have embraced that change and continued to deliver great service to customers at this difficult time.

Signed on behalf of the Board

Sir David Higgins
Chairman

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the United Utilities Water Limited board on 30 June 2020 and signed off on its behalf by Sir David Higgins Chairman and Steve Mogford, Chief Executive Officer.

Executive summary

Overview

This year saw the completion of the 2015–20 price review period in which we continued to make good progress on delivering our promises. We are a purpose-led company, driven by what matters to customers and other stakeholders. This focus has helped us deliver a significant and sustainable transformation in our operational performance and customer service in recent years.

Our regulatory targets this year were the toughest to date, and we have risen to the challenge. We have had another strong year earning a net outperformance payment against our outcome delivery incentives (ODIs) for the year and a cumulative net outperformance payment for the five-year period in total, which demonstrates the progress that the company has made during the AMP6 period.

Strong performance in 2019/20 was delivered in the face of many challenges. It has been a year of significant rainfall, culminating in severe flooding caused by storms Dennis and Ciara in February 2020. The COVID-19 (coronavirus) pandemic has created further challenges, with enormous practical implications on the way we work and economic impacts for our communities. This has required us to adapt the way we operate, and we are proud of the way our people have embraced that change and continued to deliver great service.

We have a strong track record of delivering against environmental, social and governance (ESG) factors having achieved our World Class rating in the Dow Jones Sustainability Index for thirteen consecutive years, and performing well against a range of other ESG indices. We met our 2020 carbon emissions target early having reduced our carbon footprint by 73 per cent since 2005/06 and have committed to six pledges to mitigate climate change including eliminating our emissions by 2050. Over AMP6, we have invested over £35 million in local communities, addressing issues that matter to them.

Our customer satisfaction scores this year are the best we've ever had. Across AMP6 we dramatically improved from 13th to third ranking in SIM, the water industries comparative customer satisfaction measure. In AMP7 C-MeX will replace SIM. This year acted as a pilot year for C-Mex and we were pleased that our contactor scores ranked third of 17 companies for the year, and first in the third and fourth quarter surveys.

In addition to delivering better services to customers, our continued focus on using cutting-edge innovation is also leading to greater operating efficiency, which has helped us to deliver £100m of totex outperformance over the five year period, on a like for like basis.

Our robust capital structure, and the responsible approach that we have taken to our balance sheet, has continued to provide resilience and future financial flexibility. We delivered a robust set of financial results for the year maintaining healthy liquidity and a responsible level of gearing. Regulatory operating profit of £605m was only marginally down (-£6m) from the prior year despite the current year impact of accelerated depreciation in relation to bioresources assets and costs relating to the ongoing COVID-19 pandemic. Dividends were fully supported by the value created, as demonstrated through Ofwat's financial flows analysis, and underpinned the group's AMP7 dividend policy. In addition, we have no funding deficits in our pension schemes, which are now self-sufficient, a strong position both relative to the water sector and UK companies overall.

In line with our long-established track record, in 2019/20 we again shared some of our AMP6 outperformance with customers. During the year we increased our reinvestment by another £100 million to accelerate the delivery of further performance improvements and to facilitate a flying start to the next regulatory period. This took the total additional investment during the 2015-20 period to £350 million.

Our plans for the future were well received our 2020-2025 business plan (AMP7) achieved the highest grades for the sector, which reflected the quality of our future plans and the performance improvements we had already delivered. We agreed the final performance and investment package that we will need to deliver during the 2020-25 period in February 2020, which confirmed that average household customer bills would be expected to reduce by 13.8%.

Overall, we have performed well during the AMP6 period, we exit this regulatory period as one of the best performers in the industry and are well placed for the start of the next regulatory period and beyond as we maintain our focus on providing great service to customers and creating long-term value for all of our stakeholders.

Key headlines from the year are:

- AMP6 operational transformation has improved customer service and delivered shareholder value
- Unique Systems Thinking approach is delivering better service and better value for customers
- Upper quartile customer satisfaction performance achieving SIM outperformance in AMP6
- Operational excellence has delivered net wholesale ODI outperformance of £44m
- Totex outperformance of around £100m delivered against our AMP6 scope
- Well prepared for AMP7 – £100m of £350m outperformance reinvestment to achieve a flying start
- Long-term commitment to ESG benefiting our stakeholders
- 10% real reduction in average household bills since 2010, further 7% reduction in 2020/21
- £71m AMP7 voluntary funding to provide financial assistance to customers struggling to pay their bills
- Six pledges made to mitigate climate change
- Strong financial position to manage the impact of COVID-19
- Financial support schemes helping 120,000 customers; £3.5m made available immediately
- Increasing the number of customers eligible for social tariff support
- Robust business continuity plans to protect employees – 60% working from home
- No employees furloughed; 80% designated as key workers

This is our fifth and final Annual Performance Report for the 2015-20 period and focuses on the period from April 2019 to March 2020.

The report sets out our progress against our plans and targets for the 2015-2020 (AMP6) period. It highlights where we have outperformed these expectations and also describes where we have failed to meet the targets.

It also sets out how we have adapted our AMP6 targets for the AMP7 period and summarises the challenges faced by these new targets and the actions that we are planning to take to meet these challenges.

As set out in the introduction to this report our Annual Performance Report is one of a number of documents on our website which are designed to provide clear and transparent reporting on the performance of UUW as well as United Utilities Group PLC (UUG).

The remainder of this executive summary and overview provides further detail on:

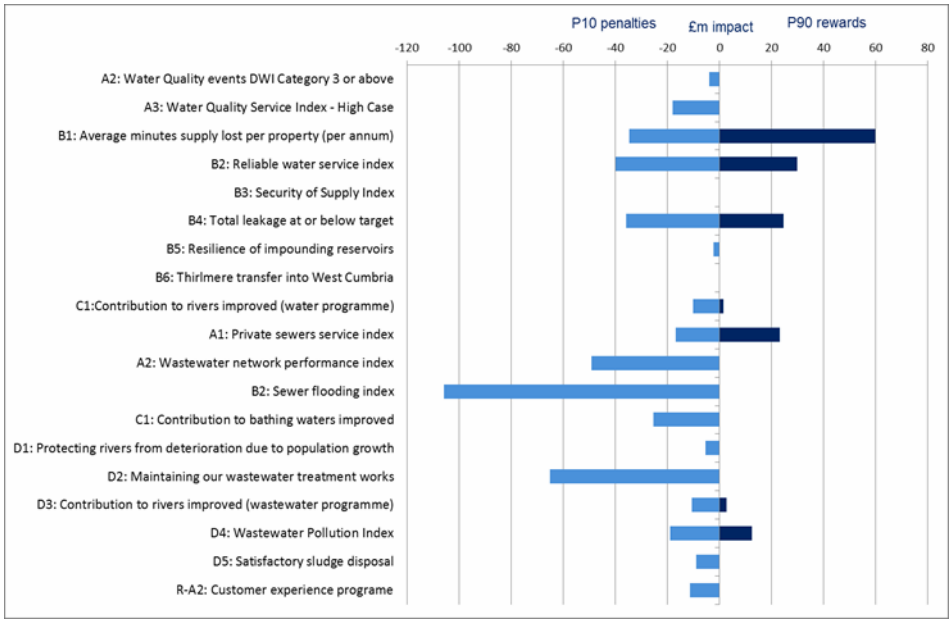
- **Our customer service and operational performance** against the outcomes and performance commitments set out within our PR14 business plan and the FD.
- **Our expenditure and revenues** relative to the assumptions made in the FD, for the wholesale and retail price controls.
- **Our financial performance and financial metrics**, relative to the assumptions made for UUW in the FD.

Our customer service and operational performance

Performance commitments

As part of our planning for the 2015-20 period, we spoke to thousands of people across the North West to understand what service they wanted from us. This highlighted five focus areas based on the things that customers and stakeholders told us were the most important features about the services we provide.

Each focus area has a number of 'outcomes', which set out the longer-term objectives that we are planning to achieve. These outcomes contain a number of specific performance commitments, which have annual targets that allow customers and stakeholders to judge our performance.



At the 2014 Price Review, we set stretching annual performance commitment targets that were based upon customer research and customer willingness to pay. Ofwat challenged some of these targets, to bring them in line with its estimate of upper quartile industry performance.

As a result of this process many of the performance commitment targets were challenging, and required a significant improvement on our 2010-15 levels of performance.

The figure across is taken from our PR14 final determination published on Ofwat's website and shows the scale of the challenge that we faced at the start of the period.

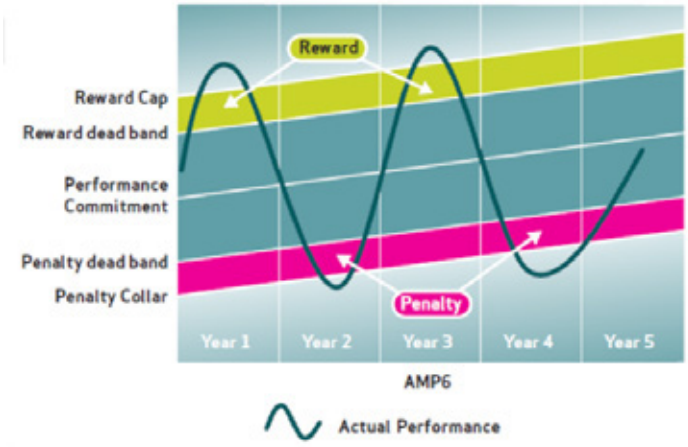
Out or underperformance payments

The majority of performance commitments carry a financial penalty if we underperform and for some a financial outperformance payments if we outperform. There is a limit or 'cap' to the amount we can be rewarded for any measure in any given year. Similarly, there is a limit (known as a 'collar') to the amount we can be penalised for underperforming.

For some measures, we have to outperform (or underperform) beyond a certain level before there is a financial impact. This is to ensure that outperformance payments and penalties are applied where there is significant deviation from a target, rather than as a result of natural or random variations in performance, such as cold winters or wet weather.

The diagram to the left shows an increasing performance commitment target, with penalty and reward dead bands around the target and the reward caps and penalty collars around the dead bands.

The actual performance is then shown by the "wavy line". This level of performance would result in outperformance payments for two years, in penalty for two years and in the deadband, so no reward or penalty for the final year.



The net under or outperformance payments over the five years is included within the PR19 process as part of the process for setting revenues and customer bills for the 2020-25 period.

Overview of the year
2019/20 is the final year of the 2015-2020 regulatory period ("AMP6"). Over the 5-year period we have transformed the business, with year-on-year improvements in both customer service and step-changes in some of our key outcomes such as reductions in sewer flooding and the time that customers are off water supply.

We are a purpose-led company, driven by what matters to customers and other stakeholders. This focus has helped us deliver a significant and sustainable transformation in our operational performance and to be more resilient in the way that we provide customer service. During the year the COVID-19 pandemic has required us to adapt the way we operate, and we are proud of the way our people have embraced that change and continued to deliver great service to customers at this time

- **Meeting the AMP6 challenge**

Our targets for AMP6 were challenging, with many measures getting tougher each year. We have innovated and radically changed the way that we operate to be able to meet and, in many cases, to beat these challenges. We accelerated our five-year investment programme to allow us to deliver operational improvements as early as possible, and we introduced additional processes and information technology to continually improve our "systems thinking" approach to our assets, data and processes. We have also reinvested £250m of financial outperformance to continue to build further resilience into our operations, which has helped to underpin performance improvement throughout the AMP6 period.

We also faced a number of climatic events and challenges during the AMP6 period that we could not have anticipated.

- In 2015 the North West and many other regions across the UK were severely affected by serious flooding. We also experienced a water quality event in Lancashire that caused severe disruption to customers. This required us to implement a number of changes to our processes in order to recover from the event and to build additional resilience into our asset base afterwards.

* The winter of 2017/18 then brought a severe cold spell known as the "Beast from the East." This freeze followed by a rapid thaw resulted in a significant increase in water main bursts across the country and we had to employ additional repair gangs to ensure that leakage levels could be kept under control.

* The freeze-thaw was then quickly followed by an extended period of hot and extremely dry weather during the summer 2018.

We have always tried to manage, learn and share lessons from these incidents in a structured and transparent way. This has allowed us to apply the learning from previous incidents in the way that we manage subsequent events. We have always sought to undertake this work transparently and collaboratively, working with other water companies, regulators and customer groups where appropriate. As a result of this approach we received positive feedback on the way that we managed these events and ended the period with a more resilient asset base and more effective incident management processes than at the start.

Despite this difficult backdrop to the AMP6 period, our strong performance over the first three years of the AMP6 period enabled us to earn an overall outperformance payment against our outcome delivery incentives of £2.2 million. In 2018/19 we saw the impacts of the work we were putting in place with improved performance in many areas and earned a net outperformance payment in the year of £19.2m. We also achieved our best ever SIM scores, which was recognised by Ofwat with a £6m reward.

- **Performance in 2019/20**

During 2019/20 we again faced a number of unexpected challenges; it has been a year of significant rainfall, culminating in severe flooding caused by storms Dennis and Ciara in February 2020. The flooding caused by Storm Ciara caused damage to a key water main that served thousands of properties in the Eden Valley area. The damage occurred where the water main crossed a river, and the conditions in the area were treacherous with continuing heavy rain and strong winds. Thanks to our contingency plans and the dedicated hard work of our people around the clock, we were able to repair the damage in just three days and restore supply fully in five days.

The flooding and the major burst had a negative impact on customer service, in the year and we did not hit our targets for sewer flooding reduction or our reliable water service index. The additional resilience measures mentioned earlier, have allowed us to manage the impacts far more effectively than would have been the case at the start of the period. As a result, we have still been able to outperform our challenging end of period targets for the commitment to reduce 'average minutes water supply lost' and to keep below our 'wastewater network performance index' target.

The COVID-19 (coronavirus) pandemic has created further challenges, with enormous practical implications on the way we work and economic impacts for our communities.

In 2019/20 we have continued to perform well on customer service measures. Ofwat has been piloting its new customer service measure, called 'C-MeX' during 2019/20. We achieved third place overall across the year, out of all the water and wastewater companies in the UK, as well as achieving first place in the last two quarter's surveys of customers who have contacted us.

Partly as a result of the issues that we faced in the year our operational performance broadly stabilised from the very high levels we achieved in 2018/19. Although we did not meet all the targets that were set for the year, the value of the outperformance payments was higher than the value of the penalties, which increased the net outperformance payment for the year to £21.1m, which takes

the wholesale outperformance payment for the five year AMP6 period to £44m, not including SIM.

- **Operating responsibly**

Behaving in a responsible manner is one of our three strategic themes and has always been a core part of how we operate. We have a strong track record of performance across all the components of environmental, social and governance (ESG) performance.

We have reduced our carbon footprint by 73 per cent since 2005/06, ahead of the target we set ourselves for 2020, with 95 per cent of the electricity we use having zero emissions. We lead the sector in our approach to catchment management, including our award-winning sustainable catchment management programme (SCaMP) and more recently taking this further with catchment systems thinking (CaST), which sees us working with the EA and other stakeholders to deliver the best overall approach to catchment management in the most efficient way.

We have completed the programme of environmental improvement work that was agreed with the Environment Agency. All schemes that were agreed to be delivered in the period were delivered on or before target, except one scheme, which was delayed by just one week. We continued to make very good progress on a scheme that will supply the West Cumbria region with water from Thirlmere, accelerating this work ahead of schedule.

We focus on having a positive impact on society. We lead the industry in affordability and vulnerability assistance with a wide range of schemes for customers, many of which are firsts for the industry.

This is more important than ever as we help those customers struggling as a result of the economic impacts of COVID-19. Over 120,000 customers benefit from the most comprehensive range of affordability schemes in the industry. We led the sector in establishing Priority Services, a scheme designed to provide additional support to customers with health or financial difficulties during an incident.

We now have over 98,000 customers registered for this service. We contributed over £35 million to communities and our Trust Fund during AMP6 and committed to provide £71 million to help customers in difficulty over AMP7.

- **Financially resilient and well placed for AMP7**

We have performed well in the way that we have been able to implement our work and pay for our operations. Over the five years we delivered total expenditure (totex) outperformance of around £100 million against the final determination allowance, on a like-for-like basis, in addition to the significant cost savings we were already delivering to close the gap between the allowance and our original business plan.

We continue to maintain a strong balance sheet, healthy liquidity, and a low-dependency pension scheme that is in surplus on an IAS 19 basis. We accelerated around £80 million of deficit repair contributions in April 2019, getting us to this low dependency funding position. United Utilities Water Limited's (UUW) capital structure continues to supports a solid A3 credit rating with Moody's, in line with our target, and as of 31 March 2020 we have around £1.0 billion liquidity. This is a strong and responsible position to be in, mitigating financial risk for all our stakeholders and giving us a high degree of resilience and financial flexibility as we move into AMP7.

As a result, in our previous Annual Performance Reports, we had committed to reinvest £250m in a programme of resilience work and during 2018/19 we committed to a further £100m of investment that was designed to bring forward further performance improvements and set us up for a flying start to the 2020 – 2025 investment period. During 2019/20 we have been able to accelerate a further £50m of work that was due for the 2020-2025 period, which continues to strengthen our preparations for the next five-year period.

2019/20 performance

Performance against our performance commitment over the last three years of the AMP6 period is set out below. Fuller details of our performance against each of these measures over the full AMP6 period is set out in Section 1 Outcome delivery.

Operational Performance Summary (2019/20)

	Actual Performance			Target		2019/2020 Incentives	
Performance Commitment	**17/18**	**18/19**	**19/20**	**19/20**	**Pass/Fail**	**Impact**	**Value £m**
Providing you with great water							
Drinking Water Safety Plan risk score (see note 1)	4.3	4.8	4.9	≤ 4.3	Fail	See note 1	
Water quality events DWI category 3 or above	27	6	11	≤ 7	Fail	Penalty	**(0.6)**
Water Quality Service Index	98.6	101.2	109.060	≥ 145.9	Fail	Penalty	**(3.6)**
Average minutes supply lost per property (a year)	13:09	9:10	10:11	≤ 12.00	Pass	Reward	**7.2**
Reliable water service index	70.8	98.5	75.79	≥ 100	Fail	Penalty	**(8.0)**
Security of supply index (SoSI)	100	100	100	= 100	Pass	No reward	
Total leakage at or below target	9.1	6.7	16.5	≥ 0	Pass	Reward	**4.0**
Resilience of impounding reservoirs	165.42	165.72	165.72	≥ 165.27	Pass	No reward	
Thirlmere transfer into West Cumbria	25	57	99	≥ 82	Pass	Reward	**21.6**
Disposing of your wastewater							
Private sewers service index	85.0	89.3	90.1	< 100	Pass	Reward	**7.4**
Wastewater network performance index	86.2	90.7	89.13	< 93.40	Pass	No reward	
Future flood risk	16,395	16,379	16,369	< 16,190	Fail	Reputational	
Sewer flooding index	70.0	61.7	79.8	< 68.1	Fail	Penalty	**(8.3)**
Giving you value for money							
Number of free water meters installed	36,615	32,069	25,817	≥46,054	Fail	Reputational	
Customers saying that we offer value for money	52	58	58	≥53	Pass	Reputational	
Per household consumption	311	314	308	284	Fail	Reputational	
Delivering customer service you can rely on							
Service incentive mechanism (SIM)	86.87	88	85	UQWASQ	Pass	See note 2	
Customer Experience Programme	2.576	5.685	9.692	≥17.769	n/a	See note 3	
Delivering our commitments to developers	94%	89%	95%	95%	Pass	Reputational	
Protecting and enhancing the environment							
Contribution to rivers improved – water (Km)	80.6	50.5	159.5	≥ 159.5	Pass	Deadband	
Contribution to bathing waters improved	1.49	4.21	6.56	≥ 6.56	Pass	No reward	
Protecting rivers from deterioration due to growth	210.5	323.0	365.48	≥ 346.6	Pass	No reward	
Maintaining our wastewater treatment works	30.5	39.2	49.93	≤ 46.13	Fail	Deadband	
Contribution to rivers improved wastewater (Km)	120.7	178.9	338.52	≥ 355.22	Fail	Penalty	**(1.9)**
Wastewater (category 1 & 2) pollution incidents	0	1	0	≤ 0	Pass	No reward	
Wastewater category 3 pollution incidents	129	143	162	≤ 191	Pass	Reward	**3.4**
Satisfactory sludge disposal	100	100	100	= 100	Pass	No reward	
Totals							
Total wholesale incentive position							**21.1**

Notes to the table

1 The measurement of this risk assessment was changed by the DWI this year so reported performance is no longer comparable with the target

2 SIM is measured on a different basis in 2019/20 than was the case in prior years, our target is to be upper quartile for water and sewerage companies

3 The customer experience programme was completed in 2018/19 for lower cost than assumed in the PR14 FD, as a consequence £4.6m of revenue was returned to customers as part of the PR19 FD.

Providing you with great water

Outcomes	Performance
a) Your drinking water is safe and clean and b) You have reliable supply of water now and in the future	Five out of nine measures achieved Net reward of £20.6m

What do customers want?
Customers told us that they were happy with the quality of their water but, in some instances, would like its taste, smell and appearance to be improved. Customers also expect reliable, uninterrupted water supplies, and to have enough water in the North West to keep the taps flowing for many years to come, even in the face of long-term issues such as climate change.

How have we done?
Our performance against water quality and availability measures has met or exceeded our targets for five out of nine measures, although we did not meet our annual target on four of the nine measures.

Throughout the AMP6 period we have been implementing major project to construct a pipeline to transfer water from Thirlmere reservoir to a new water treatment works that will treat and supply water to the West Cumbria area. This scheme will allow us to stop abstracting water from Ennerdale Water, which will secure substantial environmental benefits in the area and will connect the West Cumbria area to our integrated water supply zone, which will provide greater security of long term supplies in the region.

The originally planned delivery date for this scheme was March 2022, although we are aiming to deliver this project and secure the benefits as quickly as is possible. We have continued to make very good progress during 2019/20 and are running well ahead of the original schedule, with the acceleration of the project generating an outperformance payment of £21.6m. More details of our work in West Cumbria can be found on our website.

Our performance against the other eight measures in this area has been more mixed and has generated a net penalty of £1m, despite outperforming against two key measures.

Leakage – We beat our leakage target for the fourteenth year running and have maintained our 100% performance level against our longer-term security of supply target. We know that customers regard leakage as a priority and have implemented a number of new techniques that have allowed us to identify and respond to leaks more quickly. During 2019/20 we beat our target by 16.5Ml/d and earned an outperformance payment. Despite this good performance, our leakage targets for the AMP7 period continue to get progressively tougher, so to seek to meet this challenge we have brought forward some expenditure from AMP7 and installed strategically placed acoustic loggers across the network to further enhance our ability to locate and address leaks. Customers can also help by saving water – for water saving tips visit our website.

Average minutes lost – We have continued to focus on improving the way that we identify, respond to and manage the impact of mains bursts, particularly those which result in customers losing their water supply. This involves managing water pressure, investment on poor condition water mains that supply a large number of customers and expanding our “water on wheels” fleet which allows us to restore water supplies through tankered water whilst we are repairing damaged mains. This work is continuing to deliver real benefits and as a result we have earned an outperformance payment against the average minutes of supply lost measure for the second year running. Our performance would have been even better if we had not suffered two major bursts during the year, which also impacted heavily and generated a penalty for our reliable water service index measure.

We also continue to deliver a very high level of water quality. Despite this, we failed to meet our increasingly tough targets for our water quality service index and incurred a penalty. A key measures within this index is Mean Zonal compliance, which measures performance against 39 water quality standards, our performance remains very high at 99.93%, although our performance commitment is set at 100%, which is challenging, not least due to the influence of customers’ own internal plumbing on several water quality parameters. Our performance against this index is also heavily impacted by the number of complaints we have received about discoloured water. We are seeking to improve performance through an extensive and ongoing mains cleaning programme that will reduce the risk of customers receiving discoloured water.

During the AMP6 period, we have been implementing a transformation plan delivering improvements at water treatment works and across the water network. As a result of this, the number of water quality events that we report to the Drinking Water Inspectorate was beginning to significantly reduce, although changes to the way incidents were reported during the year resulted in a higher number of reported incident during 2019/20.

Disposing of your wastewater

Outcomes	Performance
a) Your wastewater is removed and treated without you ever noticing, and	Two out of four measures achieved
b) The risk of flooding for homes and businesses is reduced	Net underperformance payment of £1.0m

What do customers want?
Customers told us they want a reliable wastewater service that works well behind the scenes, and reduced sewer flooding, provided in a cost-effective way that does not adversely affect bills.

How have we done?
The region suffered severe storms during the year and as a result we were only able to achieve two of our four measures in this area.

Sewer Flooding – Flooding from sewers is categorised in two mains ways; first 'hydraulic flooding', which means that the capacity of the sewer network is not big enough to cope with the volume of water during heavy rainfall; and second 'flooding due to other causes', which means, for example, blocked sewers, which causes sewers to become backed-up and results in sewer flooding. We have introduced processes that reduce the risk of both types of flooding, although year-on-year results for hydraulic flooding incidents are very variable and heavily dependent upon the weather during the year.

We remain focused on reducing the impact of flooding of customers' homes by introducing schemes designed to reduce the risk of flooding homes and other areas that are more likely to experience flooding. Our recent investment to improve resilience, including the use of our Integrated Control Centre, has enabled us to improve the effectiveness of our work in the network and to be able to respond more effectively to incidents when they do occur. We have also undertaken extensive sewer cleaning, to continue to improve our performance. This work has seen a steady year-on-year reduction in the number of incidents of flooding due to other causes.

Our overall performance remains however, extremely sensitive to severe weather events. In the first two years of AMP6 we suffered from major storms and, whilst the results of the most extreme events are excluded from our reported numbers, such storms do inevitably contribute to the overall number of flooded properties, and unfortunately we failed to meet our targets in both years, incurring a financial penalty in 2016/17.

In the following two years, there were fewer extreme storms and despite our target getting tougher, we were able to beat it and in 2018/19 we beat it by enough to earn an outperformance payment. During 2019/20 we again suffered major storms and as a result we did not meet our target and ended the year with an underperformance payment.

Our sewer flooding reduction targets for the AMP7 period continue to get tougher and because of the way that they are measured, will be even more susceptible to extreme weather. To meet this challenge, we are offering flood mitigation solutions to any property owner that has experienced flooding and have begun to implement additional programmes in areas at risk of hydraulic flooding. We are confident that this, along with the continuing work on other causes of flooding, will help to bring underlying flooding levels down.

The overall operational performance of our sewerage network is measured using our 'wastewater network performance index', which monitors sewer collapses, blockages and equipment failures. Performance against this measure has remained ahead of the target for the year. However, we did not meet the target for our 'future flood risk' measure, which looks at the overall risk of properties being flooded, although we did manage to reduce some of the risk during the year.

We are pleased with the way that we have managed the large number of previously privately owned sewers that transferred to UUW ownership in 2011. Performance on these assets is measured separately to the normal sewer network, and we believe that we manage this network more proactively than some other water companies. Our approach means that more time and money is spent on these assets than if we managed these assets in a purely reactive way, but it has the benefit of improving the service we provide for customers. As a result of this approach, we have again beaten our target and earned an outperformance payment.

Giving you value for money

Outcomes	Performance
a) Bills for you and future customers are fair	One out of three measures achieved All reputational

What do customers want?
Customers want bills that are fair and affordable, with support for those who struggle to pay, and money spent on projects that will deliver real improvements to services and the region as a whole. Our priority should be our core water and wastewater services, but we should maximise opportunity for partnership working to bring about environmental enhancements.

How have we done?
We have met one out of our three measures in this area. We think it's really important to help customers save money on their water bills and to feel that they are receiving good value for money for the services they pay for. This year we've exceeded our value for money measure with 58% of customers saying our services provided value for money, but there is still more we can do. We understand that perceptions of 'value' are driven by greater knowledge of the work we do, so we continue to take opportunities to talk about how customers can save money as well as promoting the wider services we provide.

We are committed to offer help to those customers who are struggling to pay, to enable them to get back on track. In January 2020, we hosted our third annual Affordability Summit, working with partners across support sectors to improve the help customers can receive. These summits bring together organisations from across the region, who deal with customers in challenging or difficult circumstances, to discuss what more could be done to support those in need. This year we were delighted to be joined by Joe Anderson, Mayor of Liverpool, and Iona Bain, founder of the Young Money Blog, with part of the day being focused on how organisations can do more to support young people manage their money and avoid falling into debt.

Providing support for customers in vulnerable circumstances is more important than ever and, as a responsible business, we have a duty to continuously strive to improve services in order to help those who need it most. We try to do all we can to help customers during difficult times by offering a wide range of support schemes. Over the AMP6 period over 120,000 customers have been supported through our affordability schemes, and at the end of 2019/20, over 98,000 customer are registered on our Priority Services Scheme, which provides tailored assistance for customers who are struggling with bills or who find themselves in vulnerable circumstances.

Many customers can also benefit financially by switching to a water meter. Although we have not met our target for free meters installed in the year, we try to reach as many customers as possible by continuing to use customer segmentation to target, promote and message customers who we know would benefit the most from switching to a meter. Initiatives to promote meters across shopping centres and at other events in key locations across the North West are ongoing, and we also ran a special promotion to around 30,000 customers who were identified as potentially making a big saving on their water, during our half year billing process.

The factors influencing how much water customers use are wide ranging and highly complex, and our measure of per household consumption is difficult to control. In the 2020-25 period, the measure will change with all water companies measuring water usage per person, rather than per household. In 2018/19 water use per person in our region was broadly in line with the national average.

We recognise we can make an important contribution to the North West, over and above providing a great water service. Our investment programme helps the North West economy to thrive by generating jobs and income. Supporting jobs through our supply chain provides a stimulus for the development of skills and jobs the North West economy. We estimate that our next five-year programme is worth some £10.5 billion to the regional economy, supporting over 22,500 jobs each year.

We are committed to increasing the diversity of our workforce and providing career and employment opportunities to deprived and disadvantaged young people. In 2019/20, we ran two youth programmes, supporting over 20 young people who were not in education, employment and training, designed to break down barriers and help the participants become more employable. To date, this programme has converted over 60 young people into paid employment, providing a pathway out of poverty and ultimately increasing an individual's social mobility. It is estimated the social value of this is in the region of £9 million.

Delivering customer service you can rely on

Outcomes	Performance
a) You're highly satisfied with our service and find it easy to do business with us	All measures achieved

What do customers want?
Customers want great service from us every time they get in touch – with easy access to our services and information, for problems to be resolved quickly and professionally, and great communication about those issues we can't solve straight away.

How have we done?
We met all our targets in this area.

During the AMP6 regulatory period Ofwat used the Service Incentive Mechanism (SIM) to compare relative performance on customer service between water companies. Their assessment was based upon average performance for the four years up to 2018/19. The final position on SIM was set out in the PR19 final determinations, which was published in December 2019. On average over the four years UU was placed seventh of the twenty water companies assessed and as a result earned a reward of £6.2m

This average four year position does not reflect the step change that we have made in customer service since 2015, which have been reflected by year on year improvements in SIM and achieving our target of being in the top quarter of the water and sewerage companies in England and Wales in 2018/19. This improvement has been achieved through a strong customer focus, combining higher levels of investment to improve resilience, greater use of technology to deliver better customer service and our leading approach to supporting vulnerable customers.

Ofwat is no longer formally measuring SIM in 2019/20, but has provided a methodology that will allow companies to develop a "proxy SIM" value. This measure is therefore not directly comparable with previous values with our score on this proxy measure being lower than our actual 2018/19 SIM score.

During 2019/20 Ofwat has been piloting its new Customer Experience Metric (C-MeX), and we finished in third place overall across the year, out of the 11 water and wastewater companies, and in first place in the third and fourth quarter surveys of customers who have contacted us. These results are mirrored across other indices and through awards and accreditations we receive for our performance in customer service, collections and debt management, and complaint handling.

We completed the implementation of our wide-ranging Customer Experience Programme during 2018/19. This programme focused on a range of developments, some of which were technology related, to allow us to better respond to what customers want from us and deliver major improvements in our customer service. As we were able to implement this programme at a lower cost than assumed, some of the funding that was allowed for this work during AMP6 period was returned to customers as part of the PR19 price review.

Our agents are now fully trained and are using new functionality to support our customers. This has improved many of our key processes and we have introduced new processes that streamline customer's experience, such as 'Moving Home' and 'Priority Service' functions. The programme has also introduced improvements in digital contact channels and a new smartphone App.

One of our objectives is improve service to developers, local authorities and highway authorities. We were disappointed by a temporary dip in our performance against this measure in recent years following an internal re-organisation. However, we are pleased to deliver a better overall standard of service in 2019/20, beating our target for the year. Our detailed performance and a comparison to industry average performance in this areas can be seen on our seen on our website.

The non-household retail market is now open to competition allowing business customers a choice about who they receive services such as billing, meter reading and customer services from. If you are a business customer and want to know more, go to the Open Water website.

Protecting and enhancing the environment

Outcomes	Performance
a) The North West's bathing and shellfish waters are cleaner through our work and that of others b) The natural environment is protected and improved in the way we deliver our services, and c) Our services and assets are fit for changing climate and our carbon footprint is reduced	We have achieved six out of eight measures. Achieving outperformance payments of £1.4m

What do customers want?
North West customers are passionate about our coastlines, recognising the link between good bathing water, tourism and the economic health of our local communities. They expect us to protect and enhance the areas of natural beauty under our ownership and work to reduce our carbon footprint.

How have we done?
We have met or beaten six of our eight targets for the measures in this area.

Throughout the AMP6 period, we have been delivering three wide-ranging programmes of work to improve the environment. The first two focus on the impact of our wastewater operations on inland and river water quality or on improving bathing and coastal waters, the third programme focused on schemes to control flows in lakes and rivers and to protect wildlife from the impacts of our operations to abstract water to be treated and provided to customers.

The wastewater inland and river water quality programme was finalised after our performance target for the measure had been agreed with Ofwat, with a number of subsequent changes to the programme having been agreed with the Environment Agency (EA). During 2019/20 we successfully delivered 44 of the remaining 45 projects, that were in the final programme agreed with the EA, although one project was delivered five days later than planned owing to issues with final testing. The incentive mechanism for this measure takes account of changes to the projects within the programme as well as the timing of the delivery of these projects. We incurred a penalty on this measure in 2019/20, although over the five years we earned a relatively small outperformance payment.

During the year we also successfully completed the remaining schemes in our bathing and coastal waters programme.

We also successfully delivered all the remaining schemes in our water abstraction programme that had 2019/20 regulatory dates set by the EA. However, our performance commitment for 2019/20 also included a number of schemes with December 2020 regulatory dates and we were unable to deliver three of these schemes. The first was an eel protection scheme in Windermere, which had been progressing well until a relatively late change to the solution was required by the EA. The remaining two are flow management schemes at Cownwy, and at Marchnant, in Wales. These schemes were initially affected by severe flooding in the area and were then directly impacted by coronavirus, with contract staff needing to self-isolate. As a result, and in agreement with National Resources Wales, the ongoing work stopped, and sites made safe until work was able to resume. The delays in these projects have been offset by a reduction in abstraction at sensitive sites, which means that overall, this measure finishes the year with no underperformance or outperformance payment.

We have continued to perform well on our commitments to manage the impacts of development, manage sewage sludge and reduce the numbers of pollution incidents. For the latter, we met our target for zero category 1 and 2 incidents (the more serious incidents) and earned an outperformance payment for reducing category 3 incidents (which are relatively less serious).

Although we have substantially reduced the level of risk and improved the level of compliance at our wastewater treatment works since the start of the period, we did not meet our target for the year, although not by enough to incur a penalty. Our wastewater treatment works performance target for AMP7 focusses on compliance rather than both risk and compliance, but is set at 100%. We are continuing to improve our automation and control and to enhance on-site or remote monitoring and management of key assets, to help us achieve this target.

We set a target of reducing our greenhouse gas emissions by 50 per cent from the 2005/06 baseline by 2020 and to achieve a 60 per cent reduction by 2035. We have already exceeded both of those targets, with carbon emissions now 71 per cent below the 2005/06 baseline. We recognise our obligation to mitigate climate change and will continue to explore ways to lower our emissions. Further details can be found in our environmental policy.

Performance across the 2015 – 2020 period

In 2019 we expected to end the AMP6 period in a net positive position across the two wholesale price controls with a net outperformance payment of between £30m and £60m. The central estimate that was included within the predictions that were fed into the PR19 process was £45m based upon a relatively small net penalty for the water services, with a larger net outperformance payment for the wastewater service.

As can be seen from the table below the final net wholesale position based upon actual 2019/20 performance rather than predicted performance was £43.5m. We have also as we anticipated in 2019 been able to return some of the allowed retail revenue associated with the customer experience programme, which was completed at a lower cost than assumed.

The incentive payments that were predicted in 2019 were included within the PR19 price review process that set the revenues that the company can collect during the 2020 to 2025 period. Although the net reward achieved against these measures will be recovered through customer bills, the overall impact of the price review was to reduce average household customer bills by 13.8%.

The outturn incentive payments were marginally lower than we had anticipated in 2019. The difference between the assumed incentive values and actual incentive values will be reflected by a further minor adjustment to future customer bills. Full details of the reconciliation of all of the AMP6 incentive mechanisms, are set out in the document "PR14 reconciliation update 2020" which is available on our website.

Final out performance payments and penalties for the 2015-2020 period

Performance Commitment	Annual incentive payments (£m 12/13 prices)					AMP 6 Total (£m)
	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	
A2: Water quality events DWI category 3 or above	-0.4	-0.6	-0.7	0	-0.6	-2.4
A3: Water Quality Service Index	0.2	-3.6	-3.6	-3.6	-3.6	-14.2
B1: Average minutes supply lost per property (a year)	0	0	-6.0	11.3	7.2	12.5
B2: Reliable water service index	-8.0	-8.0	-8.0	0	-8.0	-31.9
B3: Security of supply index (SoSI)	0	0	0	0	0	0
B4: Total leakage at or below target	0	9.1	0	0	4.0	13.1
B5: Resilience of impounding reservoirs	0	0	0	0	0	0
B6: Thirlmere transfer into West Cumbria	0	0	0	0	21.6	21.6
C1: Contribution to rivers improved – water programme	0.1	0.2	0.2	0.2	0	0.6
Water service total						**0.6**
A1: Private sewers service index	7.4	7.4	7.4	7.4	7.4	36.9
A2: Wastewater network performance index	0	0	0	0	0	0
B2: Sewer flooding index	0	-1.5	0	0.6	-8.3	9.2
C1: Contribution to bathing waters improved	0	0	0	0	0	0
D1: Protecting rivers from deterioration due to growth	0	0	0	0	0	0
D2: Maintaining our wastewater treatment works	0	0	0	0.0	0	0
D3: Contribution to rivers improved wastewater (Km)	0	0.4	0.6	0.9	-1.9[1]	0.1
D4a: Wastewater (category 1 & 2) pollution incidents	0	0	0	0	0	0
D4b: Wastewater category 3 pollution incidents	3.3	3.3	3.3	3.3	3.3	16.4
D5: Satisfactory sludge disposal	0	0	0	0	0	0
Wastewater service total				-		**44.1**
Household retail (customer experience) total						**-4.7**

Note – In the December 2019 PR19 final determination, Ofwat revised the way that the incentive payments should be calculated for measure D3: Contribution to rivers improved wastewater (Km). The five-year incentive payment for this measure fully reflects the revised calculation.

Evolving our performance commitments for the 2020 – 2025 period

We have retained the longer-term outcomes but have revised some of the specific performance commitments that will be used to measure delivery against these outcomes in AMP7. These changes are: Introduction of common measures, to allow better comparisons across companies; splitting the index measures to more transparent single measures; adding measures for longer term "asset health", adding measures, which were seen as high priority by customers, or are AMP7 specific. The table below shows the revised measures.

Evolution of performance commitments AMP6 to AMP7

Outcome	AMP6 measure	AMP7 measure	Reason for change
Your drinking water is safe and clean	Water Quality Service Index	Contacts for taste, smell and appearance	Three AMP6 water quality and risk measures replaced by two equivalent AMP7 measures
	Water quality events (category 3)	Water quality compliance (CRI)	
	Drinking Water Safety Plan risk score		
		Number of properties with lead risk reduced	New measure added for AMP7
		Helping customers look after water in their home	New measure added for AMP7
		Discolouration from the Vyrnwy aqueduct	New measure added for AMP7
You have a reliable supply of water now and in the future	Total leakage at or below target	Leakage	Equivalent measure
	Average minutes supply lost	Reducing interruptions to water supply	Equivalent measure
	Security of supply index (SoSI)	Drought risk resilience	Equivalent measure
	Resilience of impounding reservoirs	Keeping reservoirs resilient	Equivalent measure
	Thirlmere transfer into West Cumbria	Thirlmere transfer into West Cumbria (AMP7)	Equivalent measure
	Per household consumption	Per capita consumption	Equivalent measure
	Reliable water service index	Mains repair	AMP6 index split to two specific measures
		Reducing areas of low water pressure	
		Unplanned outage	New measure added for AMP7
		Water service resilience	New measure added for AMP7
		Manchester and Pennine resilience	New measure added for AMP7
The natural environment is protected and improved in the way we deliver our services	Maintaining WwTW	Treatment works compliance	Equivalent measure
	Satisfactory sludge disposal	Recycling biosolids	Equivalent measure
	Protecting rivers from growth	Protecting the environment from growth	Equivalent measure
	Category 1 and 2 pollution incidents	Pollution incidents	Single measure in AMP7
	Category 3 pollution incidents		
	Rivers improved – water programme	Improving the water environment	Programme delivery measure
		Abstraction incentive mechanism	Part of AMP6 rivers measure
	Bathing waters improved	Improving river water quality	Single wastewater programme delivery measure
	Rivers improved – wastewater		
		Enhancing natural capital value for customers	New measure added for AMP7
		Better air quality	New measure added for AMP7
You're highly satisfied with our service and find it easy to do business with us	Service incentive mechanism (SIM)	Customer experience (C-MeX)	SIM and AMP6 developers measure have been replaced by C-Mex and D-Mex
	Commitments to developers	Developer experience (D-MeX)	
	Customer experience programme		Removed as programme is complete
		Improving street works performance	New measure added for AMP7
		Priority services for customers in vulnerable circumstances	New measure added for AMP7
		Priority Services – BSI accreditation	New measure added for AMP7
We will improve the way we work to keep bills down and improve services	Customers say we offer value for money	Customers say that we offer value for money	Equivalent measure
	Number of free water meters installed	Number of customers lifted out of water poverty	New and wider "affordability" measure
		Non household vacancy incentive scheme	Four new measures seeking to ensuring properties are correctly registered and that bills are spread as widely as possible.
		Gap sites (wholesale)	
		Gap sites (retail)	
		Retail voids	
		Systems thinking capability	New measure added for AMP7
		Delivery of direct procurement of HARP scheme	New measure added for AMP7
Collect and recycle wastewater	Wastewater network performance index	Sewer collapses	The two AMP6 index measures are replaced by two specific measures c
	Private sewers service index	Sewer blockages	
The risk of sewer flooding for homes and businesses is reduced	Future flood risk	Risk of sewer flooding in a storm	Equivalent measure
	Sewer flooding index	Internal flooding incidents	the AMP6 index has been broken down to two measures
		External flooding incidents	
		Hydraulic internal flood risk resilience	New measure added for AMP7
		Hydraulic external flood risk resilience	New measure added for AMP7
		Customer awareness of the risk of flooding	New measure added for AMP7

Our expenditure and revenues

Introduction

The PR14 price review process was structured around two wholesale price controls and two retail price controls.

The wholesale business undertakes the operational activities of collecting, treating and distributing water to customers and then collecting and treating the wastewater and managing the sludge produced by the wastewater treatment process. At PR14 two separate price controls were established for our wholesale services: water and wastewater.

The retail business undertakes the customer contact and billing activities. At PR14 two separate price controls were established for our retail services. One of these was for retail services for household customers, which we continue to operate. The other retail services were for business and other non-household customers. The non-household retail market opened to competition in April 2017, following which UUW exited the non-household retail market and non-household customers have been able to obtain their retail services from a number of retailers. Further details of the non-household retail market can be found on the Open Water website.

This section of the executive summary of our APR sets out how we have performed against the PR14 expenditure and revenue assumptions for the wholesale price controls and the household retail price control. The following section sets out how this expenditure has impacted upon the financial performance of the company.

Wholesale

Overview of the wholesale price controls (assumed expenditure and allowed revenue)

As set out in the previous section of this summary, the performance expectations of the wholesale services were set out in terms of performance commitments with associated outcome delivery incentives. The PR14 process also determined the assumed levels of total expenditure (totex) that were required to deliver these performance levels and to continue to meet our other regulatory and statutory obligations.

These expenditure assumptions for the water and wastewater services, were then used to determine the amount of revenue that would need to be recovered from customers to allow the business to finance the delivery of the operational and capital expenditure programmes that would be required during the AMP6 period, to continue to finance the borrowing required to fund previous investment programmes and to pay tax on our operations.

The PR14 determination also defined the incentive regimes that are in place to reflect changes between allowed totex levels and actual totex levels, with these totex incentive regime designed to work together with the outcome delivery incentives to drive improvements in performance and efficiency.

Totex incentivisation

The totex investment regime takes a holistic view of capital and operating expenditure (capex and opex) to generate a total expenditure level (totex).

Any variance between the initial totex assumptions and actual expenditure over the full five-year period will be assessed through the totex incentive mechanism as part of the price review process for the 2020-25 period. This mechanism ensures that if we have been able to make greater efficiencies than assumed in the FD, then approximately half of the saving would be retained by the company and approximately half would be returned to customers. Similarly, if our expenditure is higher than the determined allowance, approximately half of the increased expenditure would be recovered from customers and approximately half would be paid for by the company.

We provided an estimate of our totex over the full five year period in July 2019. The impact of the net variance to the PR14 assumptions was assessed as part of the PR19 process which concluded in December 2019 and were reflected in customer bills. Variances between 2019/20 assumed totex levels and actual 2019/20 totex levels are set out in our 2020 PR14 reconciliation information and will be reflected in bills through the PR24 process.

Interaction of operational and financial incentives

The totex incentive regime is designed to work alongside the outcome delivery incentive regime to ensure that companies are incentivised to strike the right balance between expenditure and performance. This approach is designed to encourage companies to innovate and to achieve efficiencies or improved service levels, rather than simply setting fixed (or capped) expenditure allowances and performance requirements.

Wholesale expenditure
Our wholesale totex expenditure, compared to the totex expenditure levels set out in the PR14 final determination is shown in the table below.

Wholesale expenditure over the AMP6 period (12/13 prices)

Measure	Cumulative spend April 2015 to March 2020		
	FD assumption (£m)	Actual (£m)	Variance (£m)
Wholesale totex (Water)	2,348	2,609	+261
Wholesale totex (Wastewater)	2,940	3,031	+91
Shadow RCV (March 2019)	11,653	11,887	+234

Information from APR Table 4B and 4C

Expenditure in 2015/16 and 2016/17 was significantly higher than assumed across both the wholesale controls. 2017/18 expenditure in water was in excess of the FD whereas 2017/18 wastewater expenditure was lower than assumed in the FD. In 2018/19 expenditure across wholesale was broadly in line with FD expectations, with water expenditure £65 million higher and wastewater expenditure £60 million lower than assumed in the FD (in outturn prices). In 2019/20 expenditure was above FD expectations, wastewater expenditure was £27m lower than assumed, although water expenditure was £66m above the originally assumed levels.

Wholesale expenditure acceleration
The key reason for the increased expenditure in the early part of AMP7 is because we chose to accelerate the expenditure programme to enable us to target better service levels to customers, improve performance against our outcomes and to drive future sustainable efficiency savings.

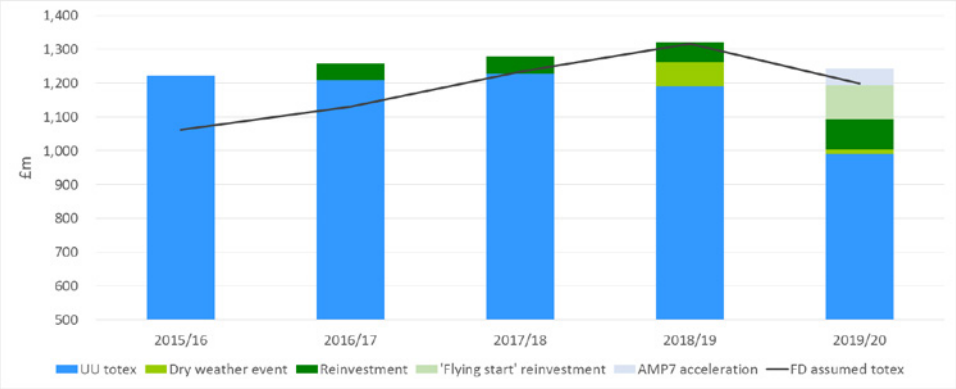
Despite this increase in expenditure, we were confident that we would outperform the efficiency challenge set by the FD. During the year we completed our programmes of work, on a like-for-like basis approximately £100m lower than the expenditure levels assumed in the FD.

In 2016/17 we began to reinvest a substantial portion of our overall outperformance in a £250 million programme of resilience work, designed to provide additional customer and environmental benefits both over the rest of the AMP and in the longer term, and have recently announced a further £100 million of reinvestment to help us make a flying start to AMP7.

In 2018/19, we incurred additional costs in managing and building increased resilience in response to the hot and dry summer of 2018, with this work continuing onto 2019/20. During 2018/19 we also received our PR19 fast track status and early draft determination, as a consequence of which we committed to invest a further £100m of outperformance in a programme that was targeted at some of the biggest challenges in our AMP7 performance targets, to enable us to make a flying start on further performance improvements.

This year we completed this flying start programme and also accelerated £50m of AMP7 expenditure into the year to ensure that we were as well positioned as possible for the start of the AMP7 period.

Actual totex vs the FD



Following publication of the FD, Ofwat provided revised guidance (RAG 2.07) on cost allocation. This sets out that capital expenditures and associated depreciation of assets should be reported in the service of principal use of that asset, with recharges made to the other services that use the asset. UUW has complied with this guidance.

Importantly, our capital delivery continues to be achieved in an increasingly effective and efficient manner as measured by our internal time, cost and quality index (TCQi). This has improved over AMP6 and in 2019/20 was 95.1% (up from 90% in 2015/16), meaning that, on average, over 95% of our capital expenditure in the last year was delivered to time, at the budgeted cost and meeting the high level of quality required.

Household retail

Overview of the retail price controls and incentives

The PR14 process determined an allowed 'cost to serve', plus an assumed margin that could be recovered for providing retail services to household customers. The allowed cost reduced through the AMP6 period, with no allowance being made for inflation and therefore the targets become progressively more difficult through the period.

The initial cost to serve allowance was based upon assumed numbers of customers through the period, as well as the numbers of customers who are metered or un-metered and customers who receive one or both of the wholesale services. Total allowed cost to serve levels for each year therefore vary depending upon actual customer numbers.

There is no cost sharing mechanism for retail costs. Any variations in actual cost to service compared to the allowed level of costs impact company returns – not customer bills – in the period.

2019/20 performance – household retail

2019/20 comparison between allowed and actual cost to serve (out turn prices)

Measure	Ofwat FD assumption	2019/20 Actual	Variance
Cost to serve excluding margin	£105.4m	£126.0m	£20.6m

Operating costs for 2019/20, assumed in the PR14 FD, taking account of an increase in customer numbers would be £105.4 million.

Actual household customer numbers at 3.03 million (Table 2F), were 32,416 higher than in 2018/19 and 37,805 higher than assumed in the PR14 FD. This change has primarily been driven by higher than forecast new connections and the benefits of residency validation and gap site identification activities.

Actual operating costs in the year (as set out within APR tables 2C and 4F) were £126.0m, which is £15 million higher than in 2018/19. This increase is due to:

- £20m expected credit loss adjustment for COVID-19 offset by:
- £5m reduction in underlying operating expenditure.

Underlying costs, excluding the COVID-19 expected credit loss adjustment were therefore £106m which is broadly in line with the cost allowance for the year.

The further reduction in our underlying cost to serve this year (excluding the COVID-19 credit loss adjustment), demonstrates the step change that we have driven in our retail performance and efficiency over the AMP6 period and the benefits that have been delivered through our customer experience programme.

However, our bad debt costs in the year are significantly increased from those in 2018/19 due to the credit loss adjustment for COVID-19. We expect bad debt to continue to be a challenging area for us due to the level of deprivation in our region and the impact that COVID-19 may have on the ability of customers to pay their bills. This makes our focus on affordability more important than ever as we help those customers struggling as a result of the economic impacts of COVID-19.

In this area we are well placed as we lead the industry in affordability and vulnerability assistance with a wide range of schemes for customers, many of which are firsts for the industry and during the year we have continued to see significant numbers of customers taking advantage of these financial assistance schemes.

Impact of our performance on the PR14 incentive regimes

In July 2019 we published a document setting out actual performance up to 2018/19 and predicted performance for 2019/20 performance alongside our APR. This information, called our July 2019 PR14 reconciliation update is available via this link. and set out how we had performed against the PR14 (AMP6) incentive mechanisms and how we proposed that this performance should be reflected through the PR19 process in changes to allowed revenues or adjustments to the RCV.

Ofwat reviewed this information as part of the PR19 final determination process and published its conclusions in December 2019. This year we have updated this information to take account of actual 2019/20 performance.

There are eight PR14 incentive regimes that generate adjustments to PR19 revenues or Regulatory Capital Value (RCV):

- **Water and Wastewater wholesale performance commitments** – the cumulative five-year penalty or outperformance payment for the financial performance commitments within each price control (Water and Wastewater) is calculated. If this is a penalty this is applied as a revenue reduction, if this is an outperformance payment it is applied as an RCV uplift.
- **Household Retail performance commitments** – other than SIM we have one penalty only performance commitment, with any penalty applied to household retail cost to serve.
- **Service Incentive Mechanism (SIM)** – measures the number of complaints and the quality of the way companies handle complaints. Performance is assessed relative to other water companies, and full details of how incentives will be calculated are still to be determined by Ofwat.
- **Water and Wastewater wholesale totex** – the cumulative five-year actual totex for each wholesale price control is compared against totex levels assumed at PR14. Approximately half of any under or overspend is shared with customers through customers through revenue and RCV adjustments, which reduce or increase future bills.
- **Wholesale Revenue Forecasting Incentive Mechanism (WRFIM)** – annual adjustment to revenues to account for any over or under recovery of allowed revenue in previous years. A penalty is also applied if companies over or under recover by 2% more or less than the allowed revenue.
- **Household retail mechanism** – adjusts the allowed cost to serve to reflect differences between the actual number of customers in each cost to serve category and the number expected at PR14.
- **Land Sales** – reduces the RCV to reflect the net proceeds, after the deduction of all off setting costs, of disposals of land.
- **Water trading incentives** – revenue adjustment applied for water trades to or from other water companies.

In addition to these ten PR14 incentive mechanisms, wholesale revenues and RCV were also be adjusted to reflect the finalisation of the adjustments from previous price review (PR09), the details of which were determined and published by Ofwat in December 2017. Additionally, a notified item was defined in PR14 for significant variances in water rates. As our actual costs for water rates are broadly in line with expectations, we will not be applying this notified item.

The net impact of all of these adjustments, including the prior AMP adjustments are set out in the table below. The 2019 update values are larger than the equivalent 2018 values due to the additional expenditure which we are planning to undertake and the better than anticipated performance against our ODIs this year.

Net Impact of adjustments

	FD view		Actual		Variance	
	RCV	Revenue	RCV	Revenue	RCV	Revenue
Wholesale water	£58.2m	£28.8m	£59.3m	£24.1m	£1.1m	£(4.7m)
Wholesale wastewater	£19.5m	£7.1m	£32.9m	£11.1m	£13.4m	£4.0m
Household retail	n/a	£6.3m	n/a	£5.8m	n/a	£0.5m
UUW Total	£77.7m	£42.2m	£92.2m	£41.0m	£14.5m	£(0.7m)

Our financial performance

Overview of the PR14 determination

Ofwat developed the PR14 determinations for all companies based upon a notional capital structure (rather than basing them on company specific capital structures). It applied a common weighted average cost of capital (WACC) for all (non-enhanced) companies of 3.60% (RPI) to determine wholesale revenue allowances. Margins of 1% and 2.5% were applied to the household retail and non-household retail price controls respectively.

To demonstrate that the plan was financeable, the anticipated performance against a key suite of equity and debt financial indicators was set out as part of each company's determination.

In addition, Ofwat set out the assumed notional base case return against the company's regulatory equity (RORE). For UUW this value was 5.63%.

The overall determination and incentive package was therefore positioned to be sufficiently broad and challenging that companies needed to manage diverse risks and utilise available opportunities in order to earn a balanced return for investors, whilst delivering the best possible package of price and service to customers and the environment.

Overview of the PR19 determination

Ofwat published water companies' final determinations (FDs), covering the 2020-25 period, in December 2019 and we accepted our FD in January 2020. This followed on from us receiving an early draft determination in April 2019, having been one of only three companies across the industry to be fast-tracked through the process. This has allowed us to be already well underway with implementing our plans for AMP7 and we invested £100 million in the last year of AMP6 in order to achieve a flying start to AMP7. Our fast-track status also provided a reward equivalent to an annual 0.1% of regulated equity, worth around £25m across the 2020-25 period.

Consistent with the PR14 FD, the PR19 FD applied a common WACC (excluding fast-track reward) to all companies. Appointee WACC, inclusive of 0.04% retail allowance, was set at 2.96% real (CPIH), or 1.96% on an equivalent RPI basis, significantly reduced from PR14 reflecting the continuing low interest rate environment and lower expected market equity returns.

2019/20 performance – UUW financial performance

Overall, we have delivered a robust set of financial results for the year ended 31 March 2020.

An increase in Retail Price Index (RPI) inflation has increased both revenues and our RCV. We continue to maintain a strong balance sheet and solid credit ratings.

Over 2015-20, we had a financing requirement totalling around £2.5 billion. This was fully funded before the end of the AMP with subsequent finance raised prefunding our AMP7 requirement. In total over 2020-25, we expect to raise around £2.1 billion to cover refinancing and incremental debt, supporting our five-year investment programme. We remain one of the sector leaders in the issuance of CPI-linked debt having achieved CPI-linkage on £515 million of our debt portfolio, in response to Ofwat's decision to transition away from RPI inflation linkage.

Our leading treasury management secured a low cost of debt compared with industrywide regulatory assumptions for AMP6, with an appropriate mix of index-linked and nominal debt; and our hedging policy means we are well placed to manage future financing costs. We have a robust liquidity position with c£1.0bn of availability liquidity as of 31 March 2020 and have published a seven-year, long term viability statement.

We have a responsible and sustainable dividend policy, with consideration given to a broad range of stakeholders who have interests in the performance of the company.

The following pages of this executive summary cover our financial performance through an overview of our income statement, our financial position and a range of key financial metrics. The overall impact of this performance upon return is also assessed through our return on regulatory equity (RORE) and financial flows.

Additional detail is provided within Section 2: Regulatory Accounts.

Income statement

Our income statements for the years ending 31 March 2019 and 31 March 2020 are summarised in the table below. This should be read in conjunction with the high-level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial measures for the years ending 31 March 2019 and 31 March 2020

Financial Measure (£m)	2018/19	2019/20
Revenue	1,783.1	1,832.4
Operating Profit	610.6	605.0
Profit before tax	366.0	283.0
Profit after tax	303.3	96.4

Information from APR Tables 1A

In 2019/20, regulated revenue increased by £49m, to £1.83bn, mainly reflecting an increase in our allowed regulatory revenue for the wholesale price control. Partly offsetting this increase, consistent with Ofwat's annual wholesale revenue forecasting incentive mechanism (WRFIM), revenue was reduced in 2019/20 by £14m (vs. £8m reduction in 2018/19), reflecting actual volumes being higher than our original assumptions during AMP6 and reductions relating to the 2014/15 AMP5 'blind year'.

Operating profit of £605m was down £6m from 2018/19. 2019/20 reported depreciation includes an atypical charge of £83 million in relation to the accelerated depreciation of Bioresource assets that have been taken out of use. The small reduction in operating profit reflects a £89m increase in depreciation (including this £83m acceleration) plus a £10m increase in losses on disposal of assets, largely offset by the £49m increase in revenue, a £32m reduction in infrastructure renewals expenditure plus a £12m reduction in operating costs.

Profit before tax of £283m was down £83m. This reflects a £6m reduction in operating profit, a £13m increase in net interest expense, mainly due to the impact of higher RPI inflation on our index-linked debt, plus a £70m fair value movement on financial instruments (from a loss of £7m in 2018/19 to a loss of £77m in 2019/20). Fair value losses of c£77m in 2019/20 were by driven by a fall in market interest rates as well as an increase in credit spreads across the period.

This was partly offset by a £3m increase in other income and a £3m increase in interest income on UUW's pension asset position under IFRS.

Reported profit after tax of £96m was down £207m from 2018/19, reflecting a £83m reduction in profit before tax plus a £124m increase in the reported tax charge. The deferred tax charge of £144m for 2019/20 includes an atypical charge of £132m relating to the Government's reversal of the planned reduction in the rate of corporation tax from 19 per cent to 17 per cent from 1 April 2020.

Financial position

Our financial position for the years ending 31 March 2019 and 31 March 2020 is summarised in the table below. This should be read in conjunction with the high-level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial position for the years ending 31 March 2019 and 31 March 2020

Financial Position	2018/19	2019/20
Total assets (£m)	12,738	13,534
Total liabilities (£m)	10,448	11,629
Net asset value and total equity (£m)	2,290	1,905
(Decrease)/Increase in net cash (£m)	(176)	175
Net Debt (£m)	7,394	7,890
Ofwat RCV (£m)	11,404	11,653
"Shadow" Regulatory Capital Value (£m)	11,624	11,887
Gearing (%)	64.8	67.7

Information from APR Tables 1C, 1D, 1E and 4C

Net assets were down £385m, with the £796m increase in assets more than offset by a £1,181m increase in liabilities, both impacted by continued significant investment in our capital investment programme, with liabilities also being impacted by the increase in net debt (described below). There was a £175m increase in cash, mainly due to the timing of finance raised towards the end of the year, reflecting operational financing requirements.

Reported net debt (Table 1E), which includes preference share capital, was up by £496m. This increase primarily reflects regulatory capital expenditure, payments of dividends, interest and tax and the inflationary uplift on index-linked debt.

The 'Shadow' regulatory capital value increased by £263m as a result of the impact of RPI inflation, together with the size and timing of our investment programme.

Reported gearing (which uses Ofwat RCV) increased by 2.9% to 67.7%, primarily reflecting additional, discretionary, totex reinvestment, accelerated pension contributions and a one-off increase in dividends. 2019/20 totex included c£100m of additional "flying start" totex reinvestment and c£50m of accelerated AMP7 spend, to help ensure UUW is well positioned as it transitions into the new five-year regulatory period. Accelerated pension deficit repair contributions of c£81m in 2019/20 eliminated the company's pension, with expectation that the pension schemes will be fully funded on a low dependency basis without additional contributions from the company. Gross dividend for 2019/20 was higher than average for the AMP, since it included the one-off distribution of all remaining outperformance, post totex reinvestment, across the whole 5-year regulatory period. In addition, net debt for the current year includes lease obligations for the first time following the adoption of IFRS 16 'Leases'.

Based on the shadow RCV, which adjusts for actual totex spend and includes accrued ODI rewards, gearing is lower at 66.4%.

UUW's capital structure continues to support a solid A3 credit rating with Moody's. With UUW having eliminated its pension deficit position and with a lower scheduled AMP7 capital programme, compared with AMP6, gearing is expected to significantly reduce across the 2020-25 period. Although the extent of any reduction will be impacted should CPIH inflation outturn lower than Ofwat's PR19 assumptions.

Financial metrics

Our performance against the key financial measures set out in the FD for the years ending 31 March 2019 and 2020 is summarised in the table below. This should be read in conjunction with the high-level commentary following the table and the detailed information provided within Section 2: Regulatory Accounts.

Financial metrics for the years ending 31 March 2019 and 31 March 2020

Financial ratios	Notes	Ofwat FD assumption	2018/19 actual	2019/20 actual
Cash interest cover ratio (ICR)	1	3.28	5.77	5.44
Adjusted cash interest cover ratio (ACICR)	1	1.65	2.80	2.60
Funds from operations (FFO)/debt	1	10.25%	11%	10%
Regulatory gearing (net debt/RCV)	1	59.83%	64.84%	67.71%
Credit rating	1	Investment grade	BBB+ stable	BBB+ stable

Information from PR14 Final Determination company specific appendix – United Utilities and APR Table 4H

Notes:

1. Ofwat FD ratios are derived on a notional capital structure with a notional cost of debt and reflect 100% of IRE expensed in the income statement.

The interest cover ratios illustrate a company's ability to pay interest on its outstanding debt. The cash interest cover looks at the ratio of funds from operations (FFO) before the payment of interest, to cash interest payable. The adjusted cash interest cover adjusts the numerator by subtracting regulatory depreciation which is an approximation of the capital cost that would be incurred if companies were to maintain the RCV at the same level. Both metrics remain comfortably above the Ofwat FD assumptions.

The FFO/Debt ratio is calculated by taking the net cash generated from operating activities, adjusting for changes in working capital and dividing by net debt. This ratio is often used by credit rating agencies to look at the ability of companies to repay their debt and to fund their capital expenditure requirements. It should, however, be noted that each credit rating agency has its own approach to the calculation of these ratios which may differ from the Ofwat calculation shown here. UUW's FFO/Debt ratio of 10.2% for 2019/20 was slightly lower than 10.8% in 2018/19, impacted by accelerated pension deficit repair contributions of £81m in 2019/20 to eliminate the company deficit, although it is still in line with Ofwat's PR14 FD assumption of 10.25%.

The debt to RCV gearing ratio measures the proportion of debt in a company's capital structure relative to its regulatory capital value. This ratio is often used by credit rating agencies to assess a company's level of leverage and capital strength. The movement on this metric is explained on the previous page.

Our median credit rating, which is the key focus for credit investors, continues to be A3/A-, although our lowest credit rating, as reported in APR table 4H, remains one notch lower at BBB+. Whilst UUW's credit ratings with Fitch was upgraded from BBB+ to A- in 2019/20, this was offset by a one-notch downgrade in UUW's S&P ratings from A- to BBB+. UUW's Moody's rating remained unchanged at A3.

Overall, these 2019/20 metrics reflect another robust set of results that we have been able to publish.

Return on Regulatory Equity (RORE)
The UUW FD set out the theoretical range of returns that UUW could expect to earn dependent on its actual performance in the period, with this return being expressed as a return on the regulated equity of the business (RORE).

The RORE value reported in our APR is designed to measure the returns (after tax and interest) that a company has earned by reference to the notional regulated equity, where regulatory equity is calculated from the RCV and notional net debt (62.5% of RCV).

The notional base case RORE that was assumed in the FD was 5.63% and was assumed to be able to vary between 1.4% and 7.9%, depending upon actual performance in the period.

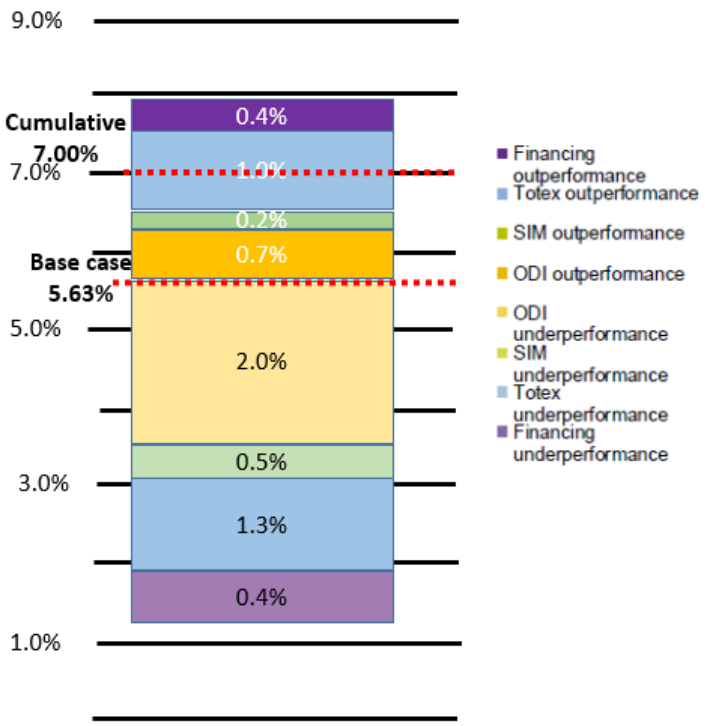
UUW reported a RORE of 5.80% in 2019/20, which, whilst still representing outperformance, was impacted by additional discretionary totex reinvestment. This results in a cumulative RORE for AMP6 of 7.00%. Adjusting for the discretionary resilience and 'flying start' reinvestment, accelerated AMP7 investment and one-off spend including the 2018 dry weather event and COVID-19 (impacts as described below), the cumulative underlying RORE is higher at 7.99%. This underlying RORE of 7.99% provides a more representative view of actual business performance across 2015-20.

Although the cumulative value is within the expected range published by Ofwat and exceeds the assumed base case, comparisons between these two values need to be made with care. The assumed return within the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt, whereas the actual values reflect the UUW actual company-specific position. This means that the numbers are not directly comparable.

The impact of our operational and financial performance on the key factors that are used to determine RORE is set out below.

Wholesale totex and retail operating costs – Whilst we have reported a totex underperformance within RORE of 2.24% in 2019/20 and 0.78% cumulative, this has been adversely impacted by our responsible approach to reinvestment of £350m of outperformance (outlined below).

Across AMP6, we have delivered totex outperformance of c£100m against our AMP6 scope i.e. on a like-for-like basis. However, the RORE assessment reflects the additional reinvestment of c£350m outperformance, split c£250m resilience spend and c£100m 'flying start' investment. It also reflects c£50m of accelerated AMP7 spend and c£80m of atypical costs incurred in 2018/19 and 2019/20 relating to the Dry weather event. The c£100m underlying outperformance as well the c£250m resilience spend has been spread equally over the final three years of the AMP from 2017/18 to 2019/20.



The base case RORE figure of 5.63% included a non-household retail margin of 0.11%. This has been removed following the transfer of the non-household retail business to the Water Plus joint venture on 1 June 2016.

Costs incurred in household retail have been slightly higher than the FD allowance, particularly in 2019/20 which included an atypical bad debt charge of £20m associated with COVID-19. Overall, we have reported a retail underperformance within RORE of 0.39% in 2019/20 and 0.12% cumulative.

Increased pension deficit recovery and compensation costs are not accounted for in the totex incentive mechanism and as such do not feature in the RORE calculation and have to be funded by the business.

Outcome delivery incentives – In 2019/20, our good operational performance has delivered net ODI outperformance payments of £16.5m, across the wholesale and retail services, equivalent to 0.45% of RORE. This results in a cumulative five-year payment figure for ODIs of 0.21% of RORE.

SIM – This is a measure of relative intercompany performance. Ofwat confirmed UUW's £5.4m SIM reward (12/13 prices) based on UUW's strong, above average, sector performance. This reward has been spread across the 4-year SIM assessment period 2015/16-2018/19 and increases cumulative RORE by 0.03%.

Financing – The balance of the increase in the calculated actual RORE relates to financing. Ofwat's central case RORE value for UUW was based on a theoretical, efficient company with a notional capital structure and a notional cost of debt. This means that the values are not directly comparable with the actual performance calculated based on actual, company specific, figures.

Please see section 2.5 of the Annual Performance Report for more narrative on reported RORE.

Financial flows

Ofwat's vision for the water sector in England and Wales is one where customers, the environment and wider society have trust and confidence in vital public water and waste water services.

As described above Ofwat's PR14 base case RORE value for each water company was based on a theoretical, efficient company with a notional capital structure and a notional cost of debt.

To improve the transparency concerning financial flows to investors, in the prior year Ofwat introduced a new APR table, presenting both the current year and the cumulative position of the AMP6 period. A summary of our cumulative 2015-20 performance is provided below. Table 1F of this APR provides more detail.

As expected, total actual earnings reported within the financial flow metrics will be different from total RORE, due to a number of differences between the calculations. Unlike RORE, financial flows incorporate the out/under performance in corporation tax as well as the actual performance adjustments from 2010-15. Financial flows also adjust the base return to adjust for actual gearing, whereas the RORE uses notional gearing of 62.5%.

Financial ratios	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Adjusted return on regulatory equity	6.14%	5.90%	6.14%
• Financing	0.00%	2.46%	2.62%
• Operational performance	0.00%	-0.87%	-0.91%
Total earnings	6.14%	7.49%	7.85%
Total shareholder return	8.66%	10.01%	10.37%
Net dividend	4.00%	7.82%	8.13%
Retained value	4.66%	2.19%	2.24%

Please see section 2.5 of the Annual Performance Report for more narrative on reported financial flows.


United Utilities
United Utilities
Water for the North West
PULSAR RFX

Risk and compliance statement

UUW Board's Risk and Compliance Statement 2019/20

The Board of United Utilities Water Limited (the Company or UUW, where the context requires), is required by Ofwat to provide an annual statement confirming its compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers for the report year 2019/20. This statement is complementary to other statutory Board statements.

The Statement

The Board considers that the Company has applied its processes and internal systems of control in a manner that has enabled it to satisfy itself, to the extent that it is able to do so from the facts and matters available to it, that the Company:

- Has a full understanding of and has complied with its relevant statutory, licence and regulatory obligations in all material respects in 2019/20.
- Has taken appropriate steps to understand and meet customer expectations.
- Has sufficient processes and internal systems of control to fully meet its obligations.
- Has appropriate systems and processes in place to identify, manage, mitigate and review its risks.

Departures from this statement are set out in a table following the compliance statement.

Managing compliance with our obligations

The primary statutory and regulatory obligations relevant to our functions as a Water and Sewerage Undertaker are set out in either the Water Industry Act 1991 or in our Instrument of Appointment – the "Licence". The Licence also requires us to meet the requirements imposed under any other statutory and regulatory obligations as necessary to fully discharge our duties as a Water and Sewerage undertaker.

The company has an established compliance working group, which maintains a log of the Company's key obligations, together with a list of the internal policies, associated risk assessment and assurance activities for each obligation. Each obligation also has an owner who is a member of the working group and a named owner of each obligation's linked policy, who usually is more senior and often at Executive or CEO level. The group also carries out horizon scanning to identify new legislation.

The Board manages the effective and efficient delivery of its obligations and operation of everyday activities within the business by the interaction of:

- **Authorisations, approvals and procedures.** These are set out in the United Utilities Group PLC (UUG) Internal Control Manual (ICM) to provide guidance to employees as to the system of internal controls that they must follow when acting on behalf of UUW and UUG as a whole. The ICM sets out a framework within which underlying detailed procedures and policies operate.
- **Policies.** The Board has adopted an overriding set of business principles. These are supported by a range of underlying policies that provide guidance to its employees as to how they should conduct themselves when acting on behalf of UUW and UUG as a whole. Everybody working for or on behalf of UUW must comply with the policies (to the extent they are applicable to their roles). Failure to do so may result in disciplinary action being taken. This could lead to dismissal and possible civil or criminal proceedings in serious cases.
- **Governance and control.** The Board delegates responsibility for specific matters to a number of committees and working groups. This provides a framework that employees are expected to be aware of and comply with, where relevant to their role, to ensure business decisions are taken in accordance with best business governance practices.

To oversee and take decisions affecting the execution of its obligations, the UUW Board:

- Receives and reviews performance reports from the relevant employees of the Company.
- Receives and reviews reports and presentations from the UU Corporate Audit Team, the financial and technical Auditors.
- Receives and reviews reports and presentations from the wholesale, customer service and people, economic regulation and strategy and finance directorates.
- Has access to executive and senior managers in the Company to verify information.

Should a significant regulatory risk or issue materialise during the report year then UUW will update Ofwat accordingly to demonstrate that the company is aware of and is responding appropriately to manage that risk or issue. During 2019/20 the UK began to experience the impacts of COVID-19. As this pandemic presented a potential risk to customer service, we ensured that Ofwat and other regulators were kept informed of the nature and extent of the impacts of the virus on the way that we able to provide service to customers and other stakeholders and of the way we planned for and managed the incident.

Understanding and meeting customer expectations

Customer service sits at the core of everything we do. Our strong focus on customer service has driven substantial and sustained improvements over recent years and we have seen a step change in performance since the start of AMP6. This improvement was reflected in our Service Incentive Mechanism (SIM) performance for which our scores improved in each of the four years it was measured and where we ended the period with a reward in the PR19 final determination. This year has been used as a pilot for C-MeX, which will replace SIM in AMP7, and we were pleased that our contactor scores ranked third of 17 companies for the year, and first in the third and fourth quarter surveys.

Our investment priorities and performance targets for the 2015-2020 period were shaped by listening to customers and stakeholders and understanding their priorities for the years ahead. This work resulted in a series of outcomes, which represent what we are aiming to achieve in the areas that customers and stakeholders told us were most important to them.

Each outcome is underpinned by specific performance commitments which allow customers and stakeholders to judge our performance. The performance commitments provide a transparent mechanism that allows us to demonstrate to customers whether the performance they have received from us has met or not met expectations. Some of these measures also contain outcome delivery incentives (ODI) with performance against these measures potentially resulting in outperformance or underperformance payments.

The performance commitment and outcome delivery incentive framework is designed to reflect customer priorities and provide strong incentives for companies to become more innovative and more efficient, both protecting customers against under-delivery and where merited, rewarding them for outperformance in areas where customers said they were willing to pay more to receive improved service.

To support the development of our business plan for the 2020 – 25 period, we carried out our most extensive customer engagement programme ever, as well as continuing an ongoing programme of customer engagement such as by tracking customer sentiment through our quarterly customer tracker.

The customer challenge group YourVoice, has also continued to play a valuable role in challenging our customer engagement and improving the transparency of our reporting. Throughout the year we have continued to work with YourVoice, to demonstrate how we are delivering on our performance commitments during the AMP6 period and to review our preparations for meeting our performance commitments and customer expectations for the AMP7 period. YourVoice's comments on our performance during the year are published on our website at https://www.unitedutilities.com/corporate/about-us/performance/yourvoice/.

We believe that it is important to be transparent and to provide information to customers and stakeholders that they can trust and that enables them to understand how the company is performing. The summary of the assurance that has been undertaken and the findings from that assurance are set out Appendix 1 of our 2019/20 Annual Performance Report. In the first three years of the period Ofwat judged whether companies had consistently met the high standards that customers and other stakeholders expect through its company monitoring framework assessment. UUW was the only water company to have achieved the highest categorisation of "self-assured" for the three years that the AMP6 categorisation was published.

Processes and systems
The directors have a reasonable expectation that the processes and systems of control the company uses are adequate for it to meet its obligations.

This opinion, taking into account the relatively stable and regulated nature of the business is based, amongst other matters, upon a review of the company's performance for 2019/20, the results of the annual management control self-assessment, the work of Corporate Audit and a review of the company's risk and issues process and register.

In respect of this Statement, assurance is provided by:

- **Using UUW's established processes and methodologies for reporting performance.** This requires data providers, their managers and business unit directors to produce and approve Performance and Compliance Statements that set out the evidence to support the reported performance and control checks that have been applied. Operational performance data is collected at month 6, month 9 and at year-end.
- **Comparing the reported outturn performance with our company business plan targets, regulatory targets and predicted future performance.** This exercise allows variances to be identified and explored. Where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Economic Regulation Team and findings are reported to the relevant Executive Directors, with any material issues highlighted to the UUW Board.
- **Requiring Business Unit Directors to complete an annual management control self-assessment questionnaire.** The self-assessment is overseen by UU Corporate Audit and serves as one input to the Board's annual review of internal control effectiveness in accordance with good governance principles. The self-assessment questions are intended to assess the design and application of internal controls, highlighting the incidence of significant weaknesses in either the design or operation of key controls during the period that have had, or could have, a material impact on the company's performance or condition.
- **Reviews are undertaken by the UU Corporate Audit team of the Company's processes, risks and controls.** In 2020, in addition to the UUG and UUW annual report and financial statements, these reviews were extended to cover UUW's compliance with Ofwat's board leadership, transparency and governance principles. Findings are reported to the Board to aid the Board's decision to approve these reports.
- **The Group Audit & Risk Board's (GARB's)** review and monitoring of compliance with governance processes, risk management and the internal control framework to identify emerging themes and trends. GARB reviews any issues and receives summary level reports (typically by exception) arising in relation to, Corporate Audit activities, Management control self-assessment activities, the Risk Management framework as well as other key compliance activities.
- **Reviews are undertaken by UUW's Corporate Audit team and Technical Auditor of the Company's processes, risks and controls.** Their findings are reported to the Board to aid the Board's decision to approve the annual Risk and Compliance Statement.

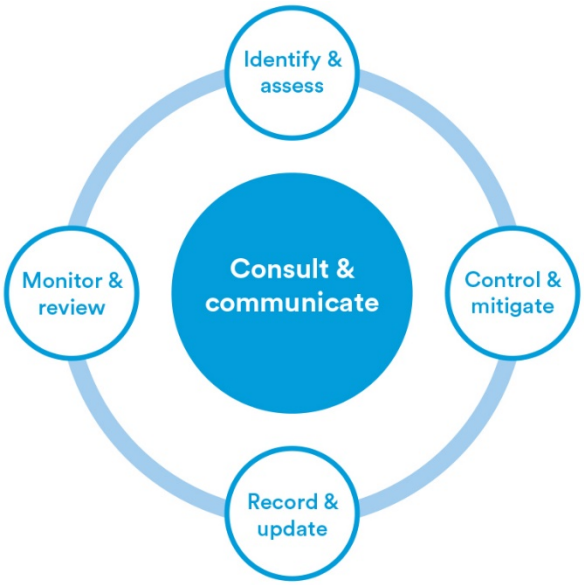
In addition to the established internal processes and systems of control, to support our 2018/19 risk and compliance statement, we employed Jacobs to undertake a review of our approach to risk assessment and of the approach and processes we follow to assess compliance with our obligations. The results of this review were presented to and discussed with the UUW Board with the recommendations made being reflected within this year's statement.

Where material issues are identified and/or the Board considers it is unable to support the expectations of the Statement then exceptions are set out in a table following the compliance statement.

Risk Management

Successful management of risks and uncertainties enables us to deliver on our purpose to provide great water and more for the North West.

Our emphasis is on our capacity and capability to manage risk and uncertainty, and to build and maintain long-term resilience across our corporate, financial and operational structures.



Key components of the framework include:

- An embedded group-wide risk management process that is aligned to ISO 31000:2018;
- A Board-led approach to risk appetite, based on strategic goals;
- A strong and well-established governance structure giving the Board oversight of the nature and extent of risks the group faces, as well as the effectiveness of risk management processes; and
- A portfolio of policies, procedures, guidance and training to enable consistent, group-wide participation by our people.

Individual business areas and functions are accountable for identifying, quantifying, communicating and controlling the risks relevant to their business activities. We use a forward-looking approach to take into account new and emerging areas of concern and the long-term impact of risks. The process involves group level evaluation, benchmarking and calibration to enable a consistent approach, an appreciation of the most significant risks from a financial and reputational context, together with an assessment of how these relate to our risk appetite. The identified risks cover a wide range of potential events including regulatory, legal, core operations, service and hazard risks.

Oversight and governance process

The Board ensures that its oversight of risk remains effective through a number of established reporting routes.

Twice yearly the Board receives a full update on the risk profile as part of the full and half-year reporting cycle. This provides an overview of the nature and extent of risk exposure in the context of the group's principal risks, and emphasises the most significant risks in both their current state relative to the risk appetite, and target state of acceptable exposure.

This practice is in compliance with the Code, and enables reports to be provided to the Board for each full and half-year statutory accounting period. The Board is therefore able to:

- Make decisions on the level of risk it is prepared to manage in order to deliver on its strategy;
- Engage with the business to put appropriate controls in place, and to ask questions and test the appropriateness of plans;
- Report externally on the long-term viability of the company in an informed manner; and
- Monitor and review the effectiveness of procedures, systems and risk management thinking.

Our approach to corporate risk management and principal risks and uncertainties are set out in the United Utilities Group PLC annual report and financial statements.

In respect of regulatory reporting UUW has maintained its tailored risk management and assurance approach that has been used in our previous regulatory reporting periods. This process identifies high-risk elements of our reporting and ensures that action plans are established to manage or mitigate the risks and appropriate governance and assurance is in place.

The regulatory reporting risk assessment process and final assurance plan for our 2019/20 regulatory reporting are set out on the United Utilities website.

Appendix 1 of the Annual Performance Report provides confirmation that this assurance plan has been implemented and sets out the findings of that assurance.

Confirmation of key reporting requirements

Corporate governance (Licence condition I26.2)

United Utilities continues to fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. United Utilities Group PLC (UUG) is compliant with the Code as disclosed most recently in the 2019/20 annual report.

Ofwat's board leadership, transparency and governance (BLTG) principles came into effect from 1 April 2019 and were embedded into the licence on 1 August 2019. These require UUW to meet the objectives of the principles and to explain in an effective, accessible and clear manner how they have done so. The Board is satisfied that its current practices and application of the BLTG objectives at regulated company level are entirely consistent with the Principles published by Ofwat.

In addition, and as required by licence condition I26 the Board has developed an annual Board Statement, which aims to explain how it is meeting the BLTG objectives in a manner that is effective, accessible and clear. This statement is published on pages 9 to 15 of this year's Annual Performance Report.

Links between directors pay and standards of performance (Water Industry Act section 35A)

As required by section 35A of the Water Industry Act 1991UUW has published a Statement of directors' remuneration and standards of performance, which can be found in Section 2.5 of our Annual Performance Report. Included within this statement are details of the arrangements and the remuneration that have been paid or become due during 2019/20 to the directors of the company as a result of arrangements for linking the remuneration of the directors of the company to standards of performance in connection with the carrying out by the company of the functions of a relevant undertaker.

Confirmation of sufficient financial and management resources (Licence condition I17)

The directors have issued a 'Ring-Fencing Certificate' under paragraph I17 of licence condition I, stating that the company will have available to it sufficient financial and management resources and facilities to enable it to carry out, for at least 12 months, its regulated activities. This certificate also confirms that in respect of the wholesale business, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker. This certification statement can be found in Section 2.5 of our 2019/20 Annual Performance Report.

Confirming of availability of rights and assets (Licence condition K)

The directors have issued a certificate as required by paragraph 3.1 of licence condition K, confirming that as at 31 March 2020, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of UUW, the company would have had available to it sufficient rights and assets to have enabled the special administrator to manage the affairs, business and properties of the company so that the purpose of the order could have been achieved. This certification statement can be found in Section 2.5 of our 2019/20 Annual Performance Report.

Transactions with associated company (Licence condition I4)

The directors of UUW have declared, to the best of their knowledge that all appropriate transactions with any other business or activity of the appointee or any associated company have been disclosed and material transactions with associated companies are at arm's length so that neither gives to nor receives from the other any cross-subsidy. The materiality level of transactions used for reporting is 0.5 per cent of turnover. Information in respect of transactions between UUW and any other business or activity of the appointee or associated company is set out in Section 2.5 of our 2019/20 Annual Performance Report.

Maintaining investment grade credit rating (Licence condition I30)

UUW has current long-term issuer credit ratings of A3/BBB+ with Moody's and S&P respectively and a long-term issuer default rating of BBB+ with Fitch, all on stable outlook. Additionally, UUW's current senior unsecured debt ratings are A3/BBB+/A- with Moody's, S&P and Fitch respectively, all on stable outlook. Assuming no significant changes to existing ratings agencies' methodologies or sector risk assessments, UUW aims to maintain long-term issuer credit ratings of at least A3/BBB+ with Moody's and S&P, respectively and a senior unsecured debt rating for UUW of at least A- with Fitch.

Long Term Viability statement
As set out in the long term viability statement on pages 187 to 189 of this Annual Performance Report, the directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2027.

Outcome delivery
Performance against the outcomes and performance commitment targets set out in the PR14 final determination, is monitored on a monthly basis throughout the business as part of internal company scorecard reporting. Annual and longer-term performance summaries are also reported on a regular basis through the year to the UUW Board and to the customer challenge group YourVoice.

Full details of the 2019/20 performance against these outcomes – along with a view of performance over the full five-year AMP6 period – is included within Section 1.1 of our 2019/20 Annual Performance Report. Actions that are being undertaken to address any measures where we have not met the target are also set out within the report.

Condition M – Provision of information

UUW has retained the governance framework in place for regulatory reporting purposes in prior years, which has allowed it to continue to monitor performance against its AMP6 regulatory targets to determine whether the Company is meeting customer expectations.

Signed on behalf of the Board

Sir David Higgins
Chairman

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the Board of directors of United Utilities Water Limited on 30 June 2020 and signed off on its behalf by Sir David Higgins, Chairman and Steve Mogford, Chief Executive Officer

2019/20 departures from the Risk and Compliance statement

The Board considers that the Company has applied its processes and internal systems of control in a manner that has enabled it, to the extent that it is able to do so from the facts and matters available to it, to identify material departures from the obligations as set out below:

Description of duty / obligation	Purpose of duty / obligations	Disclosure
Environmental Permitting (England and Wales) Regulations 2010	WwTW discharge permit compliance	Six WwTW have been classified as failing their discharge permits in 2019/20 and we have achieved an overall compliance of 98.5% for the Environmental Agency's Environmental Performance Assessment (EPA) % discharge compliance measure. This level of performance is behind the 2019/20 target set for the performance commitment, "maintaining our wastewater treatment works". More details are provided in Section 1.1b of the APR.
Water Industry Act 1991 **Water Supply Requirements**	Duties of water undertakers with respect to water availability	As a result of the Habitats Directive the Environment Agency (EA) will revoke our abstraction licence from Ennerdale Water. UUW has implemented a series of short-term measures to mitigate the risk to supply, with a long-term solution to transfer water from Thirlmere reservoir to the West Cumbria supply zone now underway. More details are provided in Section 1.1a of the APR.
Defra statement of obligations	National Environmental Programme (NEP) 5	As part of the 2014 price review process, our CEO Steve Mogford wrote to inform Ofwat and the Environment Agency that we would not be able to meet the preferred consent dates for three projects, but that we would seek to deliver these projects as early as practical. Following the PR14 final determination, we worked with the Environment Agency to agree a number of initial revisions to the environmental improvements programme, with these changes being formalised in "NEP5". As part of this process we agreed revised dates for the three projects highlighted in Steve Mogford's letter. Three subsequent changes have been agreed with the EA since the NEP5 programme was finalised. As a result of which we have replaced schemes CHR0012 (WFD) and CHR021 (WFD) with equivalent schemes at Motherby and Barrow Nook. We have also agreed a revised strategy to address dissolved oxygen concentrations in the Manchester Ship Canal. This involves undertaking an alternative scheme in AMP6 and a number of additional schemes in the longer term. During the year we have been able to complete all but one of the agreed schemes on or ahead of the regulatory dates set for 2019/20 and agreed with the Environment Agency. The delayed scheme was the transfer of Billinge WwTW to St Helens WwTW which and was delivered five days behind schedule. Details of the delivery of our environmental programmes are set out within Section 1.1b of the APR.
UUW Instrument of Appointment (licence) **Condition J**	Condition J (Levels of service information and service targets) creates obligations regarding the setting, monitoring and reporting of service targets.	Because of changes to the regulatory approach we are no longer required to fulfil these obligations.
UUW Instrument of Appointment (licence) **Condition L**	Condition L (Underground asset management plans) creates obligations regarding the preparation, review and revision of underground asset management plans.	Because of changes to the regulatory approach we are no longer required to fulfil these obligations.
Water Industry Act 1991 **Information provisions**	Water Industry Act Section 199 places an obligation on wastewater companies to maintain maps of their sewers.	In common with all other wastewater companies in England and Wales, not all our sewers are mapped because the cost of doing so is generally agreed to be uneconomic.


Water for the
North West

1. 2019/20 performance

Introduction and coverage
This section of our Annual Performance Report sets out how we have performed against the service, expenditure and revenue assumptions made in the 2014 price review and is set out in the following sections:

1.1 Outcome delivery

1.2 Wholesale totex

1.3 Wholesale revenue and current cost financial performance

1.4 Retail expenditure and revenues

How this information relates to other sections of the APR
The way that the 2019/20 performance section relates to other sections of the APR and the information contained within these sections is summarised below:

- The Regulatory Accounts which support much of the information used in Section 1 are set out in Section 2.
- The detailed pro forma tables that are specified by Ofwat and populated by all water and sewerage companies are included within Section 2.3 and 2.6 of the regulatory accounts.
- Appendix 1 sets out the assurance that has been undertaken to support the information contained within the APR.
- Appendix 2 provides detail of the calculations used to support our "index measures".

Related publications
Two key documents that support the information or use the information set out in this section of our APR are:

- **Detailed technical explanations –** of our outcomes and performance commitments are set out in the document "Outcome definition documents" which is published on our website, and is available via this link.
- **PR14 reconciliation update** – This sets out how our performance during the AMP6 period against the PR14 incentive mechanisms translated into revenue and AMP7 opening RCV adjustments, through the PR19 final determination (FD). The values used within the FD were based upon anticipated performance in 2019/20. The update highlights the differences between these assumptions and the outturn data reported within this document. This document is published on our website, and is available via this link.

As each company developed their own performance commitments for the AMP6 period, it is difficult to compare performance between companies. To begin to allow a more meaningful comparison to be made, we have worked with regulators and the rest of the water industry to develop a suite of comparative information and performance measures. These measures are still subject to different interpretations between companies, but do provide a view of relative performance. The information from our Annual Performance Report and other water companies equivalent reports, will be used to update this information, which will be available on the Discover Water website.

1.1) Outcome delivery

Supporting data tables (See Section 2.6)

Table 3A sets out our performance against our eleven outcomes and twenty seven performance commitments (PCs). For each PC table 3A sets out the actual 2018/19 performance and compares this to the 2018/19 performance target and to performance levels in previous years. Where relevant it also shows whether this performance would generate a financial outperformance or underperformance payment and whether we are anticipating we will achieve an overall outperformance or underpeformance payment over the full five-year period.

A number of our PCs are indices made up from a basket of sub-measures. Performance against each of these sub-measures is set out within **Table 3B** "sub-measure performance table". Details of the calculations used within these indices are set out in **Appendix 2**

Table 3C provides information on the four water abstraction sites in the UUW region which are subject to the abstraction incentive mechanism. The level of abstraction from these four sites is also assessed within our water service PC "C1 Contribution to rivers improved – water service".

Table 3D provides details of the build-up of our Service Incentive Mechanism (SIM) score . This is also discussed within the commentary to our retail and customer service PC "A-1: Service incentive mechanism (SIM)".

Overview of our performance over the AMP6 period

At PR14 we developed eleven outcomes and twenty seven performance commitments (PCs). Twenty one of these PCs had financial outcome delivery incentives (ODIs). All of our AMP6 ODIs are 'end of period', meaning they are reconciled at the end of the five year period, rather than during the period.

To seek to manage the challenges set by our PCs we accelerated our investment programmes and began to implement a 'systems thinking' approach which integrates the use of our assets, leverages real time data from our assets and employs new work processes and technology.

This approach has continued to bring improvements in our underlying operational performance, with 2019/20 seeing a further net reward against our wholesale financial outcome delivery incentives of £21.1m, bringing the net wholesale reward for the AMP6 period to 43.5m.

Details of how this performance impacted upon allowed revenues and customer bills in AMP7 is set out in the document "**PR14 reconciliation**", which is published on our website.

Evolving our performance commitments for the 2020 – 25 period (AMP7)

As we move into AMP7, we wanted to make it easier for customers to see how we are performing compared to the other water and sewerage companies. We felt that it was important to retain the same longer term outcomes but to revise some of the performance commitments that will be used to measure delivery against them in future. Some of the combined index measures we are currently reporting against are complex, so we have simplified them to make it easier to see where we are performing well and where we could do better. We worked with other companies and regulators to develop a series of common measures, which all companies included within their plans. We also added a number of measures which focus on the longer term "health" of our asset base and replaced a number of measures which were specific to the last period with ones that are specific to the 2020 – 25 period.

The evolution of the measures within the water, wastewater and retail service areas are summarised within each section below. There are however, a number of additional measures, which span the services or relate to new strategic programmes, which we will be undertaking during AMP7 and in somce cases beyond. These are briefly summarised below:

Systems thinking capability – Systems thinking is a long-term strategy, requiring investment in business change, including digitisation, intelligent decision making and smarter interventions. This measure will ensure delivery of our corporate strategy to embed a systems thinking approach through innovations and improvements in capabilities such as production planning, operational monitoring & control and asset lifecycle management. The methodology for assessing capability maturity has been developed with external leaders in systems thinking and has been assured and benchmarked against companies outside the water sector.

This measure is cross functional and whilst benefits will be felt across the whole company we will track and publish the improvement of our capability across those wholesale functions delivering benefits that are most important to our customers, such as leakage and flooding, therefore for this ODI the results will be assessed across the water network plus and wastewater network plus price controls.

Delivery of direct procurement of HARP scheme – during the AMP7 period, we will run a procurement process to deliver one of the largest UK infrastructure projects to improve resilience of water supplies to the Manchester and Pennine areas. This involves competitively tendering for a third party to construct and finance the scheme – "direct procurement" (DPC).

The measure focuses on advancing direct procurement for customers benefit, providing an example for the industry to follow and building capability for DPC activities across the sector. Achievement will be assessed through a contract award meeting the design principles set out in Ofwat's price review 2019 methodology. Achievement against the principles will be independently reviewed.

The performance commitment is set so that if a contract is awarded before 1 May 2023 meeting the qualifying criteria we will receive an outperformance payment.

Manchester and Pennine resilience – This is an additional measure reviewing the delivery of the Manchester and Pennines resilience scheme (formerly called HARP). It tracks our contribution to the delivery of the project, with the measure focusing on delivery of three control points by the target dates and applies a penalty if the dates are not met.

Reducing discolouration from the Vyrnwy treated water aqueduct – During AMP6 we are enhancing the treatment process at Oswestry water treatment works and improving the control of the Vyrnwy aqueduct to increase the quality and aesthetics of the water supplied by the Vyrnwy treated water aqueduct. Should this enhancement project fail to deliver the required outcome, we have developed alternative plans to clean and reline sections of the Vyrnwy aqueduct. If required by the Drinking Water Inspectorate (DWI), to meet the target for reduction in water discolouration, this measure would record the length of the Vyrnwy treated water aqueduct cleaned or relined.

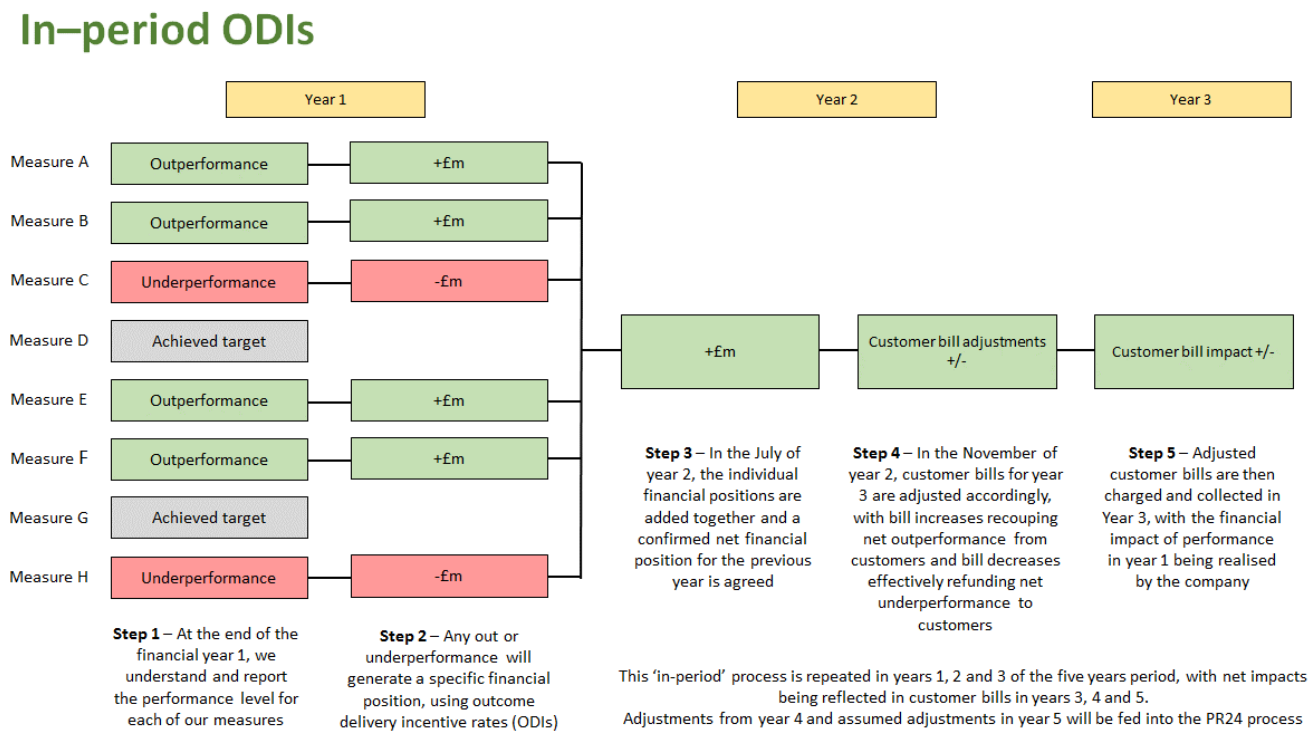
Strategic regional solution development (Severn Thames transfer) – We are engaging with Severn Trent Water and Thames Water to develop a strategic solution regarding the national transfer of water.

In conjunction with the other companies involved, we will jointly propose methods for collaborative working and a gated process with associated deliverables, timings and expenditure.

By 1 April 2019, we intend to propose an ODI mechanism to allow the Ofwat allocated funding to be recovered by customers through RCV adjustment in the event of the scheme not progressing through each gate and for the non-delivery or late delivery of outputs.

Timing of under or outperformance payments
In AMP7 financial incentives for performance against the relevant measures will continue to be calculated each year. However unlike the position in AMP6, where the net value of the financial incentives was reviewed through the price review process and recovered through changes in revenues and customer bills in the subsequent five year AMP period, in AMP7 the financial incentives, for the majority of measures, will be recovered through changes in company revenue allowances and customer bills within the current five year AMP period.

The diagram on the next page explains both the timings of the calculations and how incentive payments will be applied to customer bills.



The incentive payments for the 'Keeping reservoirs resilient', 'Manchester and Pennine resilience' and the 'Successful delivery of direct procurement of Manchester and Pennine resilience' measures are end of period, as opposed to in-period. As such, these will be calculated as part of the next price review process. These measures look at programmes of work, where the year on year timing of the work is dependent upon third party demand and the timing of that work is therefore less relevant.

The wastewater measure, “protecting the environment from the impact of growth and new development” is also subject to an end of period incentive payment.

Coverage of the following section of the APR
The water, wastewater and retail performance commitments are reviewed seperately.

Each section starts with a summary of performance in the year and over the five years, a comparison of how performance in 2019/20 compared to the performance levels we anticipated in our 2019 APR. It then provides an overview of where relative intercompany performance can be found and then looks at how the current AMP6 performance commitments, for each outcome have been evolved into the new suite of performance commitments that we will be using in AMP7.

Each section then provides a detailed review for each of our twelve water services, eleven wastewater services and four household retail performance commitments, setting out for each measure:

- A performance summary
- A description of the measure
- Performance levels both in year and across the AMP6 period
- Where relevant any financial incentives, and
- How the measure will be developed into AMP7.

1.1 a) Water Service performance commitments 2019/20 Annual performance summary

Performance against our water service outcomes in 2019/20 and the cumulative performance over the AMP6 period to date, is set out in the table below. Further information on each measure is provided within this section of our Annual Performance Report, with details of the calculation of the index scores and associated incentives provided in Appendix 2.

Water Service Operational Performance Summary (2019/20)

Performance Commitment	Actual Performance					Performance commitment	
	2015/16	2016/17	2017/18	2018/19	2019/20	Target	2019/20 Impact
A1: Drinking Water Safety Plan risk score	4.3	4.3	4.3	4.8	4.9	<=4.3	Reputational
A2: Water quality events DWI category 3 or above	35	22	27	6	11	<=7	Underperformance payment
A3: Water Quality Service Index	120.465	116.923	98.645	101.182	109.060	=>145.900	Underperformance payment
B1: Average minutes supply lost per property (a year)	16:42	13:33	13:09	09:10	10.11	12:00	Outperformance payment
B2: Reliable water service index	16.45	77.84	70.83	98.46	75.79	=>100.00	Underperformance payment
B3: Security of supply index (SoSI)	100.00	100.00	100.00	100.00	100.00	100.00	-
B4: Total leakage at or below target	10.8	23.4	9.1	6.7	16.6	0.0	Outperformance payment
B5: Resilience of impounding reservoirs	161.61	164.25	165.42	165.72	165.72	165.27	-
B6: Thirlmere transfer into West Cumbria	2	5	25	57	99	>=82	Outperformance payment
C1: Contribution to rivers improved – water programme	36.9	82.6	80.6	50.5	159.5	>=159.5	-
D1: Delivering our commitments to developers, local and highway authorities	95%	98%	94%	89%	95%	>=95	Reputational
E1: Number of free water meters installed	27,197	32,247	36,615	32,069	25,817	>= 46,054	Reputational

Key

Performance commitment not met	
Met or exceeded performance commitment	

The table below sets out the incentive payments associated with the water outcome delivery incentives. Only outcome delivery incentives with a financial incentive are listed in the table below

Water Service Incentive Summary (2019/20)

Performance Commitment	Incentive Type	Actual (£m)					Cumulative AMP6 incentive payment (£m)
		2015/16	2016/17	2017/18	2018/19	2019/20	
A2: Water quality events DWI category 3 or above	Underperformance only	-0.4	-0.6	-0.7	0	-0.6	-2.4
A3: Water Quality Service Index	Outperformance & underperformance	0.2	-3.6	-3.6	-3.6	-3.6	-14.2
B1: Average minutes supply lost per property (a year)	Outperformance & underperformance	0	0	-5.9	11.3	7.2	12.5
B2: Reliable water service index	Outperformance & underperformance	-8.0	-8.0	-8.0	0	-8.0	-31.9
B3: Security of supply index (SoSI)	Underperformance only	0	0	0	0	0	0
B4: Total leakage at or below target	Outperformance & underperformance	0	9.1	0	0	4.0	13.1
B5: Resilience of impounding reservoirs	Underperformance only	0	0	0	0	0	0
B6: Thirlmere transfer into West Cumbria	Outperformance & underperformance	0	0	0	0	21.6	21.6
C1: Contribution to rivers improved – water programme (NEP schemes and abstraction changes at 4 AIM sites)	Outperformance & underperformance	0.1	0.2	0.2	0.2	0.0	0.6
				Water Service AMP6 net:			-0.6

Notes

1 The numbers in the table above have been rounded to one decimal place therefore the annual underperformance and outperformance payments may not appear to add up to the amounts reported in the current financial position and projected AMP6 performance columns.

2 Reputational only performance commitments are not included in the table.

Actual 2019/20 performance compared to PR19 forecasts

In July 2019 we published information on our predicted performance for 2019/20 and the way that the predicted performance and incentive payments would impact upon bills in the 2020 – 2025 period (AMP7). This information is set out in "United Utilities Water PR14 reconciliation update 2020 document" as can be found by this link . We have updated the reconciliation document to reflect actual performance for 2019/20 and published it on our website. The table below shows the forecast performance for 2019/20 compared to the actual performance. An adjustment will be made to bills in the 2020-2025 period to reflect actual performance and incentives.

Water Service actual 2019/20 performance versus July 2019 forecast

Performance Commitment	Incentive Type	2019/20 Forecast incentive (£m)	Forecast incentive for 2015-2020 (£m)	2019/20 actual incentive (£m)	Actual incentive for 2015-2020 (£m)
A2: Water quality events DWI category 3 or above	Underperformance only	-1.2	-3.0	-0.6	-2.4
A3: Water Quality Service Index	Outperformance and underperformance	-3.6	-14.2	-3.6	-14.2
B1: Average minutes supply lost per property (a year)	Outperformance and underperformance	1.7	7.0	7.2	12.5
B2: Reliable water service index	Outperformance and underperformance	-	-23.9	-8.0	-31.9
B3: Security of supply index (SoSI)	Underperformance only	-	-	-	-
B4: Total leakage at or below target	Outperformance and underperformance	-	9.1	4.0	13.1
B5: Resilience of impounding reservoirs	Underperformance only	-	-	-	-
B6: Thirlmere transfer into West Cumbria	Outperformance and underperformance	21.6	21.6	21.6	21.6
C1: Contribution to rivers improved – water	Outperformance and underperformance	-	0.6	-	0.6
Water Service net: 2015/16 to 2019/20 financial incentive			**-2.8**		**-0.6**

Relative intercompany performance

Set out like a dashboard, the Discover Water website brings company data from a range of sources together to allow customers and other stakeholders to compare water company performance. Comparable data 2019/20 is not available until later in the year. United Utilities performance has improved for most water measures across AMP6.

The Discover Water website showed United Utilities 2018/19 water performance across a range of measures to be better than or around industry average performance. Performance against three of the water measures published on the Discover Water website for 18/19 was slightly below industry average.

We continue to deliver a very high level of water quality. Despite this, performance against Mean Zonal Compliance and the number of times the company was contacted about the appearance, taste and smell of water was worse than average. We hope the improvement in performance we have delivered in 2019/20 will improve our comparative performance.

Although we have consistently met or exceeded our leakage target for last fourteen years adverse weather had an impact on 2018/19 performance. We have seen performance improve this year and whilst this will improve our comparative performance we will remain above industry average for 2019/20. We know that customers regard leakage as a priority and have implemented a number of new techniques that have allowed us identify and respond to leaks more quickly. During 2019/20 we beat our target by 16.5Ml/d and earned an outperformance payment. Our leakage targets for the next five years continue to get progressively tougher, so to address this challenge we have brought forward expenditure and installed 40,000 strategically placed acoustic loggers across the network to further enhance our ability to locate and repair leaks.

Future performance monitoring and performance commitments

Similar to our approach for the period 2015-2020 our plan for 2020-2025 is built around longer term outcomes that describe the level of service that we are planning to provide. Underpinning each outcome is a set of measures with specific targets for the AMP7 period with performance commitments that are designed to be stretching.

Ofwat has specified 15 compulsory performance commitments for all water companies. These are also known as 'common measures' and have standard definition agreed with Ofwat.

We have supplemented these common measures with 32 'bespoke' and optional asset health performance commitments, which reflect what customers told us was important to them, in terms of levels of service or areas of focus for investment. Some of the performance measures are a continuation of commitments from 2015-2020 others have been developed to improve transparency of performance reporting or to report delivery against new priorities. The table below lists the performance commitments we have reported performance against during 2015-20 and the performance commitments we will be reporting against during 2020-25. The majority of performance commitments set for the next five years deliver an improved level of performance for customers and stakeholders compared to the level seen historically.

Table showing current and future performance commitments for each of the water service outcomes

Outcome	Current AMP6 Performance Commitments	Future AMP7 Performance Commitments
Your drinking water is safe and clean	Drinking Water Safety Plan risk score	Water quality compliance index (CRI)[1]
	Water quality events DWI category 3 or above	
	Water Quality Service Index	Reducing water quality contacts
		Number of properties with lead risk reduced
		Reducing discolouration from the Vyrnwy Aqueduct
		Helping customers look after water in their home
You have a reliable supply of water now and in the future	Total leakage at or below target	Leakage
	Reliable water service index (includes low pressure, mains repairs, interruptions to supply>12 hours and water availability customer contacts	Mains repairs[1]
	Average minutes supply lost per property (a year)	Interruptions to water supply (average minutes supply lost per property)[1]
	Security of supply index (SoSI)	Drought resilience[1]
	Per household consumption	Per capita consumption
	Thirlmere transfer into West Cumbria	Thirlmere transfer into West Cumbria
	Resilience of impounding reservoirs	Keeping reservoirs resilient[2]
		Reducing areas of low pressure
		Unplanned outage
		Water service resilience
		Manchester and Pennine resilience[2]
The natural environment is protected and improved in the way we deliver our services	Contribution to rivers improved – water programme	Improving the water environment
		Abstraction incentive mechanism[1]
You're highly satisfied with our service and find it easy to do business with us	Service incentive mechanism (SIM)	C-MeX
	Delivering our commitments to developers, local and highway authorities	D-MeX[1]
	Number of free water meters installed	

[1] Common performance commitment

[2] Incentives for this measure will be calculated at the end of the period, all other incentivised measures will be calculated in period

A1 Drinking Water Safety Plan risk score

Performance summary

We failed to meet our performance commitment for this measure in 2019/20. We have revised our assessment to meet changes to the DWI reporting requirements which has led to us assessing a greater number of risks and carrying forward elevated risks into downstream risk assessments. Due to the delivery of our continuous improvement programme the actual risk to the provision of safe, clean drinking water has been significantly reduced, for example by the significant investment in shutdown and start up to waste at all of our WTWs. The increase in risk score is purely associated with the change in regulatory reporting requirements.

Measure description

This performance commitment measures the level of risk identified through the drinking water safety plan process, with the target designed to ensure that risk levels do not increase.

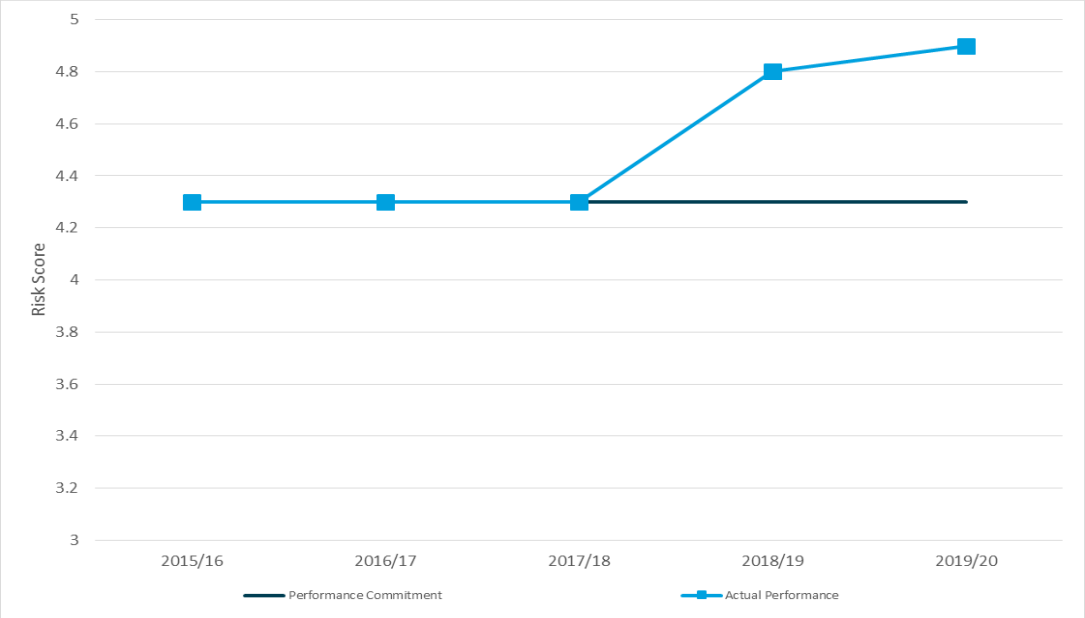
The Drinking Water Safety Plan risk management system is our drinking water quality risk management tool, which is central to the way we ensure safe, clean drinking water now and in the future. This system is consistent with the regulatory requirements governing drinking water in England and Wales. It contains information on the risk of hazardous events, control measures, monitoring and risk scores. It also allows actions to be raised, tracked and reported. The Drinking Water Safety Plan process involves the identification of all potential hazards to the quality of drinking water. The risk of those identified hazards impacting on water quality is then determined. Control measures are then identified and implemented and a reduced drinking water safety plan risk score is derived. The methodology is aligned with World Health Organisation and DWI codes of practice, and we are one of only two companies to achieve certification for our risk assessment process from Lloyds Register.

The Measure of Success describes, in numerical terms, the comparative level of risk to drinking water quality across the business and over time so we can ensure that all unacceptable risks are addressed. Unacceptable risks are defined by us as those with a drinking water safety plan risk score of 10 or greater.

Actual performance for the 'Drinking Water safety Plan risk score' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	4.3	4.3	4.3	4.3	**4.3**
Actual	4.3	4.3	4.3	4.8	**4.9**
Pass/ Fail	Pass	Pass	Pass	Fail	**Fail**
Outperformance payment/ Underperformance payment (£m)	Reputational	Reputational	Reputational	Reputational	**Reputational**

Drinking Water Safety Plan risk score – AMP6 actual performance against performance commitment



Overview of AMP6 performance
The original performance commitment target for this measure that was included within our business plan and confirmed in the FD was 3.9. This value was based upon the DWI reporting requirements at that time and which had been used for the previous year's reporting.

Following publication of the FD, there was a change in DWI reporting requirements as set out in DWI Information Letters 02/2014 and 01/2015, with further changes through the AMP. This meant that risk reporting has moved away from hazardous events to hazards. One hazardous event may have several hazards associated with it and resulted in an increase in the number of risk scores and consequently the number of elevated risks scores changing the overall risk score to 4.3.

The score had been consistent at 4.3 from 2015 until 2018. Last year the risk score increased again as a result of a change in our methodology to meet changing reporting requirements. The scope of the risk assessment has been extended to include all hazards within the Water Supply (Water Quality) Regulations at each stage within the supply system as required by information letter 02/2018. The information letter also requires risk scores for individual hazards to be carried forward through the supply system. These changes increased the number of hazards assessed and in some instances the score resulting in an increase in the overall risk score to 4.8.

Further changes this year have increased the score further to 4.9. The increase to 4.9 can be attributed to an improvement to the scoring methodology to provide consistency across all scores and greater alignment of consequence scores for individual hazards to those used by DWI.

Underperformance or outperformance payments
This is a reputational measure with no financial incentive.

Development of measure in AMP7
In AMP7 the DWSP measure will be replaced with a common measure. All companies will report against the Compliance Risk Index (CRI) a measure developed by the DWI in consultation with the water industry. CRI is a measure designed to to illustrate the risk arising from treated water compliance failures and it aligns with the current risk based approach to regulation of water supplies used by the DWI. The AMP7 performance commitment for CRI requires a performance improvement in 2020/21 and the improved performance has to be maintained for the rest of AMP7.

Although the DWSP measure will not continue into AMP7 we will continue to use the approach to manage drinking water quality risks and drive improvements in water quality in AMP7. It is in customers' interests not to increase unacceptable risk to water quality and we will continue to deliver activities to improve the robustness of our existing control measures as part of our water transformation programme.

A2: Water quality events DWI category 3 or above

Performance summary

We failed to meet our performance commitment for this measure in 2019/20 although performance has significantly improved compared to the first three years of AMP6. We have incurred an underperformance payment of £0.596m this year.

Measure description

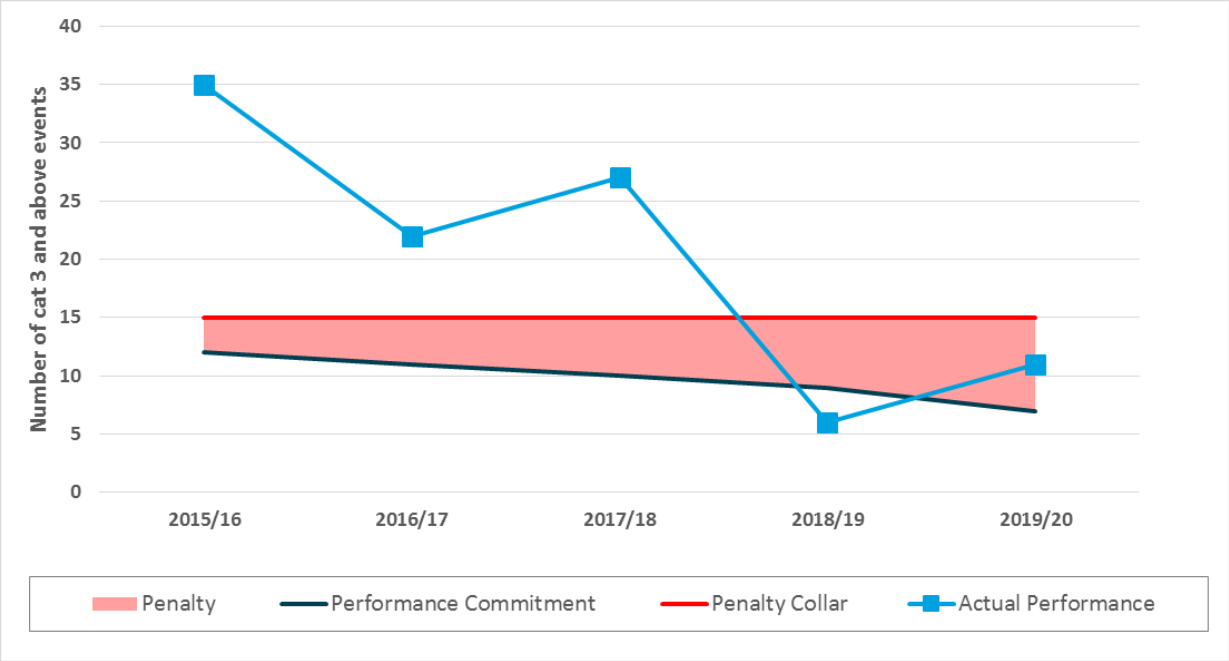
This performance commitment records the number of events with a categorisation of three or above (as defined by the Drinking Water Inspectorate (DWI)). The categories are as follows: category 3 (significant), category 4 (major) and category 5 (serious).

The incentive for this measure is underperformance only. We underperformed this measure for the first three years and last year of AMP6, and incurred underperformance payments. In year four we outperformed the commitment but no incentive payment was required.

Actual performance for the 'Water Quality Events DWI category 3 or above' performance

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	12	11	10	9	**7**
Actual	35	22	27	6	**11**
Pass/ Fail	Fail	Fail	Fail	Pass	**Fail**
Outperformance payments/ underperformance £m	-0.447	-0.596	-0.745	0	**-0.596**

Water quality event DWI category 3 or above – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
Performance in 2019 has deteriorated compared to 2018, but still represents an underlying improvement trend through the AMP. This is as a result of the investment made through the transformation programme from 35 events in the first year, to just 11 in the last year. However, despite this improvement we have failed the performance commitment this year.

During the year we had four water quality events at WTWs . We continued to deliver our comprehensive 'Transformation Programme' which with the agreement of DWI has moved from the transformation phase to one of continuous improvement. The measures we have put in place have delivered an overall reduction in the number of water quality events as demonstrated by the significant improvement across the AMP. This was always designed as a challenging performance commitment to drive improvements for customers. Following each event we conduct a post incident review and develop lessons learned that can be implemented across our asset base to prevent a recurrence.

The majority of all events (categories 1-5) continue to be associated with single or multiple property "do not drink" or 'boil water advice' events. We have seen an increase in "do not drink" and "boil water advice" events this year.

During 2019, DWI reviewed the threshold for the reporting in consultation with the industry. Some types of events, for example the trigger for notification of discoloured water contacts reduced from 50 contacts to 25, and a new threshold for reporting of white water events and taste and odour events was introduced. This resulted in a couple of events being reported that wouldn't have reached the relevant trigger in prior years. However, even with these changes the overall number of water quality events reported is significantly lower than at the beginning of the AMP.

Underperformance or outperformance payments
The performance commitment has not been met for 2019/20 and we have incurred an underperformance payment of £0.596m.

Development of measure in AMP7
This performance commitment does not continue into AMP7 however the improvements made as part of the water quality transformation programme should continue to deliver water quality benefits.

In AMP7 companies will report against the Event Risk Index (ERI) a common measure developed by the DWI in consultation with the water industry. ERI is a measure designed to illustrate the risk arising from water quality events, and it aligns with the current risk based approach to regulation of water supplies used by the Drinking Water Inspectorate (DWI). This is an asset health measure and although we do not have performance commitments for this measure all companies are required to report performance to the DWI and publish performance in the APR.

A3: Water Quality Service Index

Performance summary

We have seen an improvement in performance against this measure for 2019/20 although we have failed to meet our performance commitment target, incurring the maximum underperformance payment of £3.619m. We met our performance commitment in 2015/16 but the tighter performance commitment made it more challenging to meet resulting in an overall under performance payment of 14.249m for AMP6.

Measure description

The water quality service index (WQSI) measures performance against six sub-measures which each contribute to the overall index score, the sub-measures are:

- Water treatment works coliform non-compliance
- Service reservoir integrity index
- Water treatment works turbidity fails
- Mean zonal compliance
- Distribution maintenance index
- Contacts for water quality

Only the 'contacts for water quality' sub-measure contributes to both an outperformance payment and an underperformance payment: the other five water quality sub-measures carry an underperformance only incentive.

Mean zonal compliance is a particularly important sub-measure that measures water quality against 39 water quality standards. To reflect the significance of this measure, from 2017/18 onwards we have a specific underperformance incentive for this sub-measure, which generates a standalone underperformance payment and acts as a "gateway check" for the overall index.

This means that even if the Water Quality Service index score is above the reward deadband then an outperformance payment would only be warranted if performance for the MZC sub-measure meets the MZC target (100%).

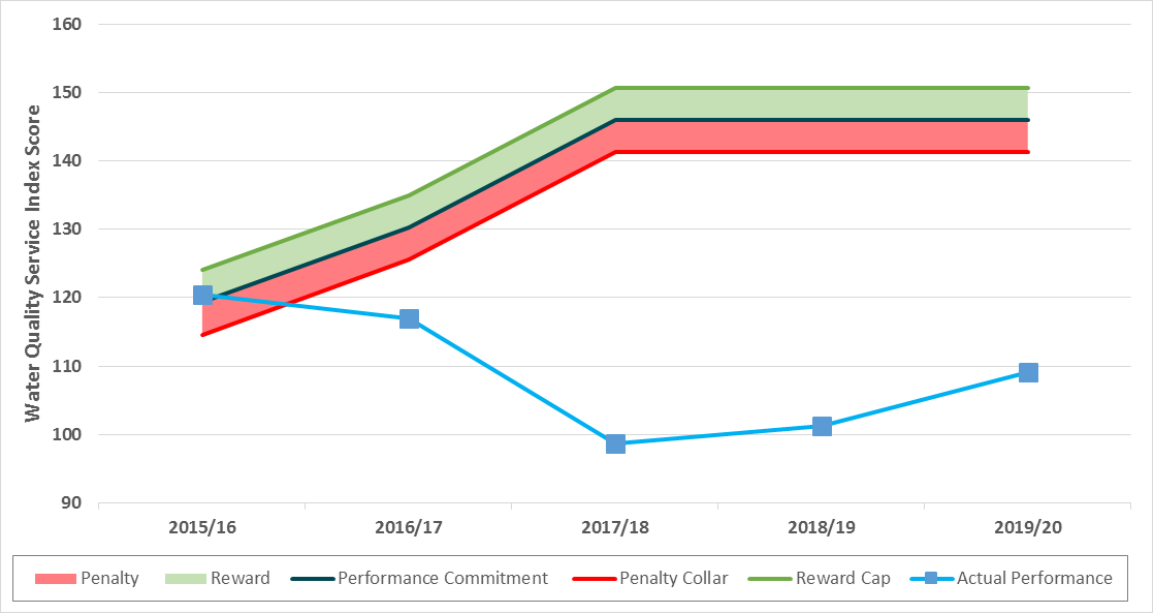
Actual performance for the 'Water Quality Service Index score' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	119.300	130.300	145.900	145.900	**145.900**
Actual	120.465	116.923	98.645	101.182	**109.060**
Pass/Fail	Pass	Fail	Fail	Fail	**Fail**
Outperformance payment/ underperformance payment (£m)	0.227	-3.619	-3.619	-3.619	**-3.619**

2019/20 Actual performance and targets for the Water Quality Service Index sub measures

Sub measure	Indicative Target 2019/20	Performance 2019/20	Pass/Fail
WTW coliform non-compliance	0.04	0.01	Pass
SR integrity index	99.96	99.99	Pass
Index WTW turbidity fails	3	1	Pass
Index Mean zonal compliance	100.00	99.96	Fail
Distribution maintenance index	99.88	99.86	Fail
Contacts for water quality	6,904	10,456	Fail

Water quality service index score – AMP6 actual performance against performance commitment and financial incentives



Overview of performance to date

The company achieved the performance commitment in 2015/16 earning an outperformance payment of £0.227m. However, the performance commitment was failed in the subsequent four years, including 2019/20, resulting in the maximum underperformance payment of £3.619m per annum. Cumulatively this gives an underperformance payment of £14.249m over AMP6.

WQSI performance has improved this year as a result of an improvement in the Service Reservoir integrity index[1], mean zonal compliance and a reduction in the number of customer contacts associated with water quality. We are disappointed that despite the improvement in these measures we have missed the target for the reduction in the number of water quality customer contacts received and mean zonal compliance. We also missed the target for the distribution maintenance index.

There has been a slight deterioration in the WTW coliform non-compliance compared with last year. Three of the five infringements for bacteria at WTWs were associated with sample bottles that may have been contaminated. Despite the possible contamination, the results still stand and are included in the year end figures. Processes have been updated to discard the bottles if the integrity of the sample cannot be guaranteed, The number of WTW turbidity infringements has also slightly deteriorated from no infringements last year which was our best ever performance to one this year.

Although there has been an improvement in the number of water quality contacts received we have still received a high number of contacts associated with discolouration on the network. Discoloured water contacts that are attributed to DWI events are exempt from this measure – they are covered by DWI water quality events category 3 and above. It can be inferred that as we have improved how we manage large events and reduce the risk of large scale discolouration we have increased the number of near misses on the network, which are impacting all three of the sub measures we have failed.

Mains cleaning and large diameter mains cleaning projects have been undertaken to reduce the risk of discolouration, turbidity, iron and manganese infringements. To further reduce the risk we committed to undertake mains cleaning in an additional 53 water supply zones. This programme of work was completed during 2019 and we expect to see a reduction in contacts in subsequent years.

Mean zonal compliance measures performance against 39 water quality standards. Performance this year improved compared with the previous year but at 99.96% fell short of the performance commitment of 100%. As has been reported previously, this is an ambitious target which is challenging not least due to the influence of customer internal plumbing on several water quality parameters. We have seen a decrease in the number of infringements compared to the year before, which has included a significant decrease in the number of lead infringements. This can be attributed to the increased focus on phosphate dosing performance, which is now reviewed on a monthly basis at director level.

In addition to our calm network approach we have established a network response team in the ICC to monitor pressure and flow information with a view to responding and remediating issues before there is a detrimental impact on the service provided to customers reducing the risk of potential infringements and discolouration in network. Reducing discolouration and taste and odour contacts is a key priority for the company, with additional focus going into AMP7 to build on improvemets made in AMP6, whilst delivering a truly intergrated and more dynamic approach with activities at every stage of the source to tap system, including the

[1] This is a DWI measure calculated by taking the average compliance for coliform bacteria and E.coli across the all the company's service reservoirs.

information available to and how we communicate with customers about water quality matters.

Underperformance or outperformance payments
In order to calculate any under or outperformance payments the actual index score for the year is compared against the target index score. If the overall index score falls within the outperformance payments or underperformance zone then the incentive is calculated by multiplying the difference by an underperformance rate of £0.770 million per index point or the reward rate of £0.417 million per index point. Details of the calculation of this index measure as set out in Appendix 2.

Development of measure in AMP7
The WQSI performance commitment does not continue into AMP7 however we will continue to improve water quality performance and report performance against six outcome delivery incentives associated with the outcome “your water is safe and clean”.

The majority of the water we supply is soft water from surface water sources which has a higher risk of containing naturally occurring compounds (from algae) and the softer waters promote corrosion of the cast iron mains leading to discolouration. We have seen an increased prevalence of the taste and odour causing compounds associated with changing weather patterns. The presence of these compounds during the water treatment process can result in a musty/earthy taste and odour. We will use improved technology to optimise our treatment works and operation of our networks to minimise taste and odour contacts.

We are working in partnership to develop innovative solutions, trialing a LED UV treatment unit at one of our treatment works. We are also working with a number of instrument suppliers and universities to develop real-time detection systems to detect and treat algal taste and odour compounds however it will take time to develop and implement any innovative solutions to algae.

We continue to have challenges with iron and manganese in the network and whilst we are taking significant steps to resolve this (including mains cleaning, operating calm networks, and the development and implementation of a revised discolouration risk assessment that takes into account water chemistry, treatment processes, network hydraulics, water quality performance and customer contact data), occasional samples will fail. Other parameters (for example lead) can be transient in nature and are directly impacted by customer plumbing which is outside our control. We will however continue to make improvements to reduce the risk associated with lead.

We have also developed an outcome delivery incentive for AMP7 which seeks to sustainably remove the risk to customer arising from exposure to lead by the removal of any lead pipework in the supply service pipe. This includes the replacement of company owned and non-owned lead pipework from the water main connection to the first incoming tap at a customers property.

In AMP7 MZC will be replaced with the new DWI Compliance Risk Index (CRI). The measure is designed to illustrate the risk arising form treated water compliance. The compliance risk index performance commitments requires a performance improvement in 2020/21 and the improved performance has to be maintained for the rest of AMP7.

Instead of customer contact performance being measured as part of the water quality index measure we have a standalone outcome delivery incentive for water quality customer contacts in AMP7. The AMP7 performance commitments for water quality contacts requires a 34% reduction in contacts from 2020-2025.

We continued to work with the DWI to deliver a comprehensive ‘Transformation Programme’, which with their agreement has moved into a continuous development programme, recognising the improvements that have been delivered and the incorporation of many of the activities into business as usual. The transformation programme has already delivered improvements in water quality but should continue to deliver water quality benefits towards our new AMP7 performance commitments.

B1: Average minutes supply lost per property (per year)

Performance summary

We have outperformed our 2019/20 performance commitment for this measure resulting in an outperformance payment of £7.227m. Over recent years we have been focusing on the way we respond to interruptions to supply which is now beginning to show real benefits. Although there has been a slight deterioration in performance this year compared with last year we have seen a reducing trend over AMP6 resulting in a total outperformance payment for AMP6 of £12.5m.

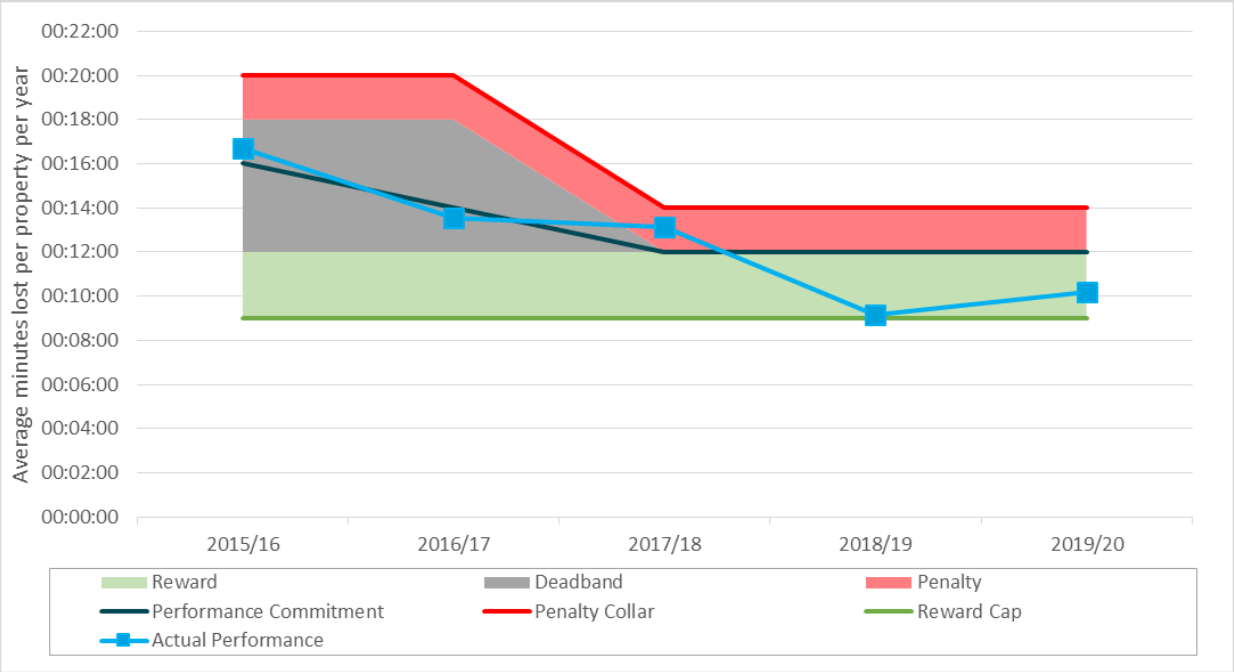
Measure description

This measure records (in minutes) the loss of supply to our customers which continues for greater than three hours averaged acrossed the number of properties in the region. All supply interruptions are included whether the event was as a result of planned, unplanned or third party actions. The regulatory targets for this performance commitment are highlighted below.

Actual performance for the 'Average Minutes Lost' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target (Minutes:Seconds)	16:00	14.00	12.00	12.00	**12.00**
Actual (Minutes:Seconds)	16:42	13:33	13:09	9:10	**10:11**
Pass/fail	Fail	Pass	Fail	Pass	**Pass**
Outperformance payment / underperformance payment (£m)	0	0	-5.962	11.258	**7.227**

Average Minutes Lost – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
Our approach to improve response times and focus on the restoration of supplies has contributed to the outperformance of this measure in 2019/20. The step change in performance in 2018/19 can be attributed predominantly to the implementation of a ICC triage system using additional key team members to support and plan the response to an event, particularly planning the restoration of supplies using network modelling, re-zones and the use of the alternative supply team. The alternative supply team has matured in numbers and has been structured to better support network events during this financial year. It has been a relatively mild winter in 2019/20 unlike 2017/18 when we experienced an extreme freeze/thaw.

There has been a deterioration in performance compared with 2018/19 as we forecast there would be. We saw a significant improvement in performance last year as a result of the implementation of a triage team in our Integrated Control Centre but also activities we undertook during the extended period of dry weather in summer 2018, to maintain supplies. Planned interruptions associated with mains cleaning, mains laying and mains diversions were postponed to maximise water available to meet the high household demand we experienced as result of the warm, dry summer. We also increased resources in our Integrated Control Centre to help identify and respond to availability issues quickly. Additional pressure management and leakage detection and repair activity was undertaken to reduce the stress on water supplies across our region. This activity significantly reduced the average minutes lost associated with water supply interruptions however we spent an additional £66 million in 2018/19 to safeguard continuity of supplies and protect our water resources. We have not maintained the same scale of activity this year therefore performance has deteriorated slightly.

Underperformance or outperformance payments
In order to calculate any under or outperformance payments the ODI performance is compared against the target ODI performance. If the performance falls within the outperformance payments or underperformance zone then we multiply the resulting difference by the incentive rate. For average minutes lost the incentive underperformance rate is £5.184 million per average minutes lost per property and the outperformance payment is £3.978 million per average minutes lost per property.

Between 2016/17 and 2017/18 there was an improvement in performance however performance fell within the outperformance deadband therefore no outperformance payment was incurred.

For 2018/19 there was a deterioration in performance and we incurred an underperformance payment of £5.962m.

In 2019/20 we outperformed the target earning an outperformance payment of £7.2267m. Over the 2015 to 2020 period we have earned a cumulative outperformance payment of £12.5228m.

Development of measure in AMP7
This is one of Ofwat's common measures for AMP7 meaning all companies will have this as an outcome delivery incentive for AMP7. The performance commitments for AMP7 are very challenging reducing from 12 minutes in 2019/20 to 6 minutes 30 seconds in 2020/21 and then down to 5 minutes in 2024/25.

We have been making changes to our people, processes and technology and are currently in the embedment phase of the rollout. Although we are starting to see the benefit of these changes we expect further performance improvements as we further embed these changes.

During AMP6, as a result of our "lessons learnt" approach to preventing service failure, we worked with a third party organisation specialising in assessing asset resilience vulnerabilities. Across the region we highlighted the top resilience risks which have been developed into our AMP7 investment programme.

We have invested an extra £100m in AMP6. Some of this expenditure is to support projects to address additional resilience, poor condition mains and innovation projects to improve performance during the final year of AMP6 and to deliver further performance improvements in AMP7.

B2: Reliable water service index (RWSI)

Performance Summary

In 2019/20 we missed our performance commitment incurring an underperformance payment of 7.974m. There has been an improvement in performance for three of the measures that contribute to the index compared with last year, however the number of water supply interruptions greater than 12 hours has been impacted by two incidents this year.

Measure description

This performance commitment is an index which comprises four sub-measures, these are:

- Total bursts
- Interruptions >12 hours
- Properties below reference level at end of year (DG2)
- Unwanted customer contacts for water availability

The size of any underperformance payment associated with the reliable water service index (RWSI) is determined by the under performance of all four sub-measures. The size of any outperformance payments is based upon the outperformance of the customer service measures: customer contacts, poor pressure and interruptions greater than 12 hours. The asset health (total bursts) sub-measure does not contribute to the outperformance payments.

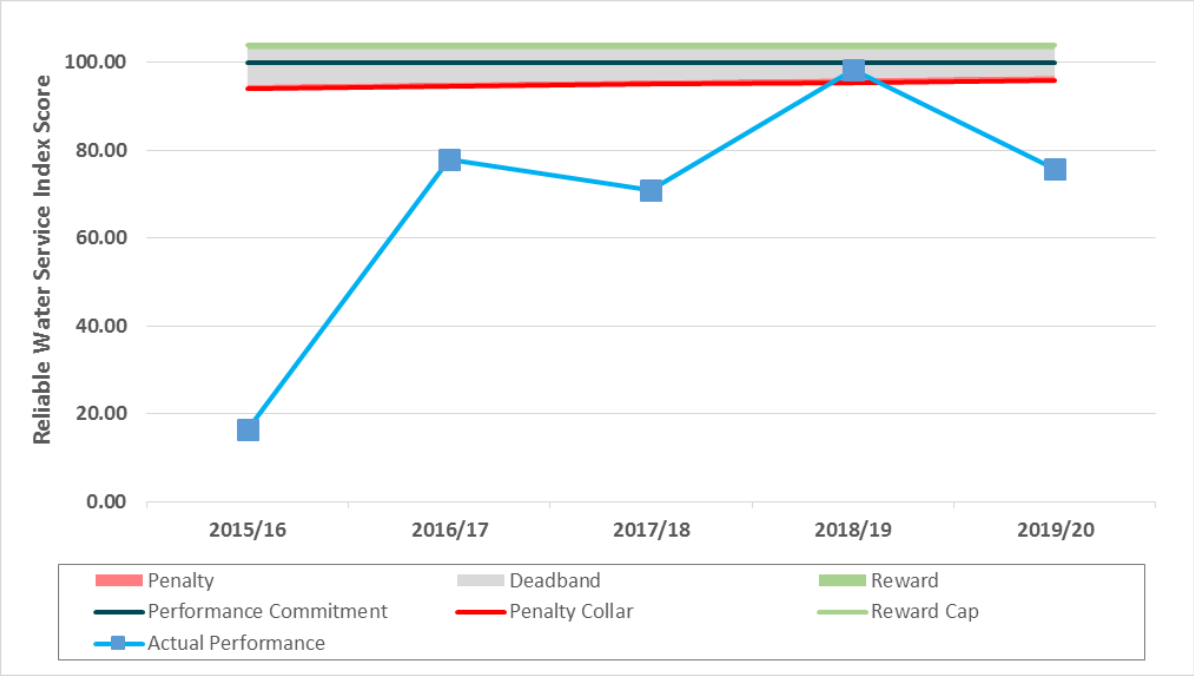
Actual performance for the 'Reliable water Service Index' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	100.000	100.000	100.000	100.000	**100.000**
Actual	16.447	77.840	70.827	98.457	**75.79**
Pass/ Fail	Fail	Fail	Fail	Fail	Fail
Outperformance payment /underperformance payment £m	7.974	7.974	7.974	£0m	**7.974**

2019/20 Actual performance targets for the Reliable Water Service Index sub measures

Sub measure	Indicative Target 2019/20	Performance 2019/20	Pass/Fail
Total bursts	5080	4963	Pass
Interruptions >12 hours	730	3905	Fail
Properties below reference level at end of year (DG2)	272	248	Pass
Unwanted customer contacts for water availability	48000	46663	Pass

Reliable Water Service index – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

There has been an improvement in performance for three out of the four RWSI submeasures during 2019/20. We also met the submeasure targets for mains bursts, properties below reference level for pressure and customer availability contacts. The number of water supply interruptions greater than 12 hours has deteriorated because of two incidents experienced in the year causing us to miss the target for this submeasure and fail the performance commitment for the RWSI overall.

In November 2019 we experienced an incident in Prenton, Wirral where failure of a borehole pump led to a major loss of supply incident with 855 properties losing supply for over 12 hours, and more properties impacted for shorter periods. In February the supply to Eden Valley, Penrith was damaged by flood water from Storm Ciara causing a loss of supply incident, with 2874 properties losing supply for greater than 12 hours.

Customer contacts for water availability covers incidents of both low water pressure and / or loss of supply. Although the two incidents above generated peaks in our customer contacts for availability overall we have seen an improvement in performance and outperfomed our target for 2019/20. This is in line with our general improvement in targets related to loss of supply through our focus on 3Rs – respond, restore and repair aimed at minimising disruption to customers enabled through central technical support in the ICC. This is supported by an expanding fleet of Alternative Supply Vehicles (ASVs) helping to minimise customer impact.

We outperformed our target for mains bursts for this year with levels lower than 2018/19 but slightly higher than the first three years of AMP6.

At the beginning of 2018/19 there was an increase in the number of mains bursts caused by the deep freeze and rapid freeze thaw known as the “Beast from the East”. The severe weather was followed by an exceptionally dry summer causing more ground movement and associated mains bursts. We increased our leakage detection and repair activity during the summer to help meet the increased demand experienced and secure customer supplies. This increased the number of mains burst detected and repaired. This year we have accelerated investment in equipment to remotely log pressure and flow to enhance our leakage detection ability. This has enabled us to identify leaks that are harder to find and to find leaks more quickly. This has had a beneficial impact on our leakage performance but might increase the number of mains bursts identified and reported in the future.

Underperformance or outperformance payments

In order to calculate any under or outperformance payments the annual index performance is compared against the target index performance. If the performance falls within the outperformance payments or underperformance zone then we multiply the resulting difference by the incentive rate. The Reliable water service index (RWSI) incentive underperformance rate is £7.974 million and the outperformance payments is £5.970 million per index point. Details of the calculation of this index measure are set out in Appendix 2

For 2015/16, 2016/17 and 2017/18 the RWSI target was not achieved due to poor performance in one sub-measure ‘Interruptions greater than 12 hours’. As such, we did not meet our performance commitment for years 1, 2 or 3 and a maximum underperformance payment of £7.974m was incurred in each year.

For 2018/19 we narrowly missed the RWSI target but performance fell within the deadband therefore no underperformance payment is applied.

For 2019/20 the RWSI target was not achieved due to poor performance in one measure 'Interruptions greater than 12 hours'. As such, a maximum underperformance payment of £7.974m was incurred for 2019/20.

Development of measure in AMP7

The RWSI outcome delivery incentive does not continue into AMP7 however mains bursts and properties receiving poor pressure will become stand alone outcome delivery incentives.

Mains bursts will be renamed mains repairs but the reporting methodology is unchanged except the number of mains repairs will be reported per 1000km of main. This is one of Ofwat's common measures for AMP7 meaning all companies will have this as an outcome delivery incentive for AMP7. The performance commitments for AMP7 are challenging requiring us to steadily improve performance over AMP7. We have planned expenditure in AMP7 relating to replacement of 'poor condition' mains however the signficiant reductions in leakage we have commited to make may adversely impact the number of mains repairs.

We will still be incentivised to reduce the number of properties receiving pressure below the guaranteed standard in AMP7 however instead of reporting the number of properties we will report the number of properties per 10,000 connected properties. This is one of the optional asset health measures that we adopted for AMP7. The performance commitments for AMP7 are challenging however we will continue to evaluate all properties that are on our low pressure register, to identify solutions and prioritise accordingly, to ensure we can remove as many properties as viable from the low pressure register. Out of the 248 propeties on the poor pressure register, 59 are properties which receive low pressure but according to Section 65 of the Water Industry Act we are not required to provide a higher pressure supply and doing so would be cost prohibitive.

B3: Security of supply index (SoSI)

Performance Summary

We have met our performance commitment for 2019/20 maintaining performance at 100.00. However, the supply-demand balance remains marginal, particularly in the West Cumbria and Integrated resource zone

Measure description

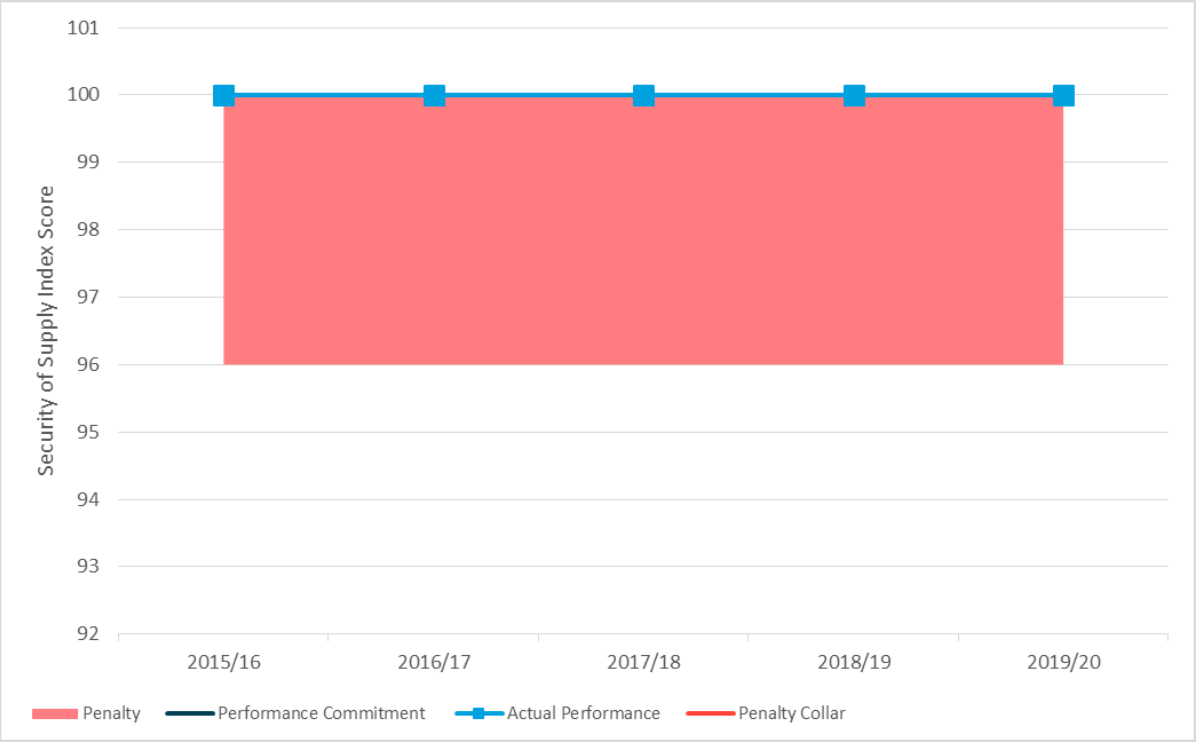
The security of supply index (SOSI) measures our success in meeting the region's demand for water. The aim is to ensure a zero or positive supply-demand balance (no deficit) at all times throughout the planning horizon – from the current year through to 2040. The index is expressed out of 100 and the measure is underperformance only, meaning that if a SOSI score of less than 100 is achieved then an underperformance payment will be incurred.

A change in the calculation of the SOSI index score has been implemented for 2019/20reporting , in line with new Environment Agency requirements specified in the latest update of the Environmental Performance Assessment (EPA) methodology, published in November 2019. This change involves subtracting actual outage experienced from deployable output (along with process losses), instead of the outage allowance from the WRMP15 forecasts, to calculate water available for use (WAFU) for each resource zone. For 2019/20, the actual outage experienced for the full year reporting period is only slightly higher (0.7%) than the outage allowance from the WRMP15 forecasts

Actual performance for the 'Security of supply' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	100.00	100.00	100.00	100.00	**100.00**
Actual	100.00	100.00	100.00	100.00	**100.00**
Pass / Fail	Pass	Pass	Pass	Pass	**Pass**
Outperformance payment/ underperformance payment £m	0	0	0	0	**0**

Actual performance for the 'Security of Supply Index' – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
We have continued to focus on our supply demand balance across all our resource zones. Our methodologies are consistent with those used for the Water Resource Management Plan and performance to date has been good for this measure. The performance commitment has been met again this year however there is still a need to monitor this measure closely and take action due to the reducing critical period surplus in Carlisle and West Cumbria resource zones.

To minimise the risk to the SOSI score in future reporting years it is critical that we continue to manage demand in Carlisle and West Cumbria so that no deterioration from current leakage levels is observed, and that work continues to bring leakage in line with WRMP targets.

To mitigate any risk to SoSI in future years, we are taking the following actions to reduce the demand for water and have also improved supply side assets which will increase the water available for use:

- We continue to prioritise demand management and leakage control activities particularly in the company's Cumbrian resource zones.
- We altered the way we operate the South Egremont boreholes to increase the water available for use in West Cumbria.
- We increased pumping capacity so we could increase the pumping rate from the River Eden to Castle Carrock reservoir, subject to water quality and operational constraint, to increase the water available for use in the Carlisle water resource zone. The ongoing demand management activities from the action plan need to be maintained or intensified in parallel with these operational changes, in order to ensure the supply-demand balance in the zone.

The surplus in the Integrated Resource Zone has decreased by 22.586 Ml/d from the previous reporting year, to 37.798 Ml/d for the 12-month FY20 reporting period. The decreased surplus is partly due to a reduction in forecast water available for use of around 12 Ml/d compared to FY19 (5 Ml/d for sustainability reductions plus about 7 Ml/d due to estimated climate change impacts).

Underperformance or outperformance payments
Security of supply index is an underperformance only measure. To calculate any underperformance the actual performance level is compared against the target performance level. If the performance falls within the underperformance zone then we multiply the resulting difference by the underperformance incentive rate of £3.30 million per index point. As our performance target has been met for 2019/20, we have not received an underperformance payment.

Future performance
The SOSI measure will be replaced by the common measure, the Drought Risk Resilience in AMP7. This new measure looks at the percentage of customers at risk of experiencing severe supply restrictions in a 1 in 200 year drought. An increase in the percentage at risk signifies a deterioration in performance.

The supply-demand balance will also continue to be reported through the Environment Agency's annual Environmental Performance Assessment (EPA) measure. The equivalent measure to SOSI in the EPA is the Supply-Demand Balance Index or SDBI, which is calculated in the same way as SOSI but with some slight differences in definition of some of the components. A SDBI score of below 100.0 will continue to represent the occurrence of a supply-demand deficit in one or more of the company's water resource zones.

Our aim is to ensure a zero or positive supply-demand balance at all times from the current year through to 2040. Failing to meet the target level could result in intervention by Defra if our water resources security of supply obligations are not met.

Due to the current marginal supply-demand surpluses in the Carlisle, West Cumbria and Integrated resource zones (all below 6% of demand plus target headroom), there is a risk we will fail to meet the future target unless demand is reduced in line with expectations. We are continuing to focus on demand management and are seeing improvements in leakage performance.

B4: Total leakage at or below target

Performance Summary

We have outperformed our regulatory leakage target of 462.65Ml/d by 16.55 Ml/d, therefore incurring an outperformance payment of £4.0m.

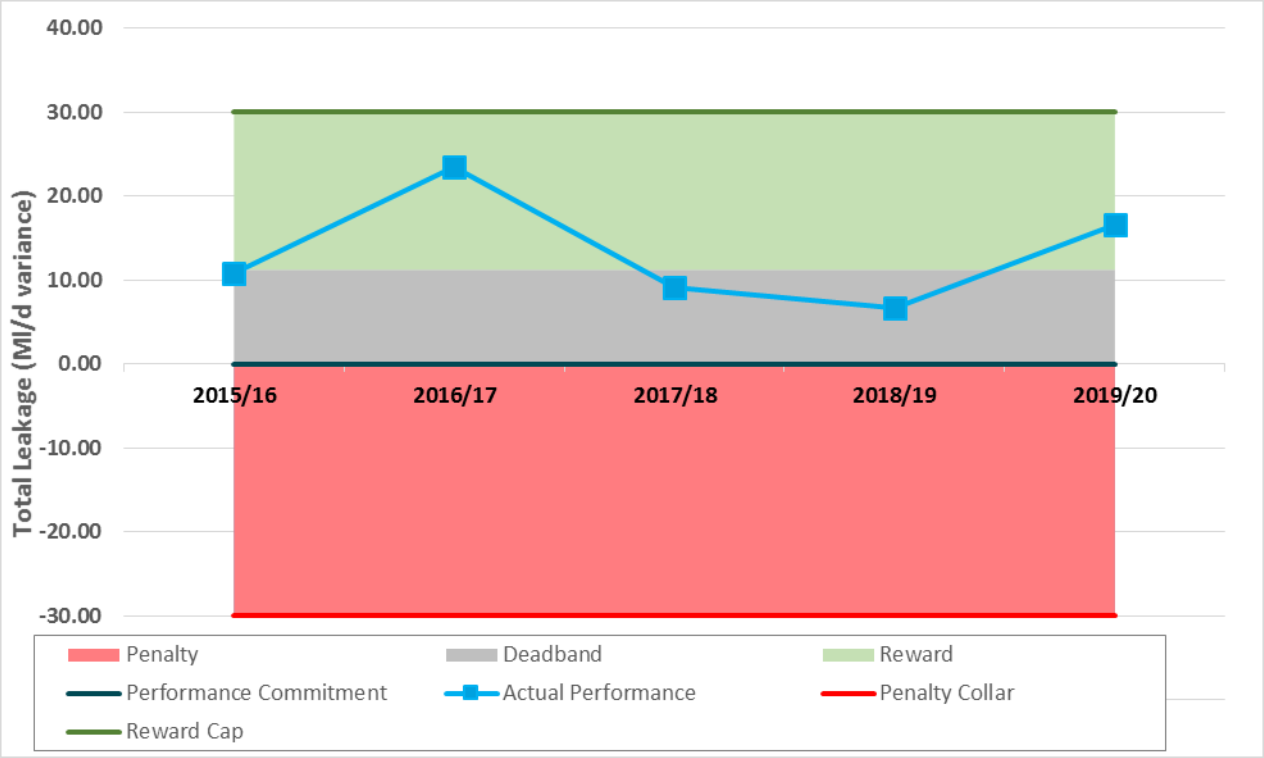
Measure description

This measure records the volume of water leaking from our network as a deviation from our overall target of 462.65Ml/d. The performance commitment has both under and outperformance financial incentives.

Actual performance for the 'Total leakage at or below target' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	0.0	0.0	0.0	0.0	**0.0**
Actual	10.8	23.4	9.1	6.7	**16.6**
Pass / Fail	Pass	Pass	Pass	Pass	**Pass**
Outperformance payment / underperformance payment (£m)	0.0	9.1	0.0	0.0	**4.0**

'Total leakage at or below target' – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
We have met our leakage target for the last 14 consecutive years. Leakage performance improved in 2019/20 compared with the previous year which was impacted by extreme weather. Elevated levels of leakage detection and repair resource, along with a mild winter, have resulted in a much improved total leakage position in FY20.

Our leakage work is directly scheduled from our integrated control centre, with our contractors using our systems. We have also recently brought leakage detection work in house, with the (experienced) staff being transferred to UU. This control has been enhanced further by our new contractual arrangements and supporting IT systems. These new arrangements provide greater visibility of work progress at all stages through common use of linked data capture tools by the new contractors. Although we have seen improvements in performance associated with this new way of working we expect it will also drive further improvements In AMP7.

We have also completed the installation of 44,000 acoustic loggers and we are starting to see the benefits, in terms of finding leaks we wouldn't previously have found and finding new leaks faster.

Underperformance or outperformance payments
In order to calculate any underperformance or outperformance payments the actual performance level is compared against the target performance level. If the performance falls within the outperformance payments or underperformance zone then we multiply the resulting difference by the incentive rate. For leakage, the incentive underperformance rate is £1.458 million per Ml/ day variance and the outperformance payments is £0.748 million per Ml/day variance.

In 2015/16, 2017/18 and 2018/19 we outperformed our target however performance fell within the outperformance deadband so there was no outperformance payment. In 2016/17 we achieved our best ever leakage performance outperforming our performance commitment and earning an outperformance payment of £9.1m. In 2019/20 we outperformed our performance commitment earning an outperformance payment of £4.0m.

Development of measure in AMP7
Leakage is one of Ofwat's common measures for AMP7 meaning all companies will have this as an outcome delivery incentive for AMP7. The measure will be calculated on a rolling three year average basis to reflect year on year variances in the measure. The performance commitment for AMP7 is very challenging and is based upon reducing annual leakage by 15% over the five year period.

The AMP7 performance commitment target is based upon reductions from a baseline position which has been set as the three year average of the leakage performance reported in 2017/18, 2018/19 and 2019/20. Leakage performance will be based on Ofwat's new methodology.

We have invested an extra £100m during 2019/20 to deliver further performances improvements and to help us meet future performance challenges. We have invested some of this expenditure installing 44,000 acoustic loggers which provide constant monitoring and can identify smaller changes in the network and the identification of leaks that may not have be previously identified.

B5: Resilience of impounding reservoirs

Performance Summary

We have outperformed this measure in 2019/20 delivering a risk reduction benefit slightly better than our performance commitment.

Measure description

The measure relates to our duty to maintain our statutory reservoirs and represents the resilience of these reservoirs using a total score from risk assessments. We are continually reviewing the potential risks at our reservoirs with the programme being flexible to ensure that we can reduce societal reservoir risks to even lower levels in line with best practice. The scores are calculated using current international best practice and in compliance with Health and Safety Executive guidelines.

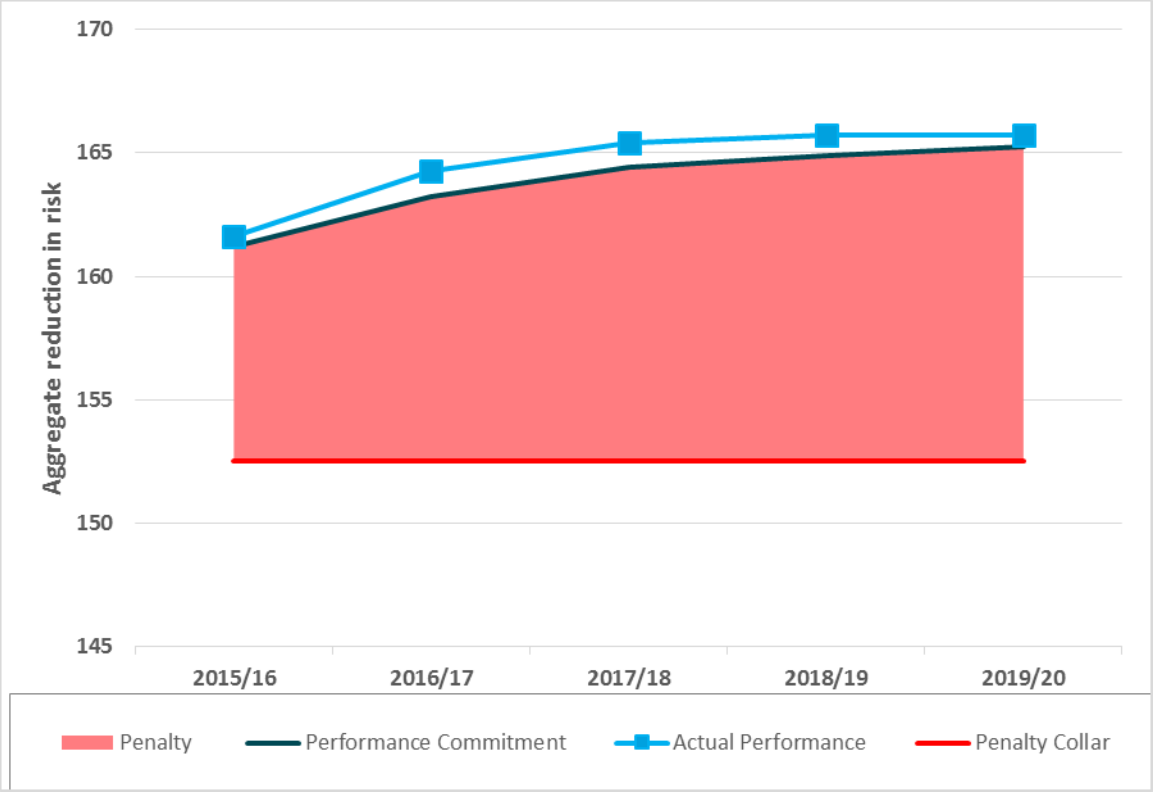
The measure is based upon a starting performance score of 151.86, with work undertaken to reduce risk levels increasing the performance score. The higher the performance score the greater the reduction in risk and therefore the better the performance. So the target is to be at or above the performance target in each year of the period.

This measure has an underperformance only financial incentive which is designed to ensure that customers are protected and revenue is returned to customers if the actual programme delivered does not generate the outcome that was originally assumed.

Actual performance for the 'Resilience of impounding reservoirs' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	161.20	163.21	164.44	164.87	**165.27**
Actual	161.61	164.25	165.42	165.72	**165.72**
Pass/Fail	Pass	Pass	Pass	Pass	**Outperformed**
Outperformance payment/ underperformance (£m)	£0	£0	£0	£0	**£21.600m**

'Resilience of impounding reservoirs' – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
This measure involves a rolling score across the AMP, and therefore outperformance in one year can benefit the subsequent year.

The slight outperformance of the target in 2015/16 was due to early completion of key projects, implementation of operational solutions, and the reduction in cumulative risk following the completion of site surveys and analysis by the Risk Estimation Team (this includes members of our Reservoir Safety Team and independent, government appointed, Panel Engineers). It is in customers' interests to implement these no-build operational solutions immediately as they lower risk at no major cost. The reduction in risk has been as a result of the delivery of the schemes set out in the table below.

The table sets out the project delivery date and the risk reduction resulting from delivery of the scheme and actual project delivery dates. The table demonstrates the level of change to the programme and the overall outcome each year has delivered.

Project completion date and risk reduction delivered in AMP6

Site name	Financial year	Project completion date	ODI points (this project)	Cumulative ODI points	Comments
Hollingworth Lake	Pre-AMP	10/09/2014	0.39	152.25	Delivered early
Hurst	N/A	31/09/2014	0.00	152.25	Additional scheme delivered
Hayeswater	N/A	31/09/2014	0.01	152.26	Additional scheme delivered
Ridgegate	N/A	07/11/2014	0.38	152.64	Additional scheme delivered
Readycon Dean	N/A	09/03/2015	0.14	152.78	Additional scheme delivered
Denton 1 & 2	FY16	07/04/2015	0.18	152.97	
Swinden	FY16	30/09/2015	0.13	153.10	Accelerated
Blackstone Edge	FY16	13/10/2015	0.46	153.57	Accelerated
Crummock	FY16	14/10/2015	1.09	154.66	
Simpson Ground	FY16	16/10/2015	0.13	154.79	Accelerated
Overwater	FY16	11/12/2015	5.25	160.04	
Whiteholme	FY16	14/12/2015	1.57	161.61	Accelerated
Millbrook	FY16	N/A	N/A	N/A	Scheme removed from programme
Sunnyhurst	FY17	30/08/2016	0.59	162.19	Delayed
Earnsdale	FY17	14/19/2016	0.38	162.58	Delayed
Borrans	FY17	17/01/2017	0.14	162.72	Additional scheme delivered
Bottoms Macc	FY17	17/01/2017	0.07	162.79	Accelerated
Cloughbottom	FY17	17/01/2017	0.07	162.85	Accelerated
High Bullough	FY17	17/01/2017	0.06	162.92	Accelerated
Rumworth	FY17	17/01/2017	0.1	163.01	Accelerated
Teggsnose	FY17	17/01/2017	0.07	163.08	Accelerated
Clowbridge	FY17	23/02/2017	0.44	163.52	Additional scheme delivered
Springs	FY17	23/02/2017	0.73	164.25	
Chelburn	FY18	31/01/2018	1.17	165.42	Delayed
Warland	FY18	N/A	N/A	N/A	Scheme removed from programme
Woodgate Hill no 2	FY18	N/A	N/A	N/A	Scheme removed from programme
Coldwell	FY18	N/A	N/A	N/A	Scheme removed from programme
Arnfield	FY18	N/A	N/A	N/A	Scheme removed from programme
Fisher Tarn	FY18	N/A	N/A	N/A	Scheme removed from programme
Yeoman Hay	FY19	N/A	N/A	N/A	Scheme removed from programme
Hanging Lees	FY19	08/03/2019	0.31	165.72	Accelerated
Laneshaw	FY20	31/03/2020	0.15	165.87	Delayed

Full details of these schemes are available in the document "PR14 reconciliation", which is published on our website and available via the following link.

Underperformance or outperformance payments
In order to calculate any underperformance for this measure, the actual performance is compared against the target performance. If the performance falls within the underperformance zone then we multiply the resulting difference by the incentive rate. For impounding reservoirs, the incentive underperformance rate is £0.250 million per risk unit.

We out-performed against our performance commitment in 2019/20 therefore no underperformance payment has been accrued.

Development of measure in AMP7

The ‘resilience of impounding reservoirs programme’ is entirely focused on securing the safe, efficient long term future of our reservoir assets. These assets are likely to increase in their utility and value to the company, as opportunities develop for water trading. In AMP7 we have a similar bespoke outcome delivery incentive “Keeping reservoirs resilient” which incentivises us to further reduce the risk of dam failure. The measure of risk is different for the AMP7 measure and both outperformance and underperformance payments can be incurred.

B6: Thirlmere transfer into West Cumbria

Performance Summary

Delivery of this project is now significantly ahead of the planned schedule and we expect to complete the project approximately one year ahead of the original completion date. The outperformance payment of £21.6m generated this year compensates the company for acceleration costs of delivering early.

Measure description

This measure reflects our progress in delivering the Thirlmere transfer project which will allow abstraction from Ennerdale Water to cease by providing a transfer main, new wastewater treatment works and associated assets to allow water from Thirlmere reservoir to be supplied to the West Cumbria area.

As the project will deliver its final outcome in the AMP7 period, the measure is based upon the earned value of delivering key milestones within the project with the performance commitment being based upon 82% of the earned value of the project being delivered by the end of the AMP6 period.

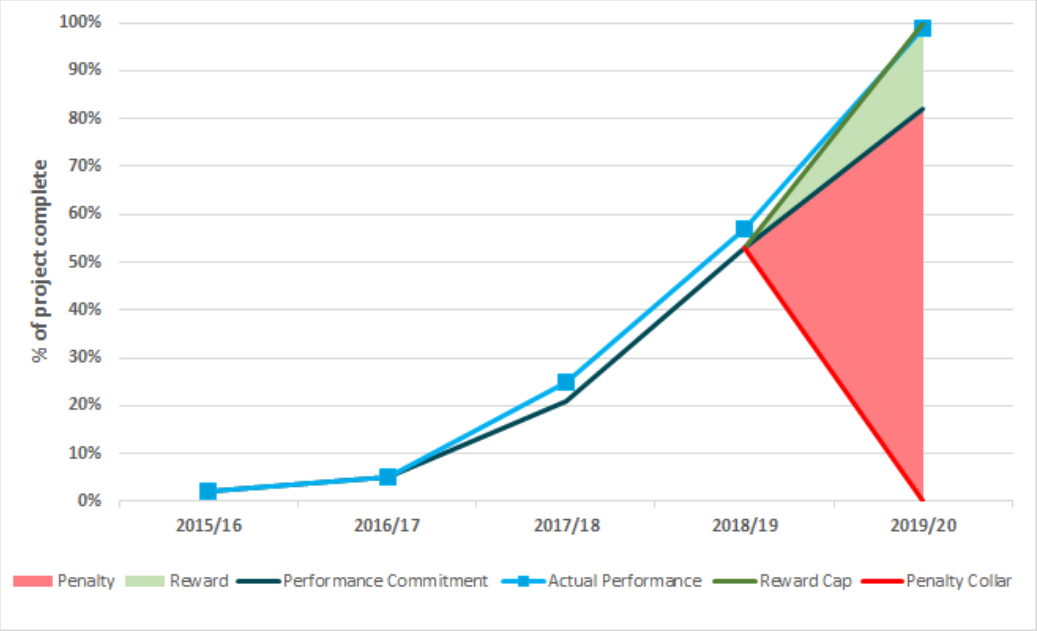
Underperformance and outperformance incentives for this measure are applied based upon the position at the end of FY20 to reflect any slippage out of or acceleration into the AMP6 period and therefore ensure that customers are protected from any delay or that UUW is appropriately recompensed for the additional costs in the period that would be associated with acceleration of the project.

Details of our plans for West Cumbria can be found on our website. The breakdown of the project stages that make up the performance commitment in both AMP6 and AMP7, and the percentage allocated to each year are shown below.

Actual performance for the 'Thirlmere transfer' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	2	5	21	53	**82**
Actual	2	5	25	57	**99**
Pass/ Fail	On track	On track	On track	On track	**Outperformed**
Out performance payment/ underperformance (£m)	N/A	N/A	N/A	N/A	**£21.600m**

Actual performance for the 'Thirlmere transfer into West Cumbria' performance commitment



Overview of AMP6 performance

Our commercial strategy of splitting the project into five contracts and the setting up of a dedicated commercial team has enabled the project team to make good progress on this project.

- In 2015/2016 we achieved the two planned milestones of 'tenders issued' and 'planning application submitted'. This amounted to 2% of project completion in line with the performance commitment target.
- In 2016/2017 we achieved the two planned milestones of 'contracts awarded' and 'planning application approved'.
- In 2017/2018 we delivered the two planned milestones of 'construction started on site' and 'first 23.12% of main in the ground'. We also delivered the milestone of 'Thirlmere Bridge End construction works complete'. This work delivered a total earned value for the three years to date of 24.68%, which is ahead of the of project completion in line with the performance commitment target of 21%.

- In 2018/2019 we delivered the three milestones scheduled in the year, with the substructure of the Water Treatment Works (WTW) and service reservoirs completed and the next 27.27% of mains being laid. We have completed the superstructure of the WTW earlier than originally planned. This took the total earned value up to 58.86%.
- In 2019/20 we delivered the one milestone scheduled in the year, '27.27% of main in the ground' and we delivered one milestone that we had planned to deliver the previous year, 'superstructure of WTW complete'. Further mains laying meant we delivered two future milestones early.

Milestones delivered in AMP6 versus planned delivery dates

Completed milestones	Planned delivery year	Actual delivery year	Earned Value (%)	Early/ Late
Tender documents (scope book) submitted to bidders	FY16	FY16	1.00	On time
Planning application submitted	FY16	FY16	1.00	On time
Contract awarded	FY17	FY17	1.50	On time
Planning application approved	FY17	FY17	1.50	On time
Construction started on site	FY18	FY18	7.66	On time
First 23.12% of main in the ground	FY18	FY18	8.34	On time
Thirlmere Bridge End connection works complete	FY20	FY18	3.68	Early
Substructure of WTW complete	FY19	FY19	0.85	On time
Substructure of SRs complete	FY19	FY19	0.85	On time
Next 29.64% of main in the ground	FY19	FY19	30.30	On time
Next 27.27% of main in the ground	FY20	FY20	25.00	On time
Superstructure of WTW complete	FY21	FY20	2.18	Early
Next 12.54% of main in the ground	FY21	FY20	7.82	Early
Final 7.3% of main in the ground	FY22	FY20	6.70	Early
Total earned value of the project delivered to date			**99**	

AMP7 milestone delivery dates and forecast delivery date

Milestones to be completed	Planned delivery year	Forecast delivery year	Earned Value (%)	Early/ Late
SRs complete	FY22	FY21	0.65	Early
WTW complete	FY22	FY21	0.65	Early
Total earned value of the project yet to be delivered			**1.30**	

Underperformance or outperformance payments

Incentive payments for this measure are only applicable in 2019/20.

In order to calculate if any outperformance payments has been incurred the actual performance is compared against the target performance level. If the performance falls within the outperformance payments-zone then we multiply the resulting difference by the incentive rate. For the Thirlmere transfer into West Cumbria the incentive rate is £1.271 million per percent project completion.

At the end of 2019/20 we delivered a total of 99% earned value of the project substantially greater than the 82% assumed within the performance commitment. We have earned an outperformance payment of £21.6m. The incentive mechanism aims to protect customers if we fail to deliver this major project or to compensate the company for acceleration costs of delivering early.

Development of measure in AMP7

We are planning to deliver this project as soon as possible. The delivery date included in our 2015 Water Resources Management Plan and PR14 submission was 31st March 2022. The project is on track to significantly outperform the targets as outlined in the performance commitment for the Thirlmere Transfer. Subject to potential construction delays we would hope to be able to complete the service reservoirs in the late summer of 2020 and complete the WTW and thus the project towards the end of 2020/21. The outcome delivery incentive will continue into AMP7 until the project is complete.

C1: Contribution to rivers improved – water programme (NEP schemes and abstraction changes at four Abstraction Incentive Mechanism (AIM) sites)

Performance Summary

We have slightly underperformed on this measure in 2019/20 due to delays delivering NEP schemes. We have outperformed the AIM element of the measure.

Measure description

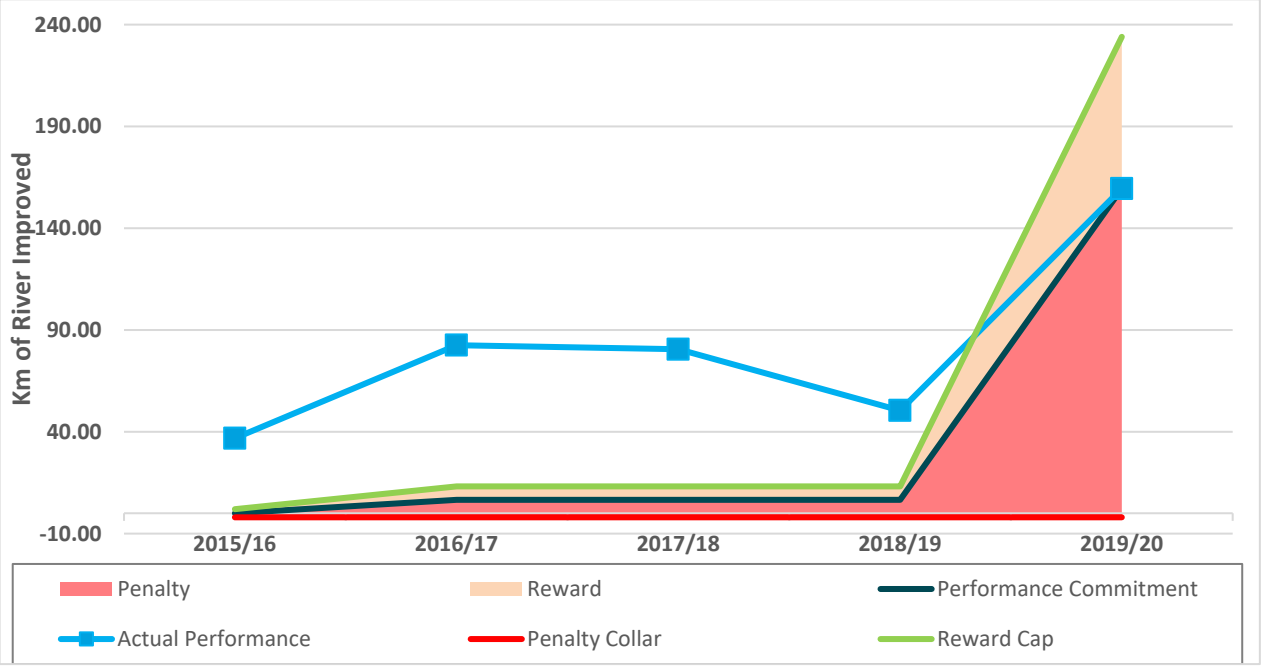
The contribution to rivers improved (water) measure of success is delivered through two main programmes:

- The delivery of an agreed number of kilometres of river improvement through completion of schemes agreed with the EA in the National Environment Programme (NEP).
- Additional kilometres improved through changing United Utilities abstraction at the four abstraction incentive mechanism (AIM) sites.

Actual performance for the 'contribution to rivers improved' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	0	6.6	6.6	6.6	**159.5**
Actual	36.85	82.55	80.56	50.48	**159.49**
Pass/Fail	Pass	Pass	Pass	Pass	**Fail**
Outperformance payment/ Underperformance payment (£m)	0.0560	0.1848	0.1848	0.1848	**0**

Actual performance for the 'contribution to rivers improved' performance commitment



Contribution to rivers improved sub-measures

Sub measure	Performance 2019/20	Target 2019/20
Cumulative length of river improved by NEP (km)	137.10	159.5
Length of river imported by AIM (km)	22.39	0
Total cumulative length of river improved (km)	159.49	159.5

Overview of AMP6 performance

We have outperformed the performance commitments for the first four years of AMP6 through the early delivery of NEP schemes. The rivers improved (water) programme initially had two projects due for delivery in 2016/17, with the remainder of the programme due for delivery in 2019/20. In 2019/20 we underperformed against the delivery of NEP schemes but outperformed the AIM. A breakdown of performance for each year follows below.

- In 2015/16 we delivered the Heltondale fish migration investigation one year earlier than proposed in the NEP, securing 0.01 km of river improved.

  We also secured 36.84 km from the AIM element of the measure as river flows at the four AIM sites did not drop below the AIM threshold flows.

- In 2016/17 we delivered the remaining FY17 scheme (Swindale). We also accelerated delivery of seven sediment management schemes which were due for delivery in FY20 (representing 9 NEP entries) – we decided to undertake these ourselves which provided us with greater control over the speed of the project and allowed us to be efficient in our delivery. As a result we have been able to complete these studies earlier than we anticipated. We also completed an investigation of our Thirlmere tributary abstractions, again ahead of its FY20 NEP date. Together these secured a total of 45.70 km of river improved through delivery of NEP schemes in 2016/17.

  We also secured 36.84 km from the AIM element of the measure as river flows at the four AIM sites did not drop below the AIM threshold flows.

- In 2017/18 we delivered a further investigation in to our Haweswater tributary abstractions which was originally due in FY20. This secured 0.02 km river improved.

  The AIM flow threshold was reached at Ennerdale during 2017/18 resulting in 34.83 km river improved secured from the AIM element of the measure.

- In 2018/19 we delivered the River Calder scheme, an eel trap and truck investigation and a River Lune eel investigation, securing a total of 5.89 km of river improved through delivery of NEP schemes in 2018/19.

  Due to the dry summer of 2018 we hit the AIM flow triggers at three of the four AIM sites resulting in a slightly negative AIM performance of -1.14 km river improved in 2018/19.

- In 2019/20 we achieved 85.48km of rivers improved through delivery of NEP schemes. we failed to deliver three schemes totalling 18.72 km of river improved (14.40 km for the Windermere eel scheme:1.51 km for the Marchnant flow scheme: 2.81 km for the Cownwy flow scheme).

  The original Windermere eel protection (14.40 km) scheme agreed with the Environment Agency was to provide “possible strobe light deterrent” with a delivery date of “2021”. Construction of a strobe light solution was therefore, included within the AMP6 ODI Rivers Improved (Water) programme, with a delivery date of 31 March 2020. On 17 January 2019, the Environment Agency informed UU that strobe lights were no longer considered as an effective deterrent and that the site should be subject to full review against the Environment Agency Eel Manual to establish the appropriate solution, which should comply with best practice.

  Discussions are ongoing between UU and the Environment Agency to agree a revised solution, with the revised solution is likely to require more substantial work and incur additional cost than the strobe light solution. Although we have failed to meet the ODI deadline we had hoped to the NEP delivery date (December 2020) was still achievable, although non essential construction work has been put on hold as a result of the coronavirus pandemic.

  Marchnant flow scheme (1.51 km) and Cownwy flow scheme (2.81 km) are owned and operated by Severn Trent Water although United Utilities hold the abstraction licence. Therefore we were funded for the NEP scheme to implement a new downstream flow provision at the intake (as this will require the abstraction licence to be altered) but Severn Trent Water are delivering the work on site. The scheme has been delayed due to multiple factors including a delay in getting Natural Resources Wales approval for the impounding licences required to complete the work; addressing local residents concerns over flooding; storm damage in early 2020 and more recently, coronavirus pandemic causing work on site being stopped

  In addition, three schemes were removed from the NEP by the EA. However these schemes were included in the ODI and so contribute 3.71 km in total towards the missed target (1.43 km for the River Ellen flow scheme: 0.74 km for the Old Water flow scheme:1.54 km for the Forge weir north bank eel scheme).

  Together these six schemes would have contributed 22.43 km river improved.

  During FY2020 river flow at Ennerdale (one of the three AIM sites) hit its AIM trigger. As we abstracted less water compared to the historic period this results in an over-performance for AIM of 22.39 km (line A2).

Table showing delivery of outputs compared with planned dates

Project	Planned delivery date	Planned delivery year	Km rivers improved	Actual delivery date	Actual delivery year	Comments
6UUWR0045 – Heltondale fish migration investigation	31/03/17	FY17	0.01	18/03/16	FY16	1 year early
6UUWR0031 – Swindale RoC2 works	31/03/17	FY17	6.55	31/03/17	FY17	On time
6UUWR009 – Calder	31/03/20	FY20	4.63	31/03/17	FY17	3 years early
6UUWR0010 – Crummock	31/03/20	FY20	4.55	31/03/17	FY17	3 years early
6UUWR0013 – Stocks	31/03/20	FY20	6.45	31/03/17	FY17	3 years early
6UUWR0015/6UUWR0016/6UUWR0017 – Jumbles	31/03/20	FY20	9.01	31/03/17	FY17	3 years early
6UUWR0020 – Dovestone	31/03/20	FY20	5.46	31/03/17	FY17	3 years early
6UUWR0022 – Goyt	31/03/20	FY20	3.84	31/03/17	FY17	3 years early
6UUWR0026 – Alston (Langden & Hareden)	31/03/20	FY20	5.21	31/03/17	FY17	3 years early
6UUWR0042 – Thirlmere AMP6 Investigation impact of Mill Gill aqueduct interception of tributaries	31/03/20	FY20	0.00	31/03/17	FY17	3 years early
6UUW0036 – Haweswater AMP6 investigation: impact of aqueduct interception of Naddle-Tailbert-Mossy Beck tributaries	31/03/20	FY20	0.02	22/03/18	FY18	2 years early
6UUWR0034 – River Calder hands off flow (EA flow site)	31/03/20	FY20	5.50	25/09/18	FY19	1 year early
6UUWR00035a – Stage 3 assessments & UKTAG flow guidance assessments (7 sites listed in the January published NEP5)	31/03/20	FY20	0.00	31/03/17	FY17	3 years early
6UUWR0035b – Stage 3 assessments & UKTAG flow guidance assessments (any other sites identified by thte EA)	31/03/2020	FY20	3.79	24/03/2020	FY20	On time
6UUF022 – River Calder: Eel screen (9mm) & three eel passes	31/03/2020	FY20	0.00	25/09/2018	FY19	1 year early
6UUWR0012 – Poaka Beck (new Q95 flow)	31/03/2020	FY20	5.28	04/03/2020	FY20	On time
6UUWR0005 – Marchnant low flow alleviation	31/03/2020	FY20	1.51	31/12/2020	FY21	Delayed
6UUWR0018 – Readycon Dean (new Q95 flow)	31/03/2020	FY20	0.96	23/07/2019	FY20	On time
6UUWR0023 – Horse Coppice (new Q95 flow)	31/03/2020	FY20	2.88	25/07/2019	FY20	On time
6UUWR0019 – Castleshaw (adaptive flow changes)	31/03/2020	FY20	0.67	17/03/2020	FY20	On time
6UUWR0022 – Errwood and Fernilee (adaptive flow changes)	31/03/2020	FY20	-	17/03/2020	FY20	On time
6UUWR0021 – Longdendale (adaptive flow changes)	31/03/2020	FY20	-	17/03/2020	FY20	On time
6UUWR0004 – Cownwy low flow alleviation	31/03/2020	FY20	2.81	31/12/2020	FY21	Delayed
6UUWR0002/ 6UUWR0003 – Tarnbrook Wyre low flow alleviation	31/03/2020	FY20	8.24	17/03/2020	FY20	On time
6UUF016 – Crummock: Eel tiles and four pumped eel passes on weir; strobe light deterrents on intakes	31/03/2020	FY20	6.03	12/12/2019	FY20	On time
6UUF014 – Ulpha: Two pumped eel passes and counter	31/03/2020	FY20	4.12	24/03/2020	FY20	On time
6UUF010 – River Lune at Forge weir: Eel pass on south bank of Forge weir	31/03/2020	FY20	1.54	20/03/2020	FY20	On time

Project	Planned delivery date	Planned delivery year	Km rivers improved	Actual delivery date	Actual delivery year	Comments
6UUF007 – River Wyre: Four eel passes (both sides of bank on two downstream weirs) & up and over pass over intake	31/03/2020	FY20	11.82	26/03/2020	FY20	On time
6UUF009 – River Lune at Caton: Eel screen (10mm)	31/03/2020	FY20	2.66	07/02/2020	FY20	On time
6UUF012 – Windermere: Strobe light deterrents	31/03/2020	FY20	14.40	31/12/2020	FY21	Delayed
6UUF021 – Ullswater: Strobe light deterrents	31/03/2020	FY20	15.38	10/03/2020	FY20	On time
6UUF002/ 6UUF003/ 6UUF004/ 6UUF005/ 6UUF006/ 6UUF011/ 6UUF013/ 6UUF015Eel monitoring and feasibility studies for "trap and truck" systems and need for 9-10mm aperture silver eel screening on reservoir intake at 5 reservoir sites: Harlock and Poaka Beck; Simpson Ground/High Newton; Damas Gill; Grizedale; Rivington	31/03/2020	FY20	0.16	07/11/2018	FY19	1 year early
6UUF010 – River Lune (LCUS): Eel monitoring and feasibility study	31/03/2020	FY20	0.23	07/11/2018	FY19	1 year early
6UUF001/ 6UUF018/ 6UUF019/ 6UUF020 – River Dee intakes (Heronbridge, Huntington, Llangollen and Hurleston): Eel monitoring and feasibility study	31/03/2020	FY20	1.47	24/02/2020	FY20	On time
6UUWR0032 – Haweswater tributary abstraction metering (Wet Sleddale, Keld, Thornship, Tailbert, Naddle, Cawdale, Heltondale, Mossy)	31/03/2020	FY20	5.19	07/03/2018	FY20	On time
6UUWR0044 – RSA monitoring study of abstraction licence changes	31/03/2020	FY20	2.17	24/02/2020	FY20	On time
6UUWR0028 – Ennerdale RoC3 works	31/03/2020	FY20	2.27	11/02/2020	FY20	On time
6UUWR0030 – Yearl weir removal works	31/03/2020	FY20	11.01	01/11/2019	FY20	On time

Underperformance or outperformance payments

In order to calculate any underperformance or outperformance payments the actual performance level is compared against the target performance level. If the performance falls within the out performance payments or underperformance zone then we multiply the resulting difference by the incentive rate. For contribution to rivers improved, the incentive underperformance rate is £0.111 million per km/year variance and the out performance payment is £0.028 million per km/year variance. In 2019/20 although a number of NEP schemes were delayed the underperformance was offset by the abstraction incentive mechanism outperformance.

Development if measure in AMP7

We will deliver the three remaining schemes (Windermere, Marchnant and Cownwy). Although they have missed their ODI output date of 31 March 2020 we are hopeful of achieving the NEP output dates which are later, however delivery may be impacted by construction restrictions associated with the coronavirus pandemic.

In AMP7 the bespoke outcome delivery incentive 'Improving river water quality' will measure the progress in delivering the Water Industry National Environmental Programme WINEP river quality enhancements schemes in a timely manner. The outcome delivery incentive is an underperformance only incentive.

We had already adopted AIM through the PR14 process as part of the contribution to the rivers improved measure. In 2016/17 AIM was added as a specific pro forma table within the Annual Performance Report (Table 3C see Section 2.6). The Ofwat measure which is based on a different calculation will become the AMP7 outcome delivery incentive. The AMP7 measure incentivises us to reduce abstraction from two sensitive abstraction sites, Old Water and Ennerdale when flow in the river is low.

D1: Delivering our commitments to developers, local authorities and highway authorities

Performance summary

We have met our performance commitment for this measure in 2019/20. This is a reputational measure there is no under or outperformance incentive payment.

Measure description

This measure tracks the timeliness of responses to quotation requests by developers and self-lay organisations, and the completion of works for new connections, diversions and requisitions (that is, new pipe installations) within given timescales.

Across each of the KPIs, the percentage of responses delivered and work completed to the company's service levels are monitored. The percentage compliance for the two key areas of activity (timeliness and completions) are then consolidated into a single performance measure shown as a percentage.

Actual performance for the 'delivering our commitments to developers, local authorities and highway authorities' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	91%	92%	93%	94%	**95%**
Actual	95%	98%	94%	89%	**95%**
Pass/Fail	Pass	Pass	Pass	Fail	**Pass**
Outperformance payment/ underperformance payment (£m)	Reputational	Reputational	Reputational	Reputational	**Reputational**

Overview of AMP6 performance

Implementation of IT systems and new working procedures saw an overall improvement in service in 2016/17. However, over the course of the AMP we have seen a 30% increase in volumes of quotations. We have also introduced process changes so that inspections are carried out before quotes are issued to ensure the customer receives an accurate and fixed price quote. This has meant that some responses did meet the required timescales in 2018/19. A continuous improvement plan was put in place which has improved performance over the latter part of 2018/19 and into 2019/20. Water UK publishes a Developer Services levels of service report for the industry on a quarterly basis. Although this measure is subtely different to our measure it does show that our performance continues to be above industry average.

Underperformance or outperformance payments

This is a reputational measure with no financial incentive.

Development of measure in AMP7

We strive to achieve 100% compliance, but due to the nature of the work and other outside influences this is difficult to achieve. We continue to encourage close working between departments and with Local Authorities to ensure work is completed in a timely manner. We host a 'Developer Day' each year, providing an opportunity for us to engage directly with Developers/SLPs to share details of our charging schemes and processes and obtain feedback. The developer days have been well received and feedback has helped to shape our charges scheme and process.

In AMP7 this measure will be replaced with the new common measure D-MeX which will continue to incentise companies to provide an excellent customer experience to developer services customers, including small and large property developers, self-lay providers and those with new appointments and variations (NAVs). These customers can also include residential customers that have new mains connections installed.

D-MeX is based on an annual company score out of 100 and comprises a qualitative element which is a survey of developer services customers who have recently completed a transaction with their water company which asks them how satisfied they are with how the company has handled their issue and a quantitative element which measures performance against a set of Water UK developer services level of service metrics.

Ofwat will publish an annual league table of the overall annual D-MeX scores and each company can receive outperformance payments or incur underperformance payments based on its annual D-MeX score compared to other companies.

Those companies that score above the median company score will receive standard outperformance payments for that year of up to 6% of that year's annual allowed developer services revenue and those that score below the median company score will incur underperformance payments of up to 12%.

April 2019 to March 2020 was a pilot year for testing the new D-MeX measures with all 17 water companies. Ofwat are yet to publish the annual performance for the pilot year however through an inter-company data share we have a score of 85.46 out of a 100 which places us in 6th position of 17 companies. We saw strong performance in quarter 3 and quarter 4 in both the qualitative surveys and the Water UK level of service metrics.

E1: Number of free water meters installed

Performance summary

We have underperformed this measure throughout AMP6.

Measure description

This measure relates to the number of water meters that we install for free. Domestic customers can apply to have a water meter fitted free of charge. This scheme applies to customers who are charged on a Rateable Value (RV) tariff and wish to benefit from a lower bill. The measure is delivered as a result of the underlying base level of demand and through two types of specific intervention:

- The targeted promotion of free water meters to customers to help manage debt issues.
- The installation of free water meters to support operational process and policy improvements.

Actual performance for the 'Number of free meters installed' performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	61,644	59,325	57,393	47,421	**46,054**
Actual	27,197	32,247	36,615	32,069	**25,817**
Pass/Fail	Fail	Fail	Fail	Fail	**Fail**
Outperformance payment/ Underperformance (£m)	Reputational	Reputational	Reputational	Reputational	**Reputational**

Overview of AMP6 performance

This year we have fitted 25,817 free meters into homes against an original target of 46.054, which we now believe overestimated the likely take-up levels from among our customer base.

Metering levels in the AMP6 period are significantly higher than previous levels of metering however we received fewer customer requests in 2019/20 for meters than the previous year. Non-urgent metering work was put on hold due to the coronavirus pandemic at the end 2019/20 and will impact the number of replacements in 2020/21.

To better estimate the potential number of meter replacements we have engaged a consultant to create a revised model, more accurately able to predict future uptake levels. We have also responded to customer feedback about the internal fitting of meters, which has generated less opportunities to do additional work to facilitate internal meter installations than assumed.

Although we have not achieved the target for the year, we will continue to focus on increasing uptake levels by promoting meters to customers we believe would benefit from a meter.

To improve take up, we have reinvigorated our metering proposition and made more effective use of customer segmentation to target, promote and message free meter take up to the customers we know would benefit the most. We have introduced a range of interventions, including a new bill for non-metered customers which provides more relevant and specific information about how the switch to a meter could save them money, the launch of 31 pop-up shops in shopping centres across key locations across the North West promoting the benefits of switching to a meter and building the metering promotion and sign-up into our Town Action Plan, which sees us carry out door-to-door visits to customers in our most deprived towns, completing more than 40,000 visits in the year.

Underperformance or outperformance payments

This is a reputational measure with no financial incentive.

Development of measure in AMP7

This measure does not continue into AMP7 however will we continue to promote free meter options.

1.1 b) Wastewater Service performance commitments
2019/20 Annual performance summary

Performance against our wastewater service outcomes in 2019/20 and the cumulative performance in the AMP6 period is set out in the table below. Further information on each measure is provided within this section of our Annual Performance Report, with details of the calculation of the index scores and Rivers Improved and associated incentives provided in Appendix 2.

Wastewater Service Operational Performance Summary (2019/20)

Performance commitment	Actual					Performance commitments	
	2015/16	2016/17	2017/18	2018/19	2019/20	Target	2019/20 Impact
A1: Private sewers service index	91.69	91.90	85.00	89.27	**90.09**	<=100	Outperformance
A2: Wastewater network performance index	90.95	89.47	86.17	90.75	**89.13**	<=93.40	-
B1: Future flood risk	16,472	16,418	16,395	16,379	**16,369**	<=16,190	Reputational
B2: Sewer flooding index	100.8	94.4	69.9	61.7	**79.8**	<=68.10	Underperformance
C1: Contribution to bathing waters improved	0.47	0.66	1.49	4.21	**6.56**	>=6.56	-
D1: Protecting rivers from deterioration	48.02	48.02	210.49	322.90	**365.48**	>=346.6	-
D2: Maintaining our wastewater treatment works	91.48	58.71	30.47	39.17	**49.93**	<=46.13	Underperformance
D3: Contribution to rivers improved[1]	0.75	46.98	120.75	178.93	**338.52**	=>355.22	Underperformance
D4a: Wastewater category 1 and 2 pollution incidents	4	2	0	1	**0**	0	-
D4b: Wastewater category 3 pollution incidents	136	150	129	143	**162**	<=191	Outperformance
D5: Satisfactory sludge disposal	100	100	100	100	**100**	100	-

1 In the December 2019 PR19 final determination, Ofwat revised the way that the incentive payments should be calculated for measure D3: Contribution to rivers improved wastewater (Km). The five year incentive payment for this measure fully reflects the revised calculation, although to avoid revising previously reported values for this measure, the value reported in 2019/20 is based upon this five year total minus the previously reported rewards. Full details of this measure and the basis of the incentivisation is set out in section D3 of this document.

Key

Performance commitment not met	
Met or exceeded performance commitment	

The table below sets out the incentive payments associated with the wastewater outcome delivery incentives. Only outcome delivery incentives with a financial incentive are listed in the table below.

Wastewater Service financial incentives (2019/20)

Performance Commitment	Incentive Type	Actual (£m)					Cumulative AMP6 incentive payment (£m)
		2015/16	2016/17	2017/18	2018/19	2019/20	
A1: Private sewers service index	Out and underperformance	7.376	7.350	7.376	7.376	7.376	36.854
A2: Wastewater network performance index	Underperformance	-	-	-	-	-	-
B2: Sewer flooding index	Out and underperformance	0.000	-1.484	0.000	0.570	-8.331	-9.245
C1: Contribution to bathing waters improved	Underperformance	-	-	-	-	-	-
D1: Protecting rivers from deterioration	Underperformance	-	-	-	-	-	-
D2: Maintaining our wastewater treatment works	Underperformance	-	-	-	-	-	-
D3: Contribution to rivers improved	Out and Underperformance	0.000	0.431	0.633	0.930	-1.854	0.150
D4a: Wastewater category 1 and 2 pollution incidents	Underperformance	-	-	-	-	-	-
D4b: Wastewater category 3 pollution incidents	Out and underperformance	3.278	3.278	3.278	3.278	3.278	16.390
D5 Satisfactory sludge disposal	Underperformance	-	-	-	-	-	-
				Wastewater Service AMP6 net:			44.15

Actual 2019/20 performance compared to PR19 forecasts

As part of the 2018/19 annual performance report we provided a prediction of the levels of performance and the under / outperformance payments we expected to achieve in the final year of AMP6. This information was used by Ofwat to make adjustments to allowed revenues in the PR19 final determination (FD) that was published in December 2019. Differences between the wastewater assumptions made in the FD and the actual incentive valuations for 2019/20 will be managed through changes to company revenues at the next price review PR24.

The table below provides a comparison of the predicted positions against the actual performance levels. Each of the performance commitments is discussed below with the commentary to explain the final year position.

Wastewater service actual 2019/20 performance against July 2019 forecast

Performance commitment	Incentive Type	2019/20 Forecast incentive (£m)	Forecast incentive for 2015-2020 (£m)	2019/20 actual incentive (£m)	Actual incentive for 2015-2020 (£m)
A1: Private sewers service index	Out and underperformance	7.376	36.854	7.376	36.854
A2: Wastewater network performance index	Underperformance	-	-	-	-
B2: Sewer flooding index	Out and underperformance	-	-0.914	-8.331	-9.245
C1: Contribution to bathing waters improved	Underperformance	-	-	-	-
D1: Protecting rivers from deterioration	Underperformance	-	-	-	-
D2: Maintaining our wastewater treatment works	Underperformance	-4.4*/0	-4.4	-	
D3: Contribution to rivers improved	Out and Underperformance	-0.12*/ -1.476	0.89	-1.854	0.15
D4a: Wastewater category 1 and 2 pollution incidents	Underperformance	-	-	-	-
D4b: Wastewater category 3 pollution incidents	Out and underperformance	3.278	16.39	3.278	16.390
D5: Satisfactory sludge disposal	Underperformance	-	-	-	-
Wastewater Service (net out performance) £m		6.134/9.178*	48.82/51.864*	1.463	44.149

* These figures were revised as part of the FD. Ofwat applied the following figures in calculating the overall performance incentives; maintaining our WwTW no underperformance payment and for Rivers improved a £-1.476m underperformance payment, with the increased penalty in 2019/20 being predominantly offset by increased rewards in previous years.

Relative intercompany performance

Our good performance in wastewater has continued this year. The Wastewater Service Operational Performance Summary table above show that we have fully met or outperformed expectations in seven of our eleven measures. For the remaining four measures, we met or outperformed expectations for the majority of years across AMP6.

Underlying performance in our wastewater network measures continues to improve as we further embed our operating model. This approach is helping to investigate the root cause and resolve incidents, addressing more incidents first time and reducing repeat incidents through a targeted and planned approach. This also has helped to continue to improve levels of customer satisfaction. We have suffered from a number of extreme weather events this year which have impacted on the number of flooding incidents reported and as a result we have failed our flooding target. However, across AMP6 we have observed an improvement in our underlying flooding performance. We have failed to meet our performance commitment for future flood risk in three years, which looks at the numbers of properties at modelled risk of flooding in the North West. We have achieved our performance commitment for maintaining our wastewater treatment works in three of the five years, but narrowly missed the target level on the remaining two. However, we continue to be industry leading for pollution incidents; not only in the number of incidents, but also in the number that we find and self-report to the Environment Agency.

We continue to perform well against our targets for delivery measures; each of these tracks the delivery of projects at our treatment works and on our wastewater network. Such projects will help to improve our performance and reduce the impact that we have on the environment as well as improving the reliability and resilience of assets and increase our capacity so that we can serve new developments. We have achieved our bathing waters and rivers protected measures but have fallen just short of our targets for the rivers improved measure with a small number of projects being completed just outside of AMP6.

Our performance last year across a range of measures was published on the Discover Water website, which compared our performance against the performance of other water and wastewater companies. We performed well against the Environmental Performance Assessment (EPA) achieving a three star rating as determined by the Environment Agency and have been the top performing company in this assessment over the past five years.

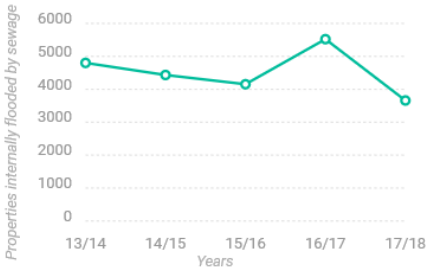
Both internal and external flooding incidents are compared across the industry on the Discover Water dashboard; for internal flooding our performance was above industry average (although this comparison includes all flooding incidents and so includes flooding that occurs during extreme weather events) and for external flooding incidents we were slightly above industry average. We have suffered from a number of extreme weather events this year and we anticipate that improving our relative flooding performance will be extremely challenging. Although we have seen a reduction in the numbers of incidents caused by other causes such as blockages or collapses we have seen an increase in hydraulic flooding. Comparable data for 2019/20 is not available until later in the year. The Discover Water website can be found here.

Number of properties where sewage overflowed or flooded into the house

Sewer flooding is unpleasant and distressing and water companies spend millions every year to prevent it from happening. There are also steps you can take to reduce the risk of a sewer flood in your house or garden.

3,659

Properties that were internally flooded by sewage.



Source: Discover Water website

Future performance monitoring and AMP7 performance commitments

In moving in to AMP7 we will be reporting against a different set of performance commitments. The table below outlines the AMP7 performance commitments. These are a mix of industry common measures and bespoke measures. The common measures will allow more cross industry comparisons between companies to be made and the bespoke measures will enable us to deliver against the performance commitments that are valued by our customers. The table below outlines the incentive rates that will be applied to each of the measures with out and / or underperformance payments.

Table showing current and future performance commitments for each of the wastewater service outcomes

Outcome	Current AMP6 Performance Commitments	Future AMP7 Performance Commitments
The natural environment is protected and improved in the way we deliver our services	Maintaining WwTW	Treatment works compliance[1]
	Satisfactory sludge disposal	Recycling biosolids
	Protecting rivers from growth	Protecting the environment from growth[2]
	Category 1 and 2 pollution incidents	Pollution incidents[1]
	Category 3 pollution incidents	
	Bathing waters improved	Improving river water quality
	Rivers improved – wastewater	
		Enhancing capital value for customers
		Better air quality
You're highly satisfied with our service and find it easy to do business with us	Service incentive mechanism (SIM)	Customer experience (C-MeX)[1]
	Commitments to developers	Developer experience (D-MeX)[1]
Collect and recycle wastewater	Wastewater network performance index	Sewer collapses[1]
	Private sewers service index	Sewer blockages
The risk of sewer flooding for homes and businesses is reduced	Future flood risk	Risk of sewer flooding in a storm[1]
	Sewer flooding index	Internal flooding incidents[1]
		External flooding incidents
		Hydraulic internal flood risk resilience
		Hydraulic external flood risk resilience
		Customer awareness of the risk of flooding

1 Common performance commitment

2 Incentives for this measure will be calculated at the end of the period, all other incentivised measures will be calculated in period

A1: Private sewers service index

Performance Summary

In 2019 / 20 we continued to outperform our performance commitment achieving an index score of 90.09 against a target of 100. This has earned an outperformance payment of £7.376 million for the year, and £36.854m across the AMP.

Measure description

This performance commitment measures the performance of the former network of private sewers which transferred to us in 2011. It does this via an index of five sub-measures:

1 Internal and external flooding due to hydraulic overloading

2 Internal and external flooding due to other causes

3 Pollution incidents

4 Sewer collapses

5 Sewer blockages

Pollution incidents is the sub-measure with the heaviest weighting against the overall index score.

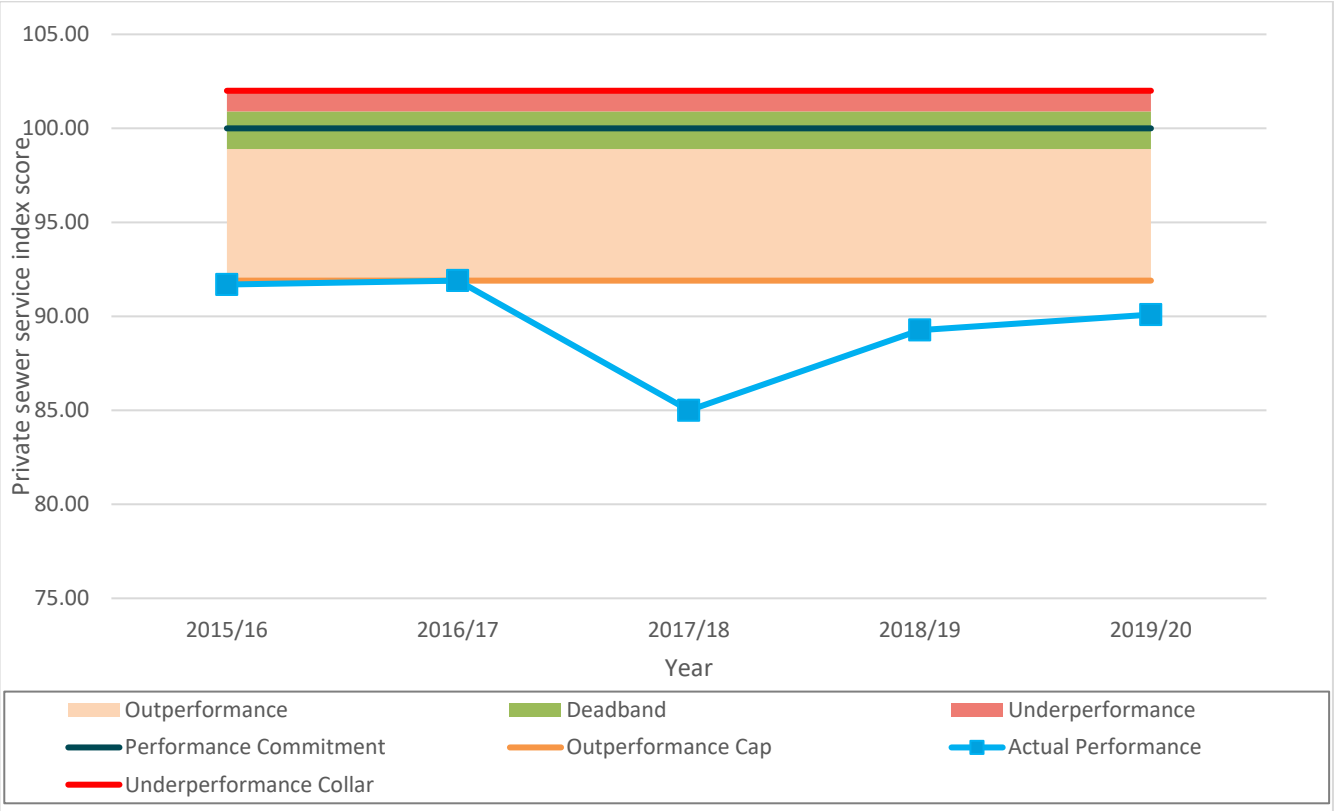
The performance target has been set at a level of performance across AMP6 that is consistent with our typical performance in AMP5. The measure has financial underperformance payments if performance deteriorates and financial outperformance payments to encourage the company to improve performance and minimise customer impacts.

Actual performance for the Private Sewer Index performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	100	100	100	100	**100**
Actual	91.69	91.90	85.00	89.27	**90.09**
Pass/ Fail	Pass	Pass	Pass	Pass	**Pass**
Out / underperformance payment (£m)	7.376	7.350	7.376	7.376	**7.376**

Sub measure	Actual performance 2015/16	Actual performance 2016/17	Actual performance 2017/18	Actual performance 2018/19	Actual performance 2019/20	Indicative target performance 2019/20
Internal Hydraulic Flooding Incidents	2	1	1	0	6	**<=8**
Internal Flooding other causes (FoC) incidents	416	414	275	308	317	**<=393**
External Hydraulic Flooding Incidents	10	5	5	4	16	**<=38**
External FoC Incidents	4,595	4,594	3,896	3,945	3,666	**<=4,782**
Collapse	361	391	302	316	377	**<=467**
Blockage	13,906	14,031	13,089	14,589	14,806	**<=15,518**
Pollution	5	1	4	2	2	**<=4**

Actual performance for the private sewers index – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

We have outperformed against our performance commitment for the private sewers index in each year of AMP6. The majority of the improvement in private sewers performance has been driven by the continued embedment of our wastewater network operating model, which has an emphasis on first time resolution. Adopting this model has helped to reduce the number of repeat incidents and improved customer satisfaction. Our network teams work in geographical areas which has helped to develop an in-depth understanding of the network from a property to the WwTW. Teams understand the problems that impact the network and the potential solutions available for resolution.

Underperformance or outperformance payment

We have achieved an outperformance payment of £7.376m in 2019/20, outperforming across all of our sub-measures.

The measure is an index that comprises of five sub-measures. The sub-measures are weighted and summed to produce the index score with the overall index score rather than performance against any individual sub-measure being used as the basis for the incentive calculation. If the overall index score falls within the under or outperformance zones then the incentive is calculated by multiplying the difference by an underperformance rate of £4.204 million per index point or an outperformance rate of £1.069 million per point. Details of the calculation of this index measure as set out in Appendix 2.

Development of measure in AMP7

In AMP7 we will no longer consider transferred and existing sewers separately. We have been responsible for the transferred sewers since 2011 and we have developed a good understanding of the operability and service issues around these assets. As such we will report all service issues together. We are disaggregating this measure and will be reporting separately on internal flooding, external flooding, collapses, blockage and pollution. Many of the other water companies will be reporting against each of these measures too, (collapses, flooding and pollution are common measures, blockages in a bespoke measure) which should allow more direct comparisons to be made across the industry. Each will be incentivised by out and underperformance payments with the exception of collapses which is incentivised by underperformance payments only. We started our preparations for delivering these performance commitments in the last year of AMP6 through a “flying start” programme of work. This is identifying future issues and trying to resolve proactively before they have an adverse impact on customers. We know that it will be challenging for us to achieve these performance commitments (particularly flooding) so we have made significant investment which will help us deliver early improvements to our customers.

A2: Wastewater Network Performance Index

Performance Summary

We have outperformed targets for this measure in every year of AMP6.

Measure description

Our wastewater network performance index consists of four sub-measures:

- Rising main failures
- Sewer collapses
- Sewer blockages
- Equipment failures

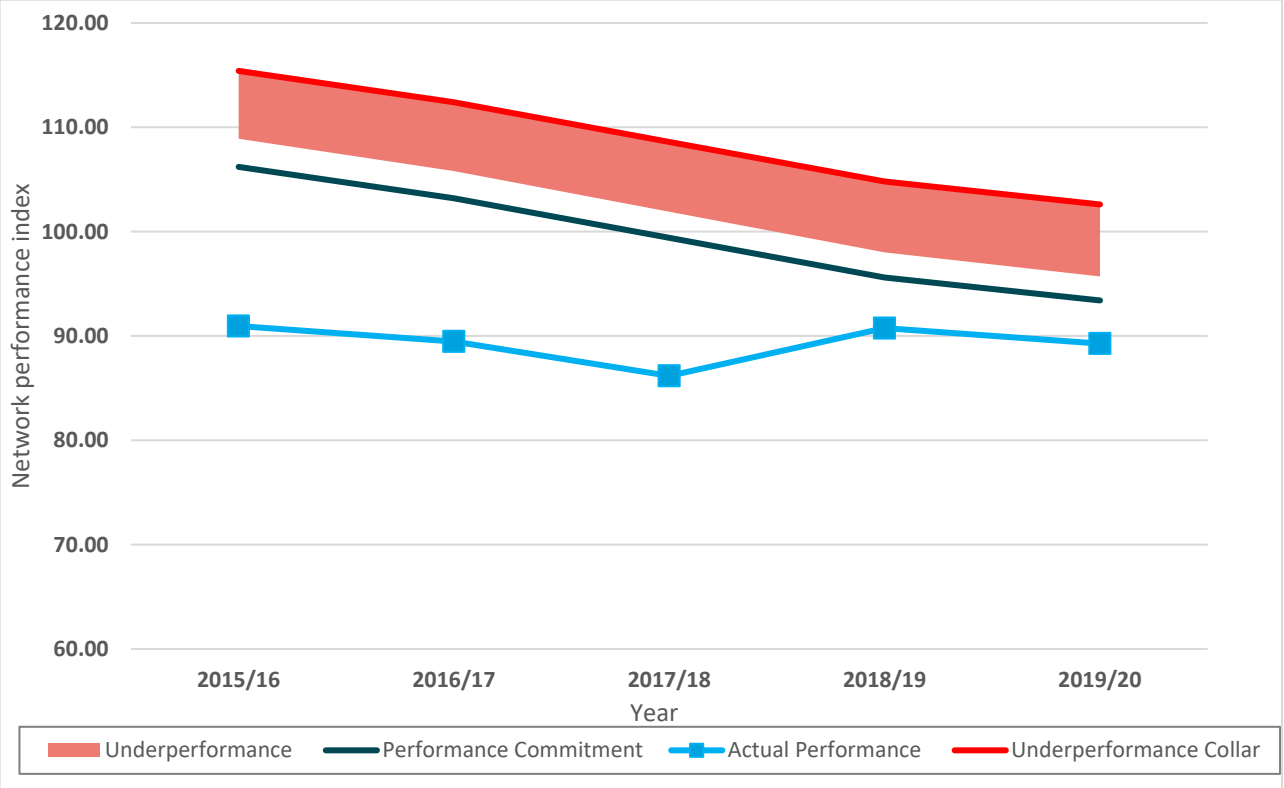
Rising mains bursts is the most heavily weighted of the four sub-measures that contribute to the overall index score.

Actual performance for the Wastewater Network Performance Index performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	106.20	103.20	99.40	95.60	**93.40**
Actual	90.95	89.47	86.17	90.75	**89.13**
Pass/ Fail	Pass	Pass	Pass	Pass	**Pass**
Out / under performance payment (£m)	0	0	0	0	**0**

Sub measure	Actual performance 2015/16	Actual performance 2016/17	Actual performance 2017/18	Actual performance 2018/19	Actual Performance 2019/20	Indicative target performance 2019/20
Rising Main Failures	51	46	47	53	**47**	<=40
Collapses	261	268	232	239	305	<=444
Blockages	7,473	7,469	7,047	7,276	7,025	<=7,358
Equipment Failures	2,704	2,322	3,088	3,613	**3,359**	<=2,318

Actual performance for the network performance index – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance
We have outperformed against this measure in each year of the AMP. The improved performance is primarily due to the continued embedment of our operating model, which seeks to resolve incidents quickly and effectively and address operational defects that may cause future or repeat incidents and affect our customers.

The use of our resolution units and the high specification equipment they are equipped with continues to positively impact on blockage volumes. In addition, our targeted 'what not to flush' customer campaign has also had a positive impact.

Our programme of work carrying out extensive field CCTV surveys has identified collapses and other structural defects, providing a wealth of information about the condition of our network and enabling us to undertake proactive repairs before problems impact on services to customers. Whilst proactive collapse repairs do increase the reported number for this measure, they also deliver benefits in terms of flooding and pollution risk reduction and customer satisfaction. We have implemented a proactive programme using our resolution units, which is helping to reduce the numbers of repeat incidents. This is having a positive impact on our sewer network performance.

Underperformance or outperformance payment
Our wastewater network performance index consists of four sub-measures: rising main failures, collapses, blockages and equipment failures. Each of these sub-measures is weighted and then summed together to generate an index score. We then compare the overall index performance against the target performance. If the performance falls within the underperformance zone then we multiply the resulting difference by the incentive rate of £2.298 million per index point for underperformance. Details of the calculation of this index measure as set out in Appendix 2

The measure is incentivised by an underperformance payment only so no outperformance payment has been achieved through this continued outperformance.

Development of measure in AMP7
In AMP7 we are disaggregating the sub-measures that are within this index, meaning both collapses and blockages will be reported separately with each having a specific target and incentive rate. Incidents generated from our transferred assets will also be counted under these targets. Rising main bursts will be included and reported within collapses.

All wastewater companies will need to report the number of collapses and follow an industry standard methodology. Most companies have chosen blockages as a performance commitment. This should allow more direct comparisons of performance to be made between different companies.

We will still collect and analyse data for equipment failures but this does not form part of a performance commitment. Blockages will be incentivised by out or underperformance payments whilst collapses will be incentivised by underperformance payments only. We started our preparations for delivering these performance commitments in the last year of AMP6 through a "flying start" programme of work, which is addressing sewer defects to reduce the risk of collapses and blockages before they have any adverse customer impact. We hope to continue our industry leading performance for blockages and to make improvements to our collapse performance but we know that it will be challenging for us to achieve these performance commitments. We have made significant early investment which will help us deliver early improvements to customers.

B1: Future flood risk Performance Summary

Performance Summary

For the first two years of AMP6 we achieved our target and reduced the number of properties from future flood risk. In the past three years we have reduced the number of underlying flooding events that have occurred over this period but we have failed to meet our performance commitment target.

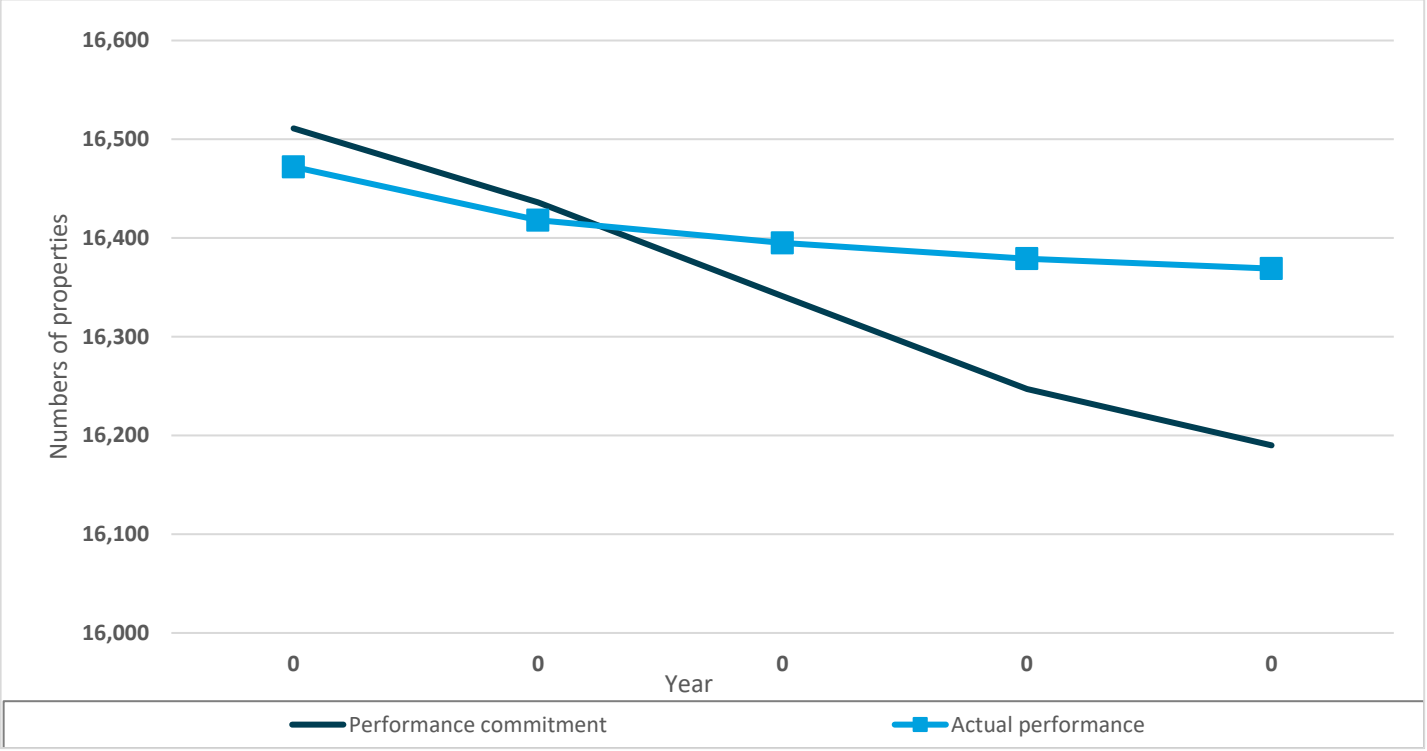
Measure description

The future flood risk performance commitment uses overland flow hydraulic models to assess the risk that each property in the North West faces from sewer flooding. The aim of this measure is to progressively reduce the number of properties at modelled risk over AMP6. This performance commitment is reputational only and does not carry a financial incentive.

Actual performance for the Future Flood risk performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	16,511	16,436	16,341	16,247	**16,190**
Actual	16,472	16,418	16,395	16,379	**16,369**
Pass/Fail	Pass	Pass	Fail	Fail	**Fail**
Out / underperformance payment	Reputational	Reputational	Reputational	Reputational	**Reputational**

Actual performance for future flood risk – AMP6 actual performance against performance commitment



Overview of AMP6 performance

We have outperformed the performance commitment for FY16 and FY17. For FY18, FY19 and FY20 we have fallen short of our target.

The majority of flooding in the North West is caused by flooding other causes (FOC), which is any flooding event not caused by the hydraulic overloading of our sewer system. As such, during AMP6 we have been targeting FOC to try to reduce both the number of incidents and the impact of any incidents that do occur. To do this we have focused on providing mitigation for customer properties, increased our planned maintenance activities and developed and delivered customer focused campaigns. This work helps to reduce the numbers of properties that do flood or are at risk of flooding and we have seen a significant reduction in the underlying levels of flooding incidents across AMP6. However, as the future flood risk measure only models overland flooding the benefits of this targeted programme of work for this measure are limited and as such we have only seen a limited reduction in the modelled levels of risk.

Under or outperformance
This measure is reputational only and so no financial under or outperformance payment will be applied.

Development of measure in AMP7
We will not be developing this measure further in AMP7. Instead, we will be adopting an industry standard approach for assessing the risk of property flooding. This measure will derive a modelled risk of flooding for properties in the North West in a 1 in 50 year storm, and will assess the impact as a percentage of the population that are at risk of flooding. Every wastewater company will be applying this methodology which should allow direct comparison between companies to be made. The measure will be reputational in AMP7 and so will not be incentivised by out or underperformance payments. However, we do expect that this measure may become financially incentivised in future AMPs. During AMP7 we will be ensuring that we can apply the methodology in a consistent manner with the other wastewater companies.

B2: Sewer flooding index

Performance Summary

Our underlying flooding performance has been steadily reducing across the AMP. However, flooding is very susceptible to the impact of extreme weather events. In 2016/17 and 2019/20 we have suffered from some very severe weather events which has had an impact on the number of flooding incidents we have seen at customers' properties. As a result, we have been subject to an underperformance payment in these two years.

Measure description

Our sewer flooding index consists of five sub-measures:

- Incidents of repeat flooding
- Internal flooding due to hydraulic overload
- External flooding due to hydraulic overload
- Internal flooding due to other causes
- External flooding due to other causes

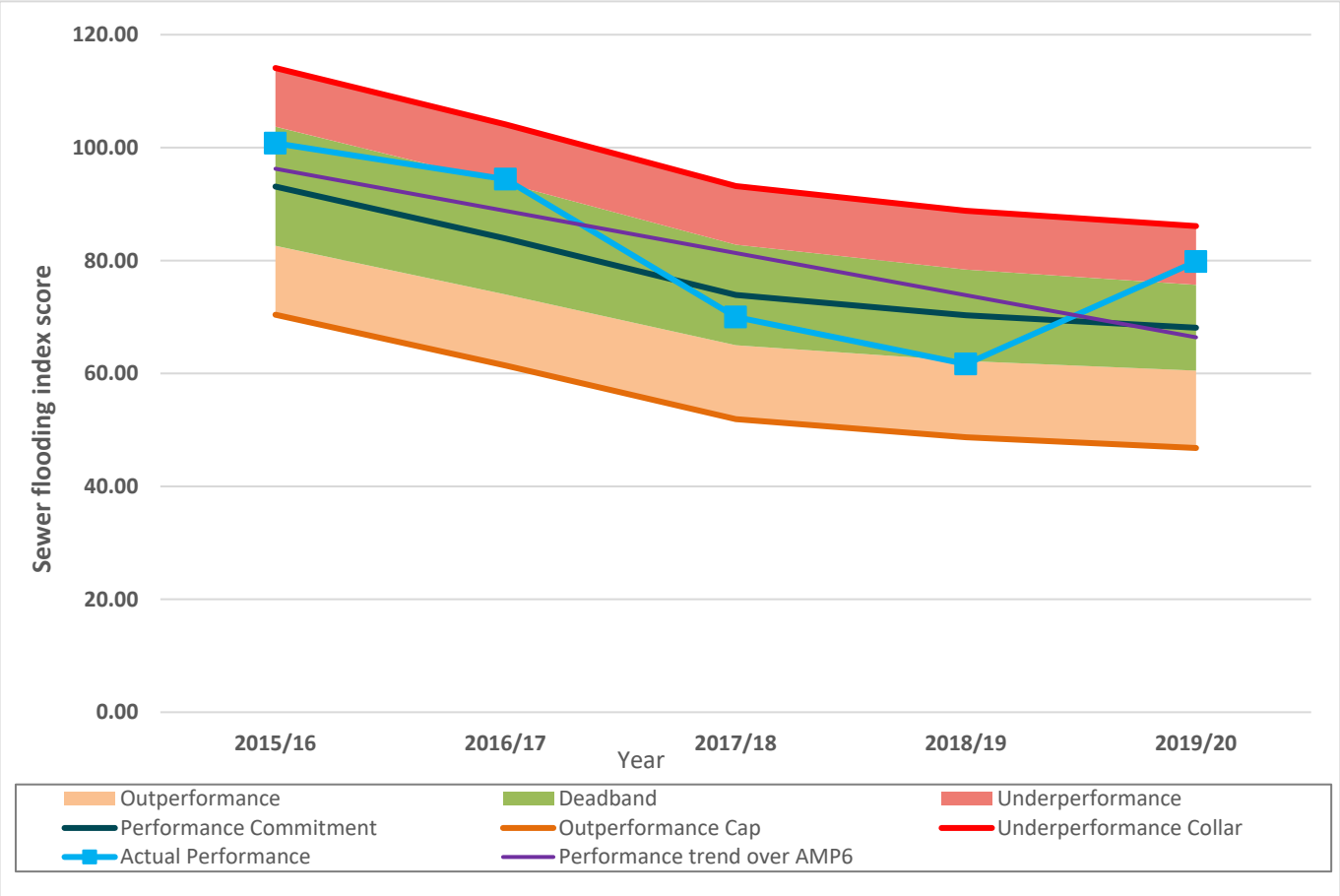
Internal flooding due to hydraulic overload, internal flooding due to other causes and incidents of repeat flooding are equally the most heavily weighted of the five sub-measures which comprise the overall index score.

Actual performance for the Sewer Flooding Index performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	93.1	83.9	73.9	70.3	**68.1**
Actual	100.8	94.4	69.9	61.7	**79.8**
Pass/ Fail	Fail	Fail	Pass	Pass	**Fail**
Out/ underperformance payment (£m)	0.000	-1.484	0.000	0.570	**-8.331**

Sub measure	Actual performance 2015/16	Actual performance 2016/17	Actual performance 2017/18	Actual performance 2018/19	Actual performance 2019/20	Indicative target performance 2019/20
Repeat Flooding	377	362	206	124	**288**	**<=246**
Internal hydraulic incidents	147	147	91	15	**163**	**<=55**
Internal FOC incidents	839	794	559	551	**611**	**<=375**
External hydraulic incidents	455	215	212	146	**420**	**<=499**
External FOC incidents	3,991	3,274	2,863	2,848	**2,705**	**<=3,187**

Actual performance for the sewer flooding index – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

End of year performance for 2015/16 was within the dead band. In 2016/17 we underperformed against this performance commitment. This reflected the challenging target and resulted in an underperformance payment of £1.484m. In 2017/18 performance improved enabling us to achieve our target. In 2018/19 we met our target and achieved a small outperformance payment of £0.57m. In the final year of the AMP we have not met our target which has resulted in an underperformance payment of £8.331m.

Having been set as part of Ofwat's upper quartile challenge, the targets for this measure are very stretching, especially with this measure being extremely sensitive to severe weather events. In each year of the AMP so far we have suffered from major storm events and whilst the more extreme events are excluded from our analysis, such storms do inevitably contribute to the overall number of flooded properties. Storm events are also often surrounded by periods of unsettled, wet weather. The cumulative effect of persistent rainfall leads to saturated ground and sewers that are running full for longer. The North West experiences higher than the UK average rainfall which leads to a higher risk for this measure.

Throughout the AMP we have continued to invest heavily in proactive schemes, projects and programmes of work designed to reduce the risk of flooding or prevent incidents before they have a detrimental impact on customers' homes. This includes incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys and other innovative technologies.

We are also working hard to respond to flooding events, ensuring we understand the cause of each incident so that we can look to resolve the issue appropriately. We are continuing to apply our network operating model, along with sewer misuse customer awareness initiatives and partnership projects, which are supporting our continued improvement in this area. We have embedded a programme of work which seeks to identify and resolve repeat incidents before they have a detrimental impact on our customers. By analysing recent and historic performance data we are better able to predict the risks of reoccurrence. This is steadily reducing the number of repeat incidents on our network and helping to inform future targeted programmes of work.

This approach has been very effective in reducing flooding events caused by other causes and in reducing the numbers of repeat incidents (which have reduced by 70% across AMP6). This is evident in our underlying flooding performance which has improved steadily over the AMP. However, we are susceptible to significant levels of flooding during times of exceptional weather. We have suffered from a number of such weather events this year, which is reflected in the results that we are reporting.

Under or Outperformance payment
This measure has both under and outperformance financial incentives.

Each of the sub-measures is weighted and then added together to generate the index score. We compare the overall index performance against the target performance. If the performance falls within the under or outperformance-zone then we multiply the resulting difference by the relevant incentive rate. For the sewer flooding index the incentive rates are £2.032 million per index point for underperformance and £1.050 million per point for outperformance. Details of the calculation of this index measure as set out in Appendix 2

For 2019/20 our index score fell below target and as such we will be subject to an underperformance payment of £8.331m

Development of measure in AMP7
In AMP7 we will be disaggregating flooding information and reporting it separately. As a common measure internal flooding will follow industry standard methodology. This should allow customers and stakeholders to make direct comparisons between the relative performances of each of the wastewater companies. Many companies (but not all) will report the numbers of external flooding incidents too under a separate bespoke measure. We are assessing and incentivising our performance on repeat hydraulic flooding though our bespoke Hydraulic external flood risk resilience (HEFRR) and Hydraulic internal flood risk resilience (HIFRR) measures. These measures seek to reduce the risk of flooding at customer properties that have previously reported flooding in the last six years. Our flooding performance will be incentivised by out and underperformance payments.

In the North West we experience higher than average rainfall and achieving flooding performance commitments has always been challenging for us. This will continue in to AMP7 as targets become tougher still. We know that improving our flooding performance is really important for our customer and stakeholders. To help us to deliver the best performance we can we started our preparations for delivering flooding performance commitments in the last year of AMP6 through a “flying start” programme of work. We hope that this investment will help us deliver early improvements to our customers, in both reducing the risk of flooding and the severity of those floods that still do occur.

C1: Contribution to bathing waters improved

Performance Summary

We have achieved our performance commitment in each year of AMP6.

Measure description

This performance commitment measures the delivery of the programme of work which we have agreed with the Environment Agency to improve the impact that discharges from our assets have on bathing water compliance. Each project in this programme has been an assigned an impact upon bathing water compliance called a bathing water equivalent (BWE), which is proportionate to the impact that completing the project will have on a designated bathing water. The measure is incentivised by underperformance payments only.

Actual performance for the Contribution to Bathing Waters performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	>=0.36	>=0.66	>=1.49	>=3.78	**>=6.56**
Actual	0.47	0.66	1.49	4.21	**6.56**
Pass/ Fail	Pass	Pass	Pass	Pass	**Pass**
Out / Under performance payment (£m)	0	0	0	0	**0**

Overview of AMP6 performance

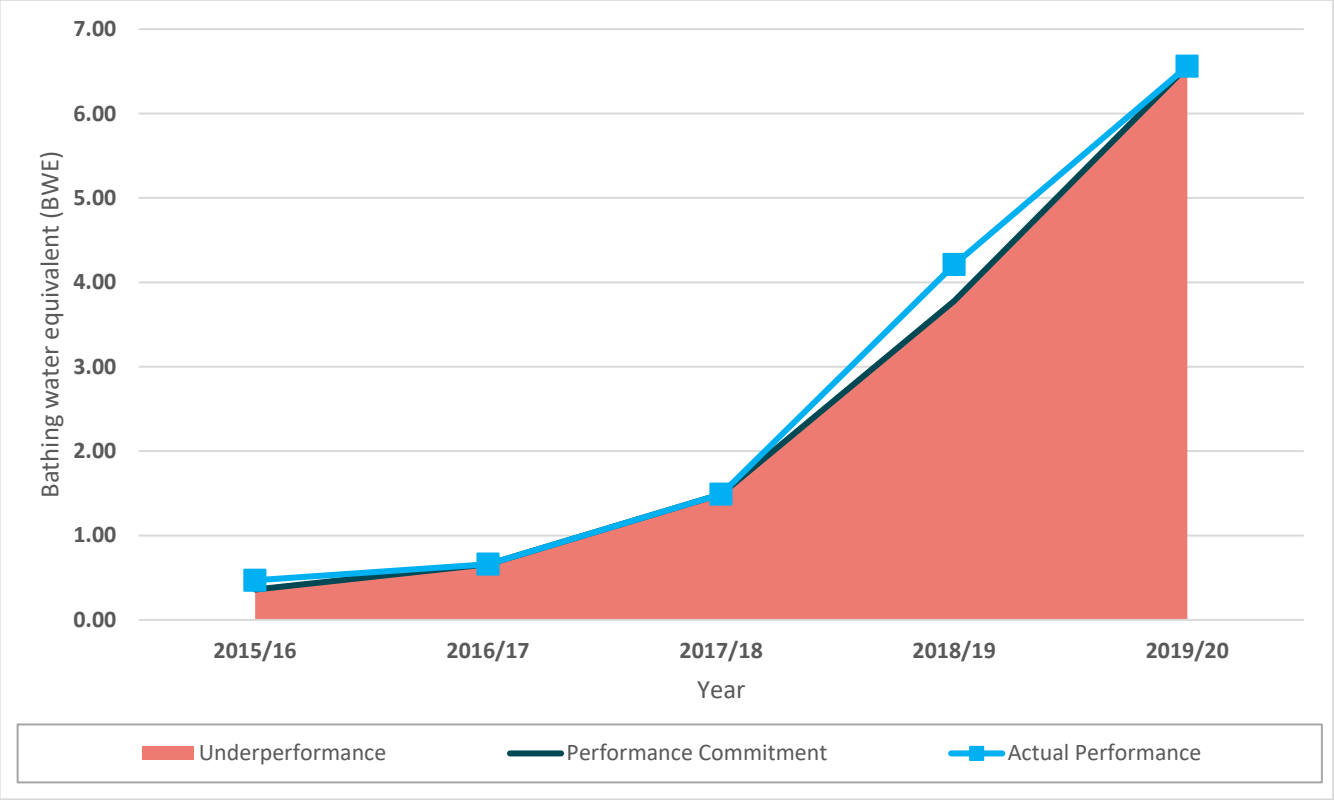
The performance commitment allows us flexibility in the way that we deliver the programme, which has allowed us to accelerate alternative projects when other projects face unforeseen problems that cause delays in delivery. As a consequence of this flexibility we have been able to outperform our performance target in 2015/16 and 2018/19, delivering a number of projects ahead of schedule. Across the AMP we have delivered in full against our performance commitment. The table below provides a breakdown of the projects delivered throughout AMP6.

Projects delivered	EA NEP reference	Date delivered	BWE benefit	Cumulative benefit
Allonby Storm Tanks	6UU0018	31/03/2016	0.31	0.31
Event Duration Monitors – year 1	Various	31/03/2016	0.05	0.36
Misconnections	6UU0022	31/03/2016	0.11	0.47
Hesketh Bank Storm Tanks	6UU0520	31/03/2017	0.09	0.56
Mersey/North Wirral investigations	6UU0030	31/03/2017	0.03	0.59
Tidal Ribble investigation	6UU0021	31/03/2017	0.07	0.66
Chorley WwTW Storm Tanks	6UU0013	30/04/2017	0.26	0.92
Hagg Lane	6UU0019	30/04/2017	0.21	1.13
Ravenglass WwTW	6UU0504	31/12/2017	0.10	1.23
Ravenglass Storm Tanks	6UU0505	31/12/2017	0.10	1.33
Ravenglass Inlet CSO	6UU0506	31/12/2017	0.10	1.43
Kendal WwTW	6UU0509	31/12/2017	0.05	1.48
Event Duration Monitors – year 3	Various	31/03/2018	0.01	1.49
Manchester Square PS (BPL00390)	6UU0011	30/04/2018	0.68	2.17
Chatsworth Ave PS (BLP0038)	6UU0012	30/04/2018	0.68	2.85
Preston WwTW Storm Tanks	6UU0015	30/04/2018	0.68	3.53
Anchorsholme PS (BPL0040)	6UU0010	29/03/2019	0.68	4.21
Raby cote outfall	6UU0020	30/04/2019	0.74	4.95
Dragley Beck CSO LAK0058	6UU0511	30/06/2019	0.00	4.95
Ulverston WwTW storm tanks	6UU0510	31/07/2019	0.25	5.20
Schola Green Pumping station	6UU0016	30/03/2020	0.79	5.99
Blackburn WwTW Storm Tanks	6UU0014	31/03/2020	0.57	6.56

Under or outperformance payment

Each project in this programme has been an assigned a specific impact on bathing water compliance called a bathing water equivalent (BWE), which reflects the impact that completing the project will have on a designated bathing water. The measure is incentivised by underperformance payments only, with a rate of £10.0 million per bathing water equivalent. This rate increases to £20.0 million in the final year of the AMP.

AMP6 performance for contribution to bathing waters against performance commitment and financial incentives



Development of measure in AMP7

For several AMPs we have delivered significant programmes of work which were targeted at improving bathing water compliance. There is a much smaller programme due to be delivered in AMP7. The majority of this work will focus on investigations which will help to inform and target future projects. In AMP7 we will not be measuring the delivery of bathing water projects as a separate performance commitment (although we will still continue to report this information the Environment Agency). Our other quality projects will be measured, assessed and incentivised under the improving river water quality performance commitment discussed below.

D1: Protecting rivers from deterioration due to population growth

Performance Summary

We have met our outperformance our performance commitment in each year of AMP6 for this measure.

Measure description

This measure seeks to protect rivers from deterioration as a result of an increase in population and consequently flow and load at our works.

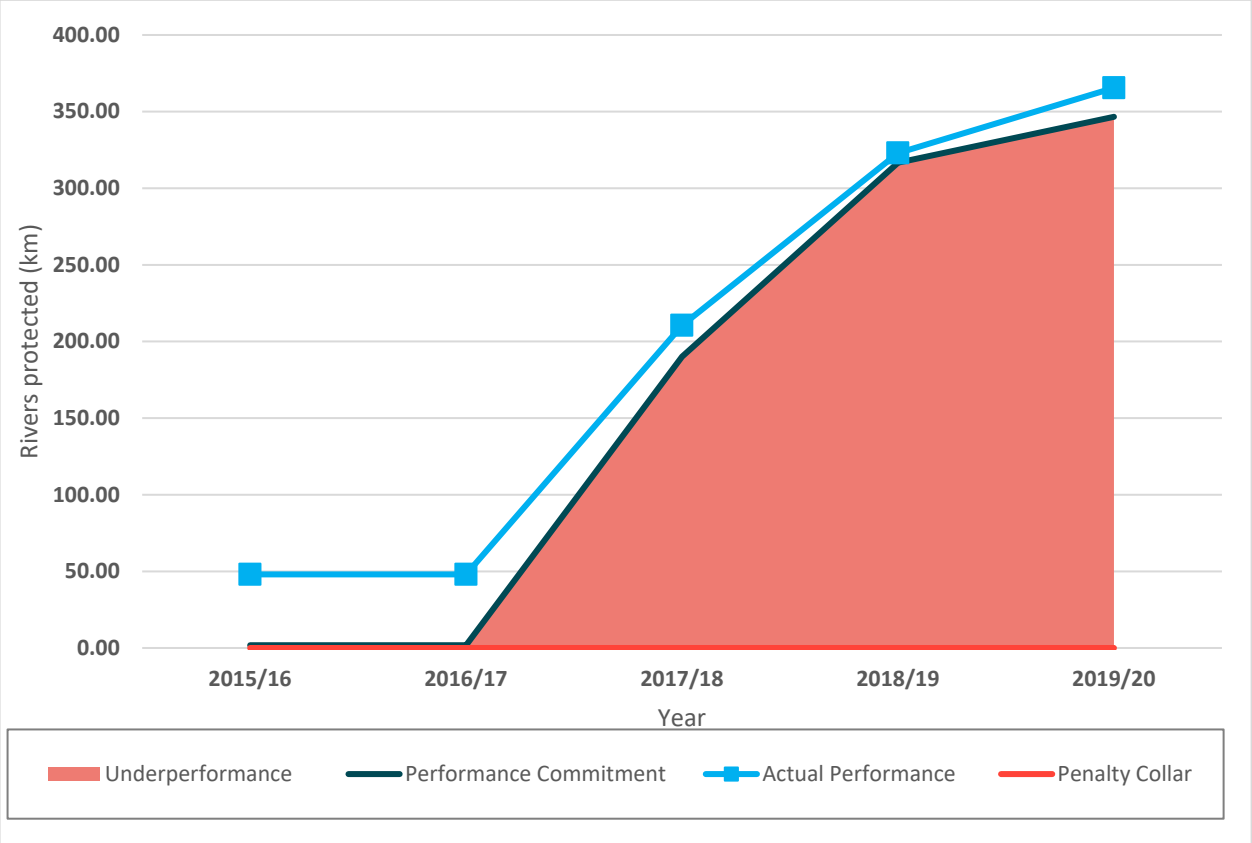
It is based upon the delivery of a programme of improvements at our wastewater treatment works delivered across AMP6.

The programme is flexible in both delivery timescales for individual projects and the number and location of wastewater treatment works identified for investment providing that overall the project(s) deliver at least the defined km for each year of the AMP (cumulative). This allows the programme to respond to changes in the location or timing of developments within the North West. An underperformance payment incentivises this measure.

Actual performance for the Protecting rivers from deterioration due to population growth performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	>=1.8	>=1.8	>=190.1	>=316.7	**>=346.6**
Actual	48.02	48.02	210.49	322.90	**365.48**
Pass/ Fail	Pass	Pass	Pass	Pass	**Pass**
Out / underperformance payment (£m)	0	0	0	0	**0**

Actual performance for protecting river from deterioration due to population growth – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

We have delivered against our performance commitment in each year of AMP6. A schedule of the projects delivered can be found below

Projects delivered	Date delivered	Km of river protected	Cumulative benefit
Moston West	31/03/2016	48.02	48.02
Chorley WwTW	28/04/2017	18.91	66.93
Wetheral and Great Corby	29/03/2018	0.96	67.89
Davyhulme WwTW	31/03/2018	125.50	193.39
Cockermouth WwTW	23/03/2018	15.22	208.61
Brigham WwTW	23/03/2018	1.27	209.88
Papcastle WwTW	23/03/2018	0.60	210.48
Dearham WwTW	31/03/2019	10.00	220.48
Silloth WwTW	31/03/2019	7.70	228.18
Winsford WwTW	31/03/2019	14.60	242.78
Endmoor WwTW	31/03/2019	11.00	253.78
Bootle WwTW	31/03/2019	29.80	283.58
Barton WwTW	31/03/2019	25.80	309.38
Sandbach WwTW	31/03/2019	8.60	317.98
Cuddington	31/03/2019	4.30	322.28
Oakmere	31/03/2019	0.60	322.88
Crewe	31/03/2020	42.60	365.48

Under or outperformance payment

This measure is incentivised by underperformance payments only. For this performance commitment we compare our actual performance against the target performance. If the performance falls within the underperformance zone then we multiply the resulting difference by the underperformance incentive rate at £0.058 million per km.

Development of measure in AMP7

In AMP7 we will be continuing to measure our performance in providing additional capacity for growth and development. We will be changing the method of measurement. Instead of measuring against rivers protected we will be assessing the amount of additional capacity provided at the wastewater treatment works to manage the additional flows and loads from development. We will continue to adopt a flexible approach to the programme of work delivered so that we can respond to the changing development needs of the North West region. By working with stakeholders to understand where development will take place we will be able to protect customers and the environment from the potential detrimental impacts of increasing flows and loads such as flooding and pollution. We have performed well in this area in AMP6 and hope to continue to do this in to AMP7 too.

This is a bespoke measure and so it will not be possible to compare our performance to other water companies. Any out or underperformance will be incentivised through payments that are reconciled at the end of the AMP.

D2: Maintaining our wastewater treatment works

Performance Summary

We failed this measure in the first year of the AMP. However, performance was within dead band so did not incur an underperformance payment. From 2016/17 to 2018/19 performance improved and we outperformed against our target. In the last year of AMP6 targets became increasingly difficult and we have failed to meet our performance commitment. As performance is again within the dead band no underperformance incentive payment will be incurred.

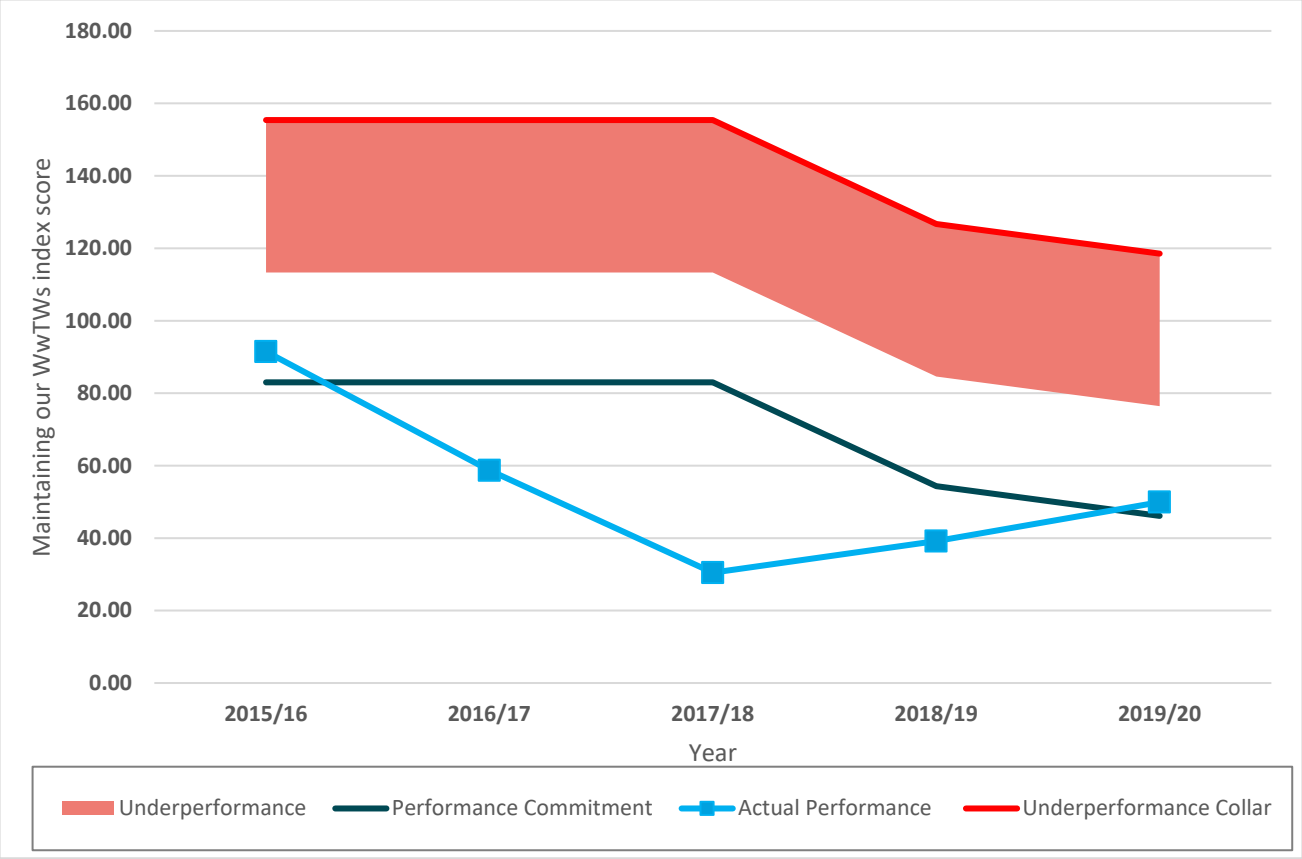
Measure description

This performance commitment is an index, which monitors the number of wastewater treatment works (WwTW) that fail defined, numeric consent parameters, together with the number that operate at medium and high risk of failure. This is an underperformance only measure.

Actual performance for the Maintaining our WwTW performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	83.00	83.00	83.00	54.32	**46.13**
Actual	91.4847	58.7082	30.4680	39.1665	**49.9345**
Pass/ Fail	Fail	Pass	Pass	Pass	**Fail**
Out / under performance payment (£m)	0	0	0	0	**0**

Actual performance for maintaining our WwTW – AMP6 actual performance against performance commitment and financial Incentives



Overview of AMP6 performance

Our performance against this measure has been varied across AMP6. We have passed the measure for three of the five years and failed twice (although on both these occasions performance lay within the dead band so no underperformance payment was applied).

The relatively high index score in year 1 was largely attributable to the failure of two size band 5 wastewater treatment works (Alsager and Longton), two band 6A wastewater treatment works (Congleton and Leigh) and a band 6B wastewater treatment works (Liverpool). This resulted in an index score of 91.485 against the performance commitment of 83.0.

The index score in year 2 was mainly attributable to the failure of two size band 1-4 works; Audley and Ambleside and three size band 6a works; Altrincham, Crewe and Oldham. This gave an overall score of 58.708.

In year 3 the index score was predominantly due to the failure of three size band 1-4 works; Ambleside, Bunbury and Great Clifton and one size band 6a works; Crewe. This gave an overall score of 30.50 which is the best performance to date.

In year 4 one size band 1-4 works failed, Partington and two size band 6a works failed, Urmston and Northwich. Although, fewer works failed than in the previous year due to the size of those works the risk score is slightly higher at 36.8701.

In year 5 two size band 1-4 works failed, Bowdon and Keswick, 1 size 5 works Garstang and two size band 6a works Glazebury and Warrington South. Slightly, more works failed in this year which has led to an increase in the index score to 49.9345.

We have been committed to reducing our wastewater permit non-compliance throughout the AMP, which is evident in the improvement of our underlying performance. Change has been driven through our ongoing compliance improvement programme that is focused around people, processes, systems and data. We have developed mobile data systems, which have increased accessibility of permits and inputting compliance field data into data analytics tools to resolve an escalation before a failure occurs. New tools for the analysis of root causes of noncompliance and the monitoring of trends have improved data quality and encourage the sharing of best practice. We have enhanced our post incident review process, intensive care plans for high risk sites and our escalation process. This has helped to understand the root cause risk and has ensure that there is a clear focus on compliance.

We launched a 'back to basics' compliance programme to focus on and re-embed the fundamentals of compliance in our ways of working. We have embedded the Technical Officer Role in our new regional hubs to provide technical, analytical and operational expertise to our field based teams. We have also improved the engagement of Process Controller and Process Operator roles via roadshows to convey key compliance messages and challenges to the field teams.

Under or outperformance payment
This is an underperformance only measure. The size of any payment is calculated by comparing our actual index performance against the target index performance. If the performance falls within the underperformance-zone then we multiply the resulting difference by the rate of £0.572 million per index point.

We have not achieved our performance commitment this year. However, because performance was within the dead band no underperformance incentive payment will be incurred.

Development of measure in AMP7
We will continue to report against WwTW compliance in AMP7. We will be applying an industry common approach, which has been developed by the Environment Agency. This method assesses the number of failing sites as a percentage of the total number of company discharges, which also includes Water treatment works. This standard approach will allow cross company comparisons to be made. This measure will be incentivised though underperformance payments only.

Our performance in maintaining our WwTW has been improving steadily improving in AMP5 and AMP6. Achieving the target that we have been set for AMP7 will require another step change in performance. However, we know that our customers and stakeholders want us to deliver this. We will be working hard to further improve our performance in AMP7 so that we can meet this tough performance commitment and will be continuing to make investments to maintain and improve our WwTW so that they perform both effectively and efficiently.

D3: Contribution to rivers improved – wastewater programme

Additional information with respect to this measure

The initial target for this measure was based upon assumed delivery of a number of AMP5 projects that were due to be delivered in the current AMP6 period plus the new AMP6 programme of work set out within the national environment programme (NEP) at the time of the business plan submission. A small number of corrections were set out in a corrigendum published on Ofwat's website.

However, following the PR14 final determination, the delivery dates for some of the AMP5 projects were revised and a new national environmental programme was agreed with the EA. Further, a number of subsequent changes to the programme were agreed during the AMP6 period.

We have delivered the programme in line with the NEP5 dates agreed with the EA and have predominantly based our reporting on delivery against the programme agreed with the EA. However, in the PR19 final determination, Ofwat confirmed that our performance and incentive calculations should be reported against the corrigendum target, with additions to the programme being reflected by outperformance payment and removals from the programme being reflected by underperformance payments. This approach should end up with no overall change to the value of the incentive payments if the changes to the programme are equivalent.

For this year's reporting we have again focussed on delivery against the programme agreed with the EA, but as explained below, we have based the incentive payments on the approach confirmed by Ofwat in the FD.

Performance summary

We have delivered the NEP as agreed with the EA apart from one project; the transfer of Billinge WwTW to St Helens WwTW. As a result we were slightly behind our performance commitment and will be subject to an underperformance payment this year. However, the cumulative position for the end of the AMP is a net reward because of the earlier delivery of projects earlier in AMP6.

Measure description

This measure tracks the delivery of our wastewater National Environmental Programme (NEP) obligations and is achieved through the delivery of an extensive programme of capital projects and investigations throughout AMP6. This measure is incentivised by financial under and outperformance payments.

Although the target is reported on a cumulative basis, the measure assesses the delivery of improvements on a project by project basis. Out and underperformance payments are developed which are dependent upon both the length of river improved by the scheme and the scale of any acceleration or delay in delivering this improvement.

Original programme (as set out in the corrigendum and used for incentivisation purposes)

The table below shows the target for this measure published within the corrigendum on Ofwat's website.

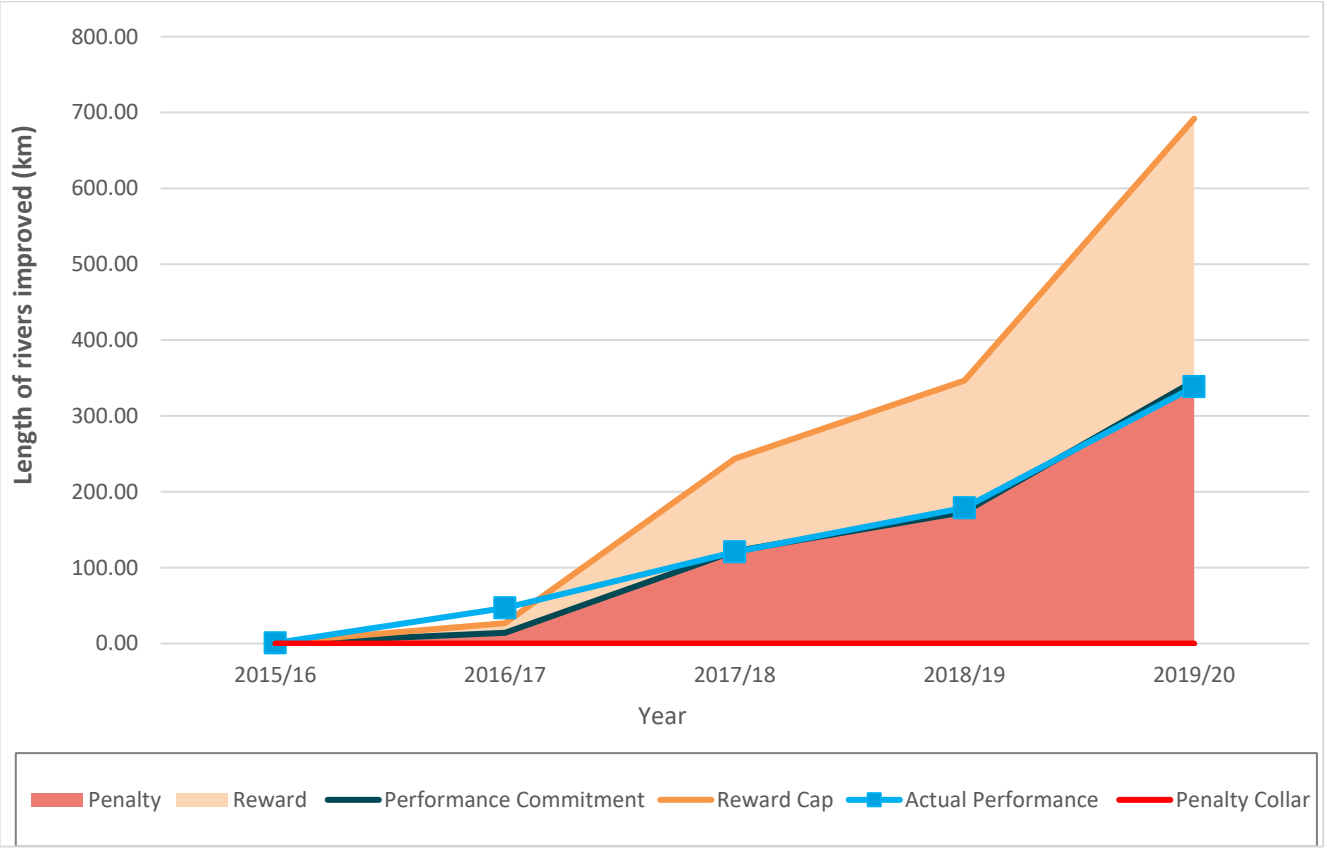
Unit of measure	2015/16	2016/17	2017/18	2018/19	2019/20
Km of river improved (cumulative target)	0.75	15.41	98.14	145.39	**355.22**

NEP5 profile agreed with the EA

The target for the measure, taking account of the changes to the programme set out within NEP5 is shown in the table below.

Unit of measure	2015/16	2016/17	2017/18	2018/19	2019/20
Km of river improved (cumulative)	0.75	14.12	121.83	173.38	**345.97**

Actual performance for Contribution to rivers improved – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

Over AMP6 we planned to deliver the programme of work set out by and agreed with the EA through NEP5 and as such our reporting focusses on delivery against the NEP5 target dates and performance commitment targets.

In year 1 we delivered the schemes required as part of our NEP. In year 2 we delivered some schemes earlier than required by NEP5 and were therefore able to outperform and earn a small outperformance payment. As this is a cumulative measure, the benefit of this is also reflected in the incentive position at the end of year 3.

The outperformance in year 2 was as a result of early delivery of the “No Deterioration” schemes at Horwich WwTW and Dalston WwTW and the early delivery of the “UWWTD” scheme at Altrincham WwTW.

During year 3 we have delivered the projects set out within NEP5. There have, however, been some delays to the AMP5 carry over project at Oldham WwTW. Oldham WwTW is complying with the environmental standards required by the project and the work involved to complete the project will have limited environmental impact. However, as the project has not been fully delivered we are including the underperformance payment associated with this delay in our reported value.

In year 4 we have again delivered the projects within NEP5. The low phosphorous trials and Ambleside and Oakmere were all delivered early. The project at Oldham has not yet been fully delivered due to issues in commissioning the final settlement tanks. Overall this delivery performance has resulted in a small outperformance-payment.

In year 5 we have delivered the projects within NEP5. There have been some programme changes which have been agreed with the Environment Agency which have brought some projects forward in to AMP6, pushed others back to AMP7 or delivered a changed scope. These programme updates have resulted in a reduction in the kms of rivers improved that we have delivered in the last year of the AMP. In addition to this one project was delivered late. The transfer of Billinge WwTW to St Helens WwTW was delayed because of difficulties in commissioning and was not delivered until early April 2020. This means that in the last year of the AMP we will be subject to an underperformance payment. However, the cumulative position for the end of the AMP will be a net reward because of the earlier delivery of projects in the first four years of AMP6.

A full list of all projects within the programme, the delivery date and the kilometres of rivers improved can be found below.

Performance against NEP programme agreed with the EA.

Actual performance for the Rivers Improved performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	0.75	15.41	98.14	145.39	**355.22**
Actual	0.75	46.98	120.75	178.93	**338.52**
Pass/Fail	Pass	Pass	Pass	Pass	**Fail**

We have calculated the cumulative outperformance payment for this measure in line with the definitions set out within the Final Determination (FD). In line with the approach taken by Ofwat at the FD, we have taken the difference between the number of km delivered at the end of the year and the performance commitment level in the corrigenda and multiplied it by the outperformance ODI rate. On this basis the cumulative outperformance payment would be £0.150m with the value reported in the table above retaining the previously reported values from 2015/15 to 2018/19 and the incremental difference between this value and the cumulative outperformance payment being reported in this year. The values reported in the table below will also be reported in table 3a.

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	0.75	15.41	98.14	145.39	**355.22**
Capped performance	1.5	30.82	196.28	290.78	**710.44**
Actual	0.75	46.98	120.75	178.93	**338.52**
Pass/Fail	Pass	Pass	Pass	Pass	**Fail**
Out / underperformance payment (£m)	0	0.431	0.633	0.939	**-1.854**
Cumulative outperformance payment(£m)	0	0.431	1.064	2.003	**0.150**

The incentive values that we previously reported against this measure were based upon performance against the programme agreed with the EA. To avoid rewriting the previously reported values we have used the cumulative five year outperformance figure of £0.150m from the table above and have input the net difference between the rewards reported for the measure to date and this five year position into the 2019/20 value, as shown in the table below.

	Previously reported values				Current year
	2015/16	2016/17	2017/18	2018/19	2019/20
Reported Out / underperformance payment (£m)	0	0.395	0.392	0.235	**-0.872**
Cumulative outperformance payment (£m)	0	0.395	0.787	1.022	**0.150**

Projects delivered	EA NEP reference	Date delivered	Km of river improved	Cumulative benefit
FY16 – EDM projects	Various	31/03/2016	0.40	0.40
FY16 – Flow project	Various	31/03/2016	0.36	0.76
FY17 – Chemicals programme	Various	31/03/2017	9.21	9.97
FY17 – Flow project	Various	31/03/2017	0.42	10.39
Elterwater (I1)	6UU0034	31/03/2017	0.97	11.36
Knutsford Moor Pumping Station (I5)	6UU0038	31/03/2017	0.37	11.73
EDM2 Year 2	Various	31/03/2017	1.34	13.08
Dalston WwTW (ND)	6UU0043	31/03/2017	7.60	20.68
Horwich WwTW (ND)	6UU0042	31/03/2017	24.93	45.61
Altrincham WwTW (U2)	6UU0007	31/03/2017	1.37	46.98
WwTW Low P pilot plant trials for AMP6	Various	31/03/2017	0.00	46.98
Chorley WwTW Storm Tanks	6UU0521	30/04/2017	0.00	46.98
Chorley WwTW (ND)	6UU0040	17/08/2017	12.70	59.68
River Loud and Chipping Brook investigation	6UU0553	30/09/2017	0.37	60.05
Mere Platts Pumping Station (I1)	6UU0037	07/12/2017	1.19	61.24
Davyhulme WwTW (F1a)	5UU0545	26/01/2018	2.43	63.67
Whaley Bridge WwTW (ND)	6UU0044	31/03/2018	12.90	76.57
Cleator WwTW (ND)	6UU0041	31/03/2018	14.40	90.97
FY18 – Flow project	Various	31/03/2018	0.30	91.27
FY18 – Chemicals programme	Various	31/03/2018	6.97	98.24
EDM2 Year 3	Various	31/03/2018	3.59	101.83
Tarvin WwTW	6UU0541	31/03/2018	18.90	120.73
Nantwich WwTW (U2)	6UU0003	14/11/2018	1.82	122.55
Nantwich WwTW (WFD)	6UU0548	14/11/2018	1.82	124.37
Crewe WwTW (U2)	6UU0004	14/11/2018	1.82	126.19
Winsford WwTW (U2)	6UU0005	14/11/2018	3.64	129.83

Northwich WwTW (U2)	6UU0006	14/11/2018	1.06	130.89
Darwen WwTW (U2)	6UU0002	14/11/2018	1.50	132.39
Blackburn WwTW (U2)	6UU0001	14/11/2018	3.38	135.77
Garstang WwTW (U2)	6UU0008	14/11/2018	1.51	137.28
Irlam WwTW	6UU0430	31/12/2018	0.00	137.28
Kendal WwTW (ND)	6UU0508	20/03/2019	20.21	157.49
FY19 – Flow project	Various	31/03/2019	0.36	157.85
FY19 – Chemicals programme	Various	31/03/2019	6.22	164.07
Outgate WwTW (I1)	6UU0039	31/03/2019	0.37	164.44
EDM2 Year 4	Various	31/03/2019	3.52	167.96
Lower Weaver – Cuddington WwTW	6UU0551	31/03/2019	2.64	170.59
Ambleside WwTW (Biod1)	6UU0033	31/03/2019	5.70	176.29
Lower Weaver – Oakmere WwTW	6UU0550	31/03/2019	2.64	178.93
Horwich WwTW (WFD)	6UU0523	14/08/2019	2.94	181.86
Oldham WwTW (F1a)	5UU0580A	13/01/2020	2.60	184.46
Marton North (Flow 3)	6UU0009	31/03/2020	0.37	184.83
Grasmere WwTW (Biod1)	6UU0035	31/03/2020	0.78	185.61
Grasmere WwTW Storm Tanks (Biod1)	6UU0036	31/03/2020	0.78	186.39
Glebe Road CSO (Biod1)	6UU0031	31/03/2020	5.70	192.09
Windermere WwTW (Biod1)	6UU0032	31/03/2020	5.70	197.79
FY20 – Chemicals programme	Various	31/03/2020	6.59	204.38
Investigations of sewerage effluent into groundwater (DrW2)	6UUD010	31/03/2020	0.37	204.75
EDM2 Year 5	Various	31/03/2020	2.64	207.39
Wigton WwTW (WFD)	6UU0500	31/03/2020	16.79	224.18
Calthwaite WwTW (WFD)	6UU0501	31/03/2020	6.06	230.24
Kidsgrove WwTW (WFD)	6UU0542/ 6UU0543	31/03/2020	5.87	236.11
Lawton Gate WwTW (WFD)	6UU0544/ 6UU0545/ 6UU0546	31/03/2020	2.91	239.02
Northwich WwTW (WFD)	6UU0552	31/03/2020	1.06	240.08
OLD0100 (WFD)	6UU0536	31/03/2020	0.24	240.32
OLD0109 (WFD)	6UU0537	31/03/2020	1.26	241.58
OLD0120 (WFD)	6UU0538	31/03/2020	1.26	242.84
OLD0151 (WFD)	6UU0539	31/03/2020	0.37	243.21
Failsworth WwTW (WFD)	6UU0532/ 6UU0533/ 6UU0534	31/03/2020	5.81	249.02
Halsall WwTW and Haskayne WwTW (WFD)	6UU0528/ 6UU0529	31/03/2020	12.99	262.01
Motherby	N/A	31/03/2020	1.50	263.51
Motherby first time flow measurement	N/A	31/03/2020	0.37	263.88
HYN0005 (WFD)	6UU0515	31/03/2020	0.60	264.48
HYN0008 (WFD)	6UU0517	31/03/2020	0.60	265.08
HYN0003 (WFD)	6UU0516	31/03/2020	2.33	267.41
Colne WwTW (WFD)	6UU0518	31/03/2020	4.45	271.86
RIB0017 (WFD)	6UU0512	31/03/2020	0.13	271.99
RIB0019 (WFD)	6UU0513	31/03/2020	0.13	272.12
Billington Storm Tanks (WFD)	6UU0514	31/03/2020	0.37	272.49
Barton WwTW (WFD)	6UU0507	31/03/2020	4.30	276.79
Aspatria WwTW (WFD)	6UU0502	31/03/2020	7.44	284.23
Hayton WwTW (WFD)	6UU0503	31/03/2020	7.48	291.71
Hayfield WwTW (WFD)	6UU0540	31/03/2020	16.70	308.41
MAN0131 (WFD)	6UU0535	31/03/2020	1.20	309.61
Darwen WwTW (WFD)	6UU0526	31/03/2020	1.48	311.09
Darwen WwTW storm tanks (WFD)	6UU0527	31/03/2020	1.48	312.57
Blackburn WwTW (WFD)	6UU0525	31/03/2020	4.40	316.97
FY20 – Flow programme	Various	31/03/2020	0.42	317.39
Barrow Nook	N/A	31/03/2020	4.00	321.39
West Newton	6UU0556	31/03/2020	7.48	328.87
Crewe WwTW (WFD)	6UU0547	31/03/2020	5.46	334.33

Winsford WwTW (WFD)	6UU0549	31/03/2020	3.64	337.97
Inland CSW programme	6UU0530	31/03/2020	0.18	338.15
Investigation in to opportunities to optimise existing Turning Basin aeration	6UU379a	31/03/2020	0.37	338.52
Billinge WwTW (WFD)	6UU0531	05/04/2020	2.16	n/a

Under or Outperformance payment
This measure has both under and outperformance payments. The size of any incentive is calculated by comparing our actual index performance against the target index performance and multiplying by the underperformance rate (£0.111m per index point) or outperformance rate (£0.028m per index point).

Development of measure in AMP7
In AMP7 we will be continuing to assess our performance against the delivery of the Water Industry National Environmental Programme (WINEP) that will deliver environmental improvements. Projects will be clustered into catchments and an assessment will made about how early or late delivery for the group of projects within the catchment has been. Instead of assessing the lengths of rivers improved we will assess the numbers of days early or late work in each catchment has been delivered as a whole. Changes will only be able to be made to the programme of work through agreement with the Environment Agency. This bespoke measure will be incentivised through underperformance payments only, reconciled in-period each year. Our performance in delivering our environmental quality WINEP obligations has been good throughout AMP6 and we will be working closely with the Environment Agency in AMP7 to ensure that this continues.

D4a: Wastewater serious (category 1 and 2) pollution incidents

Performance Summary

We have sustained our excellent performance for category 1 and 2 pollution incidents and achieved our challenging year five target.

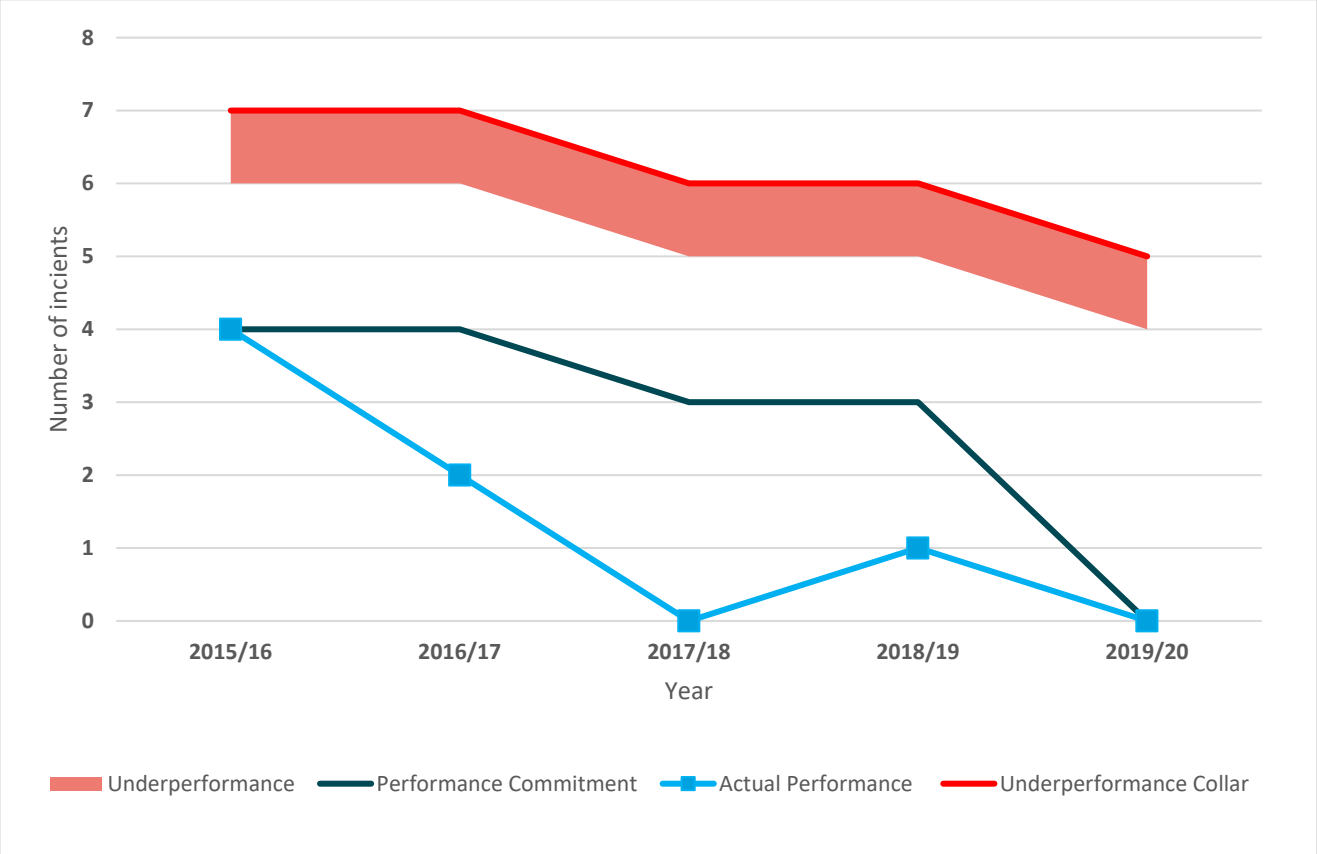
Measure description

This measure tracks the number of category 1 and 2 (serious) pollution incidents that occur as a result of the performance of our wastewater assets. This is an underperformance only measure.

Actual performance for the Serious Pollution incidents performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	4	4	3	3	**0**
Actual	4	2	0	1	**0**
Pass/Fail	Pass	Pass	Pass	Pass	**Pass**
Out / Underperformance payment (m)	0	0	0	0	**0**

Actual performance for category 1 and 2 pollution incidents – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

Our performance has been good throughout the AMP and the number of incidents has steadily reduced. Our investment programme has supported the achievement of this performance, along with an increase in the length of sewers being CCTV'd during incident attendance which is helping to proactively highlight sewer defects for repair. Our performance has been improving as a result of implementing a number of processes, data and training initiatives to minimise pollution incidents, including our environmental compliance green tick campaign and the revised wastewater operating model, which seeks to address operational problems and identify the root cause of problems. We identify and repair sewer defects that may contribute towards a potential pollution incident. We have raised awareness of the 16/02 process (the Environment Agency's Guide to its operational staff) on categorisation and self-reported incidents. Thorough analysis of repeat and self-reported incidents. We adhere to the process of 72 hour reporting and 20 days reports for more serious incidents ensuring scrutiny of the data collected and enabling actions to be taken following a pollution incident. Repeat incidents are escalated to senior managers. Analysis of Event Duration Monitors (EDM) performance is helping to develop a more in-depth understanding of asset performance and predict potential failures. We are applying network monitoring and modelling to try and predict and prevent failures which is helping to reduce the number of events and therefore the overall impact on the environment.

Under or Outperformance payment

This is an underperformance only measure, with the scale of any incentive payment being assessed by comparing our actual performance against the target performance. If the performance falls within the underperformance zone then we multiply the resulting difference by the underperformance incentive rate of 0.420 million per incident.

Each year we have outperformed or met our performance commitment however as this is commitment is incentivised by underperformance payments only measure we did not earn any outperformance payment.

Development of measure in AMP7

We will be continuing to report our pollution performance in AMP7 and will be incentivised to reduce the number of pollution incidents that impact on the environment. All companies will be using a common methodology for reporting pollution incidents, which will allow direct comparisons about performance to be made. We will report the absolute number of category 1, 2 and 3 incidents as well as a normalised performance which will be the number of category 1, 2 and 3 incidents per 10,000km of sewer. This method of assessment will be consistent with the Environment Agency Environmental Performance Assessment (EPA).

The measure will be incentivised though both out and underperformance payments. Our performance on pollution incidents has been industry leading throughout AMP6 and we are aiming at continuing this level of performance through in to AMP7. This will be challenging as targets become progressively tougher. To help us to deliver the best performance we can, we started our preparations for delivery in the last year of AMP6 through a "flying start" programme of work. This is proactively identifying and remediating sewer defects which may, if left, cause a pollution incident. We hope that this investment will help us deliver early improvements to the performance and reliability of our wastewater network. This should bring about early benefits in reducing the risk of pollution occurring from our network assets.

D4b: Wastewater category 3 pollution incidents

Performance Summary

We have continued our excellent performance in the last year of AMP6. We have outperformed against our performance commitment in each year of the AMP, and have achieved the maximum outperformance payment possible.

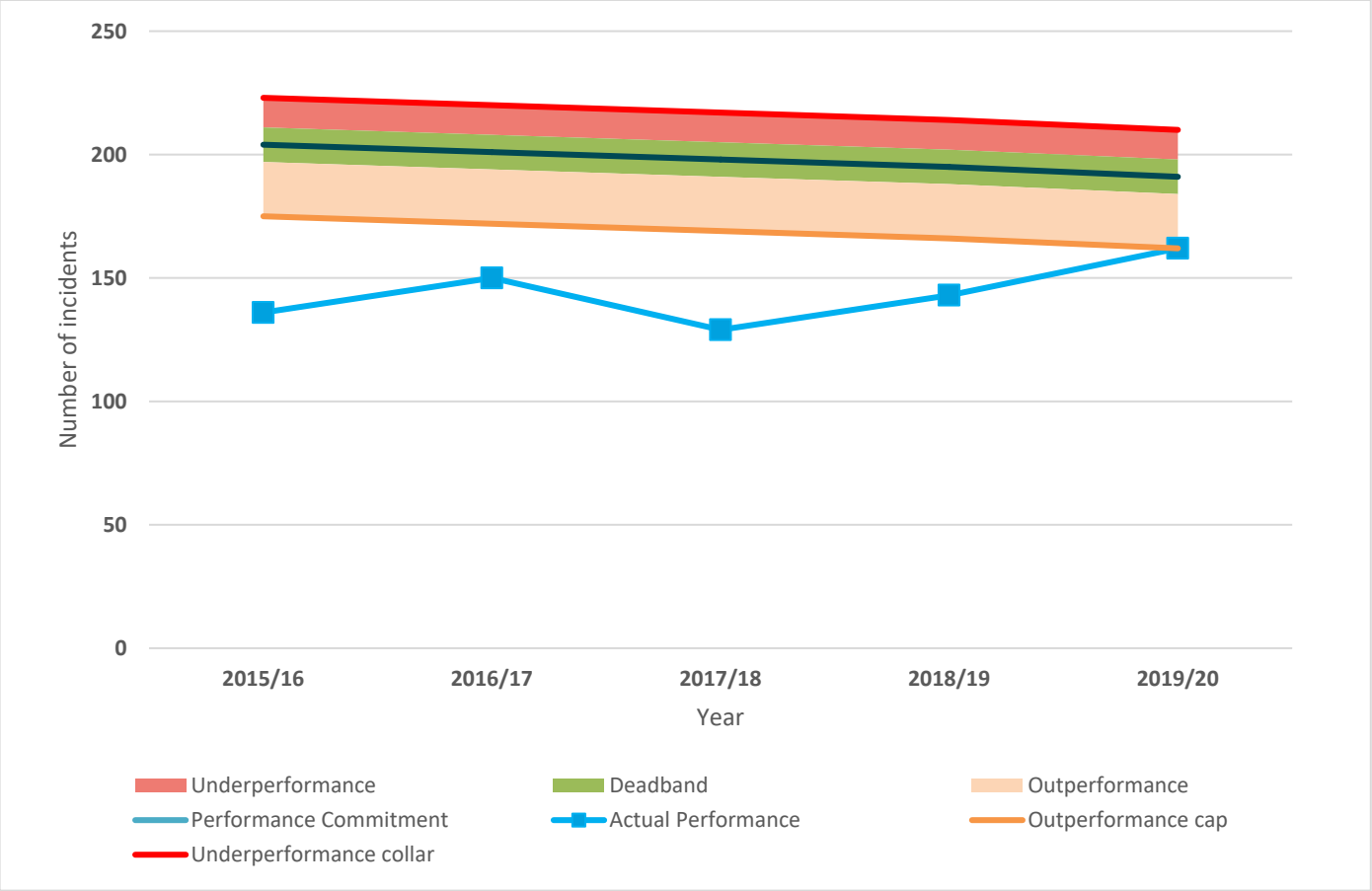
Measure description

This measure assesses the number of category 3 pollution incidents that occur from our wastewater assets each year of the AMP. Performance is incentivised through both out and underperformance payments.

Actual performance for the Category 3 pollution incidents performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	204	201	198	195	**191**
Actual	136	150	129	143	**162**
Pass/Fail	Pass	Pass	Pass	Pass	**Pass**
Out / underperformance payment (£m)	3.278	3.278	3.278	3.278	**3.278**

Actual performance for category 3 pollution incidents – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

We have observed excellent performance against our targets for category 3 pollution events. Our investment programme has supported the achievement of this performance, along with an increase in the length of sewers being CCTV'd during incident attendance which is helping to proactively highlight sewer defects for repair. We identify and repair sewer defects that may contribute towards a potential pollution incident. We have raised awareness of the 16/02 process (the Environment Agency's Guide to its operational staff) on categorisation and self-reported incidents. Thorough analysis of repeat and self-reported incidents. The process of 72 hour reporting and 20 days reports for more serious incidents ensuring scrutiny of the data collected and enabling actions to be taken following a pollution incident. Repeat incidents are escalated to senior managers. Analysis EDM performance is helping to develop a more in-depth understanding of asset performance and predict potential failures. We are applying network monitoring and modelling to try and predict and prevent failures which is helping to reduce the number of events and therefore the overall impact on the environment.

Under or Outperformance payment
This measure has both under and outperformance payments, with the scale of any incentive being assessed by comparing our actual performance against the target performance. If the performance falls within the outperformance or underperformance zone then we multiply the resulting difference by the relevant incentive rate. For category 3 pollution incidents, the underperformance incentive rate is 0.282 million per incident and 0.149 million per incident for the outperformance rate.

We have significantly outperformed our performance commitment in each of the five years of AMP6, resulting in the maximum annual outperformance payment.

Development of measure in AMP7
We will be continuing to report our pollution performance in AMP7 and will be incentivised to reduce the number of pollution incidents that impact on the environment. All companies will be using a common methodology for reporting pollution incidents, which will allow direct comparisons about performance to be made.

We will report the absolute number of category 1, 2 and 3 incidents as well as a normalised performance which will be the number of category 1, 2 and 3 incidents per 10,000km of sewer. This method of assessment will be consistent with the Environment Agency Environmental Performance Assessment (EPA).

The measure will be incentivised though both out and underperformance payments.

Our performance on pollution incidents has been industry leading throughout AMP6, and we are aiming at continuing this level of performance through in to AMP7. This will be challenging as targets become progressively tougher.

To help us to deliver the best performance we can, we started our preparations for delivery in the last year of AMP6 through a “flying start” programme of work. This is proactively identifying and remediating sewer defects which may, if left, cause a pollution incident. We hope that this investment will help us deliver early improvements to the performance and reliability of our wastewater network and help to reduce the risk of pollution occurring from our network assets.

D5: Satisfactory sludge disposal

Performance Summary

We have meet our target for satisfactory sludge disposal in each year of AMP6.

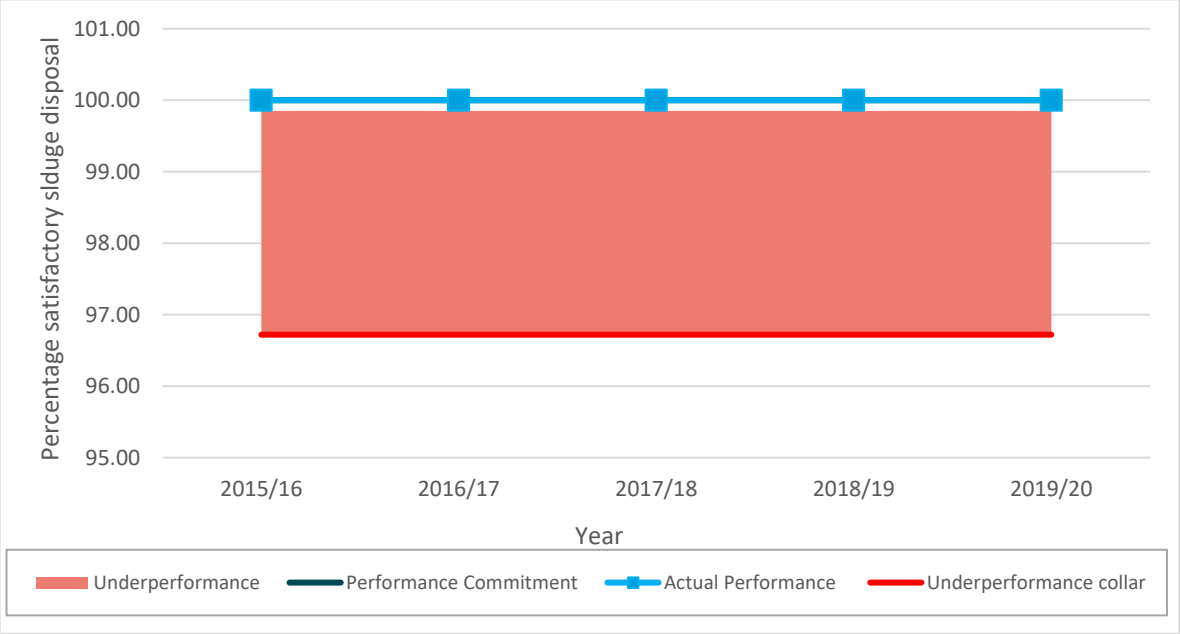
Measure description

This performance commitment measures how well we operate our sludge treatment and disposal activities with respect to public health, environmental protection and statutory compliance. This is an underperformance payment only measure.

Actual performance for the Satisfactory sludge disposal performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	100.00	100.00	100.00	100.00	**100.00**
Actual	100.00	100.00	100.00	100.00	**100.00**
Pass/Fail	Pass	Pass	Pass	Pass	**Pass**
Out / underperformance payment (£m)	0	0	0	0	**0**

Actual performance satisfactory sludge disposal – AMP6 actual performance against performance commitment and financial incentives



Overview of AMP6 performance

We have achieved our performance commitment for sludge treatment and disposal in each year of AMP6, as we have met all required standards for the treatment and disposal of biosolids. Sludge production and disposal levels have increased slightly but are in line with changes to population and trade effluent discharges in the North West. Across AMP6 we have been disposing more of our sludge to agriculture and reclamation and reducing the volumes of sludge that we incinerate.

Under or Outperformance payment

This is an underperformance only measure, with the size of any underperformance payment is calculated by comparing our actual percentage compliance against the target of 100% compliance. If the performance falls within the underperformance-zone then we multiply the resulting difference by the underperformance incentive rate of 5.108 million per percentage point.

We have met our performance commitment therefore no underperformance incentive will be applied.

Development of measure in AMP7

We will continue to assess our performance against bioresources treatment and disposal standards in AMP7 through the Recycling Biosolids performance commitment.

We will be evaluating our performance against the Sludge use in agriculture regulations, Environmental permitting regulations, Safe sludge matrix and for the first time as part of a performance commitment the Biosolids assurance scheme (BAS). This will continue to demonstrate that the bioresources that we produce are treated and disposed of to the required environmentally sustainable standards and independently audited against industry best practice.

To help us to continue our excellent performance in this areas we have been improving our business processes during AMP6 in preparation for AMP7 and have achieved BAS certification for all our biosolids. This bespoke measure is incentivised by out and underperformance payments.

1.1 c) Retail and customer service performance commitments

2019/20 Annual performance summary

Performance against our four household retail performance commitments in 2019/20 and the cumulative performance in the AMP6 period to date is set out in the table below.

Household retail operational performance summary

Performance commitment	Actual performance levels					Performance Commitments		APM6
	2015/16	2016/17	2017/18	2018/19	2019/20	2019/20	Pass/Fail	
A-1: Service incentive mechanism (SIM) [1]	82	85	87	88	85 [2]	UQ WASC	Pass	£6.238m
R-A2: Customer Experience Programme[3]	0.001	0.363	2.576	5.685	9.692	≥ 10.860	Implemented on time at lower cost	-£4.649m
B1: Customers saying that we offer value for money	50	52	52	58	58	≥ 52	Pass	N/A
B2: Per household consumption	303	305	311	314	308	≤ 286	Fail	N/A

1 The financial incentive applied to SIM was determined by Ofwat through the PR19 process based upon performance up to 2018/19. The value shown in the table is at 2017/18 prices. The final year is for measuring against UU's ODI and will also be used for industry comparison.

2 The measurement of SIM in the final year was done on a proxy basis, using an amended Quantitative score calculation as well as shadow year C-MeX qualitative scores.

3 The value shown in the table is at 2012/13 prices.

Future performance monitoring and performance commitments

Similar to our approach for the period 2015-2020 our plan for 2020-2025 is built around longer term outcomes that describe the level of service that we are planning to provide. Underpinning each outcome is a set of measures with specific targets for the AMP7 period with performance commitments that are designed to be stretching.

Ofwat has specified 15 compulsory performance commitments for all water companies. These are also known as 'common measures' and have standard definition agreed with Ofwat.

We have supplemented these common measures with 32 'bespoke' and optional asset health performance commitments, which reflect what customers told us was important to them, in terms of levels of service or areas of focus for investment. Some of the performance measures are a continuation of commitments from 2015-2020 others have been developed to improve transparency of performance reporting or to report delivery against new priorities.

The table below lists the performance commitments within the two outcomes that are most relevant to the retail service, showing the measures that we have reported performance against during 2015-20 and the performance commitments we will be reporting against during 2020-25.

As can be seen from this table there are substantial changes to the measures, with the number of additional measures that we will be reporting against in AMP7 reflecting the feedback that we have received from customers and the importance that the company places on customer service.

Table showing current and future performance commitments for each of the retail service outcomes

Outcome	AMP6 measure	AMP7 measure	Reason for change
You're highly satisfied with our service and find it easy to do business with us	Service incentive mechanism (SIM)	Customer experience (C-MeX)	SIM and AMP6 developers measure been replaced by C-Mex and D-Mex
	Commitments to developers	Developer experience (D-MeX)	
	Customer experience programme		Removed as programme is complete
		Improving street works performance	New measure added for AMP7
		Priority services for customers in vulnerable circumstances	New measure added for AMP7
		Priority Services – BSI accreditation	New measure added for AMP7
We will improve the way we work to keep bills down and improve services	Customers say we offer value for money	Customers say that we offer value for money	Equivalent measure
	Number of free water meters installed	Number of customers lifted out of water poverty	New and wider "affordability" measure
		Non household vacancy incentive scheme	Four new measures seeking to ensuring properties are correctly registered and that bills are spread as widely as possible.
		Gap sites (wholesale)	
		Gap sites (retail)	
		Retail voids	
		Systems thinking capability	New measure added for AMP7
		Delivery of direct procurement of HARP scheme	New measure added for AMP7

A-1: Service incentive mechanism (SIM)

Performance summary

Our combined SIM score for 2019/20 was 85. The final incentive year for SIM was 2018/19 with the financial payments published with Final Determinations. However, as some companies have an ODI for the whole of AMP6 then all companies have been required to calculate their SIM score for 2019/2020.

For the first 4 years of AMP6 SIM had been assessed using the number of unwanted contacts and written complaints that we receive (Quantitative performance) and the way we respond to these contacts (Qualitative performance). As described in more detail below, a new measure of customer services, C-MeX, was introduced for AMP7 with a shadow year operating in 2019/2020. As the industry has transitioned to this the SIM measurement for 2019/2020 changed with written complaint volumes used for the quantitative element and the results of the shadow year C-MeX survey results for the qualitative element. Ofwat adjusted the measurement to account for these changes. This means the SIM scores and submeasures – whilst reflective of performance – cannot be directly compared to previous years.

Our target for the AMP6 period was to achieve an upper quartile performance level. Ofwat assessed our overall SIM incentive as part of the PR19 final determinations and confirmed our upper quartile performance. Until Ofwat reports annual 2019/20 SIM combined performance for all water companies, we are unable to confirm our final position for 2019/20 and the end of AMP6. We do however, expect to continue to be in an upper quartile position.

SIM performance summary

SIM	2015/16	2016/17	2017/18	2018/19	2019/20
	82[1]	85	87	88	85[3]

1 SIM was measured differently during AMP5
2 Our target is to be Upper quartile for water and sewerage companies.
3. SIM measured differently in final year.

SIM sub-measures

Sub measure	2015/16 performance	2016/17 performance	2017/18 performance	2018/19 performance	2019/20 Performance[1]
SIM quantitative	95	77	71	70	14
SIM qualitative	4.27	4.42	4.49	4.53	4.43
SIM combined	82	85	87	88	85

1. SIM was measured differently in the final year using a proxy score which did not include unwanted contacts for the quantitative element and C-MeX scores for Qualitative. Final year comparison with prior years are not directly comparable.

Overview of performance

Performance against SIM is measured in two separate ways, quantitative performance, looking at the number of complaints and qualitative performance, looking at how well companies manage these complaints.

Quantitative Performance

Complaints: In 2019/2020 we received a total of 5,942 complaints. This is a reduction of 15% from 2018/19 volumes and a 41% reduction over the 5 year AMP6 period.

In 2019/20 we received 1,065 fewer complaints. This was partially due to a high number of complaints (482) in 2018/19 associated with the dry weather activities as well as an underlying performance improvement in the billing and water business areas.

Stage 2 complaints: This aspect of the Quantitative SIM measures Stage 2 complaints. A Stage 2 complaint is either a repeat complaint or a complaint that was not dealt with appropriately the first time. We have seen a small improvement in the number of Stage 2 complaints, receiving 176 in 2019/20 which is a reduction of 4% compared to 2018/19. Over AMP6 as a whole, Stage 2 complaints have reduced by 63% overall.

CCW investigations: SIM also takes account of the number of CCWater investigations. For the fourth consecutive year we have not had any CCW investigations during 2019/20.

Qualitative Performance
Our score for 2019/20 was 4.43. On face value this is a reduction in performance from the previous year. However, in the final year of the AMP SIM was calculated using the results of a different customer survey to that used in previous years, foreshadowing the transition to the AMP7 C-MeX measure. This is based on a different customer scoring system where the range is 0-10, compared to the 1-5 range used for SIM with the scores being translated from the new scale to the old scale. The annual SIM scores are as set out in the table below.

Year	Qualitative Score
2015/16	4.27
2016/17	4.42
2017/18	4.49
2018/19	4.53
2019/20	4.43

Our score for 2019/20 was 4.43 which is lower than the previous two scores under the previous methodology. This type of reduction was broadly consistent with results from the rest of the industry and is believed to reflect the changed approach in measurement. Comparing the industry qualitative data for 2019/20 with 2018/19 the industry average has reduced by 0.14, with the industry best performer reducing by 0.15 and the industry worst performer reducing by 0.10.

In terms of our performance, the league table for 2019/20 shows us improving our relative position to 4th overall out of 17 water companies and and 3rd out 11 water and sewerage companies, an improvement from 5th and 4th from 2018/19

Underperformance or outperformance payment
The penalties and outperformance payments that companies incurred through SIM were determined by Ofwat in the PR19 final determination, based upon relative intercompany performance for the first four years of the AMP6 period.

This means that performance in 2019/20 was not be included in the assessment.

In our PR19 business plan submission we proposed that Ofwat should consistently apply the approach that they used at PR14 to calculate SIM reward/ penalty payments. Using this approach, and based upon current industry performance and trends, we expected to earn an outperformance payment of circa £16m. In the final determination Ofwat developed an alternative methodology for determining rewards and penalties. Under this revised mechanism we still earned a reward but the value of that reward was lower at £6.2m. Further details of the basis of this outperformance payment are set out on Ofwat's web site at the following URL https://www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-Accounting-for-past-delivery-technical-appendix.pdf.

Development of measure in AMP7
For the AMP7 period SIM will be replaced by C-MeX as the primary measure of relative customer service performance.

Customer Measure of Experience (C-MeX)

The customer measure of experience (C-MeX) is a new mechanism designed to incentivise companies to provide residential customers in the water sector with excellent levels of service. With effect from 1 April 2020, C-MeX applies to the 17 largest water companies in England and Wales and replaces the service incentive mechanism (SIM). C-MeX is aimed at driving further improvements in customer service including by introducing more stimulus from outside the sector and by reflecting the changing communications patterns that customers and companies have in the wider economy.

C-MeX is based on an annual score for each company out of 100, based on the results of two surveys that contribute equally. These are:

1) a customer satisfaction survey of a sample of residential customers who have contacted their company which asks them how satisfied they are with how the company has handled their issue; and,

2) a customer satisfaction survey of a randomly selected sample of a company's overall residential customer base which asks them how satisfied they are with their company.

Ofwat will publish an annual league table of the overall annual C-MeX scores. Each company will potentially be eligible to receive outperformance payments or incur underperformance payments based on its annual C-MeX score compared to other companies. Those companies that score above the median company score will receive standard outperformance payments for that year of up to 6% of that year's annual allowed residential retail revenue and those that score below the median company score will incur underperformance payments of up to 12%.

April 2019 to March 2020 was a pilot year for testing the new C-MeX measures with all 17 water companies. Ofwat has published annual performance results for the pilot year and we achieved a combined score of 79.76 out of a 100 which places us in 4th position of 17 water companies and 3rd of the 11 water and sewerage companies. We saw strong performance in the satisfaction of customers who had contacted the company element of the C-MeX, being placed first in the industry in quarter 3 and quarter 4.

A2: Customer Experience Programme

Performance summary

We implemented the final element of the Customer Experience programme, a new debt management system, during 2018/19, allowing the programme to be completed at a lower cost than had been assumed at the last price review.

Earlier in the five year period we made a number of organisational and business process changes that meant that the initially planned customer relationship management system was no longer cost beneficial. As a result of the reduced cost and the change in the programme, we returned some of the originally allowed costs for the programme to customers, through the PR19 process.

Measure description

The Customer Experience Programme (CEP) is a transformational programme delivering new capabilities for the household retail service. The programme was initially assumed to include the following functionality:

a) Web contact management system,

b) Multi-channel routing,

c) Workforce optimization,

d) Analytic capabilities,

e) Billing system upgrades,

f) Debt management system, and a

g) Customer Relationship Management system

The measure has two components covering depreciation and programme delivery.

- The depreciation component compares actual depreciation incurred on the project against the assumed level of depreciation that would be incurred on the project.
- The delivery component returns depreciation associated with elemenst of the programme that are not delivered.

Performance for the Customer Experience performance commitment to the table

Depreciation	2015/16	2016/17	2017/18	2018/19	2019/20
Target (£m)	£1.053m	£3.37m	£6.396m	£10.86m	£17.769m
Actual (£m)	£0.001m	£0.363m	£2.576m	£5.685m	£9.692m

Overview of performance during AMP6

By the end of 2018/19 we had fully delivered the technology, business process and organisational changes associated with six of the seven Customer Experience Programme component elements.

	Technology	Business Processes	Organisational changes
CRM	×	✓	✓
Multi-channel routing	✓	✓	n/a
Workforce optimisation	✓	✓	✓
Analytic capabilities	✓	✓	✓
Web Content Management System	✓	✓	✓
Billing system upgrades	✓	✓	✓
Debt Management	✓	✓	✓

In AMP6 we delivered substantial improvements in customer service and large scale cost reductions. Delivery of the Customer Experience Programme has been central to this improved performance. New systems and capabilities delivered through the programme has underpinned better customer service and engagement, the roll out of enhanced digital offerings, and advanced our customer data analytics capabilities.

As we implemented new systems and ways of working we identified the opportunity to deliver the capabilities that a new CRM was initially planned to provide without the need to invest in a wholly new system. A review of the CRM project in August 2016 showed that we would be able to generate the intended customer benefit through benefits from other aspects of the Customer Experience Programme, and through process and organisational changes. As such we arrived at the view that a new CRM system was not cost beneficial.

Despite our decision not to implement the CRM technology tool we have delivered the business process and organisational changes, delivering most of the anticipated benefits without making costly technology investments. These have resulted in real improvements to the overall customer experience, as can be seen through the improvements in customer experience measures.

Under the Customer Experience Programme ODI's 'full delivery' test since one part of the CRM component has not been delivered that depreciation allowances in AMP6 associated with that component of the programme should be returned to customers. This is set out in the "Under or Outperformance payments" section below.

We have been progressively rolling out components of the programme throughout the period, with some of the key benefits deliverd in each year being set out below:

In 2016/17 the programme achieved a number of key milestones in improving the customer facing aspects of the operation. These included:

- Delivering a refresh of all our of telephony lines, with the new voice of 'Rebecca' conveying a more friendly and helpful tone.
- Replacing our on-hold music and queue messaging to provide useful and relevant information particularly during operational incidents.
- Producing a new suite of customer letters with a refreshed tone of voice; the new letters make it easier for our customers to understand the information following the removal of technical and complex jargon.
- Launching our new customer website which has undergone some transformation and has a very different look and feel to the previous website. Customers can also now access our website on their mobile or tablet.
- Launching our enhanced webchat capability (technology and service), which has simplified webchat functionality and increased webchat service operating hours.

In 2017/18 the programme delivered further improvements mainly to both non customer facing and customer facing aspects of our service.

- We introduced the UU mobile App with functionality to make payments, view payment history and submit meter readings.
- We introduced a new version of the My Account customer self-serve portal. This has a comparable look and feel to the website and is formatted for desktop and mobile, tailoring content for each customer. At the end of AMP6 there were over 740,000 active users of this channel.
- We implemented a new workforce management tool used for forecasting and scheduling agents to work on inbound and outbound calls and back office work.
- We introduced a new analytics tool which provides customer and performance data that is accessible to operational users and managers to enable business decisions to be taken based on analytic reasoning.

In 2018/19 we concluded the delivery of the Customer Experience programme.

- We completed the upgrade of our Debt Management system in March 2019. The new system is integrated to give analytics capability, has the ability to tailor approaches to collections, has clearly presented 'dashboard'-style screens which are more use friendly and intuitive, and is stable, fully supported and future-proof.
- Further enhancements were made to our mobile App including the facility for customers to report leaks by location, using the GPS functionality in their phone and send us photos to assist with prioritisation. We have also introduced fingerprint and face id log in functionality. At the end of AMP6 the mobile app had over 156,000 registered customers and is achieving ratings of 4.7 stars on the App store.

In 2019/20 we have continued to embed and enhance these systems and processes.

- We have enhance our self-serve My Account portal with both functional improvements and those based on customer feedback, such as verifying bank details automatically, allowing bank account details to be amended on line and automated address look ups.
- We have also made changes to our on line forms to promote areas such as difficulty paying your bill and our Priority Services scheme.
- We have introduced a number of billing system upgrades to ensure a stable and fully supported platform which we expect to negate the need to invest in a new billing system until beyond 2025.

Under or Outperformance payment
There are two penalty/incentives tests associated with this performance commitment and ODI. In this section we describe our position against both aspects of the measure and how this is reflected through the incentive mechanism.

Part 1 Cumulative Depreciation – This test compares the actual cumulative depreciation at 2020 with the depreciation assumed in the final determination and which was used to set the target for the measure. As shown in the table below actual depreciation was lower than assumed at the FD.

Unit of measure	2015/16	2016/17	2017/18	2018/19	2019/20
Target cumulative depreciation (£m)	1.053	3.370	6.396	10.860	17.769
Actual cumulative depreciation (£m)	0.001	0.363	*2.576*	5.685	9.692

Variance in cumulative depreciation by 2020	-£8.077m
Customer share rate	50%
ODI performance adjustment	**-£4.039m**

Part 2 Delivery of the programme – This test relates to the whether we have fully delivered the programme by 31st March 2019. The table below sets out the status of each element of the programme assumed within the final determination.

Component	Delivery test passed March 2019	Assumed cost at PR14 (£m)
Debt Manager replacement	Yes	
Billing system upgrades	Yes	
Customer relationship management system CRM)	No	8.996
Multi-channel routing	Yes	
Workforce optimisation	Yes	
Analytic capabilities	Yes	
Web content management system	Yes	

As shown in the table above all systems were delivered and operational by the 31st March 2019, other than the customer relationship management system. With the expenditure and the cumulative depreciation associated with this expenditure being set out in the table below.

Unit of measure	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Projected cost profile for CRM (£m)	3.844	2.656	0.886	1.610	0.000	8.996
Cumulative depreciation for CRM (£m)	0.000	0.242	0.842	1.196	1.397	3.677

Cumulative depreciation on non-delivered elements	£3.677m
Non-delivery incentive rate	50%
Projected ODI performance adjustment	**-£1.838m**

Combination of the mechanisms and development of the adjustment
The total adjustment made for this ODI is the sum of part 1 and 2

Relative depreciation	-£4.039m
Full delivery	-£1.838m
Total ODI value (nominal prices)	**-£5.876m**

Adjusting for inflation for an ODI linked to a residential Retail price control
The above values are cerived at nominal prices (in line with the retail price control), However, as part of the PR19 Business Plan process and to remain consistent with the way that the other ODIs are reported, these values need to be

Total ODI value (12/13 prices)	**-£4.649m**

Development of measure in AMP7
This measure was a specific measure realting to the delivery of this programme, as this programme is now complete it is not continued within AMP7.

B1: Customers saying that we offer value for money

Performance summary

Our performance against this measure has improved through the period, with 58% of customers saying we provided them with value for money in both 2018/19 and 2019/20, which is ahead of our target of 2019/20 target of 53%.

Measure description

This is a reputational measure based upon customers' perception of whether we provide them with value for money and has no associated financial outperformance payments.

	15/16 (Actual)	16/17 (Actual)	17/18 (Actual)	18/19 (Actual)	19/20 (Actual)
Target	49%	50%	51%	52	53%
Actual	50%	52%	52%	58%	58%
Pass/Fail	Pass	Pass	Pass	Pass	Pass
Incentive	Reputational	Reputational	Reputational	Reputational	Reputational

Overview of performance during the year

We have continued with a number of activities and initiatives during the year, the objectives of which are to communicate how UUW delivers water and wastewater services, the value for money this provides and to raise awareness of the support and help we offer to customers struggling with their water bills. We have also been taking steps to promote the opportunities for customers to switch to the best charging arrangements and tariff for their circumstances.

We have participated in two series of a Channel 5 TV programme, The Sewermen, which has helped highlight the work we undertake across the wastewater service as well as other activities. This is aimed at increasing awareness of our work, particularly among a younger audience. The latest series continues to run during 2020.

Every year, between the period of late January and April, when the main billing period is underway, the UU team mobilise 'pop up' shops in town centre locations to be on hand to offer help and advice, promote our financial assistance and priority service schemes and offer free water saving devices which can help save money and water around the home and garden. At the same time, we mobilise a media programme which sees our Customer Service Director participate in BBC local radio phone-in shows to answer questions about bills and our services.

While the impact of Covid-19 impacted 2020 plans, our social media and stakeholder campaigns continued to help spread the messages and drive awareness.

In addition, UU hosts an annual affordability summit. This was held in January 2020 in Liverpool and in Manchester in 2019, bringing together the money advice sector, local authorities, other service providers and charities to continue to identify how the North West community can work together to support those struggling financially or in debt.

In 2019 UU also refreshed its brand following research with more than 2,000 customers to understand how we could make what we do and where we provide services clearer. This led to the roll-out of a refreshed identity – United Utilities, Water for the North West – which is now appearing on vehicle livery across the fleet to coincide with a scheduled replacement programme. These vehicles are perfect passing advertisements when out and about in the community to showcase specific messages and raise awareness.

We also sponsor regional ITV weather bulletins, which appear to millions of customers at least three times daily, providing an opportunity to promote seasonal campaign messages and help brand recall.

Development of the measure in AMP7

We will continue to have a performance measure that is based upon a customer survey in the AMP7 period. This measure is also called Customers say that we offer value for money, and is calculated by assessing customers' views on the overall value for money provided by UU water and wastewater services and as such it is an important factor in understanding drivers of legitimacy with customers. Alongside other measures of household customer service, such as C-MeX, a value for money measure can give insight into customers' perception of UU service levels and corresponding bills.

The value for money performance will be assessed based on the results of customer surveys asking United Utilities household customers; "How satisfied are you with value for money of water and sewerage services in your area?".

B2: Per household consumption

Performance summary

We have not met the performance commitment for this measure in 2019/20 although we have seen a reduction compared with the last three years.

Measure description

This measure is the average volume of water used by household properties across our region. The forecast per household consumption was taken from our Water Resources Management Plan17 and was based on assumptions around customer behavior, weather conditions as well as company water efficiency and metering activity. The forecast was based on our understanding of current and actual customer behavior by analysing historic trends. This is a reputational measure with no associated underperformance.

Actual performance for the 'Per Household Consumption" performance commitment

	2015/16	2016/17	2017/18	2018/19	2019/20
Target	303	304	289	286	**284**
Actual	303	305	311	314	**308**
Pass/ Fail	Pass	Fail	Fail	Fail	**Fail**
Under/outperformance payment	Reputational	Reputational	Reputational	Reputational	**Reputational**

Overview of AMP6 performance

Per household consumption for the year is 308 litres per property per day. This value is 6Ml/d lower than the value in 2018/19, but is still 24Ml/d higher than our target of 284 Ml/d. Water consumption varies in line with the weather, which explains the very high value reported in 2018/19. Analysis of the output from the Met Office modelling of domestic consumption for FY20 also shows that demand in 2019/20 would be expected to be 2% higher than for a normal year (WRMP15 Base Year), taking this uplift into account, the forecast for this year would increase to 302 l/prop/d which is within 5% of the forecast.

We recognise that reducing consumption is one of the UK Government's strategic priorities and we are constantly looking for ways to enhance our offering to customers through research and partnership working. Whilst we can not directly control customer behaviour we can influence it through promoting behavioural changes and providing more information to customer on water efficiency and metering. We have carried out a large behavioural change research project, to gain an understanding of 1,200 customer views on water usage and how we can influence them to use less, with a view to achieving real water savings now and in the future. This research found that 39% of respondent's key motivation for saving water is to save money and the key barrier for becoming water efficient for the majority of customers is that they do not consciously monitor water usage.

We are using the detailed findings to develop an evidence based strategy to reduce consumption, through changes in customer behaviour. The findings of the research have helped us to form a joined up communication strategy for water efficiency and metering.

We are also working on a number of initiatives, including:

- Extensive water efficiency projects, where we offer free home visits to install water saving devices.
- Engaging with developers in relation to promoting water efficiency in new build properties.
- Developing a year long trial to provide water use data to approximately 100,000 customers. The aim of this is to give customers greater control of their water use and bills. We will be trailing a number of interventions with customers to help them reduce their water use through behavioural change.
- Continuation of traditional methods of promoting water efficiency, where we believe these are appropriate and effective, for example, providing water saving devices.
- Exploring the role of pressure in managing demand and not just leakage
- Further water efficiency initiatives are ongoing and planned, particularly our project using water data to influence customer behaviour to save water and money.
- The way that we have been able to implement this work has however, been heavily impacted by Covid 19, which has required us to pause all of our participation in major outdoor events.

Under/outperformance payments

This is a reputational measure with no financial incentive.

Development of measure in AMP7

This performance commitment will be replaced by Per Capita Consumption in AMP7. All companies will report against this common measure and will be financially incentivised to improve performance in AMP7.

Per capita consumption (PCC) indicates the amount of water used per person and is calculated by dividing the water used by household customers (with and without a meter) by the household customer population. It is also a common performance commitment for AMP. We have a target to achieve a PCC reduction of 6.3% over AMP7.

We are aiming to deliver this reduction in consumption through an integrated water efficiency programme that is made up from four workstreams:

1. Data analysis and regional prioritisation. Understand performance of each water system from supply to demand and then targeting bespoke communication campaigns in high priority DMAs e.g. Blackburn, Stockport and West Cumbria .

2. Boosting meter penetration. Further development of the metering strategy to maximise meter penetration where possible.

3. Targeting high volume consumers. Engaging with these consumers through water efficiency and home audits, which look for ways to save water, fit water efficiency devices and also check for leaks, which will be referred back to us.

4. Communication to influence behaviour and drive customer action, communications and engagement supported by customer research and insight.

In addition we were still aiming to deliver our business as usual water efficiency messaging. Our campaign runs through the year, with increased activity throughout spring and summer and increased use of social media and digital channel to react very quickly to changes in weather conditions.

Covid-19

Some of our planned community focused community activity is currently on-hold due to Covid-19, but we will roll this out as soon as it's safe to do so. For example we have needed to pause our water audits and have now stopped our education programme, 9,913 students took part in our classroom sessions between April 2019 and March 2020. We stopped going into schools in March 2020 although in response we have opened our on-line home learning hub and by the end of June we had had 6,593 views to this hub https://www.unitedutilities.com/corporate/responsibility/communities/education/

The lock down is also significantly changing consumer habits and water usage. This has resulted in a major switch in usage from non-household to household, although at this stage it is difficult to determine the scale or likely timing of these impacts.

Summary of the new AMP7 performance commitments

We have retained the two key longer term outcomes that relate to our retail service, but as can be seen in the table below, we have radically revised our performance commitments that allow our performance against these outcomes to be measured.

Table showing current and future performance commitments for each of the retail service outcomes

Outcome	AMP6 measure	AMP7 measure	Reason for change
You're highly satisfied with our service and find it easy to do business with us	Service incentive mechanism (SIM)	Customer experience (C-MeX)	SIM and AMP6 developers measure been replaced by C-MeX and D-MeX
	Commitments to developers	Developer experience (D-MeX)	
	Customer experience programme		Removed as programme is complete
		Improving street works performance	New measure added for AMP7
		Priority services for customers in vulnerable circumstances	New measure added for AMP7
		Priority Services – BSI accreditation	New measure added for AMP7
We will improve the way we work to keep bills down and improve services	Customers say we offer value for money	Customers say that we offer value for money	Equivalent measure
	Number of free water meters installed	Number of customers lifted out of water poverty	New and wider "affordability" measure
		Non household vacancy incentive scheme	Four new measures seeking to ensuring properties are correctly registered and that bills are spread as widely as possible.
		Gap sites (wholesale)	
		Gap sites (retail)	
		Retail voids	
		Systems thinking capability	New measure added for AMP7
		Delivery of direct procurement of HARP scheme	New measure added for AMP7

The new measures which have not been discussed above are summarised below:

D-MeX: D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services customers. These customers include small and large property developers, self-lay providers, new appointees and some residential customers that have new mains connections installed. Each company receives a D-MeX score based on two components:

- a qualitative component – a score summarising the performance of the company in a satisfaction survey of developer services customers; and
- a quantitative component – a score summarising the performance of the company across selected Water UK Developer Services performance data metrics.

Incentive payments are calculated based on the points variance of UU's score from the industry median

Improving street works performance – The duration and quality of street works has a big impact on customers who drive/walk/commute past our temporary working environments. This measure will report the percentage non-compliance of street works activities (safety, quality and compliance) undertaken in the public highway as assessed by our street works audit compliance team. The compliance team will audit in-progress excavation work and permanent standard reinstatements to determine the level of non-compliance against current legislation.

Priority services for customers in vulnerable circumstances – This measure commits us to providing assurance that the quality of support for customers in vulnerable circumstances is of a leading standard by committing United Utilities to achieving and maintaining certification under BS18477 'Inclusive service provision. Requirements for identifying and responding to consumer vulnerability'.

This standard was developed by consumer organisations, charities and government bodies to encourage the use of fair, ethical and inclusive practices and improve accessibility to services for all.

Priority Services – BSI accreditation – This measure commits us to providing assurance that the quality of support for customers in vulnerable circumstances is of a leading standard by committing United Utilities to achieving and maintaining certification under BS18477 'Inclusive service provision. Requirements for identifying and responding to consumer vulnerability'.

This standard was developed by consumer organisations, charities and government bodies to encourage the use of fair, ethical and inclusive practices and improve accessibility to services for all.

Number of customers lifted out of water poverty – This measure commits us to providing additional support to customers in water poverty, primarily through the effective promotion of discounted social and support tariffs. In addition, it ensures support is effectively targeted at those most in need by only recognising this support where it acts to lift a customer out of water poverty.

This measure will result in more people than we have ever helped before being lifted out of water poverty, with a target of 66,500 customers being lifted out of water poverty by 2024/25. This represents a 20% improvement in the number of customers being supported out of water poverty via our social tariffs compared to forecast 2019/20 levels of support. It represents a 45% increase on support levels in 2017/18

Non household vacancy incentive scheme – This measure incentivises business retailers who work in our area to identify occupied properties that are showing as "vacant" within the Central Market Operator System and change them to "occupied". For charges to be correct it is essential that the occupancy status of each property is marked correctly i.e. whether the property is "occupied" or "vacant".

We recognise the importance of ensuring that all customers are billed appropriately and are, therefore, proposing introduction of a financial incentive. The incentive payments will provide for costs of administering the incentive and payments to retailers, while still providing a net benefit to customers from the additional revenue gained from billing previously unbilled properties.

Gap sites (wholesale) – This measure is designed to encourage identification of non-household properties by retailers where water and/or wastewater services are being used, but the property is not being billed ("gap sites"). Identifying these sites will bring in more revenue from business customers, so keeping down bills for every business customers. The measure will facilitate incentive payments to retailers who identify customers who are not being billed or are only being partially billed.

The performance commitment records the number of incentive payments made by UUW to business retailers who identify non-household premises using water or wastewater services which are not registered within the Central Market Operator System (CMOS). The CMOS system records all business customers and connects wholesalers and retailers in the market.

Gap sites (retail) – This performance commitment measures the number of domestic connected properties in our area which we identify as not being billed for water and/or wastewater services each year and add to our billing system.

We have a duty to ensure that we have all connected properties in the region recorded on our billing system. This is an important part of ensuring we are billing all occupied properties. Identifying and billing occupied properties will result in a fairer distribution of water charges across all users. This measure has been designed to provide a cost recovery mechanism so that we carry out activities to maintain and enhance data quality for all the properties we serve.

Retail voids – This performance commitment measures the number of household properties classified as void as a percentage of the total number of household properties served by the company. The proportion of void properties will be measured as an average over the year.

This performance commitment is designed to incentivise the company to reduce the number of household void properties. The reduction in void properties, which are occupied but not billed, will lead to fairer charges between customers and lower bills for customers already being billed.

Overview of our AMP7 customer service strategy

We will continue and build on the activities that we have undertaken in AMP6 into the AMP7 period. We are introducing a new 'For less' campaign, aimed at the different segments of customers and life-stages representing how they may be using water against the context of bills lowering over the AMP7 period.

There will be an increased focus on promoting water efficiency, helping customers to save water but also save money – through direct messaging and the activation of community based incentive programmes.

Initiatives such as our "lowest bill guarantee" will also be mobilised and promoted, to encourage unmeasured customers on high fixed charges to switch to a meter where they will save money with a 'price promise' that they will pay no more than they do on a fixed bill.

Affordability and Vulnerability support

As the provider of a vital public service we have a responsibility to assist our customers who can find themselves in vulnerable situations. We have sought to benchmark the support we provide, looking beyond the water sector for examples of best practice. Increasingly, we are partnering and sharing with other organisations.

In January 2020 we held our third Affordability Summit in Liverpool. Just like the previous year, we came together again in the North West on 'Blue Monday' as a willing community to make change happen in the North West. We shared the progress we have made, what we have been doing and identified four more themes for focus in 2020. The event was attended by representatives from the advice community, regulators, charities, utility providers, banks, housing associations, local authorities and credit unions.

We officially launched the new Hardship Hub at our Affordability Summit in 2019. The Hub provides an online resource to support those organisations throughout the North West who provide free expert advice to individuals struggling with debt. The website contains information on the financial support schemes offered by suppliers across a wide range of sectors including gas, electricity, water, telecoms, housing associations councils and local charities. The site contains information on more than 600 schemes provided by 150 organisations and we're adding to this all the time.

We developed the Hub in conjunction with representatives from the debt advice community who told us at the 2018 Affordability Summit that it took a long time to source financial support for their clients from multiple organisations and that having information in one place would ultimately help them help more people. Since launching the hub we've been working with the debt advice community to increase the number of users and day to day interaction with the hub designed to make debt advice more effective.

In 2019/20 our efforts to deliver affordability and vulnerability support was recognised at the Utilities and Telecoms Awards where, in October 2019, we received awards for the 'Best Vulnerable Customer Support Team' and 'Best Vulnerable Customer Support Initiative'.

Greater use of affordability solutions

We have continued to increase the reach of our financial assistance and support schemes. Increasing the number of customers enrolled for financial assistance schemes through a range of initiatives and partnership working with organisations across the NW region. We are making active use of customer segmentation data to increase the penetration of our assistance schemes in more deprived areas.

Our current performance means there are now over 120,000 customers on affordability schemes, more than double the commitment we made at the start of AMP6. Our Payment Matching Plus scheme allows eligible customers to join the scheme which see United Utilities match every pound the customer pays. The scheme guarantees that eligible customers who maintain their payamets will be debt free in their water account within 2 years of joining the scheme. The Scheme helped an additional 15,000 customers, 25% more than 2018/19, become water debt free when they finished the scheme.

In addition we have continued to increase our focus on debt prevention utilising predictive modelling to identify customers whose payment behaviours are changing indicating potential future payment difficulties. Issuing proactive communications with tailored messaging to different customer segments, we've highlighted the support we have available to prevent them falling behind with their payments.

In June 2018, we launched a new affordability scheme called the Payment Break Scheme. This scheme is an early intervention scheme designed to provide assistance to those customers who are just about managing to get by, preventing them falling into debt when faced with an unplanned life event or expense. This scheme offers low income customers a payment holiday creating some breathing space in their payment plan to support them through difficult times. This has been a particularly helpful tool for our customers who have found themselves struggling to pay their bills, maybe for the first time, as a result of the COVID-19 pandemic and allowed us to provide some breathing space to those impacted financially by the pandemic.

As part of our AMP7 programme, we will improve the range and quality of the affordability and vulnerability support that we provide to customers. Including:

- UU's largest ever bill reduction, helping to support 250,000 customers moving out of water poverty by 2025.
- By 2025 provide financial support sufficient to lift an additional 66,500 customers out of water poverty.
- Providing £71m of support from company funds to over 152,000 customers a year through financial assistance schemes.
- A Lowest Bill Guarantee for customers that could benefit from a water meter, but are worried they might lose out.

Supporting customers in vulnerable circumstances
Vulnerability and its causes are often complex. Being aware of the reasons why a customer may be in vulnerable circumstances is important in understanding what support they need and understanding whether this extra support is a permanent or temporary requirement. This year we have focussed on expanding support and embedding partnerships. Over the year we increased registrations for our Priority Services by nearly 25,000 customers bringing the total to over 98,000 (nearly five times the level at the beginning of AMP6). This is a significant step towards our AMP7 target of 210,000 customer registered by 2025.

In the year we achieved accreditation to BS18477 for our Priority Services Scheme, making UUW one of only a small number of companies to achieve the standard. This accreditation provides customers with confidence that the support offered through our Priority Services Register is of a high and robust standard.

Throughout the year we have been embedding established partnerships. Through partnerships we are accessing new information, learning from others, and creating new ideas. Examples of the partners we work with include Autism Together, MacMillan Cancer Support, Turn2Us and the Trussel Trust.

We continue to work with Electricity North West on vulnerable customer data sharing and remain actively engaged with industry efforts to expand vulnerable customer data sharing arrangements across the whole sector.

1.2) Wholesale totex

Background: totex allowances and incentive mechanism

The PR14 process and FD set total expenditure (totex) assumptions for the 2015-20 period for UUW's wholesale water and wholesale wastewater services.

- The total assumed expenditure for the wholesale water service was £2.397 billion (in 12/13 prices)
    - (£2.356 billion excluding pension deficit recovery costs).
- The assumed expenditure for the wholesale wastewater service was £2.979 billion (in 12/13 prices)
    - (£2.940 billion, excluding pension deficit recovery costs).

The 2019 price review process (PR19) reviewed how our actual expenditure for the first four years of the period and our anticipated expenditure for 2019/20, compared against these PR14 assumptions.

Variances against the initial assumptions were accounted for through a totex incentive mechanism. The detail of this mechanism is quite complex, although it is based upon three main principles.

- For incentivisation purposes, all expenditure incurred in the five year period is treated the same whether that expenditure is capital expenditure ("capex") or operating expenditure ("opex").
- Variances to the expenditure levels are accounted for by revising both revenues and the opening AMP8 regulatory capital value (RCV) in a consistent way to the PR14 assumptions.
- Variances to the expenditure levels are also accounted for through a pain/gain mechanism, which provides a revenue outperformance payments for reductions in expenditure or a revenue penalty for increases in expenditure as part of the PR19 process.

These two processes work together in a way that if we can deliver the programme for a lower level of totex than assumed in the FD then this saving would be shared on a broadly equal basis between customers and the company. Equally, if we found that we needed to spend more money than was allowed at PR14, then both the company and customers would contribute towards this additional expenditure, again on a broadly equal basis.

Some costs, including compensation payments and pension deficit recovery costs, are excluded from this incentive mechanism, which means that any increase in company expenditure would not be shared with customers. The remaining costs are subject to the cost sharing incentive mechanism, and are described in the PR14 FD and the APR pro forma tables as "menu costs".

Differences between the actual expenditure levels and assumed expenditure levels in 2019/20 will be accounted for at PR24, with details of how the totex incentive mechanism operates and the impact of the revised expenditure on revenues and RCV being set out within our PR14 reconciliation submission available via this link.

2019/20 and AMP6 expenditure

During 2019/20 we incurred £1.348bn, taking our total expenditure over the AMP6 period to £6.564bn (Table 4B).

Our expenditure profile reflects the plan we set out early in AMP6 to accelerate our expenditure programme to help to secure the performance improvements required to meet the challenges of our 2015-20 outcomes and to secure longer term operational efficiencies.

As detailed within Section 2 of this Annual Performance Report (Regulatory Accounts), we are performing well in respect of financing our operations. In our previous Annual Performance Reports, we set out that we have committed to invest some of this outperformance in a £250m programme of resilience work, designed to provide additional customer and environmental benefits both over the rest of the AMP and in the longer term and a £100m programme to help make a flying start to AMP7. This substantial sharing of outperformance underlines our strong corporate responsibility credentials, as we continue to deliver value for all stakeholders.

In our 2018/19 Annual report, we also highlighted that we were incurring additional costs in managing and building increased resilience in response to the hot and dry summer of 2018, with this work continuing onto 2019/20.

We also set out that on a like for like basis, and therefore excluding this additional scope, we were expecting to be able to meet the substantial cost challenge that we had been set at PR14 and to deliver the AMP6 scope of work for £100m less than allowed at PR14.

Our approach to efficiency can be considered in three main areas:

- **Challenging scope:** We have introduced a risk and value assessment for all our major projects. This assessment process uses a series of challenge sessions, before and during the project lifecycle, to help ensure that issues are analysed thoroughly and that the right decision is taken and best value is achieved. We are also working actively with regulators to assess and manage requirements and working with external partners to deliver better outcomes through innovative or catchment wide solutions.
- **Driving innovation and better use of markets:** Innovation is a core value at United Utilities, with this being recognised in our world class status in the Dow Jones Sustainability Index. We utilise a structured innovation assessment process to help to ensure that innovation is part of the culture in the way that we develop our solutions and operate our business.
- **Reducing price:** We have revised our model for capital delivery, procuring new design and build partners to help improve our capital efficiency through a combination of earlier engagement, solution innovation and reduced contract prices. This has seen us achieve cost savings in excess of 10% when compared to our AMP5 costs. We will continue to build on this approach and have developed and implemented a best in class procurement mechanism that allows us to identify and select the appropriate way to test our costs, which will ultimately lead to more cost efficient arrangements going forward.

Our revised cost base, together with future efficiencies, was embedded into our PR19 business plan, which was submitted on 3 September 2018. Ofwat issued its initial assessment of plans (IAP) on 31 January 2019 and we were pleased to be one of only three companies in the industry to achieve 'fast track' status, a key component being our efficiency position. The final determination from the PR19 process was published on 16 December 2019.

As a result of the revisions to our programme, Totex expenditure in 2015/16, 2016/17 and to a lesser extent in 2017/18 was significantly higher than assumed in both the PR14 FD and our PR14 business plan. Overall spend for 2018/19 was broadly in line with the FD allowance. Wastewater expenditure in 2018/19 was lower than the FD assumption although expenditure in water was in excess of the FD due to the impacts of the prolonged period of dry weather.

During 2019/20 we have successfully completed the AMP6 scope of work for £100m lower than the FD allowance and have also successfully completed our additional programmes of work in line with the assumptions that we set out in our 2018/19 APR. We also implemented the AMP7 transition investment programmes, which involved work on specifically named and agreed AMP7 outputs that was undertaken within 2019/20 (AMP6). This expenditure is identified separately and reflected in the AMP7 totex incentive mechanism rather than the AMP6 mechanism. In the Water price control this investment related to the Manchester and Pennine Resilience project, where we spent slightly less than the capped allowance set out in the PR19 Final Determination and as such we are reporting the actual value of this expenditure £15.3m in Table 4B.

The programme in the Wastewater price control was to enable us to deliver projects with an early regulatory date in the Water Industry National Environment Programme (WINEP). In this area we made more progress and incurred more expenditure than the capped allowances within the FD. We incurred £14.654m compared to the allowance of £9.0m (2017-18 CPIH deflated prices) set out within the FD. As such we have put the capped value of £9.248m (2019/20 outturn prices) within Table 4B. We have also accelerated an additional £50m of AMP7 expenditure into the year (including the spend on the wastewater transition investment programme which was above the capped allowance) to ensure that we were as well positioned as possible for the start of the AMP7 period.

A comparison of our actual wholesale expenditure in 2019/20 against the expenditure levels assumed in the PR14 FD, together with an explanation of the variances follows.

Comparison of actual totex to FD assumed totex

APR Pro forma Tables 4D and 4E (see Section 2.5) are the key tables which set out the build-up of our 2019/20 totex expenditure within the wholesale water and wholesale wastewater services. The expenditure within these tables is then summarised within **Pro forma Table 2B** (see Section 2.3).

Infrastructure capital maintenance expenditure (IRE) is included as operating expenditure on line 5 in Table 2B. In our original PR14 business plan and in the FD, IRE was included as a separate capital expenditure line. However, as totex assumptions are set as a combined aggregate value – rather than as separate capex and opex allowances – this change in allocation does not impact upon the overall totex variance, or upon any PR19 incentive calculations.

Table 2B splits the water service expenditure between water resources and network plus and splits the wastewater services expenditure between bioresources (sludge) and network plus. This breakdown reflects the price control split which has been adopted for AMP7. The split of expenditure between the two water and the two wastewater categories did not impact upon AMP6 incentives that were reflected in the PR19 final determination.

APR Pro forma Table 4B (see Section 2.5) consolidates the expenditure from Table 2B to produce water and wastewater totals, removing the items excluded from the menu to produce an adjusted actual totex level. It then deflates this to calculate adjusted actual totex expenditure at base year prices, which can be compared to the allowed totex in the PR14 final determination

Variance between allowed totex and actual totex from Tables 4B (12/13 prices)

	2019/20		Cumulative	
	Water £m	Wastewater £m	Water £m	Wastewater £m
Allowed totex	459.7	548.1	2,347.8	2,939.8
Actual totex	525.3	521.5	2,609.3	3,030.94.2
Increase / decrease in expenditure	+65.6	-26.6	+261.5	+91.1

Comparison between the actual totex and the assumed totex needs to be considered in the context of the fact that the actual expenditure is accounted for on a principal use basis whereas the expenditure assumed in the FD was derived on a proportional allocation basis. Principal use accounting means that actual expenditure on assets that are used by more than one service (for example IT systems) is now included within the service that is the principal user of that asset, with subsequent recharges to other services that use that asset.

In the PR14 FD, this expenditure was proportionately allocated between all the services that would use the asset. However, Ofwat subsequently provided revised guidance (RAG 2.07) that capital expenditures and associated depreciation of assets should be reported on a principal use basis and UUW has complied with this guidance. The PR19 process was developed and will be reported on a principal use basis.

Totex variance analysis

The variance between the actual level of totex incurred and the level of totex assumed in the FD is due to a number of factors.

The outcome based regulatory framework is designed to incentivise companies to innovate and revise their plans and outputs, where this is beneficial. As such, there have been substantial changes to the detailed scope and timing of work that we will have already delivered and are planning to deliver in the period. Most of these changes are designed to deliver the same outcomes, but in a more effective way.

It is useful to assess the changes to the programme in three broad areas – changes in scope, changes in timing and levels of efficiency. The exact split between these three areas is dependent upon a number of factors, including assumptions about future years' risks and efficiencies, and the following assessment provides a relatively high level view of the scale of the movements in each of these three areas.

Changes in scope

For the purposes of this assessment we have considered changes in scope to be our resilience spend of £250m, the £100m of investment to help make a flying start to AMP7, the atypical expenditure of c£80m incurred in 2018/19 and 2019/20, relating to the prolonged period of dry weather and the £50m of expenditure incurred on AMP7 deliverables within 2019/20. All other expenditure is assumed to comply with the commitments we made during PR14. All the values stated are in outturn prices.

The majority of this expenditure was incurred in the water service, which explains the variance between actual and allowed expenditure in Table 4B.

Changes in timing

We chose to accelerate many of our investment programmes and to invest substantially in information and operational technologies to help secure the early performance improvements and risk reduction initiatives that are required to meet our outcome delivery and efficiency targets. We believe this approach has delivered benefits for our stakeholders, as demonstrated through our good operational performance and net outperformance payment against our outcome delivery incentives and customer service performance, and reward via the Service Incentive mechanism.

At the end of the 2019/20 financial year all previous timing aspects have now wound out.

Efficiency

For the purposes of this assessment we have included all cost reduction activities within this category. These range from individual project level cost efficiencies, to strategic revisions to our approach to delivering our outcomes. We have also included additional costs arising from changes in scope required to allow us to fully comply with our obligations as factors that have reduced the overall efficiency with which we have delivered the programme.

Our original PR14 business plan contained substantial efficiency challenges designed to reduce our costs to upper quartile efficiency levels, with further efficiency challenges being set by the FD. In total, this required us to make efficiency savings of over £400m to deliver our programmes of work for the costs allowed in the FD.

As we had expected, we have been able to meet the original £400m efficiency challenge and deliver additional efficiency over and above this level. This has allowed the revised scope of work which we are now implementing (excluding the changes in scope described above) to be delivered for £100m (outturn prices) less than the total level of expenditure assumed in the FD, with the majority of the outperformance coming from wastewater, where we were seen to be less efficient at PR14.

Excluded Costs
The costs excluded from the totex incentive assessment as reported in Pro forma Table 4B comprise three main components:

- Pension deficit recovery payments. Ofwat included some costs within price limits to contribute toward pension deficit recovery costs that most companies are facing. UUW has contributed more to close the deficit than was assumed in price limits and furthermore, in April 2019, the group prepaid, at a discount, the agreed deficit recovery contributions and has eliminated any deficit on a scheme specific funding basis.
- Third party costs, which are broadly in line with expectations
- Other costs, which are made up from two main elements
    - Compensation and other guaranteed standards scheme payments; and
    - "Transition expenditure"
    - Expenditure incurred in AMP5 on AMP6 outputs, is deducted from excluded costs in APR Table 4B and is therefore added into the costs included within the AMP6 totex incentive assessment
    - Specifically designated expenditure incurred in AMP6 on AMP7 outputs, is excluded from the AMP6 totex incentive assessment and will be included within the AMP7 totex incentive assessment.

Impact of expenditure on the RCV
APR Pro forma Table 4C sets out the 2019/20 RCV determined at the PR14 FD and shows the implied revisions to this position as a result of the impact of totex over or underspend and net outperformance payments incurred through the outcome delivery incentives.

Revisions to the AMP7 opening RCV as a result of ODI and Totex impacts, were made through "midnight adjustments" as part of the PR19 process. These adjustments reflected actual performance for the first four years of the AMP6 period and anticipated expenditure and performance during 2019/20.

The values presented in Table 4C, continue to show values relative to the PR14 final determination, where the shadow RCV, which takes account of actual expenditure and ODI performance is, in total, £234m higher than the RCV determined at the PR14 FD.

The increase in totex expenditure during the period has resulted in an increase to the water service shadow RCV of £113m and an increase in the wastewater service shadow RCV of £68m. The net outperformance payments received for the wastewater ODIs has resulted in the additional increase of £53m to the wastewater shadow RCV. There has been a net under performance payment for the water service ODIs which has no impact upon the RCV and instead flows through as a revenue reduction, benefiting customers' bills during AMP7.

Unit cost analysis of our expenditure
APR Tables 4D and 4E analyse the wholesale water and wastewater totex by the type of investment that has been incurred (e.g. power, capital maintenance etc.) and by the upstream service that this expenditure has been incurred on (e.g. raw water transport, water treatment etc.).

The operating expenditure within this table is then divided by a "cost driver" for each upstream service to determine a unit cost measure for each operating unit.

Whilst in theory these unit costs should be comparable between companies, it is worth noting that there has been some significant variation between the values reported by some companies in prior year's Annual Performance Report.

Differences between companies may reflect a number of factors including different asset configurations and performance requirements and differing assumptions on cost allocations between upstream services, as well as relative efficiency. These factors – together with differing capitalisation policies and year on year cost variances – make meaningful comparisons between companies difficult.

[1] ODI penalties result in revenue reductions at PR19, whereas outperformance payment result in RCV adjustments.

1.3) Wholesale revenue and current cost financial performance

APR pro forma Table 2I, (see section 2.3) sets out the build-up of the wholesale revenue for 2019/20 and the variance compared with the level of revenue assumed in the FD.

The total revenue set by the wholesale price controls for recovery in 2019/20 was £1,758.5m. This was made up of

£1,724.4m wholesale revenue, plus £34.1m in grants and contributions. The level of revenue recovered in the year was£11.2m lower than the £1,769.7m assumed in the PR14 FD, but was higher (£2.5m) than the £1,756.0m of revenue assumed after taking into account the 2019/20 WRFIM adjustment of minus £13.7m.

In line with the RAGs for 2019/20 we have reported sewer adoptions and sewer connections fee income of £2.6m as price control revenue, but this income was not included in the revenue control set at PR14 and therefore we will be excluding it from the WRFIM for the purposes of setting charges. This approach means that we will be both compliant with the change in regulatory reporting introduced in 2017/18 and also able continue to recover revenue under the revenue control in line with the approach that underpinned the PR14 final determination.

APR pro forma Table 4A, (see section 2.5) provides additional information on household numbers and volumes. Distribution input reduced slightly from 1,804.6 Ml/d in 2018/19, where demand was high due to the hot dry summer in 2018, to 1,792.9 Ml/d in 2019/20. Volumes of bulk supplies exported and bulk supplies imported reduced slightly in 2019/20, compared with 2018/19, with 15.7 Ml/d exported (down from 15.4 Ml/d) and 0.6 Ml/d imported (down from 0.8 Ml/d).

APR pro forma Table 4G (see section 2.5) summarises the wholesale current cost financial performance for 2019/20. The table has three sections:

Section one (lines one to five) adds the wholesale non-price control revenue of £4.6m (Table 2A) to the wholesale revenue (£1,724.4m) to produce a total revenue of £1,729.0m. It then subtracts operating expenditure, capital maintenance charges and other operating income to generate a wholesale current cost operating profit of £499.5m, slightly down from the £510.8m in 2018/19.

Wholesale current cost operating profit was lower than in 2018/19 mainly due to the impact of an atypical charge of £83m in relation to the accelerated depreciation of Bioresource assets that have been taken out of use, largely offset by an increase in revenue plus a reduction in operating expenditure.

Section two (lines six to ten) adds other income (including grants and contributions) and interest income and subtracts interest expense from the current cost operating profit to produce a current cost profit before tax and fair value movements of £253.9m, which is again slightly down (-£19.6m) from the 2018/19 value of £273.5m. This largely reflected the fall in current cost operating profit (described above) plus a small increase in net interest expense (primarily due to the impact of higher RPI inflation on our index-linked debt).

Section three (lines eleven and twelve) adjusts the current cost profit before tax and fair value movements to take account of fair value losses on financial instruments and produce the current cost profit before tax value. During the year fair value losses were £76.5m, which is significantly higher than the losses of £7.3m in 2018/19, contributing to the £88.7m overall reduction in current cost profit before tax value to £177.4m for 2019/20, compared to £266.2m in 2018/19.

1.4) Retail expenditure and revenues

Household retail

Background

The household retail price control is designed to allow companies to recover sufficient revenue from household customers to fund the average costs of operating a retail business. This is known as "the cost to serve".

For companies whose historic and forecast costs were above industry average, allowed costs were set using a glide path over a three-year period to reduce from forecast cost to serve levels to average cost to serve levels.

A specific cost uplift was allowed for UUW to reflect the higher costs of operating in the North West of England as a consequence of the relatively high levels of deprivation in the region. Additional costs were also allowed to reflect the company's proposals to implement a new IT led Customer Experience Programme. These new IT depreciation costs are subject to a specific outcome delivery incentive mechanism, which is designed to ensure that expenditure not incurred is returned to customers in AMP7.

Separate annual cost to serve allowances were defined at PR14 for metered and unmetered customers and dual (both water and wastewater) and single (water or wastewater only) service customers. Total revenue allowances were determined by multiplying these cost to serve allowances by the assumed customer numbers within each category and applying a margin defined as part of the price review.

The cost to serve incentive mechanism has three main principles;

- Initial cost to serve allowances are fixed and do not increase year on year to reflect inflation.
- The allowances fund all retail operating costs, including depreciation on new capital expenditure. Expenditure for demand side water efficiency and customer side leak repairs is also included where the activity is not for wholesale purposes.
- Any over or underspend against the cost to serve allowed is paid for or retained wholly by the company and will not affect future customer bills.

2019/20 performance

We recognised and have continued to act upon the challenge set by the PR14 determination. As described in Section 1.1 Outcome Delivery, we have made a step change in our customer service over recent years and have made significant improvements in our cost to serve throughout AMP6.

We have reduced our expenditure per customer year on year, focusing on three main areas: driving operational efficiency, improving debt management and making greater use of affordability solutions. In 2019/20 we reduced costs by c£5m, delivering an underlying cost to serve of £35 reduced from £37 in 2018/19.

However, at the end of 2019/20 the coronavirus 2019 (COVID-19) pandemic had begun to affect economic and financial markets. This included increasing unemployment, declines in consumer discretionary spending and increasing concerns that a deep recession could materially impact customers' financial position.

Higher unemployment and a slowdown in the economy will impact customers' ability to pay bills as they become due. This could be particularly significant in the North West given that it is already a region with high levels of deprivation. United Utilities have a leading approach to affordability and vulnerability, with the sector's widest range of assistance schemes. This is more important than ever as we help those customers struggling as a result of the economic impacts of COVID-19.

During 2019/20 we have helped over 120,000 customers through our affordability schemes, more than double the commitment we made at the start of the 2015–20 period, and through our Payment Matching Plus scheme 15,000 customers became water debt free this year. We offer flexible payment plans and the option for customers to take a payment break if they experience a change in circumstances. In recognition of the potential impacts of COVID-19 we have widened eligibility for our 'Back on Track' social tariff for an initial interim period to 2020/21 and 2021/22.

In 2019/20 we contributed £3.5m to our trust fund bringing the total contribution during AMP6 to over £35 million. We have committed to provide a further £71 million to help customers in difficulty over AMP7.

Nevertheless for some customers, water bills are likely to be a lower priority and as a result a higher proportion of customer bills is likely to be at risk of non-payment as a result of the pandemic than would normally be the case.

Approach to COVID impacts in the 2019/20 reporting year

In order to assess the impact of COVID-19 and the expected credit loss, customers were segmented based on groups with similar characteristics as determined by external market intelligence provided by CACI who are experts in customer insight and analysis.

For each segment of customers in debt at the end of FY20, we used the risk profile to estimate a proportion of cash that we do not expect to receive over the 18 months following 31 March 2020 based on a short peak in COVID-19 cases, and 30 months based on a long peak which was the basis of the PWC report completed on behalf of Water UK.

After applying a probability based assessment to the short and long peak scenarios, the 2019/20 regulatory bad debt charge was

increased by £20m to recognise the COVID-19 expected credit loss. This increased the reported Cost to Serve by c£6.60 to c£41.60.

We also considered the assessment of bad debt provision generated by alternative modelling approaches. These included historic correlation models driven by measures of deprivation and/or unemployment. Whilst there is correlation between deprivation and debt, the scale of deprivation across an area is not linked to the circumstances of individual customers.

Whilst there is correlation between unemployment and debt, the scale of unemployment across an area is not reflective of the circumstances of many customer groups, for example pensioners or those in receipt of disability support. Employment in the North West of England is also heavily driven by zero hours and part-time contracts. The quality of such employment means that many of our customers employed this way struggle financially and have difficulty paying their bills on a continued basis and so whilst unemployment may increase at a national level, we do not necessarily see a strong correlation to cash collection.

In addition, the models implicitly assumed that debt will scale in line with historic movements; the models are unable to adjust for new and unprecedented circumstances. Customer segmentation using demographic data is considered to be more precise in being able to predict behavioural change as a result of a crisis such as COVID-19 and therefore assess any change in payment behaviour and therefore any expected credit loss.

Our approach to calculating the expected credit loss was reviewed and assured by our external auditors, KPMG as part of their year-end audit of the UUW regulatory and statutory accounts.

Our 2019/20 household retail operating costs and revenues are set out in APR pro forma Tables 2C and 2F (Section 2.3), with pro forma Table 4F (Section 2.6) analysing these costs by the type of retail service provided (dual/single and metered/un-metered).

Improving operating costs and efficiency
We have implemented a number of initiatives to reduce our operating costs during AMP6. These include

- reducing overheads;
- improving operational performance;
- improving complaints performance;
- proactively informing customers of known network issues and their resolution, to reduce inbound customer contacts;
- increased digital penetration; and,
- benefits achieved through re-designing of bills and customer literature.

APR Tables 2C and 4F show that total household retail operating costs in 2019/20 were £126 million. This figure is £15.1 million above the costs we incurred in 2018/19. This is due to:

- £20m expected credit loss adjustment for COVID-19 offset by:
- £5m reduction in underlying operating expenditure

Underlying costs in 2019/20, excluding the COVID-19 expected credit loss adjustment were £106m and were in line with the cost allowance for the year. This was higher than the operating costs of £103.4 million assumed in the PR14 FD due to an increase in customer numbers.

Improving debt management
UUW has a higher bad debt cost than the majority of the industry. Deprivation levels are the principal driver of our higher than average bad debt with the North West having a substantially higher proportion of customers impacted by welfare reform and claiming universal credits.

Recognising this challenge, debt and cash collection has remained a priority for us throughout 2019/20. In 2014/15 Household bad debt costs were running at 6.3% of regulated revenue. Since this time we have maintained a clear focus on improving our bad debt and cash collection performance. This has included the establishment of a number of new initiatives, such as our “better billing” initiative and has involved working with Equifax to identify which customers are likely to be in a financially challenging situation and which customers are able to pay their water bill but need further encouragement and engagement in order to prompt them to do so.

In 2019/20 the UU Collections Team once again gained industry recognition for its industry leading collections practices and initiatives winning four awards at the Utilities and Telecoms Awards in October 2019. The team won:

- Water Team of the Year – Collections
- Best Vulnerable Customer Support Team
- Best Vulnerable Customer Support Initiative
- Transformation Programme of the Year

The team also received further recognition at the 2020 CICM British Credit Awards in February 2020 winning two awards for Consumer Team and Innovation & Technology. These cross sectoral awards schemes appraised our approach against initiatives in other industries, beyond the water sector and recognise and reward innovation and best practice across the entire credit management and collections industry.

Our bad debt performance has also benefitted from the sustained improvement in our cash collection performance since 2015/16 which has resulted in a cleaner debt book. We continue to focus on more dynamic targeting of debt collection activities, and have invested in testing and improving our innovative data led collections strategies.

Through increased use of financial assistance schemes to support those customers that can't pay and a more robust approach to those customers that won't pay, underlying household bad debt performance for 2019/20 demonstrates sustained improvement and has improved to 3.4% of regulated revenue, with our bad debt charge maintained at £44 million. The reported household bad debt charge was increased by £20m to £64m and 4.9% or regulated revenue reflecting the impact of the COVID-19 expected credit loss.

The penetration and conversion of customers onto affordability solutions does impact in year revenues, but it is a key factor in reducing the amount of bad debt that we are carrying and in supporting our drive to continue to reduce our cost to serve.

Our continued improved performance this year has been encouraging but bad debt will remain a challenge in our region of high deprivation and so will be an area of continued focus as we drive for further improvement.

Revenue

APR pro forma Table 2F (see Section 2.3) shows that total household retail revenue in 2019/20 was £103.2 million. This figure is £2.2 million lower than in 2018/19 and £15.7million less than the revenue, including margin, assumed in the PR14 FD, which was £118.9m. The reduced revenue compared to the PR14 FD is due to the impact of our social and support tariffs.

Actual customer numbers, at 3.03 million, were 32,416 higher than in 2018/19 and 37,678 higher than assumed in the PR14 FD. This was mainly due to increased new connections across the region and property classification changes that were made in readiness for non-household retail competition.

Operating profit

APR pro forma Table 2A (see Section 2.3) shows the operating profit for UUW's four price controls. For the household retail price control operating profit before recharges in 2019/20 (retail revenues minus operating costs) was £(22.8) million loss. This is lower than the profit assumed in the FD, mainly due to increased support for customers on social and support tariff and the £20m COVID-19 expected credit loss.

Pro forma Table 2A also reports operating profit after recharges. This value, £(27) million loss, is lower than operating profit because recharges to household retail were £4.2 million higher than recharges from household retail.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2. Regulatory Accounts for the 12 months ended 31 March 2020

2.1) Introduction

The Regulatory Accounts have been prepared in accordance with the requirements of Regulatory Accounting Guidelines (RAGs) 1.08, 2.07, 3.11, 4.08 and 5.07 issued by the Water Services Regulation Authority (WSRA or Ofwat). These are separate from the statutory financial statements which have been prepared under the basis of International Financial Reporting Standards as adopted for use in the European Union.

Statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F 'Regulatory Accounting Statements' of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat:

- Condition F also requires the directors to keep appropriate accounting records, which are consistent with guidelines published by Ofwat.

The directors of the company hereby confirm that the company has kept appropriate accounting records, which comply with the guidelines published by Ofwat.

Condition I 'Ring Fencing' of United Utilities Water Limited's (UUW's) Licence requires directors to:

a) Confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months.

The directors have issued a 'Ring-Fencing certificate' under Condition I17 of the Licence – see page 191.

b) Confirm that, in their opinion, in respect of the wholesale business, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker.

The directors have issued a 'Ring-Fencing certificate' under Condition I17 of the Licence – see page 191.

c) Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities.

The directors hereby confirm that there were no changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities, during the year ended 31 March 2020.

d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length.

This has been confirmed within 'Information in respect of transactions with any other business or activity of the appointee or any associated company' on pages 184 to 186.

The above responsibilities are additional to those already set out in the United Utilities Water Limited statutory financial statements.

The contract of appointment with the auditor satisfies the requirements of RAG 3.11 (section 2.3.3), namely 'that the auditor will provide such further explanation or clarification of its reports, and such further information in respect of the matters which are the subject of its reports, as Ofwat may reasonably require'.

In addition, paragraph 3.1 of Condition K of the Instrument of Appointment requires directors to confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company.

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K at the end of the financial year and this has been confirmed in the certificate on page 193 of the regulatory accounts.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant information of which the company's auditor is unaware; and
2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the board and signed on its behalf by:

Russ Houlden
Chief Financial Officer
30 June 2020

2.2) Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and United Utilities Water Limited

Opinion

We have audited the sections of/tables within United Utilities Water Limited's Regulatory Accounts for the year ended 31 March 2020 ("the Regulatory Accounts") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of tangible fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by tariff type (table 2G – not completed in line with RAG 4.08), the non-household wastewater revenues by tariff type (table 2H – not completed in line with RAG 4.08), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3S) and the additional regulatory information in tables 4A to 4W.

In our opinion, United Utilities Water Limited's Regulatory Accounts have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2), set out on pages 160 to 166.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounts below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounts section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounts on pages 144 to 159 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Regulatory Accounts and the audit section below. As a result, the Regulatory Accounts may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounts is not appropriate; or
- the directors have not disclosed in the Regulatory Accounts any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Regulatory Accounts other than the Regulatory Accounting Statements within the Regulatory Accounts and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Regulatory Accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 139, the directors are responsible for the preparation of the Regulatory Accounts in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.11, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Regulatory Accounts, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Regulatory Accounts are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Regulatory Accounts.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for. This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

In addition, the Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in pages 160 to 166 and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company.

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2020 on which we reported on 21 May 2020, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

William Meredith
For and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
30 June 2020

2.3) Pro forma tables subject to audit opinion

Pro forma tables Section 1 Regulatory financial reporting

Additional commentary on the Section 1 pro forma tables is provided on pages 167 to 176.

Pro forma 1A Income statement

Financial performance for the 12 months ended 31 March 2020

	Line description	Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
1A.1	Revenue	£m	3	1849.899	-7.104	10.360	-17.464	1832.435
1A.2	Operating costs	£m	3	-1223.116	1.516	-8.090	9.606	-1213.509
1A.3	Other operating income	£m	3	0.000	-13.903	0.000	-13.903	-13.903
1A.4	Operating profit	£m	3	626.783	-19.490	2.270	-21.761	605.022
1A.5	Other income	£m	3	0.000	20.155	2.250	17.905	17.905
1A.6	Interest income	£m	3	18.722	-10.900	0.000	-10.900	7.822
1A.7	Interest expense	£m	3	-241.578	-40.573	0.000	-40.573	-282.151
1A.8	Other interest expense	£m	3	0.000	10.900	0.000	10.900	10.900
1A.9	Profit before tax and fair value movements	£m	3	403.927	-39.908	4.520	-44.428	359.498
1A.10	Fair value gains/(losses) on financial instruments	£m	3	-76.505	0.000	0.000	0.000	-76.505
1A.11	Profit before tax	£m	3	327.422	-39.908	4.520	-44.428	282.993
1A.12	UK Corporation tax	£m	3	-43.000	0.000	-0.859	0.859	-42.141
1A.13	Deferred tax	£m	3	-148.476	4.053	0.000	4.053	-144.423
1A.14	Profit for the year	£m	3	135.946	-35.855	3.662	-39.517	96.429
1A.15	Dividends	£m	3	-513.200	0.000	-8.677	8.677	-504.523
A	Tax analysis							
1A.16	Current year	£m	3	53.800	0.000	0.859	-0.859	52.941
1A.17	Adjustments in respect of prior years	£m	3	-10.800	0.000	0.000	0.000	-10.800
1A.18	UK Corporation tax	£m	3	43.000	0.000	0.859	-0.859	42.141

				Non-appointed
B	Analysis of non-appointed revenue			
1A.19	Imported sludge	£m	3	0.000
1A.20	Tankered waste	£m	3	5.900
1A.21	Other non-appointed revenue	£m	3	4.460
1A.22	Revenue	£m	3	10.360

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Pro forma 1B Statement of comprehensive income

Financial performance for the 12 months ended 31 March 2020

	Line description	Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
1B.1	Profit for the year	£m	3	135.946	-35.855	3.662	-39.517	96.429
1B.2	Actuarial gains/(losses) on post employment plans	£m	3	113.385	0.000	0.000	0.000	113.385
1B.3	Other comprehensive income	£m	3	-89.982	0.000	0.000	0.000	-89.982
1B.4	Total Comprehensive income for the year	£m	3	159.349	-35.855	3.662	-39.517	119.832

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Pro forma 1C Statement of financial position

Financial performance for the 12 months ended 31 March 2020

	Line description	Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
A	Non-current assets							
1C.1	Fixed assets	£m	3	11444.961	-206.327	1.270	-207.597	11237.364
1C.2	Intangible assets	£m	3	188.997	-5.601	3.200	-8.801	180.196
1C.3	Investments - loans to group companies	£m	3	0.000	0.000	0.000	0.000	0.000
1C.4	Investments - other	£m	3	0.142	0.000	0.000	0.000	0.142
1C.5	Financial instruments	£m	3	617.808	0.000	0.000	0.000	617.808
1C.6	Retirement benefit assets	£m	3	579.100	0.000	0.000	0.000	579.100
1C.7	Total non-current assets	£m	3	12831.008	-211.928	4.470	-216.398	12614.610
B	Current assets							
1C.8	Inventories	£m	3	12.389	0.000	0.000	0.000	12.389
1C.9	Trade & other receivables	£m	3	388.626	-23.959	0.000	-23.959	364.667
1C.10	Financial instruments	£m	3	0.091	0.000	0.000	0.000	0.091
1C.11	Cash & cash equivalents	£m	3	501.787	40.000	0.000	40.000	541.787
1C.12	Total current assets	£m	3	902.893	16.041	0.000	16.041	918.934
C	Current liabilities							
1C.13	Trade & other payables	£m	3	-323.799	0.362	-4.470	4.832	-318.967
1C.14	Capex creditor	£m	3	0.000	0.000	0.000	0.000	0.000
1C.15	Borrowings	£m	3	-926.398	144.126	0.000	144.126	-782.272
1C.16	Financial instruments	£m	3	-8.385	0.000	0.000	0.000	-8.385
1C.17	Current tax liabilities	£m	3	0.000	0.000	0.000	0.000	0.000
1C.18	Provisions	£m	3	-16.410	-14.489	0.000	-14.489	-30.899
1C.19	Total current liabilities	£m	3	-1274.993	130.000	-4.470	134.470	-1140.523
1C.20	Net current assets / (liabilities)	£m	3	-372.099	146.041	-4.470	150.510	-221.589
D	Non-Current liabilities							
1C.21	Trade & other payables	£m	3	-760.577	736.771	0.000	736.771	-23.807
1C.22	Borrowings	£m	3	-8102.482	0.000	0.000	0.000	-8102.482
1C.23	Financial instruments	£m	3	-135.424	0.000	0.000	0.000	-135.424
1C.24	Retirement benefit obligations	£m	3	0.000	0.000	0.000	0.000	0.000
1C.25	Provisions	£m	3	0.000	0.000	0.000	0.000	0.000
1C.26	Deferred income - G&C's	£m	3	0.000	-304.360	0.000	-304.360	-304.360
1C.27	Deferred income - adopted assets	£m	3	0.000	-432.410	0.000	-432.410	-432.410
1C.28	Preference share capital	£m	3	0.000	-130.000	0.000	-130.000	-130.000
1C.29	Deferred tax	£m	3	-1393.003	33.581	0.000	33.581	-1359.422
1C.30	Total non-current liabilities	£m	3	-10391.486	-96.419	0.000	-96.419	-10487.905
1C.31	Net assets	£m	3	2067.422	-162.307	0.000	-162.307	1905.116
E	Equity							
1C.32	Called up share capital	£m	3	-100.000	0.000	0.000	0.000	-100.000
1C.33	Retained earnings & other reserves	£m	3	-1967.422	162.307	0.000	162.307	-1805.116
1C.34	Total Equity	£m	3	-2067.422	162.307	0.000	162.307	-1905.116

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Pro forma 1D Statement of cash flows

Financial performance for the 12 months ended 31 March 2020

	Line description	Units	DPs	Statutory	Adjustments			Total appointed activities
					Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
A	Statement of cashflows							
1D.1	Operating profit	£m	3	626.783	-19.490	2.270	-21.761	605.022
1D.2	Other income	£m	3	0.000	6.308	2.250	4.058	4.058
1D.3	Depreciation	£m	3	480.160	-5.629	0.538	-6.167	473.993
1D.4	Amortisation - G&C's	£m	3	-13.847	13.847	0.000	13.847	0.000
1D.5	Changes in working capital	£m	3	6.441	4.965	3.580	1.385	7.826
1D.6	Pension contributions	£m	3	-81.015	0.000	0.000	0.000	-81.015
1D.7	Movement in provisions	£m	3	-0.370	0.000	0.000	0.000	-0.370
1D.8	Profit on sale of fixed assets	£m	3	13.903	0.000	0.000	0.000	13.903
1D.9	Cash generated from operations	£m	3	1032.056	0.000	8.638	-8.638	1023.418
1D.10	Net interest paid	£m	3	-148.892	0.000	0.000	0.000	-148.892
1D.11	Tax paid	£m	3	-61.080	0.000	0.040	-0.040	-61.120
1D.12	Net cash generated from operating activities	£m	3	822.084	0.000	8.677	-8.677	813.406
C	Investing activities							
1D.13	Capital expenditure	£m	3	-670.930	0.000	0.000	0.000	-670.930
1D.14	Grants & Contributions	£m	3	34.729	0.000	0.000	0.000	34.729
1D.15	Disposal of fixed assets	£m	3	0.000	0.000	0.000	0.000	0.000
1D.16	Other	£m	3	2.018	0.000	0.000	0.000	2.018
1D.17	Net cash used in investing activities	£m	3	-634.182	0.000	0.000	0.000	-634.182
1D.18	Net cash generated before financing activities	£m	3	187.902	0.000	8.677	-8.677	179.224
D	Cashflows from financing activities							
1D.19	Equity dividends paid	£m	3	-513.200	0.000	-8.677	8.677	-504.523
1D.20	Net loans received	£m	3	500.594	0.000	0.000	0.000	500.594
1D.21	Cash inflow from equity financing	£m	3	0.000	0.000	0.000	0.000	0.000
1D.22	Net cash generated from financing activities	£m	3	-12.606	0.000	-8.677	8.677	-3.929
1D.23	Increase (decrease) in net cash	£m	3	175.296	0.000	0.000	0.000	175.296

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Pro forma 1E Net debt analysis

Net debt analysis at 31 March 2020

Line description		Units	DPs	Interest rate risk profile			
				Fixed rate	Floating rate	Index linked	Total
1E.1	Borrowings (excluding preference shares)	£m	3	3568.416	674.137	4059.714	8302.267
1E.2	Preference share capital	£m	3				130.000
1E.3	Total borrowings	£m	3				8432.267
1E.4	Cash	£m	3				-31.687
1E.5	Short term deposits	£m	3				-510.100
1E.6	Net Debt	£m	3				7890.480
1E.7	Gearing	%	2				67.71%
1E.8	Adjusted gearing	%	2				62.06%
1E.9	Full year equivalent nominal interest cost	£m	3	96.270	7.595	151.846	255.711
1E.10	Full year equivalent cash interest payment	£m	3	96.270	7.595	49.746	153.611
A	**Indicative interest rates**						
1E.11	Indicative weighted average nominal interest rate	%	2	2.97%	n/a	3.74%	3.04%
1E.12	Indicative weighted average cash interest rate	%	2	2.97%	n/a	1.23%	1.82%
1E.13	Weighted average years to maturity	nr	2	10.13	n/a	16.98	12.94

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Pro forma 1F Financial flows for the 12 months ended 31 March 2020 (2012/13 financial year average RPI)

Financial flows analysis for the 12 months ended 31 March 2020

Line description		Units	DPs	12 Months ended 31 March 2020					
				%			£m		
				Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
A									
1F.1	Return on regulatory equity	£m	3	5.52%	4.96%	5.52%	202.082	181.723	181.723
1F.2	Actual performance adjustment 2010-15	£m	3	0.07%	0.06%	0.07%	2.616	2.353	2.353
1F.3	Adjusted Return on regulatory equity	£m	3	5.59%	5.03%	5.59%	204.698	184.076	184.076
1F.4	Regulatory equity	£m	3	3662.045	3662.045	3293.110			
B	Financing								
1F.5	Gearing	£m	3	0.00%	0.34%	0.34%	0.000	11.067	11.067
1F.6	Variance in corporation tax	£m	3	0.00%	0.20%	0.22%	0.000	7.406	7.406
1F.7	Group relief	£m	3	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.8	Cost of debt	£m	3	0.00%	1.72%	2.08%	0.000	62.955	68.346
1F.9	Hedging instruments	£m	3	0.00%	0.72%	0.80%	0.000	26.214	26.214
1F.10	Financing total	£m	3	5.59%	8.00%	9.02%	204.698	291.718	297.108
C	Operational performance								
1F.11	Totex out / (under) performance	£m	3	0.00%	-2.76%	-3.07%	0.000	-101.147	-101.147
1F.12	ODI out / (under) performance	£m	3	0.00%	0.45%	0.50%	0.000	16.467	16.467
1F.13	Retail out / (under) performance	£m	3	0.00%	-0.48%	-0.53%	0.000	-17.599	-17.599
1F.14	Other exceptional items	£m	3	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.15	Operational performance total	£m	3	0.00%	-2.79%	-3.11%	0.000	-102.279	-102.279
1F.16	Total earnings	£m	3	5.59%	5.21%	5.92%	204.698	189.439	194.829
1F.17	RCV growth from RPI inflation	£m	3	2.59%	2.59%	2.59%	94.799	94.799	85.249
1F.18	Total shareholder return	£m	3	8.18%	7.80%	8.50%	299.498	284.239	280.078
1F.19	Net dividend	£m	3	4.00%	11.59%	12.89%	146.482	424.320	424.320
1F.20	Retained value	£m	3	4.18%	-3.79%	-4.38%	153.016	-140.082	-144.242
E	Dividends reconciliation								
1F.21	Gross dividend	£m	3	4.00%	11.60%	12.90%	146.482	424.729	424.729
1F.22	Interest received on intercompany loans	£m	3	0.00%	0.01%	0.01%	0.000	0.409	0.409
1F.23	Net dividend	£m	3	4.00%	11.59%	12.89%	146.482	424.320	424.320

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Pro forma 1F Financial flows for the AMP to date (2012/13 financial year average RPI)

Financial flows analysis for the 5-year average 2015/16-2019/20

Line description		Units	DPs	Average 2015-20					
				%			£m		
				Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
A									
1F.1	Return on regulatory equity	£m	3	5.54%	5.33%	5.54%	200.833	193.121	193.121
1F.2	Actual performance adjustment 2010-15	£m	3	0.59%	0.57%	0.59%	21.463	20.639	20.639
1F.3	Adjusted Return on regulatory equity	£m	3	6.14%	5.90%	6.14%	222.296	213.760	213.760
1F.4	Regulatory equity	£m	3	3621.885	3621.885	3482.803			
B	Financing								
1F.5	Gearing	£m	3	0.00%	0.12%	0.12%	0.000	4.039	4.039
1F.6	Variance in corporation tax	£m	3	0.00%	0.33%	0.34%	0.000	11.992	11.992
1F.7	Group relief	£m	3	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.8	Cost of debt	£m	3	0.00%	1.50%	1.62%	0.000	54.197	56.439
1F.9	Hedging instruments	£m	3	0.00%	0.52%	0.54%	0.000	18.797	18.797
1F.10	Financing total	£m	3	6.14%	8.36%	8.76%	222.296	302.784	305.027
C	Operational performance								
1F.11	Totex out / (under) performance	£m	3	0.00%	-0.97%	-1.00%	0.000	-34.992	-34.992
1F.12	ODI out / (under) performance	£m	3	0.00%	0.24%	0.25%	0.000	8.859	8.859
1F.13	Retail out / (under) performance	£m	3	0.00%	-0.15%	-0.16%	0.000	-5.537	-5.537
1F.14	Other exceptional items	£m	3	0.00%	0.00%	0.00%	0.000	0.000	0.000
1F.15	Operational performance total	£m	3	0.00%	-0.87%	-0.91%	0.000	-31.670	-31.670
1F.16	Total earnings	£m	3	6.14%	7.49%	7.85%	222.296	271.114	273.356
1F.17	RCV growth from RPI inflation	£m	3	2.52%	2.52%	2.52%	91.205	91.205	87.702
1F.18	Total shareholder return	£m	3	8.66%	10.01%	10.37%	313.501	362.319	361.059
1F.19	Net dividend	£m	3	4.00%	7.82%	8.13%	144.875	283.084	283.084
1F.20	Retained value	£m	3	4.66%	2.19%	2.24%	168.625	79.235	77.975
E	Dividends reconciliation								
1F.21	Gross dividend	£m	3	4.00%	7.83%	8.14%	144.875	283.445	283.445
1F.22	Interest received on intercompany loans	£m	3	0.00%	0.01%	0.01%	0.000	0.361	0.361
1F.23	Net dividend	£m	3	4.00%	7.82%	8.13%	144.875	283.084	283.084

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Pro forma tables Section 2 Price review and other segmental reporting

Additional commentary on the Section 2 pro forma tables is provided on page 172.

Pro forma 2A Segmental income statement

For the 12 months ended 31 March 2020

	Line description	Units	DPs	Retail		Wholesale						Total
				Household	Non-Household	Water resources	Water Network+	Water Total	Waste water Network+	Sludge	Wastewater total	
2A.1	Revenue - price control	£m	3	103.210	0.199		784.838	784.838	939.549		939.549	1827.796
2A.2	Revenue - non price control	£m	3	0.000	0.000		4.219	4.219	0.420		0.420	4.639
2A.3	Operating expenditure	£m	3	-118.599	-0.468	-52.452	-284.508	-336.959	-240.831	-42.658	-283.489	-739.515
2A.4	Depreciation - tangible fixed assets	£m	3	-1.924	0.000	-8.039	-115.453	-123.492	-180.112	-128.820	-308.932	-434.348
2A.5	Amortisation - intangible fixed assets	£m	3	-5.493	0.000	-0.075	-6.859	-6.935	-26.498	-0.719	-27.218	-39.645
2A.6	Other operating income	£m	3	0.000	0.000	0.062	-9.066	-9.004	-3.984	-0.915	-4.899	-13.903
2A.7	Operating profit before recharges	£m	3	-22.806	-0.269			312.667			315.432	605.024
A	Recharges in respect of 'principal use' assets											
2A.8	Recharges from other segments	£m	3	-4.543	0.000	-2.334	-22.295	-24.629	-3.678	-4.838	-8.516	-37.688
2A.9	Recharges to other segments	£m	3	0.334	0.000	1.166	5.727	6.893	29.547	0.914	30.461	37.688
2A.10	Operating profit	£m	3	-27.015	-0.269			294.931			337.377	605.024
2A.11	Surface water drainage rebates	£m	3									0.497

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Pro forma 2B Totex analysis – wholesale water and wastewater

For the 12 months ended 31 March 2020

	Line description	Units	DPs	Water Resources	Water Network+	Wastewater Network+	Sludge	Total
A	**Operating expenditure**							
2B.1	Power	£m	3	4.841	30.046	51.979	-5.385	81.480
2B.2	Income treated as negative expenditure	£m	3	-0.016	-0.548	-0.082	-9.499	-10.144
2B.3	Abstraction charges/ discharge consents	£m	3	17.102	0.299	7.694	0.217	25.312
2B.4	Bulk supply/ Bulk discharge	£m	3	0.000	0.125	0.000	0.000	0.125
2B.5	Other operating expenditure - renewals expensed in year (Infrastructure)	£m	3	4.407	85.128	53.336	0.131	143.002
2B.6	Other operating expenditure - renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000
2B.7	Other operating expenditure - excluding renewals	£m	3	10.866	127.767	112.669	52.368	303.671
2B.8	Local authority and Cumulo rates	£m	3	15.078	40.216	15.053	4.795	75.142
2B.9	Total operating expenditure excluding third party services	£m	3	52.278	283.033	240.649	42.627	618.587
2B.10	Third party services	£m	3	0.174	1.474	0.182	0.031	1.861
2B.11	Total operating expenditure	£m	3	52.452	284.508	240.831	42.658	620.448
B	**Capital Expenditure**							
2B.12	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000
2B.13	Maintaining the long term capability of the assets - non- infra	£m	3	1.725	116.622	126.858	25.266	270.472
2B.14	Other capital expenditure - infra	£m	3	0.188	134.708	99.467	0.000	234.364
2B.15	Other capital expenditure - non-infra	£m	3	3.772	60.522	100.291	2.956	167.541
2B.16	Infrastructure network reinforcement	£m	3	0.000	8.716	5.957	0.000	14.674
2B.17	Total gross capital expenditure excluding third party services	£m	3	5.685	320.569	332.574	28.222	687.050
2B.18	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000
2B.19	Total gross capital expenditure	£m	3	5.685	320.569	332.574	28.222	687.050
C	**Grants and contributions**							
2B.20	Grants and contributions	£m	3	0.000	22.819	14.130	0.000	36.949
2B.21	Totex	£m	3	58.137	582.258	559.274	70.880	1270.549
D	**Cash Expenditure**							
2B.22	Pension deficit recovery payments	£m	3	4.219	35.749	25.568	11.815	77.350
2B.23	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000
E	**Total**							
2B.24	Totex including cash items	£m	3	62.356	618.006	584.843	82.694	1347.899

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Pro forma 2C Operating cost analysis – retail

For the 12 months ended 31 March 2020

Line description		Units	DPs	Household	Non-household	Total
Operating expenditure						
2C.1	Customer services	£m	3	22.994	0.209	23.203
2C.2	Debt management	£m	3	12.490	0.000	12.490
2C.3	Doubtful debts	£m	3	64.368	0.000	64.368
2C.4	Meter reading	£m	3	4.160	0.000	4.160
2C.5	Services to developers	£m	3		0.199	0.199
2C.6	Other operating expenditure	£m	3	14.587	0.061	14.648
2C.7	Total operating expenditure excluding third party services	£m	3	118.599	0.468	119.067
2C.8	Third party services operating expenditure	£m	3	0.000	0.000	0.000
2C.9	Total operating expenditure	£m	3	118.599	0.468	119.067
2C.10	Depreciation - tangible fixed assets	£m	3	1.924	0.000	1.924
2C.11	Amortisation - intangible fixed assets	£m	3	5.493	0.000	5.493
2C.12	Total operating costs	£m	3	126.016	0.468	126.485
2C.13	Debt written off	£m	3	51.704	0.000	51.704

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Pro forma 2D Historic cost analysis of tangible fixed assets – wholesale and retail

For the 12 months ended 31 March 2020

Line description		Units	DPs	Wholesale				Retail		Total
				Water Resources	Water Network+	Wastewater Network+	Sludge	Household	Non-Household	
A	**Cost**									
2D.1	At 1 April 2019	£m	3	289.679	5456.850	8335.913	1109.257	47.887	0.000	15239.586
2D.2	Disposals	£m	3	-13.702	-145.267	-136.091	-14.202	0.000	0.000	-309.262
2D.3	Additions	£m	3	5.702	309.264	319.461	28.081	0.124	0.000	662.632
2D.4	Adjustments	£m	3	-0.630	6.897	8.418	-15.013	0.000	0.000	-0.328
2D.5	Assets adopted at nil cost	£m	3	0.000	11.348	35.671	0.000	0.000	0.000	47.019
2D.6	At 31 March 2020	£m	3	281.049	5639.092	8563.372	1108.123	48.011	0.000	15639.647
B	**Depreciation**									
2D.7	At 1 April 2019	£m	3	-114.755	-1512.846	-2161.143	-431.224	-43.144	0.000	-4263.112
2D.8	Disposals	£m	3	13.658	136.239	131.349	13.286	0.000	0.000	294.532
2D.9	Adjustments	£m	3	-0.045	0.181	2.950	-2.960	0.000	0.000	0.126
2D.10	Charge for the year	£m	3	-8.039	-115.453	-180.112	-128.820	-1.924	0.000	-434.348
2D.11	At 31 March 2020	£m	3	-109.181	-1491.879	-2206.956	-549.718	-45.068	0.000	-4402.802
2D.12	Net book amount at 31 March 2020	£m	3	171.868	4147.213	6356.416	558.405	2.943	0.000	11236.845
2D.13	Net book amount at 1 April 2019	£m	3	174.924	3944.004	6174.770	678.033	4.743	0.000	10976.474
D	**Depreciation charge for year**									
2D.14	Principal services	£m	3	-7.897	-114.389	-180.112	-128.820	-1.924	0.000	-433.142
2D.15	Third party services	£m	3	-0.142	-1.064	0.000	0.000	0.000	0.000	-1.206
2D.16	Total	£m	3	-8.039	-115.453	-180.112	-128.820	-1.924	0.000	-434.348

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Pro forma 2E Analysis of grants and contributions and land sales – wholesale

For the 12 months ended 31 March 2020

	Line description	Units	DPs	Current year			
				Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
A	Grants and contributions - water						
2E.1	Connection charges	£m	3	0.000	6.895	0.000	6.895
2E.2	Infrastructure charge receipts	£m	3	0.000	9.721	0.000	9.721
2E.3	Requisitioned mains	£m	3	0.000	3.387	0.000	3.387
2E.4	Other contributions (price control)	£m	3	0.000	0.000	0.000	0.000
2E.5	Diversions	£m	3	2.860	0.000	0.000	2.860
2E.6	Other contributions (non-price control)	£m	3	0.000	-0.044	0.000	-0.044
2E.7	Total	£m	3	2.860	19.959	0.000	22.819
2E.8	Value of adopted assets	£m	3	0.000	11.348		11.348
B	Grants and contributions - wastewater						
2E.9	Infrastructure charge receipts	£m	3	0.000	11.369	0.000	11.369
2E.10	Requisitioned sewers	£m	3	0.000	0.115	0.000	0.115
2E.11	Other contributions (price control)	£m	3	0.000	2.580	0.000	2.580
2E.12	Diversions	£m	3	-0.022	0.000	0.000	-0.022
2E.13	Other contributions (non-price control)	£m	3	0.079	0.009	0.000	0.088
2E.14	Total	£m	3	0.057	14.073	0.000	14.130
2E.15	Value of adopted assets	£m	3	0.000	35.671		35.671

				Current year		
				Water	Wastewater	Total
C	Movements in capitalised grants and contributions					
2E.16	Brought forward	£m	3	165.847	117.216	283.062
2E.17	Capitalised in year	£m	3	19.959	14.073	34.032
2E.18	Amortisation (in income statement)	£m	3	-3.793	-2.681	-6.474
2E.19	Carried forward	£m	3	182.013	128.607	310.620
D	Land sales					
2E.20	Proceeds from disposals of protected land	£000	3	1539.373	161.137	1700.509

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Pro forma 2F Household – revenues by customer type

For the 12 months ended 31 March 2020

	Line description	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (000s)	Average household retail revenue per customer £
2F.1	Unmeasured water only customer	11.023	1.064	12.087	43.069	25
2F.2	Unmeasured wastewater only customer	4.966	0.474	5.440	23.372	20
2F.3	Unmeasured water and wastewater customer	697.576	52.653	750.229	1584.787	33
2F.4	Measured water only customer	5.059	0.616	5.675	29.262	21
2F.5	Measured wastewater only customer	6.630	0.702	7.332	52.012	13
2F.6	Measured water and wastewater customer	479.497	47.701	527.198	1297.576	37
2F.7	Total	1204.751	103.210	1307.961	3030.078	34

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Pro forma 2G & 2H Non-household water & wastewater – revenues by tariff type

As per RAG 4.08, where the appointee has exited the non-household market then Tables 2G & 2H should not be completed. Please refer to Table 2I page 157 for the corresponding wholesale revenue. Residual revenues required to be reported as non-household under the RAGs are also shown in Table 2I.

Pro forma 2I Revenue analysis

For the 12 months ended 31 March 2020

Line description		Units	DPs	Household	Non-household	Total
A	**Wholesale charge - water**					
2I.1	Unmeasured	£m	3	341.039	3.459	344.498
2I.2	Measured	£m	3	233.749	201.879	435.628
2I.3	Third party revenue	£m	3	0.000	4.711	4.711
2I.4	Total	£m	3	574.788	210.050	784.838
B	**Wholesale charge - wastewater**					
2I.5	Unmeasured	£m	3	372.525	4.441	376.966
2I.6	Measured	£m	3	257.438	305.145	562.583
2I.7	Third party revenue	£m	3	0.000	0.000	0.000
2I.8	Total	£m	3	629.963	309.586	939.549
2I.9	Wholesale Total	£m	3	1204.751	519.636	1724.387
C	**Retail revenue**					
2I.10	Unmeasured	£m	3	54.191	0.199	54.390
2I.11	Measured	£m	3	49.019	0.000	49.019
2I.12	Other third party revenue	£m	3	0.000	0.000	0.000
2I.13	Retail total	£m	3	103.210	0.199	103.409
D	**Third party revenue - non-price control**					
2I.14	Bulk Supplies - water	£m	3			1.510
2I.15	Bulk Supplies - wastewater	£m	3			0.281
2I.16	Other third party revenue	£m	3			2.469
E	**Principal services - non-price control**					
2I.17	Other appointed revenue	£m	3			0.380
2I.18	Total appointed revenue	£m	3			1832.435

				Water	Wastewater	Total
2I.19	Wholesale revenue governed by price control	£m	3	784.838	939.549	1724.387
2I.20	Grants & contributions	£m	3	20.003	14.064	34.067
2I.21	Total revenue governed by wholesale price control	£m	3	804.841	953.613	1758.454
2I.22	Amount assumed in wholesale determination	£m	3	810.290	959.429	1769.719
2I.23	Adjustment for in-period ODI revenue	£m	3	0.000	0.000	0.000
2I.24	Adjustment for WRFIM	£m	3	-13.078	-0.637	-13.716
2I.25	Total assumed revenue	£m	3	797.212	958.791	1756.003
2I.26	Difference	£m	3	7.629	-5.178	2.451

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Pro forma 2J Infrastructure network reinforcement costs

For the 12 months ended 31 March 2020

Line description		Units	DPs	Network reinforcement capex	On site / site specific capex (memo only)
A	**Wholesale water network+ (treated water distribution)**				
2J.1	Distribution and trunk mains	£m	3	5.961	1.265
2J.2	Pumping and storage facilities	£m	3	2.755	0.000
2J.3	Other	£m	3	0.000	0.000
2J.4	Total	£m	3	8.716	1.265
B	**Wholesale wastewater network+ (sewage collection)**				
2J.5	Foul and combined systems	£m	3	2.340	0.000
2J.6	Surface water only systems	£m	3	3.617	0.000
2J.7	Pumping and storage facilities	£m	3	0.000	0.000
2J.8	Other	£m	3	0.000	0.000
2J.9	Total	£m	3	5.957	0.000

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Pro forma 2K Infrastructure charges reconciliation

For the 12 months ended 31 March 2020

Line description		Units	DPs	Water	Wastewater	Total
A	**Impact of infrastructure charge discounts**					
2K.1	Infrastructure charges	£m	3	9.721	11.369	21.091
2K.2	Discounts applied to infrastructure charges	£m	3	0.000	0.000	0.000
2K.3	Gross infrastructure charges	£m	3	9.721	11.369	21.091
B	**Comparison of revenue and costs**					
2K.4	Variance brought forward	£m	3	5.057	3.326	8.384
2K.5	Revenue	£m	3	9.721	11.369	21.091
2K.6	Costs	£m	3	-8.716	-5.957	-14.674
2K.7	Variance carried forward	£m	3	6.062	8.738	14.801

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2.4) Accounting policies

For the 12 months ended 31 March 2020

The Regulatory Accounts have been prepared in accordance with IFRS, except for the areas of revenue recognition, capitalisation of interest, grants and contributions and adopted assets as required by Ofwat. Details of all significant accounting policies applied under IFRS are detailed in the United Utilities Water Limited statutory accounts. In addition, the RAGs require certain presentational differences within the income statement and statement of financial position between the statutory and the regulatory accounts.

Individual lines within the regulatory tables are rounded to 2 or 3 decimal places, as specified by Ofwat, therefore there may be instances where the total line within a table is not equal to the sum of the values presented.

Capitalisation policy

The company recognises property, plant and equipment (PPE) expenditure on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity and/or resilience of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them.

For non-infrastructure assets, expenditure that is directly attributable to the acquisition of the items of PPE and intangible assets is capitalised. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The only exception to IFRS, as required by RAG 1.08 'Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime', is that the company does not capitalise interest in the Regulatory Accounts. The company applies a minimum capital limit per project of £500, any expenditure below this limit is expensed.

Price control segments policy

The accounts have been drawn up in accordance with RAG 2.07 'Guideline for classification of costs across the price controls'. Following our formal exit of the non-household market in 2016, we continue to exclude Tables 2G and 2H from the regulatory accounts which previously provided breakdowns of our non-household revenues by tariff type.

As noted in our Accounting Policies note to the UUW statutory accounts, management capitalises time and resources incurred by the company's support functions on capital programmes. In accordance with RAG 1.08 our historic cost accounting statements are in line with IFRS, except for deviations as specifically required by Ofwat (see 'Differences between statutory and RAG definitions' on pages 167 to 168). As such, any attribution or allocation of support costs between price controls is performed on the net cost balance after capitalisation. This approach is consistent with prior years and with our price review submission.

All notable methodology changes from the prior year, as well as details of cost allocations used per cost line, can be found in our 2019/20 accounting methodology statement, published on our website alongside the APR.

Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable, as defined in RAG 4.08. Business activities and indirect costs are allocated on an activity basis using quantitative measures such as full-time equivalent employee numbers and other methods reflecting consumption of service.

Appointed and non-appointed activities

The company has used the guidance in RAG 4.08 Appendix 1 in determining which of its activities are appointed or non-appointed. In summary, the appointed business is defined as the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities for which the company is not a monopoly supplier or those activities which involve the optional use of an asset owned by the appointed business.

Revenue recognition policy

Revenue represents the income receivable in the ordinary course of business from the regulated activities of the business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

Where an invoice has been raised or payment made but the service has not been provided in the year this will not be recognised within the current year's revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

Charging policy

Water and sewerage charges fall into the following three categories:

- Charges which are payable in full;
- Charges which are payable in part; and
- Not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

Charges payable in full

Water (and sewerage) charges are payable in full in the following circumstances:

Unmeasured household supply – when premises benefit from a supply of water, until notice is given by the customer that the supply should be disconnected.

Measured household supply – premises with a measured water supply are charged until either:

- The customer leaves the premises having given an up to date meter reading; or
- The customer requests that the supply is disconnected.

Non-household supply – charges are applied to each and every connected supply point where a service is received, except where the water supply to the premises is permanently disconnected or the premises is vacant.

This includes premises where renovation, redecoration or building work is being undertaken. Exceptions to this, where water (and sewerage) charges are not payable, include:

- Where the occupier is a sole occupier in a care home for three months or more;
- Where the occupier is a sole occupier in long-term hospitalisation for three months or more;
- Where the occupier is a sole occupier in prison for three months or more; or
- In the event of the death of a sole occupier.

Charges payable in part

The following charges only are payable in certain circumstances:

Metered standing charges

Payable on metered properties without evidence of consumption which remain connected.

Surface water drainage and highway drainage charges

Payable where there is evidence of consumption for metered premises or an unmeasured water supply has been temporarily disconnected.

Not chargeable

Properties which are identified as vacant are not chargeable for water (and sewerage) and therefore no billing is raised, and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties

The occupier is any person in actual occupation of premises, or any person who:

- Owns the premises; or
- Has sufficient control over premises to put him under a duty of care towards lawful visitors; or
- Maintains premises for occupation (including multiple occupation) with shared facilities or as holiday or household accommodation for short term occupation (whether let wholly or in part), usually less than 12 months

No bills are raised in the name of "the occupier".

The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- Physical inspection;
- Mailings;
- Customer contacts;
- Searches using third party electronic data;
- Meter readings for metered properties;
- Land registry checks.

When a new customer is identified, they may be required to provide documentary evidence to establish the date that they became responsible for water (and sewerage) charges at the property. This is normally the date at which they moved into the property. The new customer will be charged from the date at which they became responsible for water (and sewerage) charges of the premises.

For non-household customers, the Wholesale Settlement team use Central Market Operating System (CMOS) meter read data to identify vacant Supply Point Identifications (SPIDs) with consumption. Where consumption exists, we will engage with the relevant retailer, and follow the market process to ensure the SPID is recorded correctly as either vacant, or occupied in the market.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and there is no consumption on the meter;
- The company has been informed that the customer has left the property; and not expected to be reoccupied immediately;
- It has been disconnected following a customer request;
- The property management process has not identified an occupier; or
- The company has been informed that for three months or more, the customer is in a care home, in long-term hospitalisation, or in prison.

If the property management process confirms that the property is unoccupied, the property will be declared void and the supply may be turned off.

New properties

All new properties are metered. Until the new occupier has been identified, the property is treated as unoccupied and is not billed.

Measured income accrual
The household measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the year end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff which is calculated based on historical information. The measured income accrual is recognised within turnover.

An estimation of the non-household mains water and sewerage charges unbilled at the year-end is calculated and a measured income accrual recognised within turnover. The accrual is estimated using a defined methodology based on historical water consumption of individual customers or based on meter size where individual consumption is not available for use.

There has been no change to the methodology in calculating the measured income accrual since the prior year.

The non-household market has been hit particularly hard by the COVID-19 pandemic. Government lockdown measures have meant that all non-essential businesses have been instructed to close, and the associated economic slowdown and potential for a longer-lasting recessionary environment is likely to result in a higher rate of business failure in the near future.

Ofwat introduced regulatory code changes on 30 March 2020 allowing retailers to temporarily apply the "vacant" flag in the CMOS system so that charges are not accrued for those premises that have closed due to the COVID-19 pandemic. This is in order to more accurately reflect actual levels of consumption during the pandemic, which in turn reduces the liabilities on the part of retailers in terms of the wholesale charges they would be due to pay and the bills that non-household customers are required to pay retailers.

Given the timing of the measures introduced by Ofwat, a significant number of "vacant" flags have been applied by retailers retrospectively, meaning that the impact was not captured in amounts billed for March based on the R1 settlement. It was therefore necessary to estimate the impact of increased vacancy and income accrued at the year-end was reduced by £7.1m.

Bad debt policy

Household
Bad debt is written off when all economically viable efforts to recover outstanding amounts have been fully exhausted or, alternatively, when the write-off of such amounts forms part of customer rehabilitation processes (subject to acceptance criteria and customer "matching" payments). The company's bad debt write-off policy has remained unchanged and has been consistently applied in the current year compared with the previous year. The level of write-off has decreased from £66.6m in 2018/19 to £51.7m in 2019/20.

The household bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. Household has continued to consistently apply its provisioning model last updated in 2014/15 to calculate the bad debt provision. The provision model applies expected recovery rates to debts outstanding at the end of the accounting period. The overall expected recovery rate takes into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt of greater age. Bad debt provisioning rates are reviewed annually to ensure they continue to reflect the latest collection performance data from the company's billing system. All debt greater than 3 years old is fully provided for.

The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The underlying household bad debt provision policy has remained unchanged and has been consistently applied in the current and prior years, however a further provision has been put in place to reflect the additional expected credit loss as a result of COVID-19. The underlying bad debt provision has reduced by £5.8m from 31 March 2019 to 31 March 2020 and the household trade debtor balance has reduced by £4.2m. The reduction in both the underlying bad debt provision and the household debtor balance is a result of our strong focus on improving bad debt and cash collection performance.

The additional bad debt provision attributable to COVID-19 is £19.9m. In order to assess the impact of COVID-19 and the expected credit loss, customers have been segmented based on groups with similar characteristics as determined by external market intelligence. For each segment of customers in debt at the end of 2019/20, the risk profile has been used to estimate a proportion of cash that we do not expect to receive.

Non-Household
The regulatory code change introduced on 30 March 2020 allowed for deferral in payment of up to 50% of the charges due from retailers in respect of amounts invoiced in March. For retailers that opted into the payment deferral scheme, 50% of the March invoice had to be paid by 30th May. A further code change was introduced in April covering charges invoiced in April, May June and July of which retailers must pay the higher of 94% of monies collected or 60% of primary charges on a cumulative basis. The secondary code change also made an amendment to the deferral terms of amounts invoiced in March to the extent that 60% of the charges raised must be paid by 30th June.

Ofwat have confirmed that the wholesaler exposure will be capped on a retailer basis at an average of one month's revenue. In light of the increased exposure to bad debt, we have performed an assessment of lifetime expected credit losses across the non-household retailer customer base that considers an unbiased and probability-weighted amount determined by evaluating a range of

possible outcomes, and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions as required by IFRS 9.

We have assumed that the minimum 60% of invoices payable by retailers in the immediate term will be recoverable based on past experience and the collateral, security or other guarantees provided in respect of these amounts as required by the non-household retail market code. The remaining amounts subject to deferred payment have then been considered based on segmenting retailers by type in a similar way to how the household customer base was segmented based on their characteristics. A relative risk of non-payment of the deferred amount has then been applied to each segment based on these characteristics and whether there is a short or long peak in COVID-19 cases.

Having performed this risk assessment reductions in cash collection across the various outcomes have been probability-weighted based on our assessment of the relative likelihood of the various scenarios materialising. Taking all of this into account, the total expected credit loss associated with non-household retailers was £1.4 million.

Dividend policy

2015-20

UUW's dividend policy for the 2015-20 regulatory period was to distribute:

- A base return of 5% (nominal) on the equity portion of the Shadow Regulatory Capital Value (RCV)
- The profit after tax in relation to the non-appointed activities of UUW; and
- An amount no greater than demonstrable outperformance versus the final determination

The board believed this represented an appropriate policy taking into consideration:

- The challenges of the 2015-20 final determination;
- Ofwat's assumed equity return of 5.65% in RPI terms;
- The need to retain a robust and sustainable capital structure;
- The broader stakeholder benefits funded by the company during 2015-20, including:
    - c£165m of company funding for improved resilience and service performance (£330m of investment before application of the totex sharing mechanism)
    - c£50m of company funding during AMP6 to support AMP7 "flying start" initiatives (£100m of investment before totex sharing)
    - c£60m of company funding for customer financial support schemes (not rebalanced onto customer bills)
    - c£125m of elective company funding (outside price limits) to put the company pension scheme into a self-sufficient funding position.

Please refer to the 'Dividends paid to associated undertakings' note on page 185 for details of dividends paid in the year, and 'Financial flows' table narrative on pages 173 to 176 for impacts to retained value.

2020-25

UUW's dividend policy for the 2020-25 (AMP7) regulatory period has been set as follows:

- A base dividend return of 4% (nominal) on the actual equity portion of the Shadow Regulatory Capital Value (RCV);
- The profit after tax in relation to the non-appointed activities of UUW; and
- An amount no greater than demonstrable outperformance versus the final determination

This policy is also subject to a number of additional considerations which were committed to by the UUW Board in our business plan submissions for the PR19 price review. These considerations act to ensure that dividend payments are made subject to consideration of a broad range of stakeholders who have interests in the performance of the company. This approach seeks to ensure that payment of the dividend takes into account consideration of business performance, performance for customers and performance for employees.

Financial assistance schemes
We committed that over AMP7 the company would fund £71m dedicated to supporting customers in need of financial support and that dividend payments would not be made if they meant such funding would be put at risk.

Gearing safeguards
In the event that the company adopted a high level of gearing then we committed to sharing the financial benefits of a high level of gearing with customers, before consideration of any dividend payment. The sharing of financial benefits would commence once gearing exceeded 70%.

We also committed that if gearing exceeded 70% then the level of base dividend might be restricted in order to help lower gearing and that, if a base dividend were paid, then the Board would explain its plan to restore gearing below the 70% threshold.

We also said that if gearing fell below 60% then the base dividend distribution may be increased to the greater of 100% of profit after tax or 100% of nominal allowed equity returns in order to efficiently manage the gearing position.

Sharing of outperformance
We have committed that where the distribution of outperformance through dividends exceed 7% of the equity portion of the RCV that amounts in excess of this threshold – which is measured on an average AMP-to-date basis – would be matched with a benefit sharing payment to customers through our "Community Share" scheme. This could then facilitate bill reductions, additional targeted financial assistance or other initiatives to support the resilience of communities in the North West, depending on customer preferences.

This sharing of outperformance is additional to any reinvestment of outperformance or other benefit sharing that might be undertaken during AMP7 through normal regulatory mechanisms or on the same voluntary basis as was taken by the company in AMP5 and AMP6. It provides an upfront guarantee that when dividend distributions reflecting outperformance are much higher than anticipated in the business plan, that customers and other stakeholders will share in the benefits alongside investors.

Impact on financial resilience of UUW
Before payment of any dividend, the Board committed to considering whether the dividend payments would cause significant harm to the company's financial resilience and the potential impact such distributions may have on customers and employees. This included consideration of the company's pension deficit – were it to have one – which would for these purposes be considered as debt.

Delivery of statutory obligations
The Board has committed that it would not pay outperformance dividends in circumstances where the company was known to be in material breach of statutory obligations.

Delivery of performance targets
The Board has committed that it would not pay outperformance dividends in excess of the equivalent of 7% of the equity portion of RCV where the company was materially failing to meet its performance targets, unless the dividend was accompanied by investment aimed at improving that position.

Exceptional and unforeseen circumstances
In truly exceptional and unforeseen circumstances, it was noted that the Board may have to deviate from these principles – for example to meet changing statutory requirements or during unexpected and exceptional events. The Board committed that if it were to do so, it would explain its reasoning to customers and other stakeholders so that the company could be judged on the extent to which it sought to meet these commitments and the reasons why a deviation was justified.

Transparency
We also committed to providing increased transparency through our APR about the dividends paid and how these relate to our dividend policy. This is in addition to the existing statutory and regulatory requirements that we already disclose.

We committed to explain how dividend payments have been determined and how these relate to our performance. We committed to provide an explanation of how the allowed equity return relates to that achieved under the actual company structure and how the dividend policy relates to the actual equity returns during the AMP.

We also committed to provide transparency of how payments from the Community Share have contributed towards the resilience of communities in the North West.

Decision on the UUW 2020/21 base dividend

Over recent months, the UK economy has been significantly impacted by COVID-19 pandemic, although throughout this period, our services have been maintained and we have retained a robust liquidity and financial position.

However, it is probable that the UK is entering a recessionary period from which the rate of recovery, as well as the lasting impact on the economy, is uncertain. The UUW board has a clear view that financial resilience must be retained as a priority – this being outlined above as one of the key considerations for 2020-25 dividends – and has therefore adopted a prudent approach to near term dividend payments.

As such, the UUW board has reviewed its approach to the base dividends in the context of current events and future uncertainty. It has determined that there should be no dividend payments made by UUW during the 2020/21 financial year, which should result in c£150m of cash being retained within the company. This demonstrates the application of the checks and balances outlined in the 2020-25 dividend policy above, prior to the distribution of any base dividends.

The deferral of the 2020/21 base dividend payment will be kept under review by the UUW Board, with a view to reinstating the dividend later in the AMP7 period at such time as there is more certainty in relation to the prevailing economic conditions following the pandemic, including as to inflation, and the financial position has become more clear.

2.5) Additional unaudited regulatory information

Differences between statutory and RAG definitions

Revenue recognition

The following differences exist between the revenue recognition policies in the statutory accounts and in the regulatory accounts:

- IFRS15 has been applied to the statutory accounts and requires revenue to be recognised only when it is probable that economic benefits associated with the transactions will flow to the company. The regulatory accounts, however, require revenue to be recognised in full unless properties have been confirmed as being void; and
- Income from energy generation, exported energy, renewable obligation certificates (ROC) and ROC bonuses are treated as revenue in the statutory accounts but as negative operating expenditure in the regulatory accounts.

Capitalisation of borrowing costs

For statutory reporting, interest costs under IAS23 are capitalised and subsequently depreciated, whereas interest is charged immediately as an expense in the regulatory accounts.

Grants and contributions

All grants & contributions (G&Cs) recognised in the income statement under IFRS have been reclassified as other income in the regulatory accounts. More specifically this comprises the following two main reclassifications:

- Diversion income from revenue to other income
- The amortisation of capitalised grants and contributions from revenue and operating costs to other income

Adopted Assets

Under IFRS15, we recognise adopted assets from customers or developers on the balance sheet and amortise the income over the life of the asset through revenue. The amortisation of this income has been reclassified from revenue to other income in the regulatory accounts.

Preference share capital

Under IFRS, we recognise preference share capital within current liabilities. However, in order to ensure a better presentation of net debt is reported in Table 1E – which only includes non-current preference share capital – we have reclassified preference share capital from current to non-current liabilities in Table 1C of the regulatory accounts for 2019/20. This is consistent with our approach in the prior year.

The differences within the Income statement, in Table 1A and the Statement of financial position, Table 1C have been summarised below on page 168.

Table 1A – Income statement

Differences between statutory & RAG definitions 2019/20	Revenue Recognition	G&C's Diversion Income	Amortisation of G&C's	Adopted Assets	Income from energy & export	Reclass of ROC income to opex	Capitalisation of borrowing costs	Reclass from opex to other income*	Reclass of pension interest to other interest expense	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	19.397	(2.838)	(6.040)	(7.807)	(3.568)	(6.169)				(0.079)	**(7.104)**
Operating costs	(24.362)		(0.434)		3.976	6.169	5.630	(3.613)		14.151	**1.517**
Other operating income										(13.903)	**(13.903)**
Operating Profit	**(4.965)**	**(2.838)**	**(6.474)**	**(7.807)**	**0.408**	**(0.000)**	**5.630**	**(3.613)**	**(0.000)**	**0.169**	**(19.490)**
Other income		2.838	6.474	7.807	(0.408)			3.613		(0.169)	**20.155**
Interest income									(10.900)		**(10.900)**
Interest expense							(40.573)				**(40.573)**
Other interest expense									10.900		**10.900**
Profit before tax (Table 1A line 11)	**(4.965)**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**(34.943)**	**0.000**	**0.000**	**0.000**	**(39.908)**

* Other income in the statutory accounts is included within operating costs, this is disclosed separately in the regulatory accounts.

Table 1C – Statement of financial position

Differences between statutory & RAG definitions 2019/20	Revenue Recognition	Capitalisation of borrowing costs	Preference share capital	Deferred tax adjustment	Other	Total
	£m	£m	£m	£m	£m	£m
Total non-current assets		(211.224)			(0.704)	**(211.928)**
Total current assets	15.924				0.116	**16.040**
Total current liabilities			130.000			**130.000**
Total non-current liabilities			(130.000)	33.581		**(96.419)**
Net Assets (Table 1C line 31)	**15.924**	**(211.224)**	**0.000**	**33.581**	**(0.588)**	**(162.307)**

Impact of IFRS16 – leasing

UUW adopted IFRS16 on 1 April 2019. Under the provisions of the new standard, most leases, including the majority of those previously classified as operating leases where UUW is the lessee, have been brought onto the statement of financial position as both a right-of-use asset and an offsetting lease liability. As a result:

- Right-of-use assets have been brought onto the statement of financial position resulting in an opening balance net book value increase of £51.1m
- During 2019/20, capital expenditure/fixed asset additions of £4.9m and depreciation of £1.7m were recorded under IFRS16, resulting in a closing net book value increase of £54.2m
- Lease liabilities of £53.6m have been included within fixed rate borrowings as at 31 March 2020
- During 2019/20, interest costs of £1.7m have been recorded under IFRS16
- Operating expenditure has reduced by £3.3m, with no leases under IFRS no longer being recorded within operating costs

The impacts to the specific regulatory account tables are outlined in more detail within the 'Additional table narrative' section below.

Additional table narrative

Table 1A – Income Statement

This reconciliation shows the impact to the income statement following the adoption of IFRS16.

Extract of Table 1A Income statement (Total appointed activities) 2019/20	IFRS16 accounting standard (as per Table 1A) £m	Previous accounting treatment (before the adoption of IFRS16) £m	Impact of IFRS16 £m	Note
Revenue	1,832.435	1,832.435	0.000	
Operating costs	(1,213.510)	(1,215.160)	(1.650)	1
Other operating income	(13.903)	(13.903)	0.000	
Operating profit	**605.022**	**603.372**	**(1.650)**	
Other income	17.905	17.905	0.000	
Interest income	7.822	7.822	0.000	
Interest expense	(282.151)	(280.475)	1.676	2
Other interest expense	10.900	10.900	0.000	
Profit before tax and fair value movements	**359.498**	**359.524**	**0.026**	

1. Additional depreciation of £1.7m, offset by lower operating expenditure of £3.3m.
2. Interest cost associated with lease liabilities.

Table 1C – Statement of financial position

Consistent with 2018/19 reporting, we have continued to report capex creditors (line 14) within current liabilities in Table 1C as zero and have included a capital accruals liability, representing work-in-progress not yet invoiced, of £85.153m within trade & other payables (line 13) for 2019/20. We believe this classification is better aligned to the line definitions in RAG 4.08.

For 2019/20 UUW report a statutory current tax asset of £9.1m. We have included the current tax asset in Table 1C line 9 (trade & other payables), as there is no equivalent current tax asset line within current assets in this table.

We believe this to be aligned to the line definitions in RAG 4.08. The reconciliation below shows the impact on the statement of financial position following the adoption of IFRS16.

Extract of Table 1C Statement of financial position (Total appointed activities) 2019/20	IFRS16 accounting standard (as per Table 1C) £m	Previous accounting treatment (before the adoption of IFRS16) £m	Impact of IFRS16 £m	Note
Non-current assets	12,614.610	12,560.374	54.236	1
Current assets	918.934	918.934	0.000	
Current liabilities	(1,140.523)	(1,140.523)	0.000	
Non-current liabilities	(10,487.905)	(10,434.280)	(53.625)	2
Net assets	**1,905.116**	**1,904.505**	**0.611**	
Total equity	**(1,905.116)**	**(1,904.505)**	**(0.611)**	

1. Right-of-use assets have been brought onto the statement of financial position with a NBV of £54.2m.
2. Lease liabilities of £53.6m have been included within fixed rate borrowings.

Table 1E – Net debt analysis

All figures in Table 1E have been calculated in reference to 'RAG 4.08 – Guideline for the table definitions in the annual performance report'.

Borrowings has been calculated on a notional basis so not to include any fair value adjustments based upon our interpretation of Ofwat's guidance. This means, consistent with the prior year, there will be a difference between borrowings reported in Table 1C and Table 1E and a reconciliation of the difference has been provided on page 172. Categorisation as fixed or floating assumes that both the impact of layer 1 swaps and regulatory swaps should be included thereby meaning that the payable leg of the regulatory swaps (fixed leg) determines the borrowings classification.

Net debt excludes fair value accounting adjustments which do not impact on the principal sum outstanding on the debt. The interest rate risk profile does not take account of the impact on interest of derivative instruments.

Preference share capital (line 2) links directly from Table 1C (line 28).

Adjusted gearing represents the consolidated net debt of United Utilities Group PLC as a proportion of the company's RCV (per the Final determination, in outturn prices), calculated based on the methodology published by Moody's Investor Services. This is the gearing measure most commonly used by management and is a key ratio used by Moody's Investor Services in determining the credit rating of the company.

Indicative weighted average interest rates are based on the effective interest rates as at the balance sheet date, which includes the impact of derivative instruments but excludes those with a forward start date, weighted by the notional principal amount.

Due to the nature of the company's interest rate hedging policy, it has some forward starting interest rate swaps which are not included in the indicative weighted average interest rates as they are not effective at the balance sheet date. As a result, the indicative weighted average interest rates are only representative of our economic cost of borrowing as at the balance sheet date and are not representative of our economic cost of borrowing over the duration of the fixed interest rate hedge.

The floating rate full year equivalent interest costs (lines 9 and 10) include floating rate elements on all instruments whether they be classified as fixed or floating in line 1. As we hedge most of our floating interest rate exposure through 'floating to fixed' interest rate swaps we would expect a resulting very low net floating interest rate exposure.

However, primarily as a result of timing differences on the floating legs of the debt and derivative instruments, we have a relatively small residual floating interest cost which relates to borrowings classified as fixed rate in this table. As a result, it is not meaningful to use this information in conjunction with the borrowings figure included within this table. As the indicative weighted average nominal/cash interest rates (lines 11 and 12) are calculated on the same basis they are unrepresentative of the cost of the floating rate borrowings and therefore have not been disclosed in the table. The calculated rate was 0.68% as at 31 March 2020 based on a £7.6m net interest payable on £1,117.2m of net floating rate debt (after the impact of swaps).

The calculation of the weighted average years to maturity on floating rate borrowings provides an unrepresentative figure and, as such, has not been be disclosed in the tables. Typically, we raise debt in fixed rate form, swap it to floating rate for the duration of the debt instrument and then swap it back to fixed rate on a 10 year reducing balance basis. This hedged position makes it difficult to calculate the weighted average duration in a meaningful way.

An annual RPI increase of 2.6 per cent at March 2020 has been applied and an annual CPI increase of 1.5 per cent at March 2020 has been applied.

Following the adoption of IFRS 16, lease liabilities of £54m have been included within fixed rate borrowings. The inclusion of lease liabilities into borrowings has resulted in an increased average time to maturity as a large proportion of the group's leases have high value lease terms of c.150 years. If leases had not been included, the weighted average would have been 7.19. However, the inclusion of lease liabilities has had minimal impact to the interest cost (c£1.7m).

Borrowings reconciliation
The below table shows the reconciliation from borrowings within Table 1C to borrowings in Table 1E.

	2019/20 £m	Notes
Borrowings – current	(782.272)	Table 1C Line 15
Borrowings – non current	(8,102.482)	Table 1C Line 22
Borrowings (Table 1C)	**(8,884.754)**	IFRS measurement basis
Remove fair value movements	580.087	
Remove bond discount	(0.428)	
Remove interest accrued on FVO debt	2.828	
Borrowings (Table 1E)	**(8,302,267)**	Table 1E Line 1 Notional value basis

Table 2A – Segmental income statement
Table 2A line 4 includes atypical depreciation of £82.3m in relation to Bioresource assets that have been removed from operational use.

Table 2A line 4 also includes £1.7m relating to IFRS16 in depreciation (water £0.1m, wastewater £1.3m & retail £0.2m).

Table 2B – Totex analysis
This reconciliation shows total expenditure under IFRS16 compared to the previous accounting treatment to provide a consistent measure of totex performance.

Extract of Table 2B Totex analysis 2019/20	IFRS16 accounting standard (as per Table 2B)			Previous accounting treatment (before the adoption of IFRS16)			Impact of IFRS16			
	Water	Wastewater	Total	Water	Wastewater	Total	Water	Wastewater	Total	Note
	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Total operating expenditure (a)	336.959	283.489	620.448	337.843	285.800	623.643	(0.884)	(2.311)	(3.195)	1
Total gross capital expenditure (b)	326.255	360.795	687.050	326.165	356.002	682.167	0.090	4.793	4.883	2
Grants and contributions (c)	22.819	14.130	36.949	22.819	14.130	36.949	0.000	0.000	0.000	
Totex (Table 2B line 21) (a) + (b) – (c)	**640.395**	**630.154**	**1,270.549**	**641.189**	**627.672**	**1,268.861**	**(0.794)**	**2.482**	**1.688**	

1. Operating expenditure within totex has reduced by £3.2m (split water £0.9m, wastewater £2.3m). Note that operating expenditure in retail has also reduced by £0.1m.
2. Fixed asset additions of £4.9m (water £0.1m, wastewater £4.8m).

Table 2C – Operating cost analysis – retail
Line 2C line 3 includes an additional, atypical, bad debt provision of £19.9m to reflect the additional expected credit loss as a result of COVID-19.

Table 2D – Historic cost analysis of tangible fixed
Table 2D line 10 includes atypical depreciation of £82.3m in relation to Bioresource assets that have been removed from operational use.

Table 2D lines 1 and 13 include the value of right-of-use assets brought into the opening balance of £51.1m (water £0.6m, wastewater £50.1m & retail £0.4m) under IFRS16.

The impact of IFRS16 on additions in 2D line 3 was £4.9m (water £0.1m, wastewater £4.8m), and the impact on depreciation line 10 £1.7m (water £0.1m, wastewater £1.3m & retail £0.2m).

Lines 4 and 9 of Table 2D 'Adjustments' includes reclassifications of assets between price controls. These reclassifications have mainly occurred due to data cleanse activities performed in the year to ensure assets are correctly allocated as per RAG 4.08.

Financial flows (Table 1F)

Introduction

Table 1F presents financial flows for 2019/20 and for the 5-year cumulative position 2015/16-2019/20, calculated as the simple average of the 5 years. The figures are presented both as a % of notional regulatory equity and as a % of actual regulatory equity. The table also shows the £ million equivalents and these values are all presented in 2012/13 prices.

The following narrative focuses on the actual return %'s on the actual regulatory equity, being most aligned to actual shareholder returns. There will be differences between the actual and notional returns where actual equity is different from Ofwat's assumed regulatory equity of 37.5% (or assumed gearing of 62.5%). However, since UUW's actual gearing across the 5-years (averaging 63.8%), and for 2019/20 (66.3%), are both slightly higher than Ofwat's assumed notional gearing (62.5%), the actual return % on each sub-measure will be slightly higher than the notional return.

Line 1 – Return on regulatory equity – 2019/20 Actuals: 5.52%; Cumulative: 5.54%

The notional base case return on regulatory equity (RORE) assumed in the PR14 (Price Review) final determination (FD) was 5.63%. As per the line definition, the business retail margin assumed in the base case RORE of 0.11% has been removed, following the transfer of the non-household retail business to the Water Plus joint venture on 1 June 2016. This results in a net return on regulatory equity of 5.52% for 2019/20 and 5.54% for the 5-year period 2015/16-2019/20.

Line 2 – Actual performance adjustment 2010-15 – 2019/20 Actuals: +0.07%; Cumulative: +0.59%

This line represents out/(under) performance adjustments in relation to the 2010-15 regulatory period, adjusted through companies' revenues within the PR14 FD. The 2010-15 performance adjustment received through revenues in 2019/20 was +£2.6m, with an average over the 5-year cumulative period of +£21.4m. The two main contributors to the overall net positive adjustments were opex incentive allowances (due to outperformance of the operating cost allowance across 2010-15) and the 2010-15 Revenue Correction Mechanism (where actual revenues received were less than forecast due to volume falls across 2010-15). The adjustment is lower in 2019/20 as there is no opex incentive allowance in the final year of the AMP.

Line 5 – Gearing – 2019/20 Actuals: +0.34%; Cumulative: +0.12%

This line represents the impact on the adjusted allowed return (i.e. line 1 plus line 2 above) due to a company's actual gearing structure. As mentioned in the introduction above, UUW's gearing has been marginally higher than Ofwat's assumed notional gearing of 62.5% for 2019/20 actuals (66.3%) and on a cumulative basis (63.8%). Since Ofwat's allowed cost of debt (2.59% real) is less than the allowed cost of equity (as per lines 1&2 above), this results in an increase in actual return compared to notional. This effect is larger for 2019/20 than the cumulative position due to its higher gearing position.

Line 6 – Variance in corporation tax – 2019/20 Actuals: +0.22%; Cumulative: +0.34%

This line compares the amount allowed for corporation tax in the PR14 FD to a tax charge calculated as per the table below, in accordance with the line definition:

	2019/20 Actuals £m	2015/16-2019/20 Average £m
Corporation Tax as per PR14 FD (12/13 prices)	**56.2**	**46.8**
Appointed profit before tax and fair value movements (out-turn)	359.5	363.7
Tax payable at standard rate of corporation tax (out-turn) (20% to 2016/17, 19% from 2017/18)	68.3	70.6
Plus or minus accelerated or deferred capital allowances (out-turn)	0.4	(24.8)
Plus or minus prior year adjustments (out-turn)	(10.8)	(6.6)
Adjusted tax payable (out-turn)	**57.9**	**39.2**
Adjusted tax payable (12/13 prices)	**48.7**	**34.8**
Variance (12/13 prices)	**7.4**	**12.0**
% of actual regulatory equity	**0.22%**	**0.34%**

Overall, this shows a small tax outperformance of 0.22% for 2019/20 and 0.34% cumulative over the AMP. The main contributors to tax outperformance have been higher capital allowances received than assumed at the PR14 FD (with UUW's accelerated capital programme), zero profits from the non-household business following its disposal in 2016 and a small reduction in the rate of corporation tax (from 20% assumed to 19% from 2017/18). This has been largely offset by tax underperformance resulting from the actual interest charge being lower than the notional amount assumed in the price limit calculations. The prior year adjustment typically relates to the agreement of prior year capital allowance matters. Note that the cumulative tax position has been uplifted by 0.07% to present all years' tax allowances in a consistent 2012/13 price base and to capture the correct prior year tax adjustments.

Line 7 – Group relief – 2019/20 Actuals: nil; Cumulative: nil
Whilst UUW has utilised losses surrendered from other group companies during the 5-year cumulative period, it has always been charged for these at the value of the group relief. As such, there is no financial benefit to this and thus, in line with the RAG definition, this is reported as nil.

Line 8 – Cost of debt – 2019/20 Actuals: +2.08%; Cumulative: +1.62%
The actual real interest paid used to calculate overall financing outperformance (i.e. sum of lines 8 and 9) has been calculated using UUW's net interest expense plus interest paid/received on swaps. As the table below shows, this is then divided by actual net debt to derive a net interest rate. This rate is then compared to Ofwat's allowed cost of debt (2.59%) plus average RPI in the year to derive a debt outperformance number (shown as 'c') in the table below. This is then multiplied by UUW's actual gearing position and adjusted for corporation tax to derive a cost of debt outperformance number, also presented as a % of actual regulatory equity. This has been calculated as 2.88% for 2019/20 actuals and 2.16% for the cumulative 5-year position.

	2019/20 Actuals £m	2015/16-2019/20 Average £m
a) Net interest paid including derivatives (£m)	257.9	249.4
b) Average Net Debt (£m)	7,642.5	6,904.0
Net interest rate (%)	3.38%	3.62%
Average RPI (%)	2.59%	2.52%
Allowed cost of debt in the PR14 final determination (%)	2.59%	2.59%
c) Debt outperformance (%)	**1.80%**	**1.49%**
d) x Average RCV (£m 12/13 prices)	9,765.5	9,658.2
e) x Average actual gearing rate (%)	66.28%	63.79%
f) Adjusted for Corporation Tax (20% to 2016/17, 19% from 2017/18)	19.00%	19.40%
Cost of debt outperformance (£m 12/13 prices)	**94.6**	**75.2**
Cost of debt outperformance (% of regulatory equity)	**2.88%**	**2.16%**
Split by:		
Net interest excluding swaps (Line 8)	**2.08%**	**1.62%**
Interest of swaps (Line 9)	**0.80%**	**0.54%**

Financing outperformance is mainly attributable to the embedded cost of debt UUW has locked in at lower rates than Ofwat's PR14 FD assumed cost of debt. Ofwat's assumed cost of debt was based on a water industry average and under the regulatory model companies with below average debt can expect to outperform on financing.

UUW's debt predominantly comprises a mix of index-linked debt and fixed rate debt. UUW's index-linked debt is locked-in at an average real rate of 1.2%, locking in outperformance vs. the PR14 FD cost of debt allowance of 2.59%. Inclusive of all hedging derivatives, UUW's fixed rate debt is locked-in at a rate of 3.0% nominal. The level of outperformance fluctuates depending on out-turn RPI, with outperformance higher in years of higher RPI. However, with average RPI running at c2.5% over the 5-year cumulative period, this debt has also generated financing outperformance. New debt raised efficiently, coupled with the continuing relatively low market interest rates has also enabled UUW to generate additional financing outperformance from new debt raised over the last 5 years. The continuing low relative market interest rates has been factored into the PR19 FD and so we would expect financing outperformance to be considerably lower for the next regulatory period from 2020/21.

The overall cumulative position (2.16%) is slightly lower than the 2019/20 actual position (2.88%), mainly due to additional outperformance generated on new debt raised across the period.

The total outperformance relating to hedging instruments (see line 9 below) is deducted from total cost of debt outperformance to derive a cost of debt outperformance excluding swaps of 2.08% for 2019/20 and 1.62% cumulative, as reported on line 8.

Note that Ofwat recently published its consultation on the 2020/21 APR, which includes proposed changes to the reporting requirements for financial flows. In particular, the line definition for cost of debt has been updated to remove the double count of taxation on financing performance (as the tax impact on financing performance is already included in the 'variance in corporation tax' line). This change will be effective from 2020/21, and therefore does not apply to this year's reporting. However, to

demonstrate the impact, we have re-calculated cost of debt (including hedging instruments) on the new proposed basis, which results in 3.54% for 2019/20 actuals and 2.67% cumulative. This would result in higher total earnings of 6.59% for 2019/20 actuals and 8.36% cumulative, an increase of 0.67% and 0.51% respectively.

Line 9 – Hedging instruments – 2019/20 Actuals: +0.80%; Cumulative: +0.54%
This line shows the impact on financing outperformance of our interest rate and cross-currency swap derivatives. Since market interest rates have, on average, reduced from the time of issuance to market rates at the reporting date, our overall swaps are in a net asset position (as can be seen in Table 1C) and have generated net cash inflows for all 5 years from 2015/16 to 2019/20.

Line 11 – Totex out / (under performance) – 2019/20 Actuals: -3.07%; Cumulative: -1.00%
This line shows totex out/(under) performance versus the amount allowed in the PR14 FD, adjusted for timing differences and presented net of the customer sharing ratio. Whilst we have incurred significantly more wholesale totex across the AMP6 period than was assumed in the FD, this has been impacted by the acceleration of spend in the period which has been adjusted for in this metric.

Across AMP6, we have delivered totex outperformance of c£100m against our AMP6 scope. However, this ignores the additional c£250m of resilience spend, c£100m of 'flying start' investment, c£50m of accelerated AMP7 spend and £80m atypical costs incurred in 2018/19 and 2019/20 relating to the Dry weather event.

The c£100m underlying outperformance as well the c£250m resilience spend has been spread equally over the final three years of the AMP. 2019/20 includes the c£100m flying start investment, c£50m AMP7 accelerated spend and £13m of the c£80m atypical spend that related to 2019/20. Net of the customer share (49.9% water, 48.8% wastewater), this results in a reported totex overspend of 3.07% in 2019/20 and 1.00% on a cumulative 5-year position. Note that this totex spend profiling is consistent with totex presented in RORE, albeit the RORE totex numbers are lower since they are presented net of tax.

Line 12 – ODI out / (under performance) – 2019/20 Actuals: +0.50%; Cumulative: +0.25%
This line shows the actual out/(under) performance of Outcome Delivery Incentives (ODIs) accrued in the year. In 2019/20 we delivered another strong performance against wholesale ODIs resulting in a net reward of £21.1m (equating to +0.64% of regulatory equity). Note that Ofwat have adjusted our prior year performance on the rivers improved performance commitment, and therefore we have restated prior year figures to include this adjustment of c£1.0m additional reward. In addition to the operationally focused wholesale ODI's, there is also a customer experience programme ODI. As this programme was delivered more efficiently than assumed, £4.6m has been returned to customers through this ODI in 2019/20. The total AMP6 ODI reward of £38.9m (including the customer experience programme ODI penalty) averages out to derive a +0.25% return on regulatory equity.

Previously, any SIM out/(under performance) payments were excluded from Table 1F in accordance with the RAG line definitions. However, this year Ofwat has issued guidance (as per IN 20/03 April 2020) requesting that companies include the impact of SIM and record equally across the first four years (2015/16 – 2018/19). Therefore, we have restated prior year figures to include our SIM reward of £5.4m (12/13 prices) and spread this equally across the first four years of the AMP. This equates to +0.03% of regulatory equity in the cumulative position. There is no impact to the 2019/20 reported figures.

Note that the ODI numbers are consistent with those reported within RORE.

Line 13 – Retail out / (under performance) – 2019/20 Actuals: -0.53%; Cumulative: -0.16%
Line 13 represents the difference between PR14 FD allowed retail costs for both household and non-household costs and actual costs incurred. The non-household allowance has been excluded following the disposal of UUW's non-household activities in 2016. Overall, costs incurred in household retail have been slightly higher than the FD allowance and in particular for 2019/20. This is due to an atypical c£20m bad debt charge in 2019/20 associated with the higher risk of future non-payment of household customer bills as a result of COVID-19, coupled with an increasingly challenging FD allowance across AMP6. Note that retail spend is consistent with that presented in RORE, albeit the RORE retail numbers are lower since they are presented net of tax.

Line 14 – Other exceptional items – 2019/20 Actuals: nil; Cumulative: nil
This line is defined as exceptional items that are outside normal operating activities i.e. the profit or loss on disposal of the Retail non-household part of the business. Our non-household business disposal in 2016 resulted in no profit/loss on disposal being realised in UUW and hence this line is reported as nil.

Line 16 – Total earnings – 2019/20 Actuals: 5.92%; Cumulative: 7.85%
Total earnings represents the sum of the above lines and represents the actual real return.

Line 17 – RCV growth from RPI inflation – 2019/20 Actuals: 2.59%; Cumulative: 2.52%
This line shows the average RPI for the period as published by the ONS.

Line 18 – Total shareholder return – 2019/20 Actuals: 8.50%; Cumulative: 10.37%
This line adds average inflation in the year (line 17) to the real earnings (line 16) to represent the actual nominal return.

Line 19 – Net dividends Actuals: 12.89%; Cumulative: 8.13%
This line reports gross dividends (line 21) less interest received on intercompany loans (line 22). Gross appointed dividends for 2019/20, as reported in Table 1A, was £504.5m. This dividend amount consists of a base return of 5% of the equity portion of UUW's shadow RCV plus distributed outperformance as split-out in the 'Dividends paid to associated undertakings' note on page 185.

Gross dividends for 2019/20 was higher than average for the AMP, since it included the one-off distribution of all remaining outperformance (mainly financing), post £330m investment to improve resilience and level of service and £100m AMP7 flying start, across the whole 5-year regulatory period. Over the AMP6 period, average dividends paid have been just over 8% of regulatory equity, representing a 5% base return plus just over 3% distributed outperformance.

UUW has one inter-group intercompany loan of £40m to United Utilities PLC. This has resulted in interest income in UUW of c£0.3m-£0.4m each year (equivalent to 0.01% of regulatory equity) which is netted from gross dividends to derive net dividends in line 19.

Line 20 – Retained value – 2019/20 Actuals: -4.38%; Cumulative: 2.24%
This line shows the nominal return (line 18) less the net dividends paid (line 19) to represent the value retained in the business post-dividend. Despite 2019/20 retained earnings being negative due to the one-off distribution of all remaining AMP6 outperformance (as described above), when considered on a cumulative basis, the retained value is still well above zero, with total shareholder returns exceeding dividends by x1.28.

Return on regulatory equity (Table 4H)

The notional base case RORE that was assumed in the PR14 final determination was 5.63%. The reported RORE position across 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 (taken as the simple average of the five years) was 7.00% with the breakdown of this position shown in the table below.

When reading the following table, it should be noted that comparisons between the base case and reported RORE can be misleading; the reported numbers reflects the UUW actual company-specific position (in line with Ofwat's reported RORE definition) whereas the base case return in the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt.

	2015/16 Restated	2016/17 Restated	2017/18 Restated	2018/19 Restated	2019/20	2015/16 -2019/20 Average	Narrative
Base case RORE as per FD	5.63%	5.63%	5.63%	5.63%	5.63%	5.63%	
Remove business retail margin	0.00%	(0.09%)	(0.11%)	(0.11%)	(0.11%)	(0.07%)	1
Adjusted base case RORE	**5.63%**	**5.54%**	**5.52%**	**5.52%**	**5.52%**	**5.54%**	
Totex out / (under) performance	-	-	(0.49%)	(1.15%)	(2.24%)	(0.78%)	2
Retail out/ (under) performance	(0.02%)	(0.08%)	0.02%	(0.15%)	(0.39%)	(0.12%)	3
Outcome delivery incentives	0.07%	0.19%	(0.19%)	0.55%	0.45%	0.21%	4
SIM	0.04%	0.04%	0.04%	0.04%	-	0.03%	5
Financing outperformance	0.62%	1.61%	2.81%	3.04%	2.46%	2.12%	6
Reported RORE	**6.34%**	**7.30%**	**7.71%**	**7.85%**	**5.80%**	**7.00%**	

Narrative:

1. The business retail margin assumed in the base case RORE has been removed following the transfer of the non-household retail business to the Water Plus joint venture on 1 June 2016. This is aligned to the allowed return on regulatory equity reported in Table 1F line 1.

2. Across AMP6, we have delivered totex outperformance of c£100m against our AMP6 scope. However, this ignores the additional c£250m of resilience spend, c£100m of 'flying start' investment, c£50m of accelerated AMP7 spend and c£80m atypical costs incurred in 2018/19 and 2019/20 relating to the Dry weather event. The c£100m underlying outperformance as well the c£250m resilience spend has been spread equally over the final three years of the AMP from 2017/18 to 2019/20. 2019/20 includes the c£100m flying start investment, c£50m AMP7 accelerated spend and £13m of the c£80m atypical spend.

3. Costs incurred in household retail have been slightly higher than the FD allowance and in particular for 2019/20. This is due to an atypical c£20m bad debt charge in 2019/20 associated with the higher risk of future non-payment of household customer bills as a result of COVID-19, coupled with an increasingly challenging FD allowance across AMP6.

4. Net ODI reward of £2.5m in 2015/16, £6.7m reward in 2016/17, £6.8m penalty in 2017/18 and £19.9m reward in 2018/19. In 2019/20, we delivered another strong performance against wholesale ODIs resulting in a net reward of £21.1m. Note that Ofwat have adjusted our prior year performance on the rivers improved performance commitment, and therefore we have restated prior year figures to include this adjustment of c£1.0m additional reward. In addition to the operationally focused wholesale ODI's, there is also a customer experience programme ODI, as this programme was delivered more efficiently than assumed £4.6m has been returned to customers through this ODI in 2019/20.

5. Last year we recorded a SIM reward of £14.7m (12/13 prices) in 2018/19. This was based on an estimate using our forecast of other companies' SIM results for 2018/19 and assumed that Ofwat would apply the same methodology to its true-up calculation as in the previous AMP. However, the SIM outperformance payment received was much lower at £5.4m (12/13 prices). In addition, Ofwat has since issued guidance that the SIM reward should be recorded equally across the first four years (2015/16 – 2018/19) of the AMP. Therefore, we have restated the SIM figures in the above table to reflect the actual reward received and amended the profiling to be consistent with Ofwat's guidance (previously all reported in 2018/19).

6. The actual real interest rate has been calculated based on UUW's regulatory average net debt for 2017/18, 2018/19 and 2019/20 and using average RPIs for these years. The 2015/16 and 2016/17 rates were calculated based on UUW's statutory net debt (which includes all derivatives) which, prior to the change in reporting of preference shares from 2017/18 see page 167, provided a better presentation of net debt. Financing outperformance has increased throughout the 5-year period due to higher out-turn RPI resulting in increased outperformance on nominal debt, and new debt has been raised at lower relative rates. Ofwat's base case RORE was based on a theoretical, efficient company with a notional capital structure and a notional cost of debt. This means that the values are not directly comparable.

7. Adjusting for the discretionary resilience and 'flying start' reinvestment, accelerated AMP7 investment and atypical spend including the 2018 dry weather event and 2019/20 COVID-19 retail costs (impacts as described above), the cumulative underlying RORE is higher at 7.99%. This underlying RORE of 7.99% provides a more representative view of actual business performance across 2015-20.

New connections (Table 2K)

The purpose of table 2K is to reconcile the infrastructure charges with the infrastructure network reinforcement costs over a five-year rolling period. This is to ensure that the money we receive from developers due to the impact of new connections increasing the demand on our existing water mains and sewers, is spent accordingly.

Our infrastructure charges are set to be cost reflective of the services we provide. As such, we have different infrastructure charges to reflect the demand placed on our network.

For example there is a lower rate infrastructure charge is applicable for developments in relation to water efficient homes or where properties are built with no surface water connection to the existing public sewer. Where developers implement these sustainable developments it places less demand on our network which reduces our spend on infrastructure network reinforcement. Likewise, where developers do not adopt the sustainable solutions it places greater demand on our network, which means we have to spend more on infrastructure network reinforcement.

The overall aim being that our developer charges recover our expected infrastructure network reinforcement costs and hence there is nil totex impact. This ensures that existing customers are not funding infrastructure network reinforcement due to new developments.

Table 2K is expected to show the performance over a five-year rolling period. At the end of the second year the cumulative position is shown in the table below:

Comparison of revenue and costs	Water £m	Wastewater £m	2019/20 Total £m
Variance brought forward[1]	5.057	3.326	8.384
Revenue (net of discounts applied)	9.721	11.369	21.091
Costs	(8.716)	(5.957)	(14.674)
Variance carried forward	**6.062**	**8.738**	**14.801**

1 Variance brought forward is £0.861m lower in water and £0.972m lower in wastewater than reported in Table 2K in 2018/19, which showed a carry forward balance of £5.918m in water and £4.299m in wastewater. This adjustment was made to correct for the fact that there were no discounts applied in 2018/19, with different charges applied for different contributions as described above.

Across 2018/19-2019/20, the variance between costs and revenue is £14.8m (£6.1m in water and £8.7m in wastewater), as a result of;

- £10.0m higher revenues due to c17,700 more properties connected than forecast across the two-year period (£5.1m higher in water and £4.9m higher in wastewater), driven by some significant apartment developments in and around major cities; and
- £4.8m lower infrastructure network reinforcement spend compared with forecast due to the timing of scheme's being delivered (£1.0m lower in water and £3.8m lower in wastewater)

Tax strategy

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer ("CFO") has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax. The Head of Tax has day-to-day responsibility for managing the company's tax affairs and engages regularly with key stakeholders from around the company in ensuring that tax risk is proactively managed. Where appropriate, he will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the company's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The company is committed to actively engaging with relevant authorities in order to actively manage any such risk.

In any given year, the company's effective cash tax rate on underlying profits may fluctuate from the standard UK rate due to the available tax deductions on capital investment and pension contributions. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the company operates within, the majority of any benefit from reduced tax payments will typically not be retained by the company but will pass to customers; reducing their bills. For 2019/20, the impact of tax deductions on capital investment alone reduced average household bills by around £25.

United Utilities Water Limited operates solely in the UK, and its customers are based here and all of the company's profits are taxable in the UK.

Every year, the company pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2019/20 of around £250m are set out below:

- Business rates – £77m
- Corporation tax – £61m
- Employment taxes: company – £23m
- Employment taxes: employees – £54m
- Environmental taxes and other duties – £12m
- Regulatory services fees (e.g. water extraction charges) – £28m

The above tax policy disclosure meets the company's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2020.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders

Recognising the company's commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to secure the Fair Tax Mark independent certification.

Current tax reconciliation

	2019/20 £m
Profit on appointed ordinary activities before tax and fair value movements as per Table 1A line 9	**359.5**
Multiplied at the standard rate of corporation tax of 19%	68.3
Capital allowances in excess of depreciation	0.4
Adjustment in respect of prior years	(10.8)
Net non-deductible expenses	2.8
Pension deductions	(17.6)
Fair value movements	(2.8)
Other timing differences	1.8
Appointed current tax charge per Table 1A line 12	**42.1**

Following the October 2018 Chancellor's Budget the current tax charge has increased from 2019/20, principally due to the reduction in the rate of capital allowances from 8% to 6%, affecting the group's historic and future infrastructure spend.

Reconciliation of significant variations between the appointed current tax charge or credit reported in line 1A.12 to the total current tax charge allowed in price limits

	2019/20 £m	Commentary
Current tax charge allowed in price limits	**65.6**	
Adjustment in respect of prior years	(10.8)	The adjustment arises following the submission of the tax computations and mainly relates to a net increase in capital allowance claims
Pension deductions	(13.5)	Mainly due to the tax impact of the increase in pension deductions due to accelerated deficit repair contributions of c.£81m
Net decrease in profit before tax and depreciation	(7.7)	The tax impact of the decrease in profit before tax and depreciation compared to the figures per the Final Determination
Fair value movements	11.7	Non-taxable interest, currency and electricity swaps
Financing adjustments	7.5	The actual interest charge is lower than the notional amount assumed for price limit calculations
Increase in capital allowances/other	(0.2)	The increase in capital allowances is mainly due to the cumulative increase in capital expenditure offset by Bioresources asset write down and the reduction in capital allowance rate from 8% to 6% referred to above
Reduction in tax rate from 20% to 19%	(3.2)	Impact of the corporation tax rate change
Household Retail tax allowance movement	(3.9)	Impact of movement in Household Retail taxable profits
Non-household Retail tax allowance	(3.4)	Impact of the disposal of the Non-household business
Appointed current tax charge per Table 1A line 12	42.1	

Long term viability statement

The directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2027.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on page 28 of the UUW statutory accounts assesses the company's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the company's strategic planning process, and is key to achieving the company's aim of providing the best service to customers at the lowest sustainable price and in a responsible manner over the longer term, underpinning our business model set out on pages 20 to 43 of the UUW statutory accounts.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the company. Specifically, risks associated with the possible ongoing impact of the COVID-19 pandemic have been considered and factored into the various scenarios modelled as part of UUW's assessment. An overview of our risk management approach that supports the company's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 79 to 92 of the UUW statutory accounts. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

The viability assessment is performed on a standalone basis in relation to UUW. UUW is part of the United Utilities group. The regulated activities of UUW represent 98% of the total assets of the United Utilities group as a whole, which taken together with the financial resources and interests of the regulated business being robustly ring-fenced, means there is minimal risk from the non-regulated activities.

Viability assessment: resilience of the company

The viability assessment is based upon the company's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- **the company's current liquidity position** – with £1.0 billion of available liquidity at March 2020 providing a significant buffer to absorb short-term cash flow impacts;
- **the company's robust capital solvency and credit rating positions** – with a debt to regulatory capital value (RCV) ratio[1] of 67 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- **the company's expected performance,** underpinned by its historical track-record; and
- **the current regulatory framework within which the company operates –** which provides a high degree of cash-flow certainty over the regulatory period and the broader regulatory protections outlined below.

UUW has a proven track-record of being able to raise new forms of finance in most market conditions, and expects to continue to do so into the future. This is despite the company no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the company benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long-term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the company's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

1) Debt to RCV gearing is calculated based on UUW's statutory net debt divided by Ofwat's shadow RCV

Viability assessment: resilience to principal risks facing the business

The directors have assessed the company's viability based on the resilience of the company and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing UUW, as set out on pages 83 to 92 of the UUW statutory accounts. The baseline plan against which the viability assessment has been performed reflects the estimated impact of a 'long peak' COVID-19 scenario on the company. This assumes restrictions and social distancing extend through the summer of 2020 resulting in a one-year GDP reduction of 8 per cent which takes 10 quarters to recover; unemployment peaking at 9 per cent; CPIH inflation reducing to zero in the year to March 2021 and averaging 1.0 per cent over the period to March 2025 before increasing back to 2.0 per cent; and non-household business revenues reduced by around 30 per cent in the year to March 2021.

This baseline plan is then subject to further stress tests and reverse stress testing that takes into account the potential impact of UUW's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the company's TCFD disclosures on pages 54 to 69 of the UUW statutory accounts; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; longer term, economic impacts resulting from COVID-19, including unemployment and corporate failures affecting debt collection and lower inflation affecting revenues, financing costs and RCV; and the potential for a restriction to the availability of financing resulting from a capital markets crisis. While a scenario in which no trade deal is reached ahead of the conclusion of the transition period following the UK's withdrawal from the EU may have adverse operational and financial impacts on the company, this is not considered to represent a significant risk to the company's ongoing viability.

The scenarios considered are underpinned by the company's established risk management processes, taking into account those risks with a greater than 10 per cent (1 in 10) cumulative likelihood of occurrence. In addressing the risks associated with COVID-19 the further downside scenario considered is one in which the pandemic gives rise to a potential depression with persisting levels of high unemployment and short-term deflation, followed by medium term low inflation. This is assumed to result in elevated levels of bad debt, increased totex costs, outcome delivery incentive penalties and lower CPIH inflation, in each case, across the whole viability period.

Based on these risks, the following eight largest impacting scenarios were identified and applied as downside stress scenarios to UUW's baseline plan:

Scenario 1: Covid-19 downside scenario (as described above) combining the below factors:

- CPIH inflation of 1.0% below baseline plan 2020/21-2026/27
- Bad debt (IFRS) of c4.0% per annum 2020/21-2026/27
- Non-household revenue reduction from deferred wholesale charges in 2020/21 of £120m, received 2023/24-2024/25
- ODI penalty of 0.8% (-£35m) p.a. 2020/21-2026/27
- Totex overspend of 5% per annum throughout 2020/21-2026/27

Scenario 2: Totex £500m one-off impact in 2020/21 – broadly representing the largest 'severe but reasonable' risk which is a critical asset failure, all assumed to be operating costs

Scenario 3: Totex underperformance of 10% (c£100m) per annum for 2020/21-2026/27 – representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but reasonable' risks (including environmental, cyber security and network failure risks)

Scenario 4: CPIH inflation of 1.0% below baseline plan for 2020/21-2026/27 – consistent with quantum of inflation impacts modelled within severe but reasonable risks

Scenario 5: An increase in bad debt of £40m total in AMP7 – in line with internal bad debt cash collection risk.

Scenario 6: Additional ODI penalty of 0.4% RORE (c£20m) per annum – assuming mid-point of UUW's baseline and FD P90 ODI position

Scenario 7: Combined Non COVID-19 scenario – 50% of scenarios 3-6

Scenario 8: Combined COVID-19 and totex scenario – Scenario 1 + 50% scenario 2

The above scenarios reflect our company specific risks and risk mitigation strategies whilst having consideration to the 'common scenarios' prescribed by Ofwat for PR19.

The assessment has considered the impact of these scenarios on the company's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the company's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

As part of the assessment, reverse stress tests of extreme theoretical scenarios have been performed to understand the headroom in the company's ability to absorb all severe but reasonable scenarios.

Viability assessment: key mitigating actions
In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the company, the effectiveness of which are underpinned by the strength of the company's capital solvency position.

As well as the protections that exist from the regulatory environment within which the company operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance; capital programme deferral; the closeout of derivative asset positions; the restriction of dividend payments; and access to additional equity.

These mitigations could cover a number of different extreme scenarios. For example, to mitigate against a large one-off impact (such as in scenario 2 – £500m one-off totex impact), liquidity could be quickly enhanced by issuing new finance, accessing additional equity or closing out derivative asset positions. Where longer-term persisting impacts were expected (such as in scenario 3 – recurring totex overspend, scenario 6 – ODI underperformance or scenario 4 – persisting low CPIH inflation) mitigations such as the restriction of dividend payments or deferral of capital spend are viable alternative options. However, it should be stressed that no specific mitigating action are required under any of the eight scenarios modelled above.

Viability period of seven years
In determining the viability assessment period, the board had regard for the increasing level of uncertainty as the duration of the assessment period is extended and the desire to maintain a robust viability assessment. Notwithstanding the uncertainty arising from the ongoing COVID-19 pandemic, the board concluded that retaining an assessment period of seven years was appropriate.

Governance
The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the company's external auditor, KPMG, as part of their normal audit procedures.

Going concern
The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation paragraph in the accounting policies of the UUW statutory accounts.

Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of their knowledge, the directors of the company declare that all appropriate transactions with associated companies have been disclosed and material transactions with associated companies are at arm's length and no cross-subsidy has occurred. The materiality level of transactions used for reporting is 0.5 per cent of turnover.

Borrowings and loans

The following loans from associated companies existed at 31 March 2020:

	£m	Interest rate	Repayment date
United Utilities PLC: overdraft facility	22.541	0.5%+LIBOR	On demand
United Utilities PLC: £587.3 million loan	587.260	0.175%+LIBOR	On 18 months notice
United Utilities PLC: £300.0 million loan	50.000	0.175%+LIBOR	Amortising until August 2020
United Utilities Water Finance PLC: GBP Notes 2.0% 2025	468.455	2.000%	February 2025
United Utilities Water Finance PLC: GBP 0.013% RPI Bond 2025	28.331	0.013%+RPI	April 2025
United Utilities Water Finance PLC: HKD Notes 2.867% 2026	35.938	2.867%	January 2026
United Utilities Water Finance PLC: HKD Notes 2.92% 2026	83.447	2.920%	February 2026
United Utilities Water Finance PLC: EUR Notes 1.129% 2027	48.572	1.129%	April 2027
United Utilities Water Finance PLC: HKD Notes 2.37% 2027	93.276	2.370%	October 2027
United Utilities PLC: USD $400.0 million bond	397.532	6.875%	August 2028
United Utilities Water Finance PLC: GBP 0.01% RPI Bond 2028	23.627	0.01% +RPI	September 2028
United Utilities Water Finance PLC: GBP 0.178% RPI Bond 2030	39.647	0.178%+RPI	April 2030
United Utilities Water Finance PLC: EUR Notes 2.058% 2030	30.165	2.058%	October 2030
United Utilities Water Finance PLC: GBP Notes 2.625% 2031	380.482	2.625%	February 2031
United Utilities Water Finance PLC: HKD Notes 2.9% 2031	67.193	2.900%	June 2031
United Utilities Water Finance PLC: EUR Notes 1.641% 2031	28.868	1.641%	June 2031
United Utilities Water Finance PLC: GBP 0.245% CPI Bond 2031	21.355	0.245% +CPI	December 2031
United Utilities Water Finance PLC: GBP 0.01% RPI Bond 2031	44.198	0.01% +RPI	December 2031
United Utilities Water Finance PLC: EUR Notes 1.707% 2032	28.674	1.707%	October 2032
United Utilities Water Finance PLC: EUR Notes 1.653% 2032	26.193	1.653%	December 2032
United Utilities Water Finance PLC: EUR Notes 1.70% 2033	30.795	1.700%	January 2033
United Utilities Water Finance PLC: GBP Notes 2.0% 2033	299.022	2.000%	July 2033
United Utilities Water Finance PLC: GBP 0.01% RPI Bond 2036	32.796	0.01% +RPI	September 2036
United Utilities Water Finance PLC: GBP 0.379% CPI Bond 2036	21.336	0.379% +CPI	December 2036
United Utilities Water Finance PLC: GBP 0.01% RPI Bond 2036	33.881	0.01% +RPI	December 2036
United Utilities Water Finance PLC: GBP 0.093% CPI Bond 2037	63.629	0.093% +CPI	February 2037
United Utilities Water Finance PLC: GBP Notes 1.75% 2038	247.955	1.750%	February 2038
United Utilities Water Finance PLC: GBP 0.359% CPI Bond 2048	33.528	0.359% +CPI	October 2048
United Utilities Water Finance PLC: GBP 0.387% CPI Bond 2057	34.233	0.387% +CPI	October 2057
United Utilities North West Limited: preference shares	130.000	7.000%	October 2099

The following loans to associated companies existed at 31 March 2020:

	£m	Interest rate	Repayment date
United Utilities PLC: £40.0m loan	40.000	0.5%+LIBOR	1 months notice
Water Plus Ltd: £100.0m revolving credit facility*	98.000	1.475% +LIBOR	September 2021

* This revolving credit facility is guaranteed by United Utilities PLC

Dividends paid to associated undertakings
During 2019/20, interim dividends were paid to the parent company, United Utilities North West Limited, totalling £513.2 million (2019: £375.6 million).

In line with the dividend policy, dividends paid of £513.2m comprised:

- £203.3m base return of 5% of the equity portion of the Shadow Regulatory Capital Value:
- £8.7m estimated non-appointed profits for 2019/20
- £301.2m distributed outperformance

Distributed outperformance of £301.2m represents all remaining accrued outperformance previously undistributed, consistent with the earnings lines reported in Table 1F Financial flows across 2015-20. The outperformance reflects the net position in relation to outperformance on financing, corporation tax and ODIs partly offset by reported overspends on totex (post-reinvestment) and retail costs, together with remaining outperformance in relation to 2010-15 actual performance adjustments. Please refer to the 'Financial flows' table narrative on pages 173 to 176 for more information on reported performance 2015-20.

Guarantees by the appointee
A financing subsidiary of United Utilities Water Limited (UUW), United Utilities Water Finance PLC (UUWF), was set up in 2014/15 to issue new listed debt on behalf of UUW, following UUW's re-registration as a private limited company. Debt instruments issued by UUWF (as listed in borrowing and loans above) have been guaranteed by UUW.

Transfer of assets by or to the appointee
There were no transfers of assets or liabilities by or to the company in 2019/20.

Services supplied to the company by associated companies in 2019/20

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work or services 2019/20 £m
Employment costs	UU PLC	-	Recharge of costs	17.599
Share-based payments recharge	UU Group PLC	-	Recharge of costs	1.416
Accommodation	UU Property Services	5.053	Contract price	0.118
Purchase of energy	UU Renewable Energy	6.734	Contract price	4.003
				23.136

Services supplied by the company to associated companies in 2019/20

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work o services 2019/20 £m
Employment costs and travel costs	UU Property Services	5.053	Recharge of costs	0.442
Employment costs and travel costs	UU PLC	-	Recharge of costs	0.009
Employment costs and travel costs	UU International Ltd	0.974	Recharge of costs	0.454
Employment costs and travel costs	UU Total Solutions	0.634	Recharge of costs	0.086
Employment costs and travel costs	UU Renewable Energy	6.734	Recharge of costs	1.020
Wholesale water/wastewater charges	Water Plus Ltd	479.367	Contract price	437.043
Wholesale water/wastewater charges	Water Plus Select Ltd	374.105	Contract price	0.322
Programme and TSA charges	Water Plus Ltd	479.367	Recharge of costs	0.020
Central services including IT	UU Property Services	5.053	Recharge of costs	0.082
Wastewater treatment services	UUW Ltd (non-appointed)	5.900	Contract price	0.080
Property searches	UUW Ltd (non-appointed)	3.700	Contract price	0.027
				439.585

Corporation tax group relief received/surrendered by the regulated business in 2019/20

Nature of transaction	Company	Turnover of associate 2019/20 £m	Terms of supply	Total value of goods, work or services 2019/20 £m
Corporation tax group relief received by regulated business	United Utilities Group PLC	-	The payment was calculated by multiplying the gross loss by the mainstream rate of corporation tax, resulting in £2.9m group relief received	2.850

Services supplied by the non-appointed business in 2019/20

Service	Basis of recharge made by the appointed business	Value of recharge made by the appointed business 2019/20 £m
Treatment of imported sludge	Nil	-
Treatment of tankered waste	The appointed business recharges the non-appointed business for treating tankered waste at wastewater treatment works. The recharge is calculated using the Mogden formula based on tankered waste volumes and as per RAG 2.07 (2.8) the income is recorded as negative expenditure, reducing appointed operating expenditure.	2.702
Other	The appointed business recharges the non-appointed business for the use of operating systems consumed directly in the performance of non-appointed activities. This is calculated based on the frequency and proportion of system use.	1.698

Statement of directors' remuneration and standards of performance

All directors of United Utilities Water Limited (UUW) are also directors of UUG. Further remuneration details including the policy can be found in the annual report and accounts of UUG.

For the purposes of this disclosure, the company's directors can be split into two categories:

- executive directors of UUW; and
- non-executive directors of UUW.

During the year ended 31 March 2020, the directors have received remuneration linked to levels of performance against service standards in connection with activities subject to price regulation.

Element: purpose and link to strategy Base Salary	Operation	Opportunity 2019/20	Performance measures
To attract and retain executives of the experience and quality required to deliver the company's strategy.	Reviewed annually. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce. Significant increases only awarded infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • The pay market for directly comparable companies (for example, companies of a similar size and complexity).	Steve Mogford: 1 April 2019 – 31 August 2019: £760,000. Increased to £775,200 from 1 September 2019. Russ Houlden: 1 April 2019-31 August 2019: £480,000. Increased to £489,600 from 1 September 2019. Steve Fraser (final date with the company was 31st August 2019: 1 April 2019-31 August 2019: £443,700.	None.
Benefits			
To provide market competitive benefits to help recruit and retain high calibre executives.	Provision of benefits such as health benefits, car or car allowance, relocation assistance, life assurance, group income protection, opportunity to join the ShareBuy scheme, travel and communication costs.	See table on executive directors' remuneration 2019/20 on page 189.	None.
Pension			
To provide a level of benefits that allow for personal retirement planning.	Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; or • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	Aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (i.e. up to 12 per cent of base salary for 2019/20);or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to the role before 26 July 2019 a cash allowance of 22% of salary is payable.	None.

Element: purpose and link to strategy Annual Bonus	Operation	Opportunity 2019/20	Performance measures
To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part bonus into shares aligns the interests of executive directors and shareholders.	All: • 50% paid as cash. • 50% deferred into company shares under the deferred bonus plan (DBP) for three years. • DBP shares accrue dividend equivalents. • Not pensionable. • Recovery and withholding provisions apply.	Maximum 130% of salary	Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives. Targets and weightings set by reference to the company's financial and operating plans. Detail is set out in table 2019/20 annual bonus on page 189.
Long Term Plan			
To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers and other stakeholders.	Awards under the Long Term Plan (LTP) are rights to receive company shares, subject to certain performance conditions. Each award is measured over at last a three year performance period. An additional holding period applies after the end of the three year performance period so that the total vesting and holding period is at least five years. Vested shares accrue dividend equivalents. Recovery and withholding provisions apply.	Awards worth 130% of salary, with a limit of 200% of salary.	One-third based on total shareholder return (TSR); one-third based on customer service excellence and one-third based on Return on Regulated Equity. Any vesting is also subject to the delivery of the dividend policy during the respective performance period and the UUG remuneration committee being satisfied that the company's performance on these measures is consistent with underlying business performance.

Non-executive directors

As outlined in the annual report and accounts of UUG, the non-executive Chairman and non-executive directors do not participate in the company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration linked to water service standards.

How the standards of performance are assessed

Through the annual bonus and long-term incentive schemes, the executive directors receive remuneration linked to the achievement of performance measures which relate to water service standards in order to provide an incentive for them to deliver improvements in those standards.

In determining the outcome of the incentive schemes, standards of performance are assessed by the UUG remuneration committee (the committee) to ascertain whether targets have been achieved. In addition, the committee also considers relevant reports from Ofwat in assessing the achievement of standards of performance.

Executive directors' remuneration 2019/20

	Base salary £'000	Benefits £'000	Cash allowance in lieu of pension £'000	Bonus (1) £'000	Long-term incentives (2) £'000	2019/20 Total £'000
Steve Mogford	769	35	169	707	884	2,564
Russ Houlden	486	24	107	446	558	1,621
Steve Fraser (3)	185	9	41	0	0	235

(1) 50 per cent of each executive director's bonus was deferred into shares for three years under the Deferred Bonus Plan (DBP)
(2) See page 190 for further detail on the long-term incentives
(3) Steve Fraser's final date of employment with the company was 31 August 2019 and therefore salary, benefits, pension and annual bonus figures for Steve Fraser in year ended 31 March 2020 reflect part-year earnings for the period from 1 April 2019 to 31 August 2019.

A recharge of £274,000 during the year ended 31 March 2020 (2019: £389,000) was charged to other companies in the United Utilities group in relation to the provision of executive director services (£219,000 (2019: £338,000)) and non-executive director services (£55,000 (2019: £51,000).

2019/20 annual bonus

	Steve Mogford		Russ Houlden	
Measure	Max. %	Actual %	Max. %	Actual %
Underlying operating profit	30.0	12.3	30.0	12.3
Customer service in year:				
C-Mex ranking	12.0	12.0	12.0	12.0
Written complaints	4.0	4.0	4.0	4.0
Maintaining and enhancing services for customers:				
Wholesale outcome delivery incentive (ODI) composite	24.0	17.4	24.0	17.4
Time, cost and quality of capital programme (TCQi)	20.0	15.5	20.0	15.5
Personal objectives	10.0	9.5	10.0	9.5
Total as % bonus maximum	**100.0**	**70.7**	**100.0**	**70.7**
Total as % base salary	**130.0**	**91.9**	**130.0**	**91.9**
Total £'000		**707**		**446**

For each of these bonus measures there was a threshold level of performance which triggered a partial payment of bonus with a sliding scale providing for achievement of up to 100 per cent of the relevant element of bonus.

Long-term incentives

For 2019/20 the performance measures, and achievement against those measures for UUG shares previously granted to UUW executive directors which vested in 2019/20, or whose performance period ended in 2019/20 are summarised below:

Performance measure	Weighting	Estimated achievement
Total Shareholder Return (TSR) over the performance period, relative to the median TSR of FTSE 100 companies (excluding financial services, oil and gas and mining companies)	33.3%	20.7% out of 33.3% (Actual)
Sustainable dividends. Average underlying dividend cover over the performance period, with a dividend growth underpin	33.3%	33.3% out of 33.3% (Subject to UUG shareholder approval of final dividend at UUG 2020 AGM)
Customer service excellence. Ranking for the year ended 31 March 2020 out of the11 other water and wastewater using a combined customer service measure comprising C-MeX performance and written complaints	33.3%	25.0% out of 33.3% (Estimated [1])
Total vesting		**79.0%**

(1) The final outcome for the customer service excellence measure will not be known until the volume of written complaints received by other companies are published later in 2020.

Details of the number of shares vesting and value of these shares which vested in 2019/20, or whose performance period ended in 2019/20, are as follows:

Director	Number of shares vesting 2017 LTP [1]	Value of shares vesting £'000 2017 LTP[2]
Steve Mogford	92,062	884
Russ Houlden	58,123	558

(1) The 2017 Long Term Plan (LTP) awards were granted in June 2017. The performance period started on 1 April 2017 and ended on 31 March 2020. The number and value of the vested 2017 LTP awards in the table above is estimated pending the final outcome of the customer service excellence measure, expected to be published in late summer 2020. Awards granted will normally vest in April 2022, following an additional two-year holding period. The awards accrue dividend equivalents.

(2) The value of the 2017 LTP awards has been calculated by multiplying the number of shares vesting by the average share price over the three month period 1 January 2020 to 31 March 2020 (960.2 pence per share)

Directors' remuneration 2020/21

There will be some changes to the incentive arrangements for Directors compared to 2019/20.

Annual Bonus

In a change to previous years, and consistent with the directors' remuneration policy, the annual bonus for 2020/21 will be wholly aligned to the group bonus scorecard, with no personal performance element. In making this change, the committee considered that individual contributions are already directly reflected in the outcomes of the group scorecard and therefore a standalone element was no longer required.

In addition, unlike the approach adopted during AMP6, there will be no additional weighting applied to the underlying operating profit (UOP) measure, with the 10 per cent weighting being redistributed to the scorecard measures.

Long Term Plan

Following approval of the directors' remuneration policy at the UUG 2019 AGM, the 2020 LTP awards will be based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. The award level for executive directors will remain unchanged at 130 per cent of base salary.

The targets for both the RoRE and customer basket measures are still being determined. Full details of the targets set will be disclosed in next year's report.

RING-FENCING CERTIFICATE (RFC) UNDER PARAGRAPH I17 OF CONDITION I OF THE COMPANY'S INSTRUMENT OF APPOINTMENT

(1) In the opinion of the directors, United Utilities Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointments);

(2) In the opinion of the directors, United Utilities Water Limited will, for at least the next twelve months, have available to it the management resources and methods of planning and internal control which are sufficient to enable it to carry out those functions; and

(3) In the opinion of the directors, in respect of the wholesale business, all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

STATEMENT UNDER PARAGRAPH I19 OF CONDITION I OF THE APPOINTMENTS

In providing this opinion under paragraph I17 of the Licence, the Directors have considered many factors, which fully incorporate the 28 factors listed by Ofwat in Information Notice IN20/01 as the minimum factors to consider. The list of factors considered, include, but is not limited to:

Financial resources and facilities	• UUW's financial position at 31 March 2020 as represented by the statutory and regulatory accounts • UUW's IFRS pension surplus of £579m, fully funded on a low dependency basis • UUW's projected cash flows as represented by the business plan, budget and treasury funding plan, updated for the potential impacts of COVID-19 and the liquidity challenges faced by non-household retailers • UUW's expected performance against the 2020/25 Final Determination, underpinned by its historical track-record • UUW's current liquidity position with £1,017m of available liquidity at March 2020 • UUW's capital solvency position with a net debt to RCV gearing ratio of 67% as at March 2020. • UUW's robust credit rating position with unsecured senior debt ratings of Moody's A3; S&P BBB+ and Fitch A, with all ratings on stable outlook • UUW's compliance with its financial covenants • UUW's long-term viability statement of seven years, included within the 2019/20 APR
Management resources	• Organisational capability reviews, forming basis of broad recruitment plans, ensure the right supply of management skills, experience, qualifications and capabilities to respond to the needs of the business • High employee engagement, evidenced by scores regularly above the UK norm, supporting employee retention • Succession plan maintained for all executive directors and team, including outline timescales • Training and personal development programmes exist for all employees, enabling the development or maintenance of skills appropriate for their role • Board appointments and succession planning overseen by Nomination Committee (100% non-executive directors), applying board diversity policy to ensure balance of experience, skills and perspectives • Equality and diversity policy support our intention of providing equality for all our employees in a diverse working environment • The strategy of the company set by the board, including the company's approach to business planning, risk management and the development of policies including health and safety • Non-executive directors considered to be independent when assessed against Provision 10 of the 2018 UK Corporate Governance Code and in accordance with the relevant Board Leadership, Transparency and Governance (BLTG) objectives and provisions • The chairman was independent on appointment when assessed against Provision 10 and in accordance with the relevant BLTG objectives and provisions
Systems of planning and internal control	• Established risk management framework including the governance and reporting structure • Biannual board review of the principal risk and uncertainties facing the business and mitigating controls • Board supported by the Group audit and risk board (GARB) which review and monitor compliance with governance processes, risk management and the internal control framework • UUG Audit Committee approves annual audit plan of work, underpinned by five-year strategic plan, with findings reported back to them. • Business continuity system aligned to International standards best practice, with plans addressing loss of buildings, people, systems and key services • Policies to prevent unethical behaviours including an anti-fraud policy, anti-bribery and corruption policy, whistleblowing policy and security policy, supported by an independently provided, confidential, whistleblowing hotline • Published assurance framework used to support assurance statements supporting key regulatory submissions. • Compliance working group actively maintains a log of key obligations that are referred to within the risk and compliance statement, with each obligations-linked policy having a senior named owner

Rights and resources other than financial resources	• Clear vision to be the best UK water and wastewater company, underpinned by our core values of being customer focused; innovative and trustworthy; and our strategic themes of delivering the best service to customers at the lowest sustainable cost in a responsible manner • Committed to a long-term strategy, embracing systems thinking in how we run our service • Monitoring and control technology systems cover real-time monitoring of assets across our operational sites, ensuring continuing operations • Key policies encouraging an integrated and consistent approach, including policies on Risk Management, Asset Management and the Environment • Well-established approach to water production planning with real-time central tracking of site production capacities and water demand forecasting • Comprehensive maintenance plans in place for all our assets, developed on a risk basis with high criticality and risk assets receiving additional pro-active maintenance • Operational insurance policies protect against material financial loss on insurable risks, supplemented by appropriate levels of self-insurance ensuring ongoing focus on internal-risk management
Contracting	• Major contracts, typically 5+ years, completed with financial robust organisations which have been thoroughly tested through our procurement processes, with flexibility to use alternative suppliers to ensure continuous service • In line with UUW's transfer pricing policy, all intercompany trading relationships must have a contract in place with defined Service Level Agreements (SLAs) • Transactions between the appointee and any associated company are completed at arm's length in accordance with UUW's transfer pricing policy and Licence Condition I4 • The APR includes a list of all transactions between the appointee and associated companies in line with RAG 3.11 • No guarantees or cross-default obligations have been given without Ofwat's written consent
Material issues or circumstances	• COVID-19 incident management team quickly established to oversee incident with the primary aims of the continuous supply of essential water supply whilst protecting the safety of our employees using our pre-existing pandemic plan and incident management processes • Our centralised planning capabilities, use of Systems Thinking, risk assessment, quality assurance and flexible digital systems have enabled us to maintain a resilient service throughout this pandemic

In addition to taking all of the above into account, in accordance with Condition I24 the company's instrument of appointment, UUW engaged with KPMG to examine the RFC in conjunction with the completion of their audit of the Regulatory Accounting Statements within the Company's regulatory accounts for the year ended 31 March 2020. KPMG presented a report to the UUW board stating whether they were aware of any inconsistencies between the RFC and their findings arising from their audit or any information they obtained in the course of their work as the company's auditors. A copy of KPMG's RFC report is included in appendix 1 on page 211.

This is certificate was approved by the board and signed on its behalf by:

Russ Houlden
Chief Financial Officer
30 June 2020

Please see appendix 4 for a certified copy of an extract of the minutes of the UUW board meeting on 30 June 2020 recording the board approval of the Condition I certificate and delegating authority for any UUW director to sign the Condition I certificate on behalf of UUW.

CERTIFICATE UNDER PARAGRAPH 3.1 OF CONDITION K OF THE APPOINTMENTS

As required in paragraph 3.1 of Condition K of the Licence, the directors state that as at 31 March 2020, had a special administration order been made under Section 23 of the Water Industry Act 1991 in respect of the company, the company would have had available, in their opinion, sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company.

Approved by the board and signed on its behalf by:

Russ Houlden
Chief Financial Officer
30 June 2020

Pro forma tables not subject to KPMG audit opinion

This section of the UUW Annual Performance Report provides a copy of the pro-forma tables in section 3 and 4 that Ofwat require all companies to publish, that have not been subject to financial audit opinion.

The information within these tables has been subject to detailed governance and assurance, with the nature and findings of the assurance being set out in Appendix 1 Assurance summary and findings.

The list of data tables is shown below.

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Pro forma 3B	Sub measures performance table
Pro forma 3C	AIM table
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Pro forma 4B	Totex analysis
Pro forma 4C	Impact of AMP performance to date on RCV
Pro forma 4D	Totex analysis – wholesale water
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Pro forma tables Section 3 Performance summary

Pro forma 3A Outcome performance table

For the 12 months ended 31 March 2020

Row	Unique ID	Performance commitment	Unit	Unit description	Decimal places	2018-19 performance level - actual (for information)	2019-20 performance level - actual	2019-20 PCL met?	2019-20 outperformance payment or underperformance payment - in-period ODIs (indicator)	2019-20 outperformance payment or underperformance payment - in-period ODIs (£m, to 4 dp)	2019-20 outperformance payment or underperformance payment - ODIs payable at the end of AMP6 (indicator)	2019-20 outperformance payment or underperformance payment - ODIs payable at the end of AMP6 (£m, to 4 dp)
1	PR14UUWSW_A1	A1: Drinking Water Safety Plan risk score	score	Drinking Water Safety Plan (DWSP) risk score	1	4.8	4.9	No	-	0.0000	-	0.0000
2	PR14UUWSW_A2	A2: Water quality events DWI category 3 or above	nr	No. water quality events DWI cat 3 or above	0	6	11	No	-	0.0000	Underperformance payment	-0.5960
3	PR14UUWSW_A3	A3: Water Quality Service Index	score	Water Quality Service Index (UU bespoke)	3	101.182	109.060	No	-	0.0000	Underperformance payment	-3.6190
4	PR14UUWSW_B1	B1: Average minutes supply lost per property (a year)	time	Mins:secs supply lost per property per year	mins:secs	09:10	10:11	Yes	-	0.0000	Outperformance payment	7.2267
5	PR14UUWSW_B2	B2: Reliable water service index	score	Reliable water service index (UU bespoke)	3	98.457	75.791	No	-	0.0000	Underperformance payment	-7.9740
6	PR14UUWSW_B3	B3: Security of supply index (SoSI)	score	Security of Supply Index (SOSI)	3	100.000	100.000	Yes	-	0.0000	-	0.0000
7	PR14UUWSW_B4	B4: Total leakage at or below target	nr	Megalitres per day (Ml/d) variance from target	2	6.70	16.55	Yes	-	0.0000	Outperformance payment	4.0018
8	PR14UUWSW_B5	B5: Resilience of impounding reservoirs	nr	Aggregate (cumulative) reduction in risk	2	165.72	165.72	Yes	-	0.0000	-	0.0000
9	PR14UUWSW_B6	B6: Thirlmere transfer into West Cumbria	%	% project complete based on earned value tied to milestones	0	57	99	Yes	-	0.0000	Outperformance payment	21.6070
10	PR14UUWSW_C1	C1: Contribution to rivers improved - water programme (NEP schemes and abstraction changes at 4 AIM sites)	nr	Kilometres (km) of river improved (cumulative)	1	50.5	159.5	Yes	-	0.0000	-	0.0000
11	PR14UUWSW_D1	D1: Delivering our commitments to developers, local authorities and highway authorities	%	% of jobs completed within response times	0	89	95	Yes	-	0.0000	-	0.0000
12	PR14UUWSW_E1	E1: Number of free water meters installed	nr	No. of free water meters installed per year	0	32,069	25,817	No	-	0.0000	-	0.0000
13	PR14UUWSWW_S-A1	S-A1: Private sewers service index	score	Private sewers service index (UU bespoke)	2	89.27	90.09	Yes	-	0.0000	Outperformance payment	7.3760
14	PR14UUWSWW_S-A2	S-A2: Wastewater network performance index	score	Wastewater network performance index (UU bespoke)	2	90.75	89.13	Yes	-	0.0000	-	0.0000
15	PR14UUWSWW_S-B1	S-B1: Future flood risk	nr	No. of properties at risk	0	16,379	16,369	No		0.0000	-	0.0000
16	PR14UUWSWW_S-B2	S-B2: Sewer flooding index	score	Sewer flooding index (UU bespoke)	1	61.7	79.8	No	-	0.0000	Underperformance payment	-8.3312
17	PR14UUWSWW_S-C1	S-C1: Contribution to bathing waters improved (includes NEP phase 3&4 bathing water intermittent discharge projects)	nr	Bathing water equivalent (BWE)	2	4.21	6.56	Yes	-	0.0000	-	0.0000
18	PR14UUWSWW_S-D1	S-D1: Protecting rivers from deterioration due to population growth (includes Dawyhulme non-delivery penalty)	nr	Kilometers (km) rivers protected from deterioration	1	322.9	365.5	Yes	-	0.0000	-	0.0000
19	PR14UUWSWW_S-D2	S-D2: Maintaining our wastewater treatment works (includes Oldham and Royton WwTWs special cost factor claims)	score	Maintaining WwTWs index (UU bespoke)	4	39.1665	49.9345	No	-	0.0000	-	0.0000
20	PR14UUWSWW_S-D3	S-D3: Contribution to rivers improved - wastewater programme (includes Oldham, Royton and Windermere)	nr	Kilometres (km) of river improved (cumulative)	2	178.93	338.52	No	-	0.0000	Underperformance payment	-1.8537
21	PR14UUWSWW_S-D4a	S-D4a: Wastewater serious (category 1 and 2) pollution incidents	nr	No. of pollution incidents (cats 1 and 2)	0	1	0	Yes	-	0.0000	-	0.0000
22	PR14UUWSWW_S-D4b	S-D4b: Wastewater category 3 pollution incidents	nr	No. of pollution incidents (cat 3)	0	143	162	Yes	-	0.0000	Outperformance payment	3.2780
23	PR14UUWSWW_S-D5	S-D5: Satisfactory sludge disposal	%	% satisfactory sludge disposal compliance	2	100.00	100.00	Yes	-	0.0000	-	0.0000
24	PR14UUHHR_A-1	A-1: Service incentive mechanism (SIM)	text	Service incentive mechanism (SIM) score ranking	2	87.64	84.52	Yes	-	0.0000	-	0.0000
25	PR14UUHHR_R-A2	R-A2: Customer experience programme	£m	£ million cumulative depreciation	3	5.685	9.692	No	-	0.0000	Underperformance payment	-4.6490
26	PR14UUHHR_B1	B1: Customers saying that we offer value for money	%	% customer satisfaction	0	58	58	Yes	-	0.0000	-	0.0000
27	PR14UUHHR_B2	B2: Per household consumption	nr	Litres per household per day (l/hh/d)	0	314	308	No	-	0.0000	-	0.0000

Key to cells:

Input cell

Calculation cell

Please refer to RAG 4.08 - Guideline for the table definitions in the annual performance report for the reporting year 2019-20

Pro forma 3B Sub measure performance table

For the 12 months ended 31 March 2020

Row	Unique ID	PC/sub-measure ID	PC / sub-measure	Unit	Decimal places	2018-19 performance level - actual	2019-20 performance level - actual	2019-20 PCL met?
1	PR14UUWSW_A3	00	A3: Water Quality Service Index	score	3	101.182	109.060	No
2	PR14UUWSW_A3	01	WTW coliform non-compliance (%)	%	2	0.01	0.03	Yes
3	PR14UUWSW_A3	02	SR integrity index	%	2	99.98	99.99	Yes
4	PR14UUWSW_A3	03	No. of WTW turbidity fails	nr	0	0	1	Yes
5	PR14UUWSW_A3	04	Mean Zonal Compliance (MZC)	%	2	99.93	99.96	No
6	PR14UUWSW_A3	05	Distribution Maintenance Index (%)	%	2	99.86	99.86	No
7	PR14UUWSW_A3	06	Unwanted customer contacts for water quality (nr per year)	nr	0	10923	10456	No
8	PR14UUWSW_B2	00	B2: Reliable water service index	score	3	98.457	75.791	No
9	PR14UUWSW_B2	01	Total bursts (nr/annum)	nr	0	5212	4963	Yes
10	PR14UUWSW_B2	02	Interruptions >12hours (nr of properties/total nr of properties)	nr	0	849	3905	No
11	PR14UUWSW_B2	03	Pressure (nr of properties on DG2 register/ total number of properties)	nr	0	262	248	Yes
12	PR14UUWSW_B2	04	Customer contacts for water availability (contacts/annum)	nr	0	49278	46663	Yes
13	PR14UUWSWW_S-A1	00	S-A1: Private sewers service index	score	2	89.27	90.09	Yes
14	PR14UUWSWW_S-A1	01	Blockages	nr	0	14589	14806	Yes
15	PR14UUWSWW_S-A1	02	Collapses	nr	0	316	377	Yes
16	PR14UUWSWW_S-A1	03	Pollution incidents	nr	0	2	2	Yes
17	PR14UUWSWW_S-A1	04	Properties flooded internally	nr	0	308	323	Yes
18	PR14UUWSWW_S-A1	05	Areas flooded externally	nr	0	3945	3682	Yes
19	PR14UUWSWW_S-A2	00	S-A2: Wastewater network performance index	score	2	90.75	89.13	Yes
20	PR14UUWSWW_S-A2	01	Blockages	nr	0	7276	7025	Yes
21	PR14UUWSWW_S-A2	02	Collapses	nr	0	239	305	Yes
22	PR14UUWSWW_S-A2	03	Rising main bursts	nr	0	53	47	No
23	PR14UUWSWW_S-A2	04	Equipment failures	nr	0	3613	3359	No
24	PR14UUWSWW_S-B2	00	S-B2: Sewer flooding index	score	1	61.7	79.8	No
25	PR14UUWSWW_S-B2	01	Properties flooded due to other causes	nr	0	551	611	No
26	PR14UUWSWW_S-B2	02	Properties flooded due to hydraulic overload	nr	0	15	163	No
27	PR14UUWSWW_S-B2	03	Areas flooded due to other causes	nr	0	2849	2705	Yes
28	PR14UUWSWW_S-B2	04	Areas flooded due to hydraulic overload	nr	0	145	420	Yes
29	PR14UUWSWW_S-B2	05	Incidents of repeat flooding	nr	0	124	288	No
30	PR14UUWSWW_S-D2	00	S-D2: Maintaining our wastewater treatment works	score	4	39.1665	49.9345	No
31	PR14UUWSWW_S-D2	01	WwTWs failing EA permit - small (size band 1-4)	score	4	4.0967	8.1934	No
32	PR14UUWSWW_S-D2	02	WwTWs failing EA permit - medium (size band 5)	score	4	0.0000	8.1934	No
33	PR14UUWSWW_S-D2	03	WwTWs failing EA permit - large (size band 6a)	score	4	32.7734	32.7734	Yes
34	PR14UUWSWW_S-D2	04	WwTWs failing EA permit - large (size band 6b)	score	4	0.0000	0.0000	Yes
35	PR14UUWSWW_S-D2	05	WwTWs at high risk of failing EA permit - small (size band 1-4)	score	4	0.2932	0.1738	No
36	PR14UUWSWW_S-D2	06	WwTWs at high risk of failing EA permit - medium (size band 5)	score	4	0.0137	0.0014	Yes
37	PR14UUWSWW_S-D2	07	WwTWs at high risk of failing EA permit - large (size band 6)	score	4	0.7168	0.0000	No
38	PR14UUWSWW_S-D2	08	WwTWs at medium risk of failing EA permit - small (size band 1-4)	score	4	0.3102	0.2046	No
39	PR14UUWSWW_S-D2	09	WwTWs at medium risk of failing EA permit - medium (size band 5)	score	4	0.0751	0.0410	No
40	PR14UUWSWW_S-D2	10	WwTWs at medium risk of failing EA permit - large (size band 6)	score	4	0.8874	0.3412	No

Key to cells:

Input cell

Calculation cell

Please refer to RAG 4.08 - Guideline for the table definitions in the annual performance report for the reporting year 2019-20

Pro forma 3C AIM table

For the 12 months ended 31 March 2020

Row	Abstraction site	Decimal places	2019-20 AIM performance [Ml]	2019-20 normalised AIM performance [nr]	Cumulative AIM performance 2016-17 onwards [Ml]	Cumulative normalised AIM performance 2016-17 onwards [nr]	Contextual information relating to AIM performance
1	Aughertree Springs (Quarry Hill system, West Cumbria Resource Zone)	2	0.00	0.00	-13.26	-0.31	The AIM flow trigger was not reached at this site in 2019/20.
2	River Calder (Barnacre system, Integrated Resource Zone)	2	n/a	n/a	-45.96	-0.11	Following completion of a NEP scheme in 2018/19 to provide a new prescribed flow downstream of the River Calder intake, the sustainability issue which led to this site being included in AIM has been resolved.Therefore this site is not included in AIM for 2019/20.
3	Ennerdale (West Cumbria Resource Zone)	2	-110.16	-0.20	-397.57	-0.57	During 2019/20 river flows at this AIM site reached the trigger on 21 days; however our average abstraction on AIM days was lower than the historic period resulting in a positive (i.e. a negative AIM performance) outcome.
4	Old Water, River Gelt (Castle Carrock system, Carlisle Resource Zone)	2	0.00	0.00	0.00	0.00	The AIM flow trigger was not reached at this site during AMP6.
Total			-110.2	-0.20	-456.8	-0.99	

Key to cells:

Input cell

Calculation cell

Please refer to RAG 4.08 - Guideline for the table definitions in the annual performance report for the reporting year 2019-20

Pro forma 3D SIM table

For the 12 months ended 31 March 2020

Line description		Units	DPs	Score
A	**Qualitative performance**			
3D.1	1st survey score	nr	2	4.12
3D.2	2nd survey score	nr	2	4.45
3D.3	3rd survey score	nr	2	4.56
3D.4	4th survey score	nr	2	4.59
3D.5	Qualitative SIM score (out of 75)	nr	2	64.34
3D.6	Total contact score	nr	2	14.47
3D.7	Quantitative SIM score (out of 25)	nr	2	20.18
3D.8	Total annual SIM score (out of 100)	nr	2	84.52

Key to cells:

Input cell

Calculation cell

Please refer to 'RAG 4.08 - Guideline for the table definitions in the annual performance report for the reporting year 2019-20 and the information notice 'Expectations for monopoly company annual

Pro forma tables Section 4 Additional regulatory information

Pro forma 4A Non-financial information

For the 12 months ended 31 March 2020

Line description		Units	DPs	Current year	
				Unmeasured	Measured
Retail					
A	**Household**				
4A.1	Number of void households	000s	3	139.403	82.952
4A.2	Per capita consumption (excluding supply pipe leakage) l/h/d	l/h/d	2	153.60	124.06

				Water	Wastewater
Wholesale					
B	**Volume (Ml/d)**				
4A.3	Bulk supply export	Ml/d	3	14.585	1.157
4A.4	Bulk supply import	Ml/d	3	0.561	0.000
4A.5	Distribution input	Ml/d	3	1,790.880	

Key to cells:

Input cell

Calculation cell

Pro forma 4B Totex analysis

For the 12 months ended 31 March 2020

	Line description	Units	DPs	Current year		Cumulative 2015-20	
				Water	Wastewater	Water	Wastewater
A	**Actual totex**						
4B.1	Actual totex	£m	3	680.362	667.537	3077.644	3486.550
B	**Items excluded from the menu**						
4B.2	Third party costs	£m	3	1.648	0.213	9.356	0.666
4B.3	Pension deficit recovery payments	£m	3	39.967	37.383	104.371	97.623
4B.4	Other 'Rule book' adjustments	£m	3	-0.579	1.090	26.610	5.032
4B.5	Total items excluded from the menu	£m	3	41.037	38.686	140.338	103.321
C	**Transition expenditure**						
4B.6	Transition expenditure	£m	3	-15.300	-9.348	-4.506	7.624
D	**Adjusted Actual totex**						
4B.7	Adjusted Actual totex	£m	3	624.025	619.504	2932.800	3390.853
4B.8	Adjusted Actual totex base year prices	£m	3	525.331	521.525	2,609.303	3,030.926
E	**Allowed totex**						
4B.9	Allowed totex based on final menu choice – base year prices	£m	3	459.700	548.100	2347.800	2939.800

Key to cells:

Input cell

Calculation cell

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Pro forma 4C Impact of AMP performance to date on RCV

At the 31 March 2020

	Line description	Units	DPs	Water	Wastewater
4C.1	Cumulative totex over/underspend so far in the price control period	£m	3	312.797	109.246
4C.2	Customer share of cumulative totex over/underspend	£m	3	156.697	55.986
4C.3	RCV element of cumulative totex over/underspend	£m	3	113.420	68.231
4C.4	Adjustment for ODI outperformance payment or underperformance payment	£m	3	0.000	52.793
4C.5	RCV determined at FD at 31 March	£m	3	4106.111	7546.527
4C.6	Projected 'shadow' RCV	£m	3	4219.531	7667.550

Key to cells:

Input cell

Calculation cell

Pro forma 4D Totex analysis – wholesale water

For the 12 months ended 31 March 2020

Line description		Units	DPs	Water resources		Network+				Total
				Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
A	Operating expenditure									
4D.1	Power	£m	3	0.000	4.841	5.191	0.091	14.696	10.068	34.886
4D.2	Income treated as negative expenditure	£m	3	0.000	-0.016	-0.217	0.000	-0.314	-0.016	-0.564
4D.3	Abstraction charges/ discharge consents	£m	3	14.434	2.668	0.000	0.000	0.299	0.000	17.402
4D.4	Bulk supply	£m	3	0.000	0.000	0.000	0.000	0.000	0.125	0.125
4D.5	Other operating expenditure - renewals expensed in year (Infrastructure)	£m	3	0.000	4.407	0.062	0.000	0.000	85.066	89.535
4D.6	Other operating expenditure - renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4D.7	Other operating expenditure - excluding renewals	£m	3	-0.101	10.967	4.380	0.393	60.024	62.970	138.633
4D.8	Local authority and Cumulo rates	£m	3	0.000	15.078	2.033	0.247	6.835	31.100	55.294
4D.9	Total operating expenditure excluding third party services	£m	3	14.333	37.945	11.449	0.731	81.540	189.313	335.311
4D.10	Third party services	£m	3	0.006	0.168	0.642	0.000	0.180	0.653	1.648
4D.11	Total operating expenditure	£m	3	14.338	38.113	12.091	0.731	81.720	189.966	336.959
B	Capital Expenditure									
4D.12	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4D.13	Maintaining the long term capability of the assets - non-infra	£m	3	0.000	1.725	1.177	0.000	66.399	49.046	118.348
4D.14	Other capital expenditure - infra	£m	3	0.000	0.188	42.004	0.000	0.191	92.513	134.896
4D.15	Other capital expenditure - non-infra	£m	3	0.000	3.772	0.000	0.000	26.065	34.457	64.294
4D.16	Infrastructure network reinforcement	£m	3	0.000	0.000	0.000	0.000	0.000	8.716	8.716
4D.17	Total gross capital expenditure (excluding third party)	£m	3	0.000	5.685	43.181	0.000	92.655	184.733	326.255
4D.18	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4D.19	Total gross capital expenditure	£m	3	0.000	5.685	43.181	0.000	92.655	184.733	326.255
C	Grants and contributions									
4D.20	Grants and contributions	£m	3	0.000	0.000	0.000	0.000	0.000	22.819	22.819
4D.21	Totex	£m	3	14.338	43.799	55.272	0.731	174.375	351.880	640.395
D	Cash Expenditure									
4D.22	Pension deficit recovery payments	£m	3	0.000	4.219	1.734	0.018	18.713	15.284	39.967
4D.23	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4D.24	Totex including cash items	£m	3	14.338	48.017	57.006	0.749	193.088	367.164	680.362
E	Unit cost information (operating expenditure)									
4D.25	Licenced volume available	Ml	3	2515397.691						
4D.25	Volume abstracted	Ml	3		731325.732					
4D.25	Volume transported	Ml	3			691866.661				
4D.25	Average volume stored	Ml	3				444.076			
4D.25	Distribution input volume	Ml	3					653671.082		
4D.25	Distribution input volume	Ml	3						653671.082	
4D.26	Unit cost	£/Ml	3	5.700	52.115	17.476	1646.326	125.016	290.614	
4D.27	Population	000s	3	7295.157	7295.157	7295.157	7295.157	7295.157	7295.157	
4D.28	Unit cost	£/pop	3	1.965	5.224	1.657	0.100	11.202	26.040	

Key to cells:

Input cell

Calculation cell

Pro forma 4E Totex analysis – wholesale wastewater

For the 12 months ended 31 March 2020

Line description		Units	DPs	Network+ Sewage collection			Network + Sewage treatment		Sludge			Total
				Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
A	Operating expenditure											
4E.1	Power	£m	3	3.141	3.856	1.537	41.721	1.724	0.020	-5.410	0.005	46.594
4E.2	Income treated as negative expenditure	£m	3	-0.027	-0.034	-0.013	-0.008	0.000	0.000	-9.499	0.000	-9.581
4E.3	Discharge consents	£m	3	1.069	1.300	0.520	4.806	0.000	0.000	0.217	0.000	7.911
4E.4	Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.5	Other operating expenditure - renewals expensed in year (Infrastructure)	£m	3	20.953	23.153	9.230	0.000	0.000	0.000	0.131	0.000	53.467
4E.6	Other operating expenditure - renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.7	Other operating expenditure - excluding renewals	£m	3	19.744	17.569	7.022	67.932	0.403	9.438	33.681	9.249	165.038
4E.8	Local authority rates and Cumulo rates	£m	3	0.017	0.016	0.006	14.864	0.150	0.068	4.245	0.482	19.848
4E.9	Total operating expenditure excluding third party services	£m	3	44.897	45.860	18.302	129.314	2.276	9.526	23.365	9.736	283.276
4E.10	Third party services	£m	3	0.070	0.030	0.012	0.068	0.002	0.005	0.017	0.009	0.213
4E.11	Total operating expenditure	£m	3	44.967	45.890	18.314	129.382	2.278	9.531	23.383	9.745	283.489
B	Capital Expenditure											
4E.12	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.13	Maintaining the long term capability of the assets - non-infra	£m	3	11.176	12.350	4.924	98.408	0.000	0.000	22.330	2.936	152.124
4E.14	Other capital expenditure - infra	£m	3	32.753	42.774	17.053	6.887	0.000	0.000	0.000	0.000	99.467
4E.15	Other capital expenditure - non-infra	£m	3	9.207	10.173	4.056	76.855	0.000	0.000	2.956	0.000	103.247
4E.16	Infrastructure network reinforcement	£m	3	2.340	2.586	1.031	0.000	0.000	0.000	0.000	0.000	5.957
4E.17	Total gross capital expenditure (excluding third party services)	£m	3	55.476	67.883	27.063	182.151	0.000	0.000	25.286	2.936	360.795
4E.18	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.19	Total gross capital expenditure	£m	3	55.476	67.883	27.063	182.151	0.000	0.000	25.286	2.936	360.795
C	Grants and contributions											
4E.20	Grants and contributions	£m	3	5.201	6.383	2.545	0.000	0.000	0.000	0.000	0.000	14.130
4E.21	Totex	£m	3	95.242	107.389	42.832	311.533	2.278	9.531	48.668	12.681	630.154
C	Cash Expenditure											
4E.22	Pension deficit recovery payments	£m	3	3.936	3.749	1.494	16.389	0.000	1.850	9.180	0.785	37.383
4E.23	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4E.24	Totex including cash items	£m	3	99.179	111.138	44.327	327.921	2.278	11.380	57.848	13.466	667.537
D	Unit cost information (operating expenditure)											
4E.25	Volume collected	Ml	3	434286.049								
4E.25	Volume collected	Ml	3		576010.015							
4E.25	Volume collected	Ml	3			229734.875						
4E.25	Biochemical Oxygen Demand (BOD)	Tonnes	3				202114.784					
4E.25	Biochemical Oxygen Demand (BOD)	Tonnes	3					12107.275				
4E.25	Volume transported	m3	3						2046493.258			
4E.25	Dried solid mass treated	ttds	3							197.731		
4E.25	Dried solid mass disposed	ttds	3								101.910	
4E.26	Unit cost	£/unit	3	103.543	79.668	79.719	640.139	188.144	4.657	118254.277	95619.755	
4E.27	Population	000s	3	7669.280	7669.280	7669.280	7669.280	7669.280	7669.280	7669.280	7669.280	
4E.28	Unit cost	£/pop	3	5.863	5.984	2.388	16.870	0.297	1.243	3.049	1.271	

Key to cells:

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Pro forma 4F Cost analysis – household retail

For the 12 months ended 31 March 2020

Line description		Units	DPs	Household unmeasured				Household measured				Total
				Water only	Wastewater only	Water and wastewater	Total	Water only	Wastewater only	Water and wastewater	Total	
A	Operating expenditure											
4F.1	Customer services	£m	3	0.196	0.092	11.793	12.081	0.154	0.006	10.753	10.913	22.994
4F.2	Debt management	£m	3	0.026	0.015	8.572	8.613	0.027	0.000	3.850	3.878	12.490
4F.3	Doubtful debts	£m	3	0.090	0.069	46.156	46.315	0.060	0.000	17.993	18.053	64.368
4F.4	Meter reading	£m	3					0.088	0.157	3.914	4.160	4.160
4F.5	Other operating expenditure	£m	3	0.223	0.104	7.602	7.929	0.143	0.230	6.286	6.658	14.587
4F.6	Total operating expenditure excluding third party services	£m	3	0.535	0.280	74.123	74.938	0.472	0.393	42.797	43.662	118.599
4F.7	Third party services operating expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4F.8	Total operating expenditure	£m	3	0.535	0.280	74.123	74.938	0.472	0.393	42.797	43.662	118.599
4F.9	Depreciation - tangible fixed assets (on assets existing at 31 March 2015)	£m	3	0.009	0.005	0.332	0.346	0.006	0.011	0.272	0.289	0.635
4F.10	Depreciation - tangible fixed assets (on assets acquired since 1 April 2015)	£m	3	0.015	0.008	0.704	0.727	0.011	0.017	0.534	0.562	1.289
4F.11	Amortisation - intangible fixed assets (on assets existing at 31 March 2015)	£m	3	0.014	0.008	0.637	0.659	0.010	0.016	0.498	0.524	1.183
4F.12	Amortisation - intangible fixed assets (on assets acquired since 1 April 2015)	£m	3	0.043	0.022	2.137	2.203	0.041	0.019	2.047	2.107	4.309
4F.13	Total operating costs	£m	3	0.617	0.323	77.934	78.873	0.540	0.455	46.148	47.143	126.016
4F.14	Capital expenditure	£m	3	0.030	0.016	1.624	1.670	0.021	0.034	1.113	1.169	2.839
B	Demand-side efficiency and customer-side leaks analysis - Household											
4F.15	Demand-side water efficiency - gross expenditure	£m	3									0.590
4F.16	Demand-side water efficiency - expenditure funded by wholesale	£m	3									0.326
4F.17	Demand-side water efficiency - net retail expenditure	£m	3									0.264
4F.18	Customer-side leak repairs - gross expenditure	£m	3									1.212
4F.19	Customer-side leak repairs - expenditure funded by wholesale	£m	3									0.000
4F.20	Customer-side leak repairs - net retail expenditure	£m	3									1.212

Key to cells:

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Pro forma 4G Wholesale current cost financial performance

For the 12 months ended 31 March 2020

Line description		Units	DPs	Water	Wastewater	Total
4G.1	Revenue	£m	3	789.057	939.969	1729.026
4G.2	Operating expenditure	£m	3	-336.959	-283.489	-620.448
4G.3	Capital maintenance charges	£m	3	-161.957	-433.245	-595.202
4G.4	Other operating income	£m	3	-9.004	-4.899	-13.903
4G.5	Current cost operating profit	£m	3	281.137	218.336	499.473
4G.6	Other income	£m	3	7.768	10.124	17.892
4G.7	Interest income	£m	3	2.756	5.066	7.822
4G.8	Interest expense	£m	3	-99.423	-182.728	-282.151
4G.9	Other interest expense	£m	3	3.841	7.059	10.900
4G.10	Current cost profit before tax and fair value movements	£m	3	196.079	57.857	253.936
4G.11	Fair value gains/(losses) on financial instruments	£m	3	-26.959	-49.546	-76.505
4G.12	Current cost profit before tax	£m	3	169.120	8.311	177.431

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Pro forma 4H Financial metrics

For the 12 months ended 31 March 2020

Line description		Units	DPs	Current year	AMP to date
A	**Financial indicators**				
4H.1	Net debt	£m	3	7890.480	
4H.2	Regulated equity	£m	3	3762.158	
4H.3	Regulated gearing	%	2	67.71%	
4H.4	Post tax return on regulated equity	%	2	8.17%	
4H.5	RORE (return on regulated equity)	%	2	5.80%	7.00%
4H.6	Dividend yield	%	2	13.41%	
4H.7	Retail profit margin - Household	%	2	-1.74%	
4H.8	Retail profit margin - Non household	%	2	-0.05%	
4H.9	Credit rating	Text	n/a	BBB+ Stable	
4H.10	Return on RCV	%	2	5.01%	
4H.11	Dividend cover	dec	2	0.19	
4H.12	Funds from operations (FFO)	£m	3	805.580	
4H.13	Interest cover (cash)	dec	2	5.44	
4H.14	Adjusted interest cover (cash)	dec	2	2.60	
4H.15	FFO/Debt	dec	2	0.10	
4H.16	Effective tax rate	%	2	14.73%	
4H.17	RCF	£m	3	301.057	
4H.18	RCF/capex	dec	2	0.45	
B	**Revenue and earnings**				
4H.19	Revenue (actual)	£m	3	1827.796	
4H.20	EBITDA (actual)	£m	3	1088.281	
C	**Movement in RORE**				
4H.21	Base return	%	2	5.52%	5.54%
4H.22	Totex out / (under) performance	%	2	-2.24%	-0.78%
4H.23	Retail cost out / (under) performance	%	2	-0.39%	-0.12%
4H.24	ODI out / (under) performance	%	2	0.45%	0.24%
4H.25	Financing out / (under) performance	%	2	2.46%	2.11%
4H.26	Other factors	%	2	0.00%	0.00%
4H.27	Regulatory return for the year	%	2	5.80%	7.00%
C	**Borrowings**				
4H.28	Proportion of borrowings which are fixed rate	%	2	43.86%	
4H.29	Proportion of borrowings which are floating rate	%	2	7.99%	
4H.30	Proportion of borrowings which are index linked	%	2	48.14%	
4H.31	Proportion of borrowings due within 1 year or less	%	2	17.76%	
4H.32	Proportion of borrowings due in more than 1 year but no more than 2 years	%	2	1.24%	
4H.33	Proportion of borrowings due in more than 2 years but but no more than 5 years	%	2	11.89%	
4H.34	Proportion of borrowings due in more than 5 years but no more than 20 years	%	2	49.64%	
4H.35	Proportion of borrowings due in more than 20 years	%	2	19.47%	

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Line 15 – FFO/Debt of 10.2% is calculated in accordance with the Ofwat line definition as per RAG 4.08. UUW's FFO/Debt applying Standard & Poor's (S&P) calculation method would also equal 10.2%, despite two offsetting differences. The S&P FFO definition includes all interest, whereas the Ofwat FFO definition includes just cash interest, so would exclude all interest on index-linked debt and thus is usually higher. However, the Ofwat FFO definition, unlike S&P, also includes pension deficit payments and so was reduced by the significant pension deficit accelerations in 2019/20.

Section D – Borrowings represents the notional value in the company's statutory accounts and does not take account of the impact on interest of derivative instruments. Further narrative regarding borrowings is disclosed on pages 171 to 172.

Lines 28-30 – The proportion of borrowings between fixed, floating and index-linked takes into account hedging arrangements in place, mirroring how borrowings are allocated to each category in Table 1E.

Pro forma 4I Financial derivatives

At 31 March 2020

Line description		Units	DPs	Nominal value by maturity (net)			Total value at 31 March 2020		Total accretion at 31 March 2020	Units	DPs	Interest rate (weighted average for 12 months to 31 March 2020)	
				1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market				Payable	Receivable
Derivative type													
A	**Interest rate swap (sterling)**												
4I.1	Floating to fixed rate	£m	3	829.234	1225.000	476.563	2530.797	-74.530	0.000	%	2	1.69%	0.76%
4I.2	Floating from fixed rate	£m	3	-375.000	-450.000	-900.000	-1725.000	272.883	0.000	%	2	1.41%	3.53%
4I.3	Floating to index linked	£m	3	0.000	0.000	150.000	150.000	-10.927	-0.294	%	2	0.89%	1.79%
4I.4	Floating from index linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.5	Fixed to index-linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.6	Fixed from index-linked	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.7	Total	£m	3	454.234	775.000	-273.437	955.797	187.426	-0.294				
B	**Foreign Exchange**												
4I.8	Cross currency swap USD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.9	Cross currency swap EUR	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.10	Cross currency swap YEN	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.11	Cross currency swap Other	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.12	Total	£m	3	0.000	0.000	0.000	0.000	0.000	0.000				
C	**Currency interest rate**												
4I.13	Currency interest rate swaps USD	£m	3	0.000	0.000	226.083	226.083	207.613	0.000	%	2	2.68%	6.88%
4I.14	Currency interest rate swaps EUR	£m	3	0.000	0.000	156.790	156.790	28.251	0.000	%	2	1.76%	1.59%
4I.15	Currency interest rate swaps YEN	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.16	Currency interest rate swaps Other	£m	3	0.000	0.000	286.027	286.027	99.356	0.000	%	2	1.50%	2.80%
4I.17	Total	£m	3	0.000	0.000	668.900	668.900	335.220	0.000				
D	**Forward currency contracts**												
4I.18	Forward currency contracts USD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.19	Forward currency contracts EUR	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.20	Forward currency contracts YEN	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.21	Forward currency contracts CAD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.22	Forward currency contracts AUD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.23	Forward currency contracts HKD	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.24	Forward currency contracts Other	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	%	2	0.00%	0.00%
4I.25	Total	£m	3	0.000	0.000	0.000	0.000	0.000	0.000				
E	**Other financial derivatives**												
4I.26	Other financial derivatives	£m	3	0.000	0.000	100.379	100.379	-48.556	0.816	%	2	2.31%	3.66%
F	**Total**												
4I.27	Total financial derivatives	£m	3	454.234	775.000	495.842	1725.077	474.090	0.522				

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The inclusion of all 'Other' interest rates swaps in to one line in the table (line 16) makes the calculation of a meaningful weighted average interest rate problematic. We would recommend that the weighted average interest rate is better represented by splitting the three swaps that make up the balance.

The interest rates disclosed reflect the following gross positions:

- 'RDC' rate: pay 0.96%, receive 5.02% (Notional of £54.2m)
- 'HKD' rate: pay 2.11%, receive 2.90% (Notional of £53.0m)
- 'HKD' rate: pay 1.48%, receive 2.37% (Notional of £78.9m)
- 'HKD' rate: pay 1.40%, receive 2.92% (Notional of £68.1m)
- 'HKD' rate: pay 1.65%, receive 2.867% (Notional of £31.8m)

For certain cross currency swaps that have historically reached mandatory breaks, these have been re-hedged mid-life at on-market rates (at that point). In these scenarios the fair value of the swap would have been paid to / received from the counterparty (affecting the volume of debt), with the rate on the re-hedged swap being amended either up or down accordingly (sometimes significantly so). Therefore the rates payable on these swaps may not reflect the underlying cost of debt (for instance we have some swaps where we receive the debt coupon but pay LIBOR minus a margin and others where we pay LIBOR plus a margin significantly higher than the underlying credit spread), again care should be taken when interpreting the rates in the table.

The interest rates incorporate fixed interest rates which are reflective of the position at the balance sheet date, and floating interest rates based on the last rate reset. As such, these are not representative of our future cost of debt.

Floating to index linked swaps swap floating to CPI-linked cash flows. These swaps have a negative paying leg meaning that during the term the swaps we receive on both legs. At maturity however we will make a payment representing the CPI accreted over the life of the swap.

The nominal value of the currency swaps reflects the sterling receivable amount.

Other Financial derivatives (line 26) includes forward starting swaps, electricity swaps which ensures the table now agrees to table 1C. It also includes RPI-to-CPI derivatives (£100m nominal). Only the interest on these RPI-to-CPI swaps is included in the disclosed weighted average interest rate:

- Electricity swaps – £1.8m liability
- Forward starting floating to fixed rate swaps – £46.1m liability.

Pro forma 4J Atypical and non-atypical expenditure by business unit – wholesale water

For the 12 months ended 31 March 2020

Line description		Units	DPs	Water resources		Network+				Total
				Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	
A	Operating expenditure (excl. atypicals)									
4J.1	Power	£m	3	0.000	4.841	5.191	0.091	14.696	10.068	34.886
4J.2	Income treated as negative expenditure	£m	3	0.000	-0.016	-0.217	0.000	-0.314	-0.016	-0.564
4J.3	Abstraction charges/ discharge consents	£m	3	14.434	2.668	0.000	0.000	0.299	0.000	17.402
4J.4	Bulk supply	£m	3	0.000	0.000	0.000	0.000	0.000	0.125	0.125
	Other operating expenditure									
4J.5	- Renewals expensed in year (Infrastructure)	£m	3	0.000	4.407	0.062	0.000	0.000	85.066	89.535
4J.6	- Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4J.7	- Other operating expenditure excluding renewals	£m	3	-0.101	10.876	4.337	0.393	59.692	62.169	137.366
4J.8	Local authority and Cumulo rates	£m	3	0.000	15.078	2.033	0.247	6.835	31.100	55.294
4J.9	Total operating expenditure (excluding third party services)	£m	3	14.333	37.854	11.406	0.731	81.208	188.512	334.044
4J.10	Third party services	£m	3	0.006	0.168	0.642	0.000	0.180	0.653	1.648
4J.11	Total operating expenditure	£m	3	14.338	38.022	12.048	0.731	81.387	189.165	335.692
B	Capital expenditure (excl. atypicals)									
4J.12	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4J.13	Maintaining the long term capability of the assets - non-infra	£m	3	0.000	1.708	1.177	0.000	58.322	44.156	105.362
4J.14	Other capital expenditure - infra	£m	3	0.000	0.188	42.004	0.000	0.191	92.513	134.896
4J.15	Other capital expenditure - non-infra	£m	3	0.000	3.772	0.000	0.000	26.065	34.457	64.294
4J.16	Infrastructure network reinforcement	£m	3	0.000	0.000	0.000	0.000	0.000	8.716	8.716
4J.17	Total gross capital expenditure excluding third party services	£m	3	0.000	5.668	43.181	0.000	84.577	179.843	313.269
4J.18	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4J.19	Total gross capital expenditure	£m	3	0.000	5.668	43.181	0.000	84.577	179.843	313.269
4J.20	Grants and contributions	£m	3	0.000	0.000	0.000	0.000	0.000	22.819	22.819
4J.21	Totex	£m	3	14.338	43.690	55.229	0.731	165.965	346.189	626.142
C	Cash expenditure (excl. atypicals)									
4J.22	Pension deficit recovery payments	£m	3	0.000	4.219	1.734	0.018	18.713	15.284	39.967
4J.23	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4J.24	Totex including cash items	£m	3	14.338	47.909	56.963	0.749	184.678	361.473	666.109
D	Atypical expenditure									
4J.25	Covid 19 (Opex)	£m	3	0.000	0.091	0.043	0.000	0.332	0.801	1.267
4J.26	Dry Weather Maintenance Non Inf	£m	3	0.000	0.018	0.000	0.000	8.078	4.890	12.986
4J.27	Item 3	£m	3							0.000
4J.28	Item 4	£m	3							0.000
4J.29	Item 5	£m	3							0.000
4J.30	Item 6	£m	3							0.000
4J.31	Item 7	£m	3							0.000
4J.32	Item 8	£m	3							0.000
4J.33	Item 9	£m	3							0.000
4J.34	Item 10	£m	3							0.000
4J.35	Total atypical expenditure	£m	3	0.000	0.109	0.043	0.000	8.410	5.691	14.253
E	Total expenditure									
4J.36	Total expenditure	£m	3	14.338	48.017	57.006	0.749	193.088	367.165	680.362

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Pro forma 4K Atypical and non-atypical expenditure by business unit – wholesale wastewater

For the 12 months ended 31 March 2020

Line description		Units	DPs	Network+ Sewage Collection			Network+ Sewage Treatment		Sludge			Total
				Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
A	Operating expenditure (excl. atypicals)											
4K.1	Power	£m	3	3.141	3.856	1.537	41.721	1.724	0.020	-5.410	0.005	46.594
4K.2	Income treated as negative expenditure	£m	3	-0.027	-0.034	-0.013	-0.008	0.000	0.000	-9.499	0.000	-9.581
4K.3	Discharge Consents	£m	3	1.069	1.300	0.520	4.806	0.000	0.000	0.217	0.000	7.911
4K.4	Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	Other operating expenditure											
4K.5	- Renewals expensed in year (Infrastructure)	£m	3	20.953	23.153	9.230	0.000	0.000	0.000	0.131	0.000	53.467
4K.6	- Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4K.7	- Other operating expenditure excluding renewals	£m	3	19.555	17.389	6.950	67.354	0.393	9.385	33.572	8.904	163.501
4K.8	Local authority and Cumulo rates	£m	3	0.017	0.016	0.006	14.864	0.150	0.068	4.245	0.482	19.848
4K.9	Total operating expenditure (excluding third party services)	£m	3	44.707	45.680	18.230	128.736	2.266	9.473	23.256	9.391	281.739
4K.10	Third party services	£m	3	0.070	0.030	0.012	0.068	0.002	0.005	0.017	0.009	0.213
4K.11	Total operating expenditure	£m	3	44.777	45.710	18.242	128.804	2.268	9.478	23.273	9.400	281.952
B	Capital expenditure (excl. atypicals)											
4K.12	Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4K.13	Maintaining the long term capability of the assets - non-infra	£m	3	11.176	12.350	4.924	98.408	0.000	0.000	22.330	2.936	152.124
4K.14	Other capital expenditure - infra	£m	3	32.753	42.774	17.053	6.887	0.000	0.000	0.000	0.000	99.467
4K.15	Other capital expenditure - non-infra	£m	3	9.207	10.173	4.056	76.855	0.000	0.000	2.956	0.000	103.247
4K.16	Infrastructure network reinforcement	£m	3	2.340	2.586	1.031	0.000	0.000	0.000	0.000	0.000	5.957
4K.17	Total gross capital expenditure excluding third party services	£m	3	55.476	67.883	27.063	182.151	0.000	0.000	25.286	2.936	360.795
4K.18	Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4K.19	Total gross capital expenditure	£m	3	55.476	67.883	27.063	182.151	0.000	0.000	25.286	2.936	360.795
4K.20	Grants and contributions	£m	3	5.201	6.383	2.545	0.000	0.000	0.000	0.000	0.000	14.130
4K.21	Totex	£m	3	95.053	107.209	42.760	310.954	2.268	9.478	48.559	12.336	628.617
C	Cash expenditure (excl. atypicals)											
4K.22	Pension deficit recovery payments	£m	3	3.936	3.749	1.494	16.389	0.000	1.850	9.180	0.785	37.383
4K.23	Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
4K.24	Totex including cash items	£m	3	98.989	110.958	44.255	327.343	2.268	11.327	57.738	13.122	666.000
D	Atypical expenditure											
4K.25	Covid-19 (Opex - netted off general and support expenditure)	£m	3	0.190	0.180	0.072	0.578	0.010	0.053	0.110	0.045	1.237
4K.26	Shell Green Incineration Stock Write Off (netted off against materials and consumables)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.299	0.299
4K.27	Item 3	£m	3									0.000
4K.28	Item 4	£m	3									0.000
4K.29	Item 5	£m	3									0.000
4K.30	Item 6	£m	3									0.000
4K.31	Item 7	£m	3									0.000
4K.32	Item 8	£m	3									0.000
4K.33	Item 9	£m	3									0.000
4K.34	Item 10	£m	3									0.000
4K.35	Total atypical expenditure	£m	3	0.190	0.180	0.072	0.578	0.010	0.053	0.110	0.344	1.537
E	Total expenditure											
4K.36	Total expenditure	£m	3	99.179	111.138	44.327	327.921	2.278	11.380	57.848	13.466	667.537

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2.6) APPENDIX 1: UUW I17 certificate

Report of KPMG LLP to United Utilities Water Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition I17

In accordance with the terms of our engagement letter dated 22 June 2020, we have examined the Company directors' certificate – Condition I dated 30 June 2020 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2020.

Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition I in accordance with Section I17 of the Licence. The Certificate is presented as set out in the instrument of appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Act 1989.

As specified in our engagement letter dated 22 June 2020, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2020 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition I17. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 30 June 2020, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2020.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Basis of our findings

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2020 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2020.

KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
30 June 20

Appendix 1 – Assurance summary and findings

This appendix is designed to demonstrate that we have complied with our published assurance plan, which was developed in accordance with the requirements of Ofwat's company monitoring framework. It also sets out the key findings from this assurance process and updates upon our specific targeted risk areas.

A) Overview and assurance framework

Company monitoring framework

In June 2015, Ofwat published its company monitoring framework for the 2015-20 (AMP6) period. This described how Ofwat would assess the information provided to customers by the 17 largest water and sewerage and water only companies in England and Wales. The framework supported Ofwat's vision for the water sector in England and Wales where customers and wider society have trust and confidence in vital public water and wastewater services.

The purpose of the framework is to ensure that stakeholders can rely on the information provided by water companies and to make sure that the assurance of this information is provided in a way that can help to build confidence and trust. There are two distinct elements to the framework;

a) the data assurance activities that companies put in place to provide accurate data and

b) the wider assurance that companies provide to demonstrate that they are listening to customers and delivering services they want and can afford.

As part of Ofwat's approach to monitoring and assuring delivery it expects companies to have processes in place to

- ensure that this information can be trusted and uses a series of tests of the quality of each company's information
- challenge companies to publish information that can be trusted.

As part of this annual review for each of the first three years of AMP6 Ofwat rated each company depending on the quality of the company's reporting and publications. The nature and level of the assurance required by Ofwat each year was dependent upon the rating companies were awarded the previous year. The higher the rating, the more freedom that companies were given over the assurance that they provide. The lower the rating, the less freedom they were granted.

In August 2019, Ofwat announced that it would no longer be publishing CMF assessments, but would continue to scrutinise and challenge companies' approaches to data quality and assurance of their performance reporting and expect all companies to adopt as a minimum the requirements established by the 'targeted' category under the company monitoring framework.

UUW had previously held the highest rating of "self-assurance" which meant that it had been subject to lighter touch requirements than those required for the "targeted" category. However, UUW had always sought to deliver the requirements of the targeted category of assurance even when this was not mandated. Accordingly, we had already been planning an approach consistent with the "targeted" assurance category.

Accordingly, during 2019/20 and in line with previous years, we once again published and consulted on a "Risks, strengths and weaknesses and draft assurance plan" and then following feedback published our "Final Assurance Plan" for our 2019/20 reporting. These publications are available on https://www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2015-20/.

Assurance framework:

The document AMP6 regulatory reporting assurance framework is published on our website https://www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2015-20/. It sets out the assurance activities that we have put in place to provide reliable, accurate and complete data. It also sets out the wider assurance activities that we undertake to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford. The framework is set out in six sections, which are summarised below:

- **Measurement and data capture –** The data required to report on the delivery of our outcomes and other commitments has been developed to be a subset of our routine (and often long standing) operational and management information that is directly used to support and direct key business activities. We have also established a centralised reporting function, which manages both the quality of the data and provides a single source of management information which can be used throughout the business.

- **Risk based assurance –** We have adopted a structured risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The overall combined risk rating is used to help to determine the level of governance and assurance that is applied to the reported information.
    - As the level of risk increases the governance and assurance applied to the reporting of this data also increases and ensures that key risks are escalated up to Board level where necessary to ensure that the management, control and reporting of any risks and resulting actions identified through the process are proportionate to the level of risk.
- **Targeted audit and assurance –** We have adopted a well-established "three lines of assurance" framework. The three lines of assurance are;
    - First line – management has accountability for developing and maintaining sound processes, systems and controls in the normal course of their operations
    - Second line – The Economic regulation and strategy or Finance teams, where applicable, have accountability for providing the framework and governance for our regulatory reporting. Our Corporate Audit team undertake rolling and cyclical audit activity and targeted reviews of key submissions
    - Third line – Independent audit and assurance activities are undertaken by specialist external auditors.
- **Governance and accountability –** We are committed to the very highest standards of corporate governance with defined accountabilities running from the UUW Board through to operational governance and review process.
- **Additional communications and publications –** In addition to publishing the minimum information requirements set out by Ofwat within the APR we are committed to providing regular and transparent reporting of our performance and using a broad range of communications channels to communicate with customers and other stakeholders.
- **Independent challenge and review –** To ensure that our reporting is independently challenged we have established an independent stakeholder forum called the YourVoice panel. The role of the YourVoice panel is to both monitor and challenge us on the delivery of our business plan, to review and advise on our performance and to scrutinise our customer engagement on the development of our future business plans.

Coronavirus emerging risk:
At the time we published our Final Assurance Plan we noted the Coronavirus pandemic as an area of risk for our reporting approach. The impact of COVID-19 has been significant in terms of changing the way in which we work, as well as the way in which we need to work with other partners on our assurance activities. A large number of staff – including staff at our contractors and auditors – have been forced to amend their working procedures and processes. We have worked hard to ensure that despite the challenges we have faced we maintained the highest levels of data integrity, informed by our risk based approach to assurance. We have utilised technology in order to facilitate the audit and assurance of data and documents and have maintained our published process for sign off by relevant levels throughout the organisation. The process has resulted in electronic sign offs with strict controls and robust audit trails, assured by both our Corporate Audit function and also our technical auditor Jacobs.

Corporate responsibility:
As mentioned earlier in the document we publish information on how we operate in a responsible manner in our integrated annual report and on the responsibility pages of our corporate website. Our APR assurance process includes a number of metrics relating to corporate responsibility performance across the five commitment areas of our Business Principles.

B) 2019/20 Annual Performance Report assurance plan

Our 2019/20 Final assurance plan set out how all data reported in the 2019/20 APR is subject to a structured and risk based governance and assurance process, as summarised in the table below. It also identified a number of potentially higher risk (targeted) areas which are summarised on the next page.

Risk based assurance plan for the 2019/20 Annual Performance Report

Section	Content	Governance and assurance activities
Risk and Compliance statement	Annual statement confirming compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers	Signed off by the UUW Board, based upon the defined governance and assurance approach relevant for each obligation.
Regulatory financial reporting	Historical cost financial information. Disaggregation of income, from a regulatory accounting perspective, with reconciliation to the UU statutory accounts.	1. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied. 2. Finance team review of information and audit trails. 3. Financial Auditors (KPMG) audit as set out in the audit opinion on pages 145-148.
Price review and other segmental reporting	Further separation of revenue and costs to allow stakeholders to review companies' performance against the FD.	4. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied. 5. Finance team review of information and audit trails. 6. Financial Auditors (KPMG) audit as set out in the audit opinion on pages 145 – 148.
Performance summary	A high-level report of the operational performance of the business against the performance commitments set out in the PR14 FD, highlighting any financial incentives accrued in the year.	7. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied. 8. Economic Regulation team review of information and audit trails. 9. Technical Auditors (Jacobs) review data and commentary and report opinion to the Board.
Additional regulatory tables	Additional financial and non-financial information, including wholesale totex performance against both the PR14 FD assumptions and intercompany unit cost metrics, retail operating cost analysis and financial metrics.	10. Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied. 11. Economic Regulation team review of information and audit trails. 12. Financial Auditors (KPMG) or Technical Auditors (Jacobs) procedures as agreed with management on the relevant tables in Section 2.

Targeted areas, mitigation and assurance

In addition to the generic assurance processes described above and which have been applied to all of the data within the APR, we also reviewed the potential risks to our reporting as part of the development of the assurance plan.

This risk assessment process confirmed that our established systems of governance and control were effective in identifying and managing reporting risk levels. The areas we identified for additional assurance activity in our final assurance plan were flagged as a result of four main factors:

- previous reporting issues had been identified,
- inherent data quality issues (usually due to new requirements or changes in circumstances or reporting regimes)
- high priority areas from a customer or stakeholder view point; and
- areas where delivery of our performance commitment targets may have been at risk.

Annual Performance Report 2020

Appendix 1 – Assurance summary and findings

The targeted areas identified in the final assurance plan are set out in the table below and described in detail in our published Final assurance plan.

Targeted area	Status	Previous issues	Inherent data accuracy	High priority	Delivery and performance
Outcome delivery incentives	Continued		✓	✓	✓
Water quality	Continued			✓	✓
Water availability and leakage	Continued			✓	
Charges and tariffs schemes	Continued		✓	✓	
PR14 reconciliation	Continued		✓	✓	
Competitive market data platforms	Removed			✓	
Integrated Network Solution	Continued		✓		
AMP7 readiness	Continued		✓	✓	
Market support	Updated			✓	
Consent compliance	New			✓	
Haweswater aqueduct replacement programme	New		✓	✓	
Severn Thames transfer	New		✓	✓	
Drainage and wastewater management plan	New		✓	✓	
Thirlmere transfer to West Cumbria	New				✓
Sewer flooding index	New			✓	✓
Coronavirus	New		✓	✓	✓

Our 2019/20 Final assurance plan contains full details of the reasons for the targeted status, the ongoing and planned activity to mitigate the risks and the planned activity to assure our reporting in these areas. A summary of the status of these targeted areas is set out in the table below.

The corporate audit report and findings – set out in Section C of this Appendix – confirms that the assurance activities included within the Final Assurance Plan have been complied with and sets out the summary of Corporate Audit's findings.

2019/20 targeted areas and reason for status

When we published our final assurance plan, we said that we would highlight any variations in approach that were taken in delivery of the assurance, including any changes that were required because of COVID-19 impacts. In the event, we are pleased to confirm that we were able to deliver each area of targeted work in line with the governance and assurance approach set out in the final assurance plan document and no variations were required.

Targeted area	Reason for targeted status
Outcome delivery incentives	Performance against our AMP6 performance commitments and outcome delivery incentives (ODIs) is a high priority area for customers and other stakeholders. Performance levels directly affect the level of service provided to customers and the impact of our operations on the environment. Many of the measures also have financial incentives which will impact upon customer bills in the AMP7 (2020-25) period. Many of the AMP6 ODIs are complex indices and rely on large volumes of data recorded and analysed through complex systems and processes.
Water Quality	Water quality performance is an area of particular importance to customers and stakeholders. Last year we were disappointed with our performance and penalties for a third year associated with the Water Quality Service Index. We have been working closely with the DWI to learn lessons from the incidents we have experienced and are implementing a transformation plan delivering improvements at water treatment works and, in the network, to meet our increasingly challenging water quality targets.
Water availability and leakage	Water availability and leakage has been identified as a targeted area because it is important to stakeholders. In previous years, the thaw that followed the “Beast from the East” cold spell in February 2018 left customers across the country off supply and resulted in Ofwat’s “Out in the cold” report. During the extended dry spell over the summer of 2018, UU also publicised the possibility of it needing to implement a temporary use ban (hosepipe ban). These events have increased the need to be transparent on how companies are managing these events and ensuring that they can provide resilient supplies to customers in 2019/20. Large events in Prenton and Eden have had an adverse effect on performance although we were able to implement a thorough coordinated response in order to minimise disruption to customers. There has also been significant debate and scrutiny of the longer term leakage targets that are being used within water resource management plan and price review submissions.
Charges and Tariffs Scheme	We have been developing, assuring and publishing annual charges schemes for a number of years, however charging guidance has undergone significant change in recent years. The charging rules for new connection services (including agreements for the adoption of self-laid infrastructure) were first published by Ofwat in December 2016 and subsequently updated in December 2018 and July 2019. In May 2018, Ofwat published final guidance on bulk supply charges for New Appointments and Variations (NAVs). The NAVs regime was introduced under the Water Industry Act 1991, which allows companies to enter into the wholesale water and sewerage sector and to compete with incumbent companies for the supply of wholesale water and sewerage services.

Targeted area	Reason for targeted status
PR14 reconciliation	As part of the PR19 process, water companies needed to set out the anticipated impact of their performance during the AMP6 period (2015-20) against the AMP6 targets and incentive regimes, which were set as part of the PR14 process. Ofwat required companies to submit their projected five year performance, expenditure and revenue collection levels and calculate resultant incentive impacts in July 2018 alongside the Annual Performance Report (APR) and to update this information in July 2019 in advance of the main PR19 business plan submission. The mechanisms involved in this reconciliation include totex menus, outcome delivery incentives (ODIs), the service incentive mechanism (SIM), wholesale revenue forecast incentives (WRFIM) and water trading incentives. The performance and incentives reported through these mechanisms directly impacted customer bills in the AMP7 (2020-25) period through the PR19 process as a consequence of changes to either the opening regulatory capital value (RCV) or changes to allowed revenues. We have updated this information based upon actual 2019/20 taking into account the feedback received from Ofwat in the PR19 final determination.
Integrated Network Solution	UU retendered its network maintenance contract to begin in April 2019. In order to both facilitate this transition and enhance the services we offer to customers, a new IT system, the Integrated Network Solution (INS), was introduced shortly afterwards. INS replaced a number of existing water and wastewater network systems and is used by both UU staff and partner staff, enabling a seamless transition of jobs and providing an enhanced reporting capability. INS covers activity on both the water and wastewater network from raising work requirements through to recording job completion, responding to unplanned events, raising and scheduling customer appointments and all associated performance and regulatory reporting of these activities. The new system replaced a number of existing systems including SAP ECC, WIRS, eRespond and Click schedule. Reporting for 2019/20 is based on data from the old systems for the April-July period and from INS from August onwards. As with the introduction of any new IT systems there is an associated potential risk from transitioning through to comprehensively using a new system
AMP7 readiness	In September 2018 we published our business plan for the 2020-25 period, setting out our proposed service targets and investment levels. The plan contained a new suite of performance commitments and outcome delivery incentives, which will replace our current suite of AMP6 performance commitments. Although many of the commitments contain metrics that are included within our existing measures, there are a number of new metrics and new measures that we will also be required to deliver and to report our progress against. Ofwat awarded UU fast-track status meaning that other than some limited interventions, our plan was ready to implement. To ensure that we are able to reliably, accurately and transparently report our performance against these new metrics from the very start of the AMP7 period, we will implement a controlled shadow reporting process to run alongside our existing reporting process for our current AMP6 performance commitments.
Market support	On 28 May 2019 Ofwat's Chief Executive Rachel Fletcher published a letter she had sent to the Chief Executives of the English and Welsh water companies, stating that Ofwat could "see numerous, persistent examples of water companies failing to support the development of effective markets". This was followed up on 16 September 2019 with an open letter to Chief Executives from Emma Kelso, Ofwat's Senior Director, Markets and Enforcement, which expanded on Ofwat's concerns and requested specific additional information from water companies in relation to the business retail market; the market for developer services; and support for the development of other new markets. These letters have raised the profile of water companies' support and engagement with these new markets which provide the opportunity to deliver better outcomes for both current and future customers in the form of lower prices, better quality and more tailored services and/or improved choice.

Targeted area	Reason for targeted status
Consent compliance	In October 2019 Ofwat published the conclusions of its investigation into whether Southern Water had breached its statutory duties and licence obligations, with the investigation looking at the performance of Southern Water's wastewater treatment sites, and the company's reporting of relevant compliance information. Ofwat's investigation found that Southern Water failed to operate a number of wastewater treatments works properly, including by not making the necessary investment in a timely manner, leading to equipment breakdowns and spills of wastewater into the environment. Ofwat also found that Southern Water manipulated its wastewater sampling process which resulted in its misreporting information about the performance of a number of sewage treatment sites. This meant the company avoided penalties under Ofwat's price review incentive regime. We have therefore included our wastewater and water sampling process as a targeted area, to give confidence that we are actively managing our statutory and licence provisions and particularly those in relation to the management of our water and wastewater treatment works and the reporting of performance information.
HARP (Haweswater aqueduct resilience programme)	Construction of the Haweswater Aqueduct (HA) was completed in 1955. The aqueduct transports water from the Haweswater reservoir in the Lake District to customers in the Manchester and Pennines regions. Following inspections in 2013 and 2016, to assess its condition, United Utilities is planning to implement a major scheme to ensure that resilient water supplies can continue to be provided to customers who are currently supplied from the HA. As part of the PR19 process, we proposed that this scheme should be developed through the direct procurement for customers (DPC) approach. The scheme is high priority because it will address potential longer term risks to the reliability and quality of water supplies to significant populations within the region.
Severn Thames transfer scheme	Ofwat is supporting the development of a number of schemes which are designed to provide greater long term resilience to water supplies to the South and East of the country, by allowing funding to progress a number of potential schemes through the AMP7 period and allow cost beneficial schemes to be constructed during AMP8 or subsequent periods. United Utilities is involved in a scheme, which would allow water to be transferred from the River Severn catchment area to the River Thames, with this water then able to be abstracted by companies in the affected regions. One of the sources of the additional water could be the Vyrnwy reservoir in North Wales, which is currently a major source feeding our integrated supply zone. Work is therefore required to ensure alternative sources can be utilised to avoid any increase in risk to supplies in the UU region as a consequence of this transfer.
DWMP (Drainage and wastewater management plans)	Drainage and wastewater management plans (DWMP) are designed to transparently document water companies' wastewater asset bases, and provide a baseline view of the operational or performance issues affecting these assets, demonstrate how these assets and performance risks would change over time as a consequence of changes in demand and climate change and to set out an optimised long term programme of work to cost effectively address these issues. The plans also need to be developed at company-wide, regional and local levels with stakeholder and customer views being reflected in the nature and timing of the proposed schemes – both UUW and partnership schemes – or other interventions included within the plan. UUW and most other water and sewerage companies are in the process of developing their first view of our long term DWMP, which will then be published on our website and used to support the development of our long term plans. The DWMP is therefore a key document in setting out our future strategy for managing the wastewater asset base. This is therefore a complex process, which will have significant impact upon future performance and expenditure levels and therefore directly impact upon customer bills.
Thirlmere transfer to West Cumbria	United Utilities is undertaking a major project which will allow abstraction from Ennerdale Water to cease by providing a transfer main, new wastewater treatment works and associated assets to allow water from Thirlmere reservoir to be supplied to the West Cumbria area. The delivery date for this project included in our 2015 Water Resources Management Plan and PR14 submission was 31st March 2022. It was our aim to deliver this project as soon as possible. We have completed the remainder of the transfer main during 2019/20, which was originally due for completion in 2021/22. This only leaves the work to complete the service reservoirs and water treatment works remaining to be completed in AMP7.

Targeted area	Reason for targeted status
Sewer flooding index	The sewer flooding index performance commitment has been identified for targeted status in 2019/20. Over this year the North West has seen significant periods of rainfall throughout the year and has been subject to a number of significant storm events most notably Ciara, Denis and Jorge. As a result of the high rainfall experienced this year the company is unlikely to be able to meet the performance target for this measure in 2019/20. We expect to be subject to an underperformance payment through the associated outcome delivery incentive for the measure at the end of the year
Coronavirus	As outlined earlier, the UK is experiencing unprecedented disruption as a result of COVID-19. As a critical essential service provider, United Utilities has committed to do our very best to ensure that there is no interruption to provision of water and wastewater services for customers. Service continuity is our number one priority. In order to achieve this we are managing a number of rapidly changing parameters including reduced staff availability, staff redeployment, increased customer demand and other external resilience issues. Because service continuity is our primary concern, there are activities which we need to prioritise, activities we need to deprioritise and activities we need to temporarily halt. We are developing this approach as a company and sharing this with stakeholders including customers and regulators in order to be transparent about a number of choices we need to take in order to deliver our objectives. It is likely that when some tasks are deprioritised this may impact delivery against performance targets and deadlines. It is also possible that delivery of our external annual regulatory submissions may be affected to some extent, impacting either the timing of publication or the extent of assurance that can be provided to support them. We intend to be transparent about any such issues when they arise.

C) Summary of the findings of the assurance

This section of Appendix 1 sets out the summary of the findings of the assurance that has been undertaken to support the Annual Performance Report.

Financial auditor – We have employed KPMG to provide an audit opinion or perform procedures as agreed with management on the regulatory accounting information set out in the table below. The coverage of the KPMG audit opinion is set out in more detail, together with the findings from this review on pages 145-148 within Section 2 of the APR. KPMG have also completed agreed upon procedures for the Section 4 pro forma tables identified in the table below, with no issues noted.

Technical Auditors – We have employed Jacobs, to review the performance and volumetric data used to support the remainder of the data within the APR tables, including the outcome delivery information and the supplementary Cost Assessment data that Ofwat have required companies to submit in addition to the APR, to help inform their future markets and price setting work 'Water 2020'.

The findings from technical auditor's review, which covers the APR information and the Cost Assessment information, were presented to the UUW Board and are set out below. The Independent Technical Assurance Statement is set out on Page 217.

Corporate audit – UU Corporate Audit have undertaken an independent review of the effectiveness and application of the assurance framework applied to the APR. Their findings were presented directly to the UUW Board and are set out in Section 4.2 on page 227 below.

In addition **YourVoice**, the independent stakeholder forum, have reviewed our performance and reporting throughout the year and presented their findings directly to the UUW board. They have also published their reflections on United Utilities' performance during 2019-20, which can be found here.

The table below sets out each area of the APR and shows how the independent assurance has been provided for that area.

UUW Annual Performance Report data tables – independent assurance

Data – Tables			
	Section 1 Regulatory financial reporting	**Lines**	**Independent assurance**
1A	Income statement	All	KPMG audit opinion
1B	Statement of comprehensive income	All	KPMG audit opinion
1C	Statement of financial position	All	KPMG audit opinion
1D	Statement of cash flows	All	KPMG audit opinion
1E	Net debt analysis at 31 March 2017	All	KPMG audit opinion
1F	Financial flows	All	KPMG audit opinion
	Section 2 Price review and other segmental reporting		
2A	Segmental income statement	All	KPMG audit opinion
2B	Totex analysis – wholesale water and wastewater	All	KPMG audit opinion
2C	Operating cost analysis – retail	All	KPMG audit opinion
2D	Historical cost analysis of fixed assets wholesale and retail	All	KPMG audit opinion
2E	Analysis of grants and contributions and land sales – wholesale	All	KPMG audit opinion
2F	Household – revenues by customer type	All	KPMG audit opinion
2G	Non-household water – revenues by tariff type	All	KPMG audit opinion
2H	Non-household wastewater – revenues by tariff type	All	KPMG audit opinion
2I	Revenue analysis	All	KPMG audit opinion
2J	Infrastructure network reinforcement costs	All	KPMG audit opinion
2K	Infrastructure charge reconciliation	All	KPMG audit opinion
	Section 3 Performance summary		
3A	Outcome performance table	All	Jacobs agreed upon procedures
3B	Sub measure performance table	All	Jacobs agreed upon procedures
3C	AIM table	All	Jacobs agreed upon procedures
3D	SIM table	All	Jacobs agreed upon procedures
3S	Shadow reporting of new definition data	All	Jacobs agreed upon procedures

	Section 4 Additional regulatory information		
4A	Non-financial information	All	Jacobs agreed upon procedures
4B	Wholesale totex analysis	All	KPMG agreed upon procedures
4C	Impact of AMP performance to date on RCV	All	KPMG agreed upon procedures
4D	Totex analysis – wholesale water	1-24	KPMG agreed upon procedures
4D	Totex analysis – wholesale water	25-28	KMPG agreed upon procedures
4E	Totex analysis – wholesale wastewater	1-24	KPMG agreed upon procedures
4E	Totex analysis – wholesale wastewater	25-28	KPMG agreed upon procedures
4F	Operating cost analysis – household retail	All	KPMG agreed upon procedures
4G	Wholesale current cost financial performance	All	KPMG agreed upon procedures
4H	Financial metrics	All	KPMG agreed upon procedures
4I	Financial derivatives	All	KPMG agreed upon procedures
4J	Atypical expenditure by business unit – Wholesale water	All	KPMG agreed upon procedures
4K	Atypical expenditure by business unit – Wholesale wastewater	All	KPMG agreed upon procedures
	Section 4b Cost assessment data		
4L	Enhancement expenditure by purpose – Wholesale water	All	Jacobs agreed upon procedures
4M	Enhancement expenditure by purpose – Wholesale wastewater	All	Jacobs agreed upon procedures
4N	Operating expenditure – Sewage treatment – Wholesale wastewater – functional expenditure	All	Jacobs agreed upon procedures
4O	Large sewage treatment works – Wholesale wastewater	All	Jacobs agreed upon procedures
4P	Non-financial data for WR, WT and WD – Wholesale water	All	Jacobs agreed upon procedures
4Q	Non-financial data – Properties, population and other – Wholesale water	All	Jacobs agreed upon procedures
4R	Non-financial data – Wastewater network and sludge – Wholesale wastewater	All	Jacobs agreed upon procedures
4S	Non-financial data – sewage treatment – Wholesale wastewater	All	Jacobs agreed upon procedures
4T	Non-financial data – sludge treatment – Wholesale wastewater	All	Jacobs agreed upon procedures
4U	Non-financial data – Properties, population and other	All	Jacobs agreed upon procedures
4V	Operating cost analysis – water resources	All	Jacobs agreed upon procedures
4W	Operating cost analysis – sludge transport, treatment and disposal	All	Jacobs agreed upon procedures

Tables 3S and 4L to 4W and supporting commentaries are not included in the APR and are provided to Ofwat separately. Tables 4L to 4W and supporting commentaries can be found as a standalone reports on our website.

Jacobs

United Utilities RR20 Technical Assurance

Board Assurance Statement

1 | 1

25 June 2020

United Utilities Water

United Utilities RR20 Technical Assurance

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Jacobs U.K. Limited

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Document history and status

Revision	Date	Description	Author	Reviewed	Approved
0	24/6/20	Initial Draft to UU for review	G Hawken	C Morley	G Hawken
1	25/6/20	Final – Incorporating comments from UU	G Hawken	C Morley	G Hawken

Contents

1. Introduction

Jacobs UK Ltd has been engaged by UUW to provide external technical assurance, in order to confirm that specific technical and expenditure elements of the RR20 have been compiled in accordance with the guidance of the Water Services Regulatory Authority (Ofwat); good practice; and the PR14 Determination.

All water companies are required by Ofwat to submit an Annual Performance Report (APR) to demonstrate compliance with their separate price controls. This includes specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Data used by United Utilities (UUW) to populate the APR has been predominantly derived from their RR20 data return.

The reports prepared by the Company are required to be accessible to all stakeholders so that they show how the sector is delivering for its customers, environment and wider society. In this regard, Ofwat has provided a series of standard templates and accompanying guidance for the outcome, performance commitment and incentive mechanisms. The information in the spreadsheet will assist stakeholders to track and compare actual performance.

Incorporated within the APR, Ofwat also requires that supplementary cost assessment data is incorporated into the APR to help inform their future markets and price setting work ('Water 2020'). Where the required cost assessment data was not already captured within the RR data return, UUW has added additional lines to ensure all data reported is subject to independent technical assurance.

In order to help inform the setting of the outcome performance commitments from 2020 onwards, Ofwat has also developed consistent reporting guidance for three metrics (leakage, supply interruptions and sewer flooding). Whilst companies are required to report these 'shadow' measures alongside the APR, UUW has also incorporated these requirements into the RR20 data return. From 2018/19 onwards, Ofwat also required shadow reporting for vulnerability metrics relating to a common AMP 7 PC for the Priority Services Register.

Furthermore, some of the RR20 data lines have been further enhanced to also include the proposed AMP7 performance commitments and metrics, which have also been subject to independent technical assurance.

Each company's Board is accountable for the quality and transparency of the information they provide on their performance and for implementing assurance procedures to make sure they meet all of their legal and regulatory obligations.

This statement covers our work in providing independent technical assurance on aspects of the Company's APR submission to Ofwat.

Our key findings are summarised in Appendix A.

2. Role and Scope

Jacobs UK Ltd has been engaged to provide an independent review of UUW's compliance and governance processes covering the key technical information presented in or supporting their regulatory performance and public domain information reports.

The scope of our work has been determined by UUW, and largely agreed in our Outline Assurance Plan, dated 25th March 2020, which is summarised as follows:

APR information (as reported in RR20), which is prepared in accordance with Ofwat's APR guidance and information which supported the Final Determination for the AMP6 period and includes:

- General information
- Customer service information
- Operational activities and performance in AMP6 against PR14 and other business targets
- Networks and treatment
- Capital expenditure allocations to revenue controls and business streams, to investment categories and to measures of success
- Calculation of 2019/20 performance associated with the Outcome Delivery Incentive mechanisms
- Other miscellaneous metrics

Where the above guidance does not cover the items assured, they are assessed against the guidelines set out by Ofwat for June Return information up to 2012, where detailed Reporting Requirements can be used to assess compliance and consistency of reporting over time and between companies. The following hierarchy of guidance is deemed to apply:

- Relevant Regulatory Accounting Guidelines: version 4.08
- APR20 table templates and guidance (e.g. Ofwat Information Notice IN20/03 April 2020)
- Performance commitments and definitions agreed with Ofwat for the AMP6 period, or as subsequently superseded
- Ofwat's most recent 'June Return' guidance (2012)
- UUW procedures, definitions and assumptions which should where relevant, be compliant with the guidance hierarchy above
- Reasonable and appropriate judgement

3. Approach

3.1 Process

Our approach is summarised in the following steps:

1. Agree Scope with UUW
2. Produce and agree Assurance Plan
3. Review preliminary topic information
4. *Undertake Remote Audits via Skype, Zoom & MS Teams – specific requirement for RR20 due to Covid-19 travel restrictions and social distancing requirements*
   - Check that the Company's reported data conforms to the published guidance
   - Identify and examine the material assumptions to assess their reasonableness, and challenge those which we deem to be inappropriate
   - Where appropriate, test on a sample basis, UUW's approach against its stated methods, procedures, policies and assumptions, and reliability of source data
   - Review the appropriateness of the confidence grades assigned,
   - Assess performance in the Report Year and check consistency against that of previous years and,
   - Ensure relevant performance data has been accurately utilised in the calculation of the various Measures of Success, where applicable.
5. Summarise Audit Findings (SAF)
   - For RR20, the SAF consists of a brief bullet point summary of the findings and a tabulation of any outstanding issues or areas identified for further UUW action. The purpose of this change in approach was to meet UUW's tighter reporting timetable and ensure a SAF is available in advance of the Level 2 sign off.
6. Close out key issues – through iteration between auditor and UUW specialists, escalating through both organisations where appropriate to agree, as appropriate: adjustment to reported information; future action plans; or additional statements which provide adequately transparency of the issue.
7. Presentations and preparation of Reports and Assurance Statement.

3.2 Assessment

We use the following RAG coding to simply highlight the areas of concern:

Figure 1 - RAG Criteria used in HMS Assessments for reporting compliance against the guidelines

Key to Audit RAG status	
R	Material concerns over the validity of the reported information
A	Potential material concerns over reported information
B	Content with reported information but supporting data needs completion/ noting/or future improvements required
G	No material exceptions and compliant with the requirements

The following tests are applied to the data presented and the accompanying commentaries:

Figure 2 - Example of Tests applied to APR Data and Performance Commitment information

RR20 Table Criteria	RAG	Assessment
Performance and Significant events	Green	Has the company met their respective targets and is the reporting process well managed/maintained?
Methodology	Green	Does the methodology remain unchanged from previous year and is it clearly laid out with key data sources, processes and well-defined control points?
Assumptions	Green	Are all assumptions reasonable and appropriately applied?
Source Data	Green	Has the source data been clearly identified, is it complete beyond material concern and is it well managed through to accurate systems input?
Clarity of Audit Trails	Green	Is the audit trail detailed, comprehensive and traceable back to source?
Confidence Grades	Green	Do you concur with the confidence grades presented by the company?
Governance	Green	Has all evidence of appropriate sign-off been provided?

MoS Criteria	RAG	Assessment
MoS Performance Data	Green	Are the performance figures accurately carried forward to the Measure of Success and correctly calculated in accordance with Ofwat's final PR14 methodology?

4. Findings

Below we highlight the key findings and exceptions:

- The reported data is materially compliant with Ofwat's Reporting Requirements (Regulatory Accounting Guidelines, APR20 table guidance, 2014 Final Determination or superseding definitions, or June Return definitions, as appropriate)
- The tables, commentaries and statements provide a fair and balanced overview of the Company's 2019/20 circumstances and performance
- Procedures and assumptions are generally reasonable and well embedded, well documented and appropriately implemented
- Overall, UUW staff were knowledgeable, helpful, receptive and generally well prepared for the audits. However, there were a number of instances where data and supporting information was not available, meaning that scheduled audits were unable to be completed. Whilst this was often due to the need to further refine or amend methodologies in order to improve the quality of reported data, delays have significantly prolonged the audit programme, requiring a number of repeat audits.
- Notwithstanding the above, we continue to see very good evidence of senior management engagement.

RED issues

There are no RED status issues.

AMBER issues

There are a small number of outstanding AMBER issues associated with leakage related AMP7 convergence measures and wastewater related appointments, as summarised below:

- Table 3S – B01-WN and B05-WN – a potential over-estimation of unmeasured household consumption (following introduction of fast logging) suggests leakage could have been under-estimated by up to 2 Ml/d in 2019/20 (0.5%). As the values for 2017/18 to 2019/20 will be used to estimate the baseline for AMP7 leakage reductions, the company should continue to validate the fast logging data and assess whether it would seek to revise this value during 2020/21 to ensure that reporting against the AMP7 baseline will remain robust.
- Table 6 – Wastewater GSS Appointments – increase in failed appointments following introduction of INS (Salesforce), with GSS payments not made for ~45% of the 137 failed appointments. Whilst these appointments were identified through routine year end checks and have now been scheduled for payment in the current year (with associated penalty payment) and an action plan is being put in place, it confirms a failing of the Company's processes during the year.

We fully anticipate that all these issues will be satisfactorily resolved in readiness for AMP7 reporting.

BLUE issues

Whilst a substantial number of BLUE issues found during the audit process have been identified and satisfactorily resolved, there remain a number of areas where further improvements have been recommended. This particularly includes improvements to the quality and handling of some source data, clarity of audit trails and general improvements to methodologies. However, these are not deemed to be sufficiently material to be escalated into this report.

5. Independent Technical Assurance Statement

Jacobs UK Ltd has been appointed by United Utilities Water to provide independent technical assurance of the data that feeds into their regulatory submissions.

Through a series of virtual meetings and information exchanges, we have reviewed and tested the methodologies, processes and supporting evidence on which the statements in the Annual Performance Report 2020 are based. Under the current Covid-19 restrictions our assurance has been undertaken remotely using Skype and MS Teams. In general, this has worked well and has not generally impacted on the effectiveness of the overall assurance process, although it did require additional flexibility and result in an extended assurance programme.

Based upon our assessment of United Utilities Water's performance and the supporting information we have reviewed, with only minor and non-financially material exception, we conclude that:

- the statements of non-financial numeric measures are consistent with our assurance of the supporting information, which is appropriately robust; and
- the Company's explanations of their activities and performance are reasonably based.

Our detailed findings will be provided under separate cover.

On the basis of our audit work and with exceptions as noted in Appendix A, we are satisfied that the information within and which supports RR20 has been assembled using appropriate data and methodologies and provides a reliable representation of Company performance. There is also good evidence of senior management engagement, governance and programme management.

GA Hawken

Technical Assurance Director

Jacobs UK Ltd

25 June 2020

Appendix A. Summary of Audit Findings

Corporate Audit

Review of regulatory reporting 2019/20

CORPORATE AUDIT MEMORANDUM

Review of the APR 2020

1. Executive Summary

1.1 Purpose

To report the results of the audit work carried out by Corporate Audit to support the approval of the 2019/20 Annual Performance report (APR) by the UUW Board.

1.2 Context

Ofwat require companies to report on their financial and operational performance in an Annual Performance Report (APR). This includes information specific to customers and stakeholders, together with information that enables comparison between companies across the sector.

The Annual Performance Report, together with a summary of the results of the data assurance ('Assurance Report'), needs to be published by 15 July each year. Our audit is therefore timed to provide assurance over the process by which regulatory data is compiled in advance of UUW Board sign-off.

1.3 Audit Objective

The objective of the audit is to provide assurance in respect of the governance, processes and key controls over the production of the 2019/20 Annual Performance Report, reporting on convergent measures for AMP7 and associated Assurance Report. Refer to Section 2 for details of the scope of the audit.

1.4 Conclusion

There is a robust governance framework in place over the production of the APR data tables and commentaries, and our sample audit testing did not highlight any inconsistencies or inaccuracies in the data. The format of the APR is compliant with RAG 3.11 "*Guideline for the format and disclosures for the annual performance report*". The Assurance Report is a fair reflection of the published Assurance Plan and associated assurance activities. Finally, based on our work, UU is compliant with the regulatory requirements on preparedness for reporting on convergent measures for AMP7 reporting.

2. Background and scope of review

2.1 Background

Ofwat require companies to report on their financial and operational performance in an Annual Performance Report (APR). This includes information specific to customers and stakeholders, together with information that enables comparison between companies across the sector.

As part of the APR Ofwat require that a risk and compliance statement is published annually, setting out how the company has complied with its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate key risks it faces.

The APR is supplemented by a series of data tables and supporting commentary in four main sections:

- Section 1: Regulatory financial reporting;
- Section 2: Price control and additional segmental reporting of costs and revenues;
- Section 3: Performance summary, including outcome delivery performance; and
- Section 4: Additional regulatory information, including totex and financeability information.

The Annual Performance Report, together with a summary of the results of the data assurance ('Assurance Report'), needs to be published by 15 July each year. Our audit is therefore timed to provide assurance over the process by which regulatory data is compiled in advance of UUW Board sign-off on 30 June 2020.

In addition to the APR, UU's compliance with the regulatory requirements on preparedness for reporting on convergent measures for AMP7 is the subject of a separate communication to Ofwat. The specific elements covered on this "shadow reporting" communication to Ofwat include Table 3S, RAG assessment and confidence grades, commentary and improvement action plans, and 3rd line assurance review.

Key Risks

The overall risk is that inaccurate, incomplete or misleading data / information is published and reported to Ofwat resulting in regulatory action being taken against UU and/or its Directors. Consequently, financial penalties could be imposed together with a loss of confidence by customers and investors.

2.2 Audit Scope

The scope of this review supplements the assurance provided by KPMG and Jacobs, and covered the following areas:

- Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescales;
- The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report. This included sample testing to agree data back to underlying UU records and systems. *Note: this review did not duplicate the testing performed by KPMG;*
- Compliance of the reported data in the APR with key aspects of Regulatory Guideline 3.11 "*Guideline for the format and disclosures for the annual performance report*";
- UU's compliance with the regulatory requirements on preparedness for reporting on convergent measures for AMP7 reporting; and
- Review the proposed Assurance Report (to be published along with the Annual Performance Report 2019/20) to ensure it is a fair reflection of UU's published Final Assurance Plan and associated assurance activities.

Exclusions from scope

- As testing was be performed on a sample basis, the review did not verify all the regulatory data or compliance with regulatory obligations;
- Sections 1 and 2 of the Annual Performance Report which are subject to external audit by KPMG with opinion;
- Review of the ODI data collection, incentive calculations and reporting processes as this was performed by the technical auditor Jacobs; and
- The review did not assess the underlying adequacy of other assurance activities performed or the competency and objectivity of the assurance provider. However we considered, by reference to the scope and provider, the appropriateness of the assurance activity given the nature of the risk.

3. Summary of Audit Findings

3.3 Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescale

The governance framework in place for Regulatory Reporting has been documented in a Board paper and includes documented roles and responsibilities for each data table including three levels of sign off. These are documented in a "Table of Accountabilities", and we confirmed that this was up-to-date and appropriate. We confirmed that a timetable had been published for submission of the regulatory data tables and that submission of the data is managed through standard evidence packs, the "Performance and Compliance Statements".

No issues noted.

3.4 The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report

We selected a sample of data table blocks (which included multiple lines) and these were traced back to the underlying systems and records with reference to the supporting Methodology Statements. We tested for consistency of the reported data within the commentary of the "annual performance report". The sample is shown in Appendix A.

No issues noted.

3.5 Compliance of the reported data in the APR with key aspects of Regulatory Guideline 3.11 "Guideline for the format and disclosures for the annual performance report"

We reviewed the content of the Annual Performance Report (APR) against the requirements set out in RAG 3.11 "Guideline for the format and disclosures for the annual performance report" to ensure that the APR included all the required disclosures, e.g. policy notes on revenue recognition, capitalisation policy, bad debt. All the required disclosures are included in the APR.

No issues noted.

3.6 UU's compliance with the regulatory requirements on preparedness for reporting on convergent measures for AMP7 reporting

The converged measures for AMP7 have been subject to the same assurance processes as for the AMP6 measures and we have included two of these measures in our sample testing.

No issues noted.

3.7 Review the proposed Assurance Report (to be published along with the Annual Performance Report 2019/20) to ensure it is a fair reflection of UU's published Final Assurance Plan and associated assurance activities

We verified, on a sample basis, that the assurance activities as described within the Assurance Plan had been performed. In particular, we reviewed the explanation of KPMG's and Jacob's responsibilities within the Final Assurance Plan against the respective assurance reports. We have reviewed the draft Assurance Report (dated 24 June) and are satisfied that it is a fair reflection of the assurance activities performed and the results of those activities.

No issues noted.

CORPORATE AUDIT MEMORANDUM

Review of the APR 2020

Appendix A – Sample Testing

Sample Number	Table Description	Table ref	L3 Reviewer	L2 Reviewer
1	Unplanned outages (converged measure)	T2 B04-CF	Y	y
2	Average Minutes Lost per prop per annum	T2 Line 5	Y	y
3	Unplanned outages and total volume of production capacity lost	T2 Lines 24-30	Y	y
4	Water GSS Appointments (NCI's, Regulatory controller water fittings, Water Partners (Amey, Balfour)	T6 1.2-4.2	Y	y
5	Billed Consumption – Household	T10ci lines 21-24	Y	y
6	Average volume of raw water stored	T10 Line 34	Y	y
7	Mains repair (per 1,000km of pipe) (converged measure)	T2 B02-WN	Y	y
8	Sewer Flooding and Network Performance – Sewer maintenance	T3 lines 27-30	Y	Y
9	Customer GSS appointments – Other (Wholesale Market Services)	T6 1.1-1.4	Y	y
10	Service Reservoir Integrity Index	T11a line 2	Y	y
11	Wastewater service capital expenditure by AMP6 purpose	E15 lines 1-72	Y	y
12	Amp 6 Sewage Treatment Risk and compliance	T15 lines 4-16	Y	Y
13	AMP6 MoS – Wastewater pollution index – Cat 1, 2	T18 line S-D4A	Y	Y

Appendix 2 – Performance commitment sub measures

Introduction

This appendix sets out how the reported performance levels and associated outperformance payments and underperformance calculations have been determined for our performance commitments that are based upon an index of sub-measures. Information is provided for 2015/16, 2016/17, 2017/18 and 2019/20 calculations.

Our index based performance commitments are:

- A3 – Water Quality Service Index
- B2 – Reliable Water Service Index
- A1 – Private sewers index
- A2 – Wastewater network performance index
- B2 – Sewer flooding index
- D2 – Maintaining our WwTW
- A1 – SIM

A description of the performance of these index measures is provided in Section 1 of the APR.

The performance for each of the sub-measures is also set out in Pro forma Table 3B, within Section 2.6 of the APR.

Performance commitment A3 – Water Quality Service Index Derivation of top level index score
The overall index score for this measure is calculated by multiplying the actual performance by the weighting for each sub-measure, summing the results and adding a constant (-15,628.2236).

2015/16 calculation
The derivation of the 2015/16 index score of 120.4653 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2015/16	Actual Performance 2015/16	Weighting	Target	Actual Performance 2015/16 x weighting
WTW Coliform non-compliance (%)	Underperformance only	0.06	0.06	-16.21712812	-0.6487	-0.9730
SR Integrity Index	Underperformance only	99.98	99.98	37.39055984	3737.5604	3738.3082
No. of WTW turbidity fails	Underperformance only	1	1	-0.076539797	-0.2296	-0.0765
Mean Zonal Compliance (%)	Underperformance only	99.96	99.96	116.549188	11650.2568	11650.2568
Distribution Maintenance Index (%)	Underperformance only	99.89	99.89	4.48246986	447.7091	447.7539
Sum of weighted target performance for underperformance only sub-measures					**15834.6480**	**15835.2694**
No. unwanted customer contacts for water quality (per year)	Under and out performance	9,171	9,171	-0.009440671	-87.0996	-86.5804
					Weighted sum	15748.6890
					Constant	-15628.2236
					Weighted sum plus constant (i.e. Index score)	120.4654

Derivation of the 2015/16 out or underperformance performance payment
The calculation of the underperformance and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the WQSI is determined by the underperformance of all six sub measures.

The size of any outperformance payments is however based upon the outperformance of the customer contact sub-measure only. For the outperformance payments calculation the other five (water quality) sub-measures do not contribute to the outperformance payments as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain an outperformance payments for meeting our statutory obligations.

Therefore the size of any WQSI outperformance payments is based upon the actual customer contact value plus the lower of a) the sum of the weighted actual scores, or b) the sum of the weighted target scores, for the five water quality compliance measures. The derivation of the index score used in the outperformance payments calculation is set out below:

Sum of lower of target or actual performance for performance measures plus actual customer contact performance	15748.0676
Add constant	-15628.2236
Index score for reward calculation	119.8440

The outperformance payment is therefore determined as = (Index score for outperformance payments calculation – Reward deadband) x reward incentive rate.

Outperformance payment = (119.8439843-119.3) x 0.471 = £0.227 million

1

2

2016/17 calculation

The derivation of the 2016/17 index score of 116.923 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2016/17	Actual Performance 2016/17	Weighting	Target Performance 2016/17 x weighting	Actual Performance 2016/17 x weighting
WTW Coliform non-compliance (%)	Underperformance only	0.04	0.01	-16.21712812	-0.6487	-0.1622
SR Integrity Index	Underperformance only	99.96	99.98	37.39055984	3737.5604	3738.3082
No. of WTW turbidity fails	Underperformance only	3.00	2	-0.076539797	-0.2296	-0.1531
Mean Zonal Compliance (%)	Underperformance only	99.96	99.96	116.549188	11650.2568	11650.2568
Distribution Maintenance Index (%)	Underperformance only	99.88	99.85	4.48246986	447.7091	447.5746
Sum of weighted target performance for underperformance only sub-measures					**15834.6480**	**15835.8244**
No. unwanted customer contacts for water quality (per year)	Under and out performance	8065.307	9,605	-0.009440671	-76.1419	-90.6776
					Weighted sum	15745.1467
					Constant	-15628.2236
					Weighted sum plus constant (i.e. Index score)	116.923

Derivation of the 2016/17 out or underperformance performance payment

The calculation of the under or outperformance payments for this measure are determined on a different basis.

The size of any underperformance payment associated with the WQSI is determined by the underperformance of all six sub measures. The size of any outperformance payments is however based upon the outperformance of the customer contact submeasure only. For the outperformance payment calculation the other five (water quality) submeasures do not contribute to the outperformance payments as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain an outperformance payment for meeting our statutory obligations.

Therefore the size of any WQSI outperformance payments is based upon the actual customer contact value plus the lower of a) the sum of the weighted actual scores, or b) the sum of the weighted target scores, for the five water quality compliance measures. The derivation of the index score used in the outperformance payments calculation is set out below:

Sum of lower of target or actual performance for performance measures plus actual customer contact performance	**15834.6480**
Add constant	-15628.2236
Index score for reward calculation	206.4244

As the index score is also below the underperformance cap the capped penalty has been applied. The underperformance payment is therefore determined as = (deadband – cap) x underperformance incentive rate.

Underperformance payment = (130.3-125.6) x -0.77 = -£3.619million.

1

2

2017/18 calculation

The derivation of the 2017/18 index score of 98.645 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2017/18	Actual Performance 2017/18	Weighting	Target Performance 2017/18 x weighting	Actual Performance 2017/18 x weighting
WTW Coliform non-compliance (%)	Underperformance only	0.04	0.01	-16.21712812	-0.6487	-0.1622
SR Integrity Index	Underperformance only	99.96	99.98	37.39055984	3737.5604	3737.9343
No. of WTW turbidity fails	Underperformance only	3	0	-0.076539797	-0.2296	-0.0765
Mean Zonal Compliance (%)	Underperformance only	100.00	99.93	116.549188	11654.9188	11651.4223
Distribution Maintenance Index (%)	Underperformance only	99.88	99.86	4.48246986	447.7091	447.7539
Sum of weighted target performance for penalty only sub		**6,904.46**			**15839.3099**	**15836.8718**
measures						
No. unwanted customer contacts for water quality (per year)	Under and out performance	6,904.46	10,923	0.009440671	65.1827	110.0027
					Weighted sum	15726.8691
					Constant	-15628.2236
					Weighted sum plus constant (i.e. Index score)	98.6455

Derivation of the 2017/18 out or underperformance performance payment

The calculation of the under or outperformance payments for this measure are determined on a different basis.

The size of any underperformance payment associated with the WQSI is determined by the underperformance of all six sub measures. The size of any outperformance payment is however based upon the outperformance of the customer contact sub-measure only. For the outperformance payments calculation the other five (water quality) sub-measures do not contribute to the outperformance payments as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain an outperformance payments for meeting our statutory obligations. However for 2017/18 the index score is in underperformance. The mean zonal compliance underperformance is not applicable because the larger WQSI penalty applies. The index score is below the underperformance cap the capped performance has been applied.

The underperformance payment is therefore determined as = (deadband – cap)*underperformance incentive rate.

Underperformance payment = (145.9-141.2) x -0.77 = £3.619 million.

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2018/19 calculation

The derivation of the 2018/19 index score of 98.645 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2018/19	Actual Performance 2018/19	Weighting	Target Performance 2018/19 x weighting	Actual Performance 2018/19 x weighting
WTW Coliform non-compliance (%)	Underperformance only	0.04	0.01	-16.21712812	-0.6487	-0.1622
SR Integrity Index	Underperformance only	99.96	99.97	37.39055984	3737.5604	3737.9343
No. of WTW turbidity fails	Underperformance only	3	1	-0.076539797	-0.2296	-0.0765
Mean Zonal Compliance (%)	Underperformance only	100.00	99.97	116.549188	11654.9188	11651.4223
Distribution Maintenance Index (%)	Underperformance only	99.88	99.89	4.48246986	447.7091	447.7539
Sum of weighted target performance for penalty only sub		**6,904.46**	**11,652.00**		**15839.3099**	**15836.8718**
measures						
No. unwanted customer contacts for water quality (per year)	Under and out performance	6,904.46	11,652.00	0.009440671	65.1827	110.0027
					Weighted sum	15726.8691
					Constant	-15628.2236
					Weighted sum plus constant (i.e. Index score)	98.6455

Derivation of the 2018/19 out or underperformance performance payment

The calculation of the under or outperformance payments for this measure are determined on a different basis.

The size of any underperformance payment associated with the WQSI is determined by the underperformance of all six sub measures. The size of any outperformance payments is however based upon the outperformance of the customer contact sub-measure only. For the outperformance payments calculation the other five (water quality) sub-measures do not contribute to the outperformance payments as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain an outperformance payments for meeting our statutory obligations. However for 2017/18 the index score is in underperformance. The mean zonal compliance underperformance is not applicable because the larger WQSI underperformance applies. The index score is below the underperformance cap the capped performance has been applied. The underperformance payment is therefore determined as = (deadband – cap)* underperformance incentive rate.

Underperformance payment = (145.9-141.2) x -0.77 = £3.619 million.

2019/20 calculation

The derivation of the 2019/20 index score of 109.060 is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub measure Incentive contribution	Target Performance 2019/20	Actual Performance 2019/20	Weighting	Target Performance 2019/20 x weighting	Actual Performance 2019/20 x weighting
WTW Coliform non-compliance (%)	Underperformance only	0.04	0.03	-16.21712812	-0.6487	-0.486514
SR Integrity Index	Underperformance only	99.96	99.99	37.39055984	3737.5604	3738.6821
No. of WTW turbidity fails	Underperformance only	3	1	-0.076539797	-0.2296	-0.0765398
Mean Zonal Compliance (%)	Underperformance only	100.00	99.96	116.549188	11654.9188	11650.257
Distribution Maintenance Index (%)	Underperformance only	99.88	99.86	4.48246986	447.7091	447.61944
Sum of weighted target performance for penalty only sub					**15839.3099**	**15835.9953**
measures						
No. unwanted customer contacts for water quality (per year)	Under and outperformance	6,904	10,456	-0.009440671	65.1827	-98.711659
					Weighted sum	15737.28364
					Constant	-15628.2236
					Weighted sum plus constant (i.e. Index score)	109.06004

Derivation of the 2019/20 out or underperformance performance payment

The calculation of the under or outperformance payments for this measure are determined on a different basis.

The size of any underperformance payment associated with the WQSI is determined by the underperformance of all six sub measures. The size of any outperformance payments is however based upon the outperformance of the customer contact sub-measure only. For the outperformance payments calculation the other five (water quality) sub-measures do not contribute to the outperformance payments as water quality compliance is a statutory obligation and it was not deemed to be appropriate to gain an outperformance payments for meeting our statutory obligations. However for 2019/20 the index score is in underperformance. The mean zonal compliance penalty is not applicable because the larger WQSI underperformance applies. The index score is below the underperformance cap the capped performance has been applied. The underperformance payment is therefore determined as = (deadband –cap)* underperformance incentive rate.

Underperformance payment = (145.9-141.2) x -0.77 = £3.619 million.

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Performance commitment B2 – Reliable Water Service Index

Derivation of top level index score

The overall index score for this measure is calculated by multiplying the actual performance by the weighting for each sub-measure, summing the results and adding a constant (134.147).

2015/16 calculations

The derivation of the 2015/16 16.447 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2015/16	Actual Performance 2015/16	Weighting	Actual performance 2015/16 x weighting
Total bursts	Underperformance only	5080	4785	-0.002022	-9.674387565
Interruptions greater than 12 hours	Under and outperformance	730	11431	-0.007902	-90.32796146
Poor pressure	Under and outperformance	272	262	-0.008468	-2.21870443
No. unwanted customer contacts for water availability (per year)	Under and outperformance	50,000	47,011	-0.000329	-15.47840593
				Weighted sum	-117.6994594
				Constant	134.147
				Weighted sum plus constant (i.e. Index score)	16.447

Derivation of the 2015/16 out or underperformance performance payment

The calculation of the under and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the RWSI is determined by the underperformance of all four sub measures.

The size of any outperformance payments is however based upon the outperformance of the interruptions, poor pressure, and unwanted contacts sub measures only.

As the index score of 16.447 is underperforming all four measures are used in the index score for calculating the underperformance payment.

As the index score is also below the underperformance cap the capped performance has been applied. The underperformance payment is therefore determined as = (deadband – cap)* underperformance incentive rate.

Underperformance payment = (95-94) x 7.974 = £7.974million.

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2016/17 calculations

The derivation of the 2016/17 77.840 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2016/17	Actual Performance 2016/17	Weighting	Actual performance 2016/17 x weighting
Total bursts	Underperformance only	5080	4590	-0.002022	-9.280133526
Interruptions greater than 12 hours	Under and outperformance	730	3759	-0.007902	-29.70368359
Poor pressure	Under and outperformance	272	345	-0.008468	-2.921576445
No. unwanted customer contacts for water availability (per year)	Under and outperformance	50,000	43740	-0.000329	-14.4014268
				Weighted sum	-56.30682036
				Constant	134.147
				Weighted sum plus constant (i.e. Index score)	77.840

Derivation of the out or underperformance performance payment

The calculation of the under and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the RWSI is determined by the underperformance of all four sub measures.

The size of any outperformance payments is however based upon the outperformance of the interruptions, poor pressure, and unwanted contacts sub measures only.

As the index score of 77.840 is in penalty all four measures are used in the index score for calculating the underperformance payment.

As the index score is also below the underperformance cap the capped performance has been applied. The underperformance is therefore determined as = (deadband – cap)* underperformance incentive rate.

Underperformance payment = (95.5- 94.5) x 7.974 = £7.974 million.

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2017/18 calculations

The derivation of the 2017/18 70.827 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2016/17	Actual Performance 2016/17	Weighting	Actual performance 2016/17 x weighting
Total bursts	Underperformance only	5080	4484	-0.002022	-9.066648
Interruptions greater than 12 hours	Under and outperformance	730	4631	-0.007902	-36.594162
Poor pressure	Under and outperformance	272	278	-0.008468	-2.354104
No. unwanted customer contacts for water availability (per year)	Under and outperformance	48,000	46,487	-0.000329	-15.294223
				Weighted sum	-63.32014026
				Constant	134.147
				Weighted sum plus constant (i.e. Index score)	70.82657834

Derivation of the out or underperformance performance payment

The calculation of the under and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the RWSI is determined by the underperformance of all four sub measures.

The size of any outperformance payments is however based upon the outperformance of the interruptions, poor pressure, and unwanted contacts sub measures only.

As the index score of 70.827 is in underperformance all four measures are used in the index score for calculating the underperformance payment.

As the index score is also below the underperformance cap the capped performance has been applied. The underperformance payment is therefore determined as = (deadband – cap)* underperformance incentive rate.

Underperformance payment = (96-95) x 7.974 = £7.974 million

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2018/19 calculations

The derivation of the 2018/19 70.827 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure Incentive contribution	Target Performance 2018/19	Actual Performance 2018/19	Weighting	Actual performance 2018/19 x weighting
Total bursts	Underperformance only	5080	5212	-0.002021816	-10.53770282
Interruptions greater than 12 hours	Under and outperformance	730	730	-0.007902017	-6.708812814
Poor pressure	Under and outperformance	272	262	-0.008468338	-2.21870443
No. unwanted customer contacts for water availability (per year)	Under and outperformance	48,000	49,278	-0.000329251	-16.22481733
				Weighted sum	-35.69003739
				Constant	134.147
				Weighted sum plus constant (i.e. Index score)	98.45668121

Derivation of the out or underperformance performance payment

The calculation of the under and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the RWSI is determined by the underperformance of all four sub measures.

The size of any outperformance payments is however based upon the outperformance of the interruptions, poor pressure, and unwanted contacts sub measures only.

As the index score of 98.457 is within the underperformance deadband (96.5) therefore no underperformance payment is incurred.

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Appendix 2 – Performance commitment sub measures

2019/20 calculations

The derivation of the 2019/20 75.791 index score is set out below. The actual performance is multiplied by the weighting for each of the sub-measures.

Performance targets	Sub-measure incentive contribution	Target Performance 2019/20	Actual Performance 2019/20	Weighting	Actual performance 2019/20 x weighting
Total bursts	Underperformance only	5080	4963	-0.002022	-10.03427074
Interruptions greater than 12 hours	Under and outperformance	730	3905	-0.007902	-30.85737814
Poor pressure	Under and outperformance	272	248	-0.008468	-2.100147705
No. unwanted customer contacts for water availability (per year)	Under and outperformance	48,000	46,663	-0.000329	-15.36382668
				Weighted sum	-58.35562326
				Constant	134.147
				Weighted sum plus constant (i.e. Index score)	75.7910953

Derivation of the out or underperformance performance payment

The calculation of the under and the outperformance payments for this measure are determined on a different basis. The size of any underperformance payment associated with the RWSI is determined by the underperformance of all four sub measures.

The size of any outperformance payments is however based upon the outperformance of the interruptions, poor pressure, and unwanted contacts sub measures only.

As the index score of 75.791 is in underperformance all four measures are used in the index score for calculating the underperformance payment.

As the index score is also below the underperformance cap the capped performance has been applied. The underperformance payment is therefore determined as = (deadband – cap)* underperformance incentive rate.

Underperformance payment = (97-96) x 7.974 = £7.974 million

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Appendix 2 – Performance commitment sub measures

A1 – Private sewers index calculation

The index is calculated by multiplying the performance for each of the sub-measures by its associated willingness to pay (WTP) figure. Each of the resulting figures is then summed together and the total divided by the summed FY14 total performance (1,315,538). The result of this is multiplied by 100 to generate the index score.

2015/16 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	13,906	59.30	824,625.80
Sewer collapses / rising main bursts	361	97.10	35,053.10
Pollution incidents (WW infra)	5	1516.30	7,581.50
Sewer flooding (internal)	418	297.50	124,355.00
Sewer flooding (external)	4,605	46.6	214,593.00
		Total	1,206,208.40
		Constant	(1,206,208.40/1,315,538) x 100
		Weighted sum plus constant (i.e. Index score)	**91.69**

Derivation of the out or underperformance payment

This measure received an outperformance payment in 2015/16. This is calculated by assessing how many index points performance is below the outperformance deadband (up to a maximum of 6.9 points) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the outperformance cap of 91.90, therefore this figure has been used to calculate the outperformance payment not our actual performance of 91.92.

PC 2015/16	100.00
2015/16 performance	91.92
Outperformance dead band	98.80
Outperformance cap	91.90
Incentive rate	£1.069m
Outperformance calculation	(98.8-91.90)* £1.069
Outperformance	**£7.376m**

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2016/17 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	14,031	59.30	832,038.30
Sewer collapses / rising main bursts	391	97.10	37,966.10
Pollution incidents (WW infra)	1	1,516.30	1,516.30
Sewer flooding (internal)	415	297.50	123,462.50
Sewer flooding (external)	4,599	46.60	214,313.40
		Total	1,209,296.60
		Constant	(1,209,296.60/1,315,538) x 100
		Weighted sum plus constant (i.e. Index score)	**91.92**

Derivation of the out or underperformance payment

This measure was in outperformance for 2016/17. The outperformance payment was calculated by assessing how many index points performance was below the outperformance deadband (up to a maximum of 6.9 points) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the outperformance cap of 91.90, therefore this figure has been used to calculate the payment not our actual performance of 91.69.

PC 20117/18	100.00
2017/18 performance	91.69
Outperformance dead band	98.80
Outperformance cap	91.90
Incentive rate	£1.069m
Outperformance calculation	(98.8-91.92)* £1.069
Outperformance	**£7.350m**

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Appendix 2 – Performance commitment sub measures

2017/18 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	13,809	59.30	81,8873.7
Sewer collapses / rising main bursts	302	97.10	29,324.2
Pollution incidents (WW infra)	4	1,516.30	6,065.2
Sewer flooding (internal)	276	297.50	82,110.0
Sewer flooding (external)	3,901	46.60	181,786.6
		Total	1118160
		Constant	(1,118,160 / 1,315,538) x 100
		Weighted sum plus constant (i.e. Index score)	**85.0**

Derivation of the out or underperformance payment

This measure was in outperformance for 2017/18. The outperformance payment was calculated by assessing how many index points performance was below the outperformance payments deadband (up to a maximum of 6.9 points) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the outperformance cap of 91.90, therefore this figure has been used to calculate the outperformance payments not our actual performance of 85.0.

PC 2017/18	100.00
2017/18 performance	85.0
Outperformance dead band	98.8
Outperformance cap	91.9
Incentive rate	£1.069m
Outperformance calculation	(98.8-91.0)* £1.069
Outperformance	**£7.376m**

2018/19 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	14,589	59.30	865,127.7
Sewer collapses / rising main bursts	316	97.10	30,683.6
Pollution incidents (WW infra)	2	1,516.30	3,032.6
Sewer flooding (internal)	308	297.50	91,630.0
Sewer flooding (external)	3,949	46.60	184,023.4
		Total	1,174,497.3
		Constant	(1,174,497.3 / 1,315,538) x 100
		Weighted sum plus constant (i.e. Index score)	**89.27**

Derivation of the out or underperformance payment

This measure is in outperformance for 2018/19. The outperformance payment is calculated by assessing how many index points performance is below the outperformance deadband (up to a maximum of 6.9 points*) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the outperformance payments cap of 91.90, therefore this figure has been used to calculate the outperformance payments not our actual performance of 89.27.

PC 2018/19	100.00
2018/19 performance	89.27
Outperformance dead band	98.8
Outperformance cap	91.9
Incentive rate	£1.069m
Outperformance calculation	(98.8-91.9)* £1.069
Outperformance	**£7.376m**

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2019/20 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	14,806	59.30	877,995.8
Sewer collapses / rising main bursts	377	97.10	36,606.7
Pollution incidents (Ww infra)	2	1,516.30	3,032.6
Sewer flooding (internal)	323	297.50	96,092.5
Sewer flooding (external)	3,682	46.60	17,1581.2
		Total	1,185,308.8
		Constant	(1,185,308.8 / 1,315,538) x 100
		Weighted sum plus constant (i.e. Index score)	**90.09**

Derivation of the out or underperformance payment

This measure is in outperformance for 2019/20. The outperformance payment is calculated by assessing how many index points performance is below the outperformance deadband (up to a maximum of 6.9 points*) and multiplying the result by the incentive rate of £1.069 million per point. As shown in the table below our performance is below the outperformance payments cap of 91.90, therefore this figure has been used to calculate the outperformance payments not our actual performance of 90.09.

PC 20119/20	100.00
2019/20 performance	90.09
Outperformance dead band	98.8
Outperformance cap	91.9
Incentive rate	£1.069m
Outperformance calculation	(98.8-91.9)* £1.069
Outperformance	**£7.376m**

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A2 Wastewater network performance index calculation

The index is calculated by multiplying the performance for each of the sub-measures by its associated WTP figure. The resulting figures are then summed together, and the total divided by the summed total of the FY14 performance (288,266). The result of this is multiplied by 100 to generate the index score.

2015/16 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,473	26.1	195,045.30
Sewer collapses / rising main bursts	261	97.1	25,343.10
Sewer collapses / rising main bursts	51	485.2	24,745.20
Equipment failures (WW infra)	2,704	6.3	17,035.20
		Total	262,168.80
		Constant	(262,168.80/288,266)*100
		Weighted sum divided by constant (i.e. Index score)	**90.95**

Derivation of the out or underperformance payment

This measure is below our performance commitment of 106.2, however as it is incentivised through an underperformance only mechanism, no outperformance payments is to be applied.

2016/17 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,469	26.1	194,940.90
Sewer collapses / rising main bursts	268	97.1	26,022.80
Sewer collapses / rising main bursts	46	485.2	22,319.20
Equipment failures (WW infra)	2,322	6.3	14,628.60
		Total	257,911.50
		Constant	(257,911.50/288,266)*100
		Weighted sum divided by constant (i.e. Index score)	**89.47**

Derivation of the out or underperformance payment

This measure is below our performance commitment of 103.2, however as it is incentivised through an underperformance only mechanism, no outperformance payment was applied.

2017/18 performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,047	26.1	22,527.20
Sewer collapses / rising main bursts	232	97.1	183,926.70
Sewer collapses / rising main bursts	47	485.2	19,139.40
Equipment failures (WW infra)	3,038	6.3	248,397.70
		Total	261,588.00
		Constant	(257,527.2/288,266)*100
		Weighted sum divided by constant (i.e. Index score)	**86.17**

Derivation of the out or underperformance payment

This measure is below our performance commitment of 99.4, however as it is incentivised through an underperformance only mechanism, no outperformance payment was applied.

2018/19 Performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,276	26.1	189,903.60
Sewer collapses / rising main bursts	239	97.1	23,206.90
Sewer collapses / rising main bursts	53	485.2	25,715.60
Equipment failures (WW infra)	3,613	6.3	22,761.90
		Total	261,588.00
		Constant	(261,588.00 /288,266)*100
		Weighted sum divided by constant (i.e. Index score)	**90.75**

Derivation of the out or underperformance payment
This measure is below our performance commitment of 95.60, however as it is incentivised through an underperformance only mechanism, no outperformance payments is to be applied.

2019/20 Performance

Sub-measure	Performance	WTP	Total
Sewer blockages	7,025	26.1	183,352.5
Sewer collapses / rising main bursts	309	97.1	30,003.9
Sewer collapses / rising main bursts	47	485.2	22,804.4
Equipment failures (WW infra)	3,359	6.3	21,161.7
		Total	257,322.5
		Constant	(257,322.5 /288,266)*100
		Weighted sum divided by constant (i.e. Index score)	**89.13**

Derivation of the out or underperformance payment
This measure is below our performance commitment of 93.40, however as it is incentivised through an underperformance only mechanism, no outperformance payments is to be applied.

B2 Sewer flooding index calculation
The index is calculated by multiplying the performance for each of the sub-measures by its associated WTP figure. Each of the resulting figures is then summed together and the total divided by the summed total FY14 performance (258,753). The result of this is multiplied by 100 to generate the index score.

2015/16 performance

Sub-measure	Performance	WTP	Total
Properties flooded due to other causes	839	117.1	98,246.9
Properties flooded due to hydraulic overload	147	117.1	17,213.7
Areas flooded due to other causes	3,391	26.3	89,183.3
Areas flooded due to hydraulic overload	455	26.3	11,966.5
Incidents of repeat flooding	377	117.1	44,146.7
		Total	260,757.10
		Constant	(260,757.10/258,753)*100
		Weighted sum divided by constant (i.e. Index score)	**100.8**

Derivation of the out or underperformance payment
This measure is above our performance commitment of 93.1, however it is below the underperformance deadband of 103.7 therefore no underperformance is to be applied.

2016/17 Performance

Sub-measure	Performance	WTP	Total
Properties flooded due to other causes	794	117.1	92,977.40
Properties flooded due to hydraulic overload	147	117.1	17,213.70
Areas flooded due to other causes	3,274	26.3	86,106.20
Areas flooded due to hydraulic overload	215	26.3	5,654.50
Incidents of repeat flooding	362	117.1	42,390.20
		Total	244,342.00
		Constant	(244,342.00/258,753)*100
		Weighted sum divided by constant (i.e. Index score)	**94.4**

Derivation of the out or underperformance payment

This measure was in underperformance for 2016/17. The underperformance was calculated by assessing how many index points performance is above the underperformance deadband (up to a maximum of 10.4 points) and multiplying the result by the incentive rate of £2.032 million per point.

PC 2016/17	83.9
2016/17 performance	94.43
Underperformance dead band	93.7
Underperformance collar	104.1
Incentive rate	£2.032m
Underperformance calculation	(94.43-93.7)* £2.032
Underperformance	**£1.484m**

2017/18 Performance

Sub-measure	Performance	WTP	Total
Properties flooded due to other causes	559	117.1	65,459
Properties flooded due to hydraulic overload	91	117.1	10,656
Areas flooded due to other causes	2,863	26.3	75,297
Areas flooded due to hydraulic overload	212	26.3	5,576
Incidents of repeat flooding	206	117.1	24,123
		Total	181,110.10
		Constant	(181,110.10/258,753)*100
		Weighted sum divided by constant (i.e. Index score)	**69.9**

Derivation of the out or underperformance payment

This measure was below our performance commitment of 73.9, however it was above the outperformance payment deadband of 65.0 therefore no outperformance payment was applied.

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Appendix 2 – Performance commitment sub measures

2018/19 Performance

Sub-measure	Performance	WTP	Total
Properties flooded due to other causes	551	117.1	64,522.10
Properties flooded due to hydraulic overload	15	117.1	1,756.50
Areas flooded due to other causes	2,849	26.3	74,928.70
Areas flooded due to hydraulic overload	146	26.3	3,839.80
Incidents of repeat flooding	124	117.1	14,520.40
		Total	159,567.50
		Constant	(159,567.5/258,753)*100
		Weighted sum divided by constant (i.e. Index score)	**61.7**

PC 2018/19	70.30
2018/19 performance	61.66
Outperformance dead band	62.20
Outperformance collar	48.70
Incentive rate	£1.05m
Outperformance calculation	(62.2-61.66)* £1.05
Outperformance	**£0.567m**

Derivation of the out or underperformance payment

This measure is in outperformance for 2018/19. This is calculated by assessing how many index points performance is below the outperformance deadband (up to a maximum of 13.5 points) and multiplying the result by the incentive rate of £1.05 million per point.

2019/20 Performance

Sub-measure	Performance	WTP	Total
Properties flooded due to other causes	611	117.1	71,548.1
Properties flooded due to hydraulic overload	163	117.1	19,087.3
Areas flooded due to other causes	2,705	26.3	71,141.5
Areas flooded due to hydraulic overload	420	26.3	11,046
Incidents of repeat flooding	288	117.1	206,547.7
		Total	206,547.7
		Constant	(206,547.7/258,753)*100
		Weighted sum divided by constant (i.e. Index score)	79.8

Derivation of the out or underperformance payment

This measure was in underperformance for 2019/20. The underperformance was calculated by assessing how many index points performance is above the underperformance deadband (up to a maximum of 10.4 points) and multiplying the result by the incentive rate of £2.032 million per point.

PC 2019/20	69.1
2019/20 performance	79.8
Outperformance dead band	75.7
Underperformance collar	86.1
Incentive rate	£2.032m
Underperformance calculation	**(79.8-75.7)* £2.032**

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D2 Maintaining our WwTW Index calculation

The index is calculated by summing the points each WwTW has accrued for its environmental performance in the year. The maximum potential points that a works in each size band can receive for each level of failure or risk is shown in the table below, with these values based upon an annual failure or being at that level of risk for the full 12 month period.

The performance of each works can change month by month, with the score for each works being based upon the monthly performance, with the total score over the twelve months being assigned to the highest risk category for that works.

A more detailed description of this methodology can be found in our definition documents which can be found at the following link.

Maximum points for failed and at risk works

Risk status	Size band	Index points
Failed works	Size band 1-4	4.0967
	Size band 5	8.1934
	Size band 6a	16.3867
	Size band 6b	40.9668
High risk	Size band 1-4	0.0819
	Size band 5	0.1639
	Size band 6	0.8193
Medium risk	Size band 1-4	0.0410
	Size band 5	0.0819
	Size band 6	0.4097

2015/16 performance

Risk status	Performance	Number of works
WwTWs failing EA permit – small (size band 1-4)	0.0000	0
WwTWs failing EA permit – medium (size band 5)	16.3868	2
WwTWs failing EA permit – large (size band 6a &6b)	73.8768	3
WwTWs at high risk of failing EA permit – small (size band 1-4)	0.0376	2
WwTWs at high risk of failing EA permit – medium (size band 5)	0.0000	0
WwTWs at high risk of failing EA permit – large (size band 6)	0.1365	2
WwTWs at medium risk of failing EA permit – small (size band 1-4)	0.3713	65
WwTWs at medium risk of failing EA permit – medium (size band 5)	0.0272	4
WwTWs at medium risk of failing EA permit – large (size band 6)	0.6485	11
Total points	**91.4847**	**87**

Incentive calculation

This measure is above our performance commitment of 83, however this measure is underperformance only therefore no outperformance payment was applied.

2016/17 performance

Risk status	Performance	Number of works
WwTWs failing EA permit – small (size band 1-4)	8.1934	2
WwTWs failing EA permit – medium (size band 5)	0.0000	0
WwTWs failing EA permit – large (size band 6a &6b)	49.1601	1
WwTWs at high risk of failing EA permit – small (size band 1-4)	0.1159	6
WwTWs at high risk of failing EA permit – medium (size band 5)	0.0341	2
WwTWs at high risk of failing EA permit – large (size band 6)	0.0000	0
WwTWs at medium risk of failing EA permit – small (size band 1-4)	0.3104	16
WwTWs at medium risk of failing EA permit – medium (size band 5)	0.041	9
WwTWs at medium risk of failing EA permit – large (size band 6)	0.8874	12
Total points	**57.7082**	**48**

Incentive calculation
This measure is below our performance commitment of 83, however this measure is underperformance only therefore no outperformance payments was applied.

2017/18 performance

Risk status	Performance	Number of works
WwTWs failing EA permit – small (size band 1-4)	12.2901	3
WwTWs failing EA permit – medium (size band 5)	0.0000	0
WwTWs failing EA permit – large (size band 6a &6b)	16.3867	1
WwTWs at high risk of failing EA permit – small (size band 1-4)	0.1603	13
WwTWs at high risk of failing EA permit – medium (size band 5)	0.0956	3
WwTWs at high risk of failing EA permit – large (size band 6)	0.4096	2
WwTWs at medium risk of failing EA permit – small (size band 1-4)	0.3204	56
WwTWs at medium risk of failing EA permit – medium (size band 5)	0.0546	6
WwTWs at medium risk of failing EA permit – large (size band 6)	0.7507	15
Total points	**30.4680**	**99**

Incentive calculation
This measure is below our performance commitment of 83, however this measure is underperformance only therefore no outperformance payments was applied.

2018/19 Performance

Risk status	Performance	Number of works
WwTWs failing EA permit – small (size band 1-4)	4.0967	1
WwTWs failing EA permit – medium (size band 5)	0.0000	0
WwTWs failing EA permit – large (size band 6a &6b)	32.7734	3
WwTWs at high risk of failing EA permit – small (size band 1-4)	0.2932	26
WwTWs at high risk of failing EA permit – medium (size band 5)	0.0137	1
WwTWs at high risk of failing EA permit – large (size band 6)	0.7168	4
WwTWs at medium risk of failing EA permit – small (size band 1-4)	0.3102	56
WwTWs at medium risk of failing EA permit – medium (size band 5)	0.0751	7
WwTWs at medium risk of failing EA permit – large (size band 6)	0.8874	16
Total points	**39.1665**	114

Incentive calculation
This measure is below our performance commitment of 54.32, however this measure is underperformance only therefore no outperformance payments is applied.

2019/20 Performance

Risk status	Performance	Number of works
WwTWs failing EA permit – small (size band 1-4)	8.1934	2
WwTWs failing EA permit – medium (size band 5)	8.1934	1
WwTWs failing EA permit – large (size band 6a &6b)	32.7734	2
WwTWs at high risk of failing EA permit – small (size band 1-4)	0.1738	17
WwTWs at high risk of failing EA permit – medium (size band 5)	0.0137 0137	1
WwTWs at high risk of failing EA permit – large (size band 6)	0.000	0
WwTWs at medium risk of failing EA permit – small (size band 1-4)	0.2046	42
WwTWs at medium risk of failing EA permit – medium (size band 5)	0.0410	4
WwTWs at medium risk of failing EA permit – large (size band 6)	0.3412	6
Total points	49.9345	75

Incentive calculation
This measure is above our performance commitment of 46.13, however it is within the deadband therefore no underperformance incentive is applied.

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Appendix 2 – Performance commitment sub measures

A1 Service Incentive Mechanism (SIM)

Overview of the final position on SIM

The Service Incentive Mechanism has operated over the first four years of AMP6. Financial incentives associated with the measure being in the range of -12% (underperformance payments) to +6% (outperformance payments) of residential retail revenues in 2017-18, with the value of the incentives for each company being based upon on companies' performance relative to each other over the first four years of the AMP6 period.

Ofwat calculated companies' performance by taking average of each companies' annual score over the four years with our score being calculated as 85.35 out of 100.

Ofwat considered that there was a clear distinction between the top cluster of companies and the top performing company – Portsmouth Water. There is an even clearer distinction between the majority of companies and the bottom four companies – SES Water, Affinity Water, Thames Water and Southern Water. They therefore, used the full range of -12% (underperformance payment) to +6% (outperformance payment) of residential retail revenues to calculate SIM payments.

To assign payments they determined the percentage out or under performance payment for each company based on its relative distance to the top performer – Portsmouth Water – and the worst performer – Southern Water, who were awarded the maximum out and under performance payment respectively.

They then multiplied these percentages by residential retail revenue to give the SIM payments. The process contained the following four steps:

Final incentives (as set out within the FD)

- Step 1: Calculate the four year average SIM score for each company.
- Step 2: Calculate the relative distance for each company between the top and bottom performer and calculate the percentage performance payment using this, allocating a +6% outperformance payment for the best performing company's score, and a -12% underperformance payment for the worst performing company's score.
- Step 3: Apply the company-specific percentage to each company's 2017-18 residential retail revenue.
- Step 4: Multiply the results by five to produce results for five years in £ million.
- The results of this approach are detailed in the table and diagram below.

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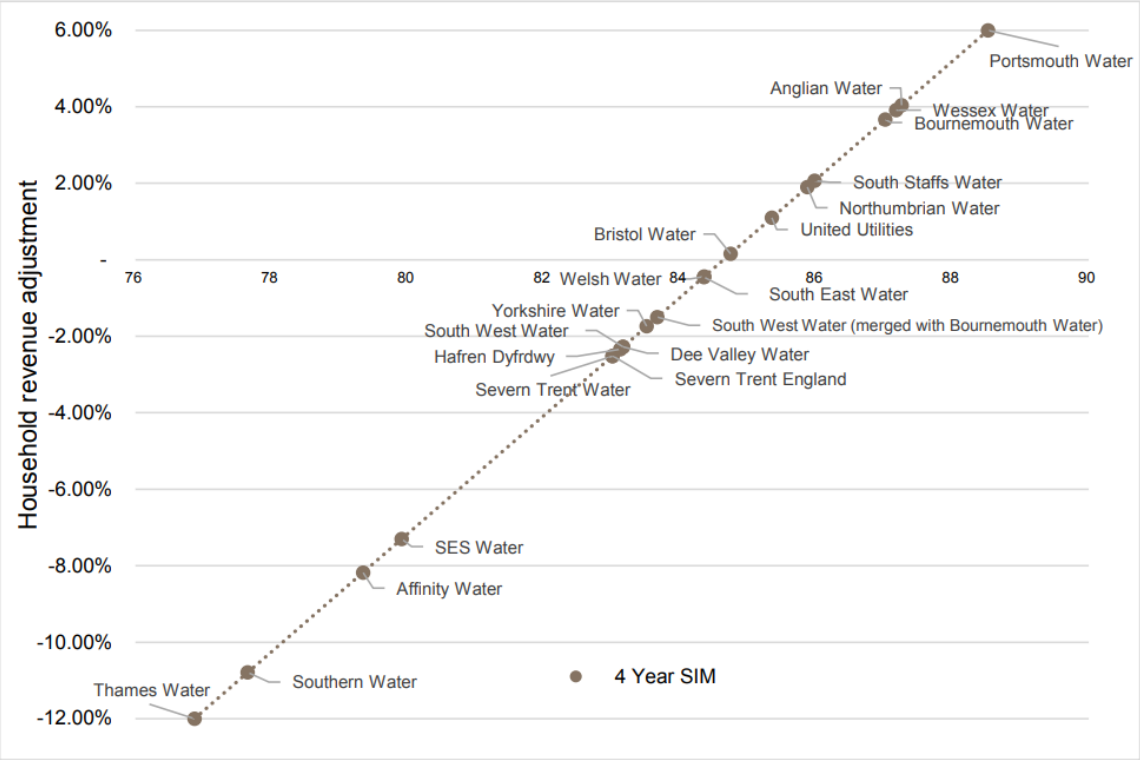
Residential retail SIM scores and calculation of revenue adjustments

Company	Step 1 (score out of 100)	Step 2 (%)	Step 3 (£m)	Step 4 (£m)
Portsmouth Water	88.52	6.00%	0.28	1.4
Anglian Water	87.25	4.04%	3.65	18.2
Wessex Water	87.17	3.91%	1.42	7.1
Bournemouth Water	87.01	3.67%	0.19	0.9
South Staffs Water	85.97	2.07%	0.32	1.6
Northumbrian Water	85.87	1.90%	1.12	5.6
United Utilities	85.35	1.10%	1.23	6.1
Bristol Water	84.74	0.16%	0.02	0.1
Dŵr Cymru	84.35	-0.44%	-0.20	-1.0
South East Water	84.35	-0.45%	-0.10	-0.5
Yorkshire Water	83.51	-1.74%	-1.11	-5.5
South West Water	83.16	-2.28%	-0.77	-3.8
Dee Valley Water	83.16	-2.28%	-0.07	-0.3
Hafren Dyfrdwy	83.12	-2.34%	-0.05	-0.3
Severn Trent England	83.01	-2.52%	-3.07	-15.3
Severn Trent Water	83.01	-2.52%	-3.05	-15.3
SES Water	79.91	-7.30%	-0.44	-2.2
Affinity Water	79.34	-8.18%	-2.24	-11.2
Southern Water	77.65	-10.79%	-6.47	-32.4
Thames Water	76.87	-12.00%	-20.19	-101.0

Four year average SIM scores and % retail revenue adjustments



As set out below, in the final determination Ofwat set the residential retail service incentive mechanism adjustment to + 1.10% of residential retail revenue, which is + £6.238 million (2017-18 FYA CPIH deflated price base) resulting in £6.127m. The revenue adjustments will be applied to each of the five years between 2020-21 and 2024-25.

Company	Step 1 (SIM score out of 100)	Step 2 relative distance for each company between the top and bottom performer (%)	Step 3 Apply to the 2017-18 residential retail revenue (£111.393m)	Step 4 multiply by five(£m)
United Utilities	85.35	1.10%	£1.225m	£6.127m

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Appendix 3

Leakage and PCC baselines
and
Update on AMP7 performance commitments

Annual Performance Report 2020

Appendix 3 – Leakage, PCC and AMP7 PC update

Contents

Annual Performance Report 2020

Appendix 3 – Leakage, PCC and AMP7 PC update

Introduction

In Information Notice IN 20/03 Ofwat stated that:

"Companies report leakage and per capita consumption information in table 3S (Shadow reporting of new definition data) of the APR.

We expect companies to identify any changes that are required to earlier reported information for 2017-18 and 2018-19 clearly stating the reasons for any changes.

The information for all three years should reflect full compliance with the reporting guidance set out in each company's 2019 final determinations performance commitment appendix.

As set out in each company's appendix we expect the company to provide commentary in its 2019-20 APR submission describing any differences in its 2019-20 total leakage level expressed in megalitres per day (Ml/d) and per capita consumption expressed in litres per person per day (l/p/d) in comparison with its business plan forecasts.

Reasons for any differences should be clearly explained and their volumetric impacts quantified"

This document provides the baseline and supporting information for leakage and per capita consumption in line with the requirements of IN 20/03 and the requirements of the final determination.

The document also provides an update - and where relevant baseline information - for those performance commitments where specific actions were required during 2019/20 within the final determination.

Further details on the work that has been undertaken to prepare for AMP7 reporting on these measures and the other shadow measures that we have been reporting in Table 3S, is set out in the commentary to Table 3S, which has been uploaded to the Ofwat data portal.

Leakage - As set out within this document and in our commentary to Table 3S, we have been able to fully comply with 74 of the 76 elements of the common leakage measure and do not consider that the 2 elements which were not fully green at year end have or will have any material impact on the 2020 baseline or future reported values.

During 2020/21 we will install the final few fast loggers that are used to support the assessment of unmeasured household usage. We will continue to validate and review the data from these loggers on a monthly basis to ensure that this data remains consistent with existing data and that our reporting against the AMP7 baseline remains robust. It is estimated this work will take 4 months to complete.

Per Capita Consumption - We are fully compliant with the methodology.

The data from the fast loggers is also used in the calculation of PCC. Work that we have undertaken during 2019/20 has also identified that we may need to review our future approach to estimation of household occupancy rates, to confirm that we are reporting consistently with the rest of the industry and in preparation for WRMP24. Per capita consumption has also been materially impacted by COVID-19.

We recognise that outcome delivery incentive payments should relate to real performance changes and not merely data improvements[1]. Therefore, to the extent that ongoing and future improvements in data indicate that any adjustments are required, we will embed this principle in our approach to reporting against AMP7 targets.

[1] As set out in Annex 2 of United Utilities PR19 final determination Outcomes performance commitments appendix: "Companies should commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment."

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Appendix 3 – Leakage, PCC and AMP7 PC update

1. Leakage – AMP7 baseline

1.1 ODI reference

PR19UU_B01-WN - Leakage

1.2 Requirement

In the PR19 United Utilities outcomes performance commitments appendix, Ofwat set out that performance commitment levels are set as percentage reduction from the 2019-20 baseline, with incentive payments relating to performance changes expressed in megalitres per day (Ml/d).

The FD also sets out in the reporting requirements section for this performance commitment that "we expect the company to provide commentary in its 2019-20 APR submission describing any differences in its 2019-20 total leakage level expressed in megalitres per day (Ml/d) and per capita consumption expressed in litres per person per day (l/p/d) in comparison with its business plan forecast. Reasons for any differences should be clearly explained and their volumetric impacts on the baseline quantified".

In Information Notice IN 20/10 Ofwat also states "We expect companies to identify any changes that are required to earlier reported information for 2017-18 and 2018-19 clearly stating the reasons for any changes. The information for all three years should reflect full compliance with the reporting guidance set out in each company's 2019 final determinations performance commitment appendix".

In this section we provide:

- Definition of the ODI
- Compliance with reporting requirements and assurance undertaken
- The baseline 3 year average leakage value
- Comparison to the baseline 3 year average leakage assumed at PR19
- Next steps

1.3 ODI Definition

Total leakage is defined as the sum of distribution system leakage, including service reservoir losses and trunk main leakage plus customer supply pipe leakage.

The performance commitments for this measure are based on percentage reductions in rolling three year average leakage levels in megalitres per day (Ml/d) from the 2019/20 three year average baseline.

The basis for reporting leakage is defined in the final reporting guidance for PR19 published on 27 March 2018. Three year average values are calculated from annual values for the reporting year and the two preceding years and is expressed in megalitres per day (Ml/d).

The measurement unit is based upon the percentage reduction, set out within the FD, from 2019-20 baseline.

AMP7 performance commitment targets will be based upon the volumetric levels resulting from the application of the percentage reduction in megalitres per day (Ml/d) reported to one decimal place.

AMP7 Leakage performance commitment – required percentage reductions						
Unit	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Ml/d	0	0.8	1.9	3.7	6.6	10.8

1.4 Compliance with the definition

As we have reported in our commentary to Table 3S, we are largely compliant with the final reporting guidance for PR19. We have completed a red/amber/green (RAG) rating for each element and each component of the reporting guidance. For 74 out of the 76 reporting requirements we are fully compliant. Two elements of the reporting requirements have been assessed as amber because data was not yet fully robust.

The two amber elements are:

- 2a Availability.
    - The definition states that 90% of all properties within continuous night flow monitoring networks shall be available for reporting night flow data through the year. Our availability during 2019/20 was 87%.
    - Availability had improved following year end and we were on track to reach 90% before non-essential maintenance work was stopped in accordance with government COVID-19 guidance.

- We have seen a deterioration in availability and operability during lockdown but we plan to undertake additional maintenance activity to achieve an availability of 90% for 2020/21.

- 14a Company own use.
  - The definition states that all sewage treatment sites and other sites and assets supplied downstream of the distribution input (DI) meters using greater than 10 m3/d (0.01 Ml/d) are metered.
  - The work for this element was planned to be completed by the end of AMP6 but has been impacted by site restrictions associated with the COVID-19 pandemic.
  - This work will be restarted as soon as practical and we estimate it will take 3 months to deliver.

We do not however consider that these two elements will have had a material impact on the shadow AMP7 leakage figures and do not have any impact on the AMP6 leakage measure. We are therefore not proposing to overwrite any of the values that we have reported in Table 3S in either 2019/20 or in the two preceding two years.

During the three year period, we have made a number of improvements to our systems and processes to allow us to become compliant with the AMP7 methodology. These changes have improved the accuracy of some elements of the data used in the leakage calculation, but have not materially or systemically revised the calculations.

During 2019/20 we have been finalising our preparations to be able to report compliantly from the start of 2020/21. Part of this process was the installation, use and validation of data from new "fast loggers" that were used to support the assessment of unmeasured household usage.

We plan to install the final few loggers, review the setup of loggers and meters whilst continuing to validate and review data on a monthly basis. It is estimated this work will take 4 months to complete. We will continue to validate the fast logging data throughout this process to ensure that reporting against the AMP7 baseline will remain robust.

1.5 Leakage 2019/20 three year rolling baseline
We have reported shadow leakage values in Table 3S for 2017/18, 2018/19 and 2019/20. The table below shows these reported values and the 3 year average baseline for AMP7, which is 447.1 Ml/d.

	Unit	2017/18	2018/19	2019/20
Actual total leakage	Ml/d	449.4	452.0	439.8
Actual total leakage 3 year average	Ml/d, 3 year average			**447.1**

1.6 Comparison to PR19 and previous year's assumptions
Our original proposals for the leakage base year were based upon (AMP6) leakage values for 2015/16 (451.9), 2016/17 (439.2) and 2017/18 (453.5) and produced a three year average figure of 448.2 Ml/d.

Following the IAP this figure was updated to reflect reported leakage in 2017/18 (453.5) and forecast leakage for 2018/19 (448.2) and 2019/20 (448.2), which produced a three year average figure of 450.0 Ml/d.

This was then updated following query UUW-IAP-OC-001 to reflect actual leakage levels in 2018/19. The table below shows the actual leakage and 3 year average baseline compared to the latest PR19 compared leakage and 3 year average baseline.

2019/20	Unit	2017/18	2018/19	2019/20	Average
Actual	Ml/d	449.4	452.0	439.8	**447.1**
PR19 forecast	Ml/d	449.4	452.0	448.2	**449.9**

As can be seen from the table above, we had assumed that leakage levels would remain at 448.2 Ml/d, in our business plan submission, whereas actual leakage for 2019/20 was 8.4 Ml/d lower than forecast at PR19.

As set out within Section 1 of the APR, this reduction in leakage has been as a result of increased levels of leakage detection and repair resource, along with a mild winter in 2019/20. During the year we also completed the installation of 44,000 acoustic/noise loggers and we are seeing the benefits of this work, in terms of finding leaks we wouldn't previously have found and finding new leaks faster.

The reduction in leakage during 2019/20 has reduced the 2019/20 baseline by 2.8 Ml/d.

1.7 AMP7 (FD) performance commitments percentage reduction targets

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
Leakage performance commitment	% reduction from three-year average	0.8	1.9	3.7	6.6	10.8
Underperformance collar	% reduction from three-year average	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Outperformance cap	% reduction from three-year average	2.5	5.1	8.9	13.2	17.2

Based upon the 2019/20 three year average baseline of 447.1 Ml/d these percentage reductions translate into the Ml/d values shown in the table below.

1.8 AMP7 performance commitments resultant Ml/day targets

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
Leakage performance commitment	Ml/d, three-year average	443.5	438.6	430.6	417.6	398.8
Underperformance collar	Ml/d, three-year average	469.5	469.5	469.5	469.5	469.5
Outperformance cap	Ml/d, three-year average	435.9	424.3	407.3	388.1	370.2

Outcome delivery incentives will be based upon Ml/d variance from the performance commitment target and subject to the caps and collars set out in the table above. The incentive rates are:

- Underperformance rate (£0.175m/Ml/d/year)
- Outperformance rate (£0.146m/Ml/d/year).

1.9 Assurance

All data within our Annual Performance Report is subject to a structured three lines of assurance process as set out within Appendix 1 of the APR.

Since 2017/18 the data with Table 3S has been subject to assurance by the Technical Auditor Jacobs. Assurance was undertaken on the 2020 baseline between 27th May 2019 and 16th June 2019 by Jacobs. This included an audit of the process and methodology used to report the regulatory data and sample checks were also undertaken to confirm the reported numbers.

The ongoing work with fast loggers and their use in estimation of unmeasured household consumption during 2019/20 was highlighted in Jacobs' report to the UUW Board and in discussions with the UUW Board. This report which is reproduced in Appendix 1 of the APR, stated that

"As the values for 2017/18 to 2019/20 will be used to estimate the baseline for AMP7 leakage reductions, the company should continue to validate the fast logging data and assess whether it would seek to revise this value during 2020/21 to ensure that reporting against the AMP7 baseline will remain robust"

"We fully anticipate that these issues will be satisfactorily resolved in readiness for AMP7 reporting".

Jacobs' specific AMP7 leakage audit report concluded that:

"We consider the methodology is appropriate for deriving data that is consistent with the requirements, and this has been applied correctly.

"We recommend that the company investigates the reasons for the apparent over-estimate of unmeasured household consumption and implement revised estimates at interim updates during 2020-21".

"Despite the apparent over-estimation of unmeasured household consumption, the MLE imbalance shows a good agreement (-0.83%) suggesting a 'good' water balance".

1.10 Next steps

As our water balance figures showed good alignment, we have no reason to assume that the 2019/20 values are not robust.

We will however, continue to conduct a review of the meters and loggers used for fast logging, which are key to estimating household night use and unmeasured household consumption. We will provide further commentary in due course if any material issues arise as a result of this analysis.

2. Per Capita Consumption AMP7 baseline derivation

2.1 ODI reference

PR19UU_B05-WN - Per Capita Consumption (PCC)

2.2 Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out that; "*we expect the company to provide commentary in its 2019-20 APR submission describing any differences in its 2019-20 total leakage level expressed in megalitres per day (Ml/d) and per capita consumption expressed in litres per person per day (l/p/d) in comparison with its business plan forecast. Reasons for any differences should be clearly explained and their volumetric impacts on the baseline quantified*".

In Information Notice IN 20/10 Ofwat state "*We expect companies to identify any changes that are required to earlier reported information for 2017-18 and 2018-19 clearly stating the reasons for any changes. The information for all three years should reflect full compliance with the reporting guidance set out in each company's 2019 final determinations performance commitment appendix*".

In this section we provide:

- Definition of the ODI
- Compliance with reporting requirements and assurance undertaken
- The baseline 3 year average leakage value
- Comparison to the baseline 3 year average leakage assumed at PR19
- Next steps.

2.3 ODI Definition

Per capita consumption is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population.

The performance commitments for this measure are based on the percentage reduction of three year average per capita consumption in litres/person/day (l/p/d) from the 2019/20 baseline.

Per capita consumption is defined in the final reporting guidance for PR19 published on 27 March 2018. Three year average values are calculated from annual average values for the reporting year and two preceding years and expressed in litres/person/day (l/p/d).

The measurement unit is based upon the percentage reductions, set out within the FD, from the 2019-20 baseline.

AMP7 performance commitment targets will be based upon the volumetric levels resulting from the application of the percentage reduction in litres/person/day (l/p/d) reported to one decimal place.

AMP7 PCC performance commitment – required percentage reductions						
Unit	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Ml/d	0	1.3	2.6	3.9	5.1	6.3

2.4 Compliance with the definition

As we have reported in our commentary to Table 3S, we are fully compliant with the final reporting guidance for PR19.

During the three year period, we have made a number of improvements to our systems and processes to allow us to become compliant with the AMP7 methodology. These changes have improved the accuracy of some elements of the data used in the per capita consumption calculation.

Although we are compliant with the final PCC reporting guidance for PR19, work that we have undertaken during 2019/20 has identified that we may need to review our future approach to estimation of household occupancy rates, to confirm that we are reporting consistently with the rest of the industry and in preparation for WRMP24. The fast logging data discussed in the leakage section above could also impact on PCC reporting. For clarity this does not affect any of our existing AMP6 ODI's.

We recognise that any outcome delivery incentive payments should only relate to real performance changes and not mere data improvements[2]. Therefore, to the extent that current or future improvements in data indicate that any adjustments are required, we will embed this principle in our approach to reporting.

2.5 PCC 2019/20 three year rolling baseline

We have reported shadow PCC values in Table 3S for 2017/18, 2018/19 and 2019/20. The table below shows these reported values and the 3 year average baseline for AMP7, which is 144.0 litres/person/day (l/p/d).

	Unit	2017/18	2018/19	2019/20
Actual annual PCC	litres/person/day	143.6	144.4	144.0
Actual 3 year average PCC	litres/person/day, 3 year average			144.0

2.6 Comparison to PR19 and previous year's assumptions

The table below shows the annual PCC and 3 year average baseline assumed at PR19 compared with the actual PCC and 3 year average baseline for AMP7.

2019/20	Unit	2017/18	2018/19	2019/20	Average
PR19 annual PCC	litres/person/day	143.6	144.4	140.7	142.9
Actual annual PCC	litres/person/day	143.6	144.4	144.0	144.0

As can be seen from the table above we had assumed that PCC levels would reduce in 2019/20 by 3.7 l/p/d from the 2018/19 value. Actual PCC for 2019/20 however, only reduced by 0.4 l/p/d.

We do not consider that this is due to any lack of management focus or lack of activity in this area. In 2018/19 and 2019/20, we have delivered a significant programme of water efficiency activities including competitions, summer events, press/radio/bus advertising, home visits, roadshows, digital campaigns and have given out over 100,000 water efficiency devices that were ordered online. Online activity can be seen to spike in relation to campaigns. Further water efficiency initiatives are ongoing and planned, including using water data to influence customer behaviour to save water and money.

Consumption is, however, very difficult for water companies to directly control and is also very dependent on the weather. Our analysis[3] of modelling undertaken by the Met Office shows that domestic consumption for FY20 year-end reporting period is 2% higher than that for a normal year (WRMP15 Base Year).

Towards the end of the 2019/20 financial year and through the start of the 2020/21 financial year household consumption was also significantly affected by the lock down associated with COVID-19, which resulted in a significant switch from non-household usage to household usage. Although the full impact of this is not yet clear, it is clearly generating a material increase in PCC volumes during 2020/21, which will mean that it is unlikely that UU will be able to achieve the targets for this measure set out within the FD.

[2] As set out in Annex 2 of United Utilities PR19 final determination Outcomes performance commitments appendix: "Companies should commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment."

[3] This analysis is set out in Section 3.5 of our Annual Water Resources Review 2019/20 which is available at the following URL https://www.unitedutilities.com/corporate/about-us/our-future-plans/water-resources/

2.7 AMP7 (FD) performance commitments targets

Based upon the values above the AMP7 PCC performance commitment targets would be, as shown in the table below. Note that this measure has no caps and collars.

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
PCC performance commitment	% reduction from three-year average	1.3	2.6	3.9	5.1	6.3
Underperformance collar	% reduction from three-year average	NA	NA	NA	NA	NA
Outperformance cap	% reduction from three-year average	NA	NA	NA	NA	NA
PCC performance commitment	litres/person/day, three-year average	142.1	140.3	138.4	136.7	134.9

Outcome delivery incentives will be based upon l/p/d variance from the performance commitment target and subject to the caps and collars set out in the table above. The incentive rates are:

- Underperformance rate (£0.396m/l/p/d/year)
- Outperformance rate (£0.330m/l/p/d/year).

2.8 Assurance

All data within our Annual Performance Report is subject to a structured three lines of assurance process as set out within Appendix 1 of the APR.

Since 2017/18 the data with Table 3S has been subject to assurance by the Technical Auditor Jacobs. Technical assurance was undertaken to the 2020 baseline between 27th May 2019 and 16th June 2019 by Jacobs. This included an audit of the process and methodology used to report the regulatory data and sample checks were also undertaken to confirm the reported numbers.

Jacobs audit report concluded that:

"We consider the methodology is appropriate for deriving data that is consistent with the requirements, and this has been applied correctly

"We recommend that the company investigates both the occupancy rates and apparent over-estimation of unmeasured household consumption during 2020-21".

The findings from the Jacobs' report were presented to and discussed with the UUW Board. Jacobs Board assurance report is reproduced in Appendix 1 of the APR.

2.9 Next steps

We are compliant with the methodology for this measure and the values reported for 2017/18, 2018/19 and 2019/20 are consistent with our WRMP19 assumptions. We therefore recognise that the three year average baseline for this measure is now finalised.

Work that we have undertaken during 2019/20 has also identified that we may need to review our future approach to estimation of household occupancy rates, to confirm that we are reporting consistently with the rest of the industry and in preparation for WRMP24. We recognise that outcome delivery incentive payments should relate to real performance changes and not merely data improvements[4] . Therefore, to the extent that ongoing and future improvements in data indicate that any adjustments are required, we will embed this principle in our approach to reporting against AMP7 targets.

[4] As set out within Annex 2 of United Utilities PR19 final determination Outcomes performance commitments appendix: "Companies should commit that their ODI payments will only relate to real performance changes and not definitional, methodological or data changes in the performance commitment."

3. Additional PR19 performance commitment baseline updates

3.1 Water Service Resilience

ODI reference

PR19UU_B08-WN - Water service resilience

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"The company must publish independent reports of the assessment audit of the baseline position and then further audits of assessment of any changes in the risk position claimed within the year for each year between 2020 and 2025".

"If changes are necessary to the methodology or underlying data, the reports will make an assessment of any potential impact on reported performance and state the impact on the baseline position and any earlier reported years".

In this section we provide:

- Definition of the ODI
- Details of the 2019/20 baseline
- Overview of the assurance undertaken on this baseline

ODI Definition

This measure reports the delivery of water service improvements that reduce the risk of long-term interruptions to water supply, or of water quality issues, due to water main or water treatment works supply failures.

In 2018 we developed a baseline risk assessment to forecast risk as of 31st March 2020, expressed in terms of an annual risk of customer water supply service days lost.

The baseline risk assessment includes:

- those water treatment works that cannot be switched off for longer than five days and
- water mains where more than 4,000 customer properties could lose supply during a burst repair.

Performance is measured as a reduction against a baseline risk assessment for 31 March 2020.

The performance commitment targets are based upon the annual reduction in risk from the March 2020 baseline level and are expressed in terms of an annual risk of customer water supply service days lost (customer service days lost or csd/yr). The performance commitment reduction targets (from the FD) are set out in the table below.

AMP7 Water Service Resilience performance commitment						
Unit	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Reduction in the number of water customer supply service days at risk*	0	0	382	764	1145	1526

*' Water supply service day' is defined as the risk of a property losing a wholesome supply of water, due to a failure associated with either a trunk main or water treatment works failure

March 2020 baseline

The baseline risk level is made up from two components; the water treatment works baseline and the trunk main baseline, both of these components have been tracked since submission of the business plan.

<u>Water treatment works (WTW) baseline</u>

Our PR19 business plan included a 2018 risk assessment together with an estimated baseline position for 31st March 2020.

The primary data sources used to calculate the baseline position for WTWs assessments are hydraulic network models and at least 15 years of historic incident data. For water treatment works, risk is assessed based upon three factors:

- The probability of an incident (such as flooding or loss of power supply) occurring and its potential duration.
- The probability of a service impact, if an incident occurs, taking into account our ability to mitigate the impact using supply from other works and water storage.
- The number of customers potentially affected.

The Water Service Resilience baseline risk assessment is based upon the 28 water treatment works (WTWs) that serve demand that can't be met from alternative supplies on a sustainable basis. One of these works, Williamsgate will be a new water treatment

works to be commissioned during AMP7, hence is calculated to have no resilience risk at the start of AMP7.

The risk assessment for these works was completed for the PR19 submission with an estimated baseline position estimated for 2019/20.

Following the publication of our PR19 business plan a number of changes have been made to the baseline through more detailed assessment of risk levels, better data or improved models.

Changes to the baseline and models between 2018 and 2019 were:

- A change to the calculation of baseline risk was implemented to remove the rounding of contingency duration to the nearest day prior to the start of AMP7, this led to approximately 20% reduction to the overall baseline risk associated with WTWs.
- Specific changes to the baseline risk levels at eight WTW

The impact of these changes was reported to Ofwat in 2019, with the overall WTW risk level reducing from 18,593 to 15,274 customer service supply days lost/year.

Two relevant projects have been delivered during 2019/20 that reduced risk levels and have been reflected in the March 2020 baseline.

- AMP6 Investment at Bridge End WTW has reduced the flooding hazard profile of the site in line with other critical works, the impact of this investment reduces the risk level from 70 to 36 customer supply days lost/year.
- AMP6 Investment associated with the 2018 drought has been completed in the network surrounding Wybersley WTW, this has reduced the peak demand deficit of the site. The impact of this investment has been to reduce the risk level from 1,061 to 955 customer supply days lost/year.

The impact of these changes is that the overall WTW risk level has reduced from 15,274 to 14,893 customer service supply days lost/year.

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Appendix 3 – Leakage, PCC and AMP7 PC update

The table below shows the risk assessment at each of the breakdown of the PR19 business plan WTW baseline risk position, adjustments made in 2019 following independent audit and changes to the calculation; the AMP7 baseline.

Water treatment works detailed baseline risk position (customer supply days lost/year)

Critical WTW site end AMP6	Business plan RISK (2018)	Risk levels (2019)	AMP7 Baseline (31st March 2020)	
BRIDGE END	72	**70**	***36***	AMP6 Investment at Bridge End WTW has reduced the flooding hazard profile of the site in line with other critical works.
BUCKTON CASTLE	506	305	*305*	
CASTLE CARROCK	55	49	*49*	
CORNHOW	**516**	**398**	*398*	Cornhow ICA asset health hazard has been updated from 0.1 to 0.4 based upon a change to the mapping from raw asset health data
CUMWHINTON	241	235	*235*	
ENNERDALE	754	754	*754*	
FISHMOOR	**243**	**142**	*142*	Fishmoor demand deficit has been updated from 20Ml/d to 12.5Ml/d based upon additional modelling data from contingency planning Network Modelling.
FRANKLAW	2194	1520	*1520*	
GODLEY	1549	961	*961*	
HUG BRIDGE	124	111	*111*	
HURLESTON	1125	881	*881*	
LAMALOAD	202	158	*158*	
LANCASTER	692	517	*517*	
MARTHOLME	497	469	*469*	
MITCHELLS	39	36	*36*	
OSWESTRY	842	523	*523*	
PADDY END	45	45	*45*	
QUARRY HILL	248	227	*227*	
RIDGALING	65	65	*65*	
ROYAL OAK	635	537	*537*	
SIMMONDS HILL	27	24	*24*	
SUTTON HALL	2099	1792	*1792*	
SWEETLOVES	**692**	**542**	*542*	Sweetloves demand deficit has been updated from 29Ml/d to 14Ml/d and the duration until loss of supply at peak demand updated from 36hrs to 4.5hrs, based upon additional modelling data from contingency planning Network Modelling.
WATCHGATE	**2582**	**3041**	*3041*	Watchgate demand deficit has been updated from 100Ml/d to 117.8Ml/d based upon additional modelling data from Manchester and Pennines Resilience Network Modelling.
WATERGROVE	**613**	**345**	*345*	Watergrove ICA asset health hazard has been updated from 1.0 to 0.4 based upon a change to the mapping from raw asset health data.
WAYOH	**516**	**465**	*465*	Wayoh demand deficit has been updated from 20Ml/d to 23Ml/d based upon additional modelling data from contingency planning Network Modelling, this would have led to a higher baseline risk position than reported in the Business Plan, but removing the rounding for contingency has led to an overall lower baseline.
WYBERSLEY	1420	**1061**	*714*	AMP6 Investment associated with the 2018 drought has been completed in the network surrounding Wybersley WTW, this has reduced the peak demand deficit of the site, the impact of this investment has been included within the revised baseline position for the start of AMP7
WILLIAMSGATE	0	0	0	
Total WTW baseline Risk	**18,593**	**15,274**	**14,893**	

2

Trunk mains baseline

The risk assessment of our trunk mains was completed for the PR19 submission with an estimated baseline position for 2019/20 also being developed.

The primary data sources used to calculate the baseline position for water mains are the regional trunk mains model which covers the old integrated resource zone and the DMZ models for the remaining 3 resource zones; Eden, Allerdale and Copeland.

For water mains the risk assessment is based on:

- The number of customers who could not be supplied by alternative routes if a trunk mains fails
- The likely duration of repair
- The probability of the trunk main failing

The Water Service Resilience baseline risk assessment for each of 361 critical trunk mains identified with more than 2 customer service days lost/yr risk was completed for the PR19 submission.

The trunk main baseline risk remains unchanged from that at PR19 and is the same as forecast for 31st March 2020 at 8,047 customer supply days lost/year.

The trunk main index number, number of customers at risk and the risk score for that main are shown in the table below.

Trunk Main detailed baseline risk position

Trunk Main Index	No. at risk	Risk (csd/yr)	Trunk Main Index	No. at risk	Risk (csd/yr)	Trunk Main Index	No. at risk	Risk (csd/yr)	Trunk Main Index	No. at risk	Risk (csd/yr)
1	22003	282.51	91	14853	18.88	181	7343	9.09	271	9624	4.15
2	40125	254.35	92	13837	18.66	182	8898	9.04	272	6309	4.15
3	30158	224.83	93	15428	18.48	183	17154	8.98	273	5750	4.08
4	30977	220.64	94	8746	18.47	184	18438	8.93	274	22086	4.06
5	53798	210.96	95	12705	18.45	185	43057	8.92	275	5792	4.04
6	57531	194.70	96	9883	18.29	186	18790	8.81	276	9729	3.99
7	31904	163.88	97	6574	18.04	187	8142	8.62	277	5062	3.99
8	42459	154.95	**98***	**6281**	**17.93**	188	7161	8.34	278	9684	3.90
9	45812	146.95	99	8818	17.86	189	7709	7.98	279	14140	3.83
10	54755	139.71	100	26634	17.37	190	11537	7.83	280	8613	3.78
11	19220	133.16	101	8400	17.28	191	9006	7.81	281	10054	3.77
12	31491	125.71	102	10423	17.02	192	20901	7.65	282	12654	3.76
13	43734	122.65	103	29481	16.90	193	10524	7.64	283	14118	3.76
14	38664	117.44	104	10229	16.20	194	12758	7.59	284	7159	3.74
15	21361	101.77	105	11500	16.15	195	6133	7.57	285	18066	3.69
16	54891	99.20	106	12022	16.13	196	10635	7.44	286	15564	3.67
17	57954	96.63	107	12617	16.12	197	5483	7.42	287	6787	3.67
18	15640	95.43	108	50026	15.97	198	6911	7.27	**288***	**13391**	**3.64**
19	31316	89.84	109	7349	15.86	199	15115	7.23	289	7407	3.56
20	14894	88.88	110	10101	15.83	200	15590	7.08	290	7502	3.48
21	15903	88.82	111	21970	15.70	201	6480	7.06	291	4863	3.42
22	23003	84.87	112	10241	15.60	202	13454	7.02	292	13456	3.42
23	17272	82.26	113	8410	15.51	203	8091	6.95	**293***	**4768**	**3.41**
24	16386	79.49	114	8114	15.50	204	14896	6.81	294	14690	3.37
25	35035	71.27	115	9415	15.44	205	8526	6.80	295	14682	3.37
26	33655	68.11	116	13312	15.26	206	19077	6.79	296	7869	3.36
27	44662	67.49	117	27561	15.26	207	8852	6.74	297	6221	3.32
28	29387	66.37	118	6812	15.25	208	5289	6.70	298	6639	3.31
29	35059	66.12	119	31510	15.13	209	5010	6.68	299	8257	3.31
30	39754	65.59	120	6416	15.05	210	5819	6.66	300	7956	3.27
31	52684	65.50	121	9038	14.91	211	5668	6.57	301	5924	3.26
32	33082	63.33	122	5697	14.91	212	8536	6.56	302	21741	3.24
33	28809	61.09	123	9438	14.86	213	9685	6.52	303	7595	3.23

34	34559	58.84	**124***	**10854**	**14.86**	214	10052	6.39	304	9675	3.17
35	62234	58.45	125	7100	14.70	215	5914	6.28	305	5381	3.16
36	26533	57.89	126	24274	14.58	216	13318	6.25	306	7463	3.09
37	13917	56.91	127	7329	14.51	217	10882	6.22	307	6880	3.00
38	66337	55.40	128	29540	14.47	218	10068	6.22	308	16702	3.00
39*	**7355**	**53.94**	129	16369	14.46	**219***	**10479**	**6.05**	309	5821	2.98
40	12468	51.74	130	19450	14.41	220	23121	6.04	**310***	**6292**	**2.95**
41	33993	49.32	131	7497	14.28	221	14240	5.99	311	12626	2.95
42	36227	48.56	132	14169	14.25	222	11498	5.99	**312***	**5033**	**2.95**
43	44800	47.76	133	11429	13.97	223	8130	5.95	313	4628	2.94
44	32380	44.56	134	8811	13.95	224	11208	5.90	314	7609	2.92
45	14443	44.01	135	12766	13.71	225	6628	5.86	315	15196	2.88
46	33654	42.76	136	16593	13.59	226	5284	5.82	316	9888	2.87
47	12322	42.15	137	10918	13.29	227	6256	5.80	317	5098	2.87
48	8632	42.10	138	14485	13.20	228	6477	5.76	318	6693	2.84
49	15634	42.03	139	9323	13.04	**229***	**24552**	**5.69**	319	6104	2.83
50	17493	41.15	140	8260	12.88	230	11674	5.64	320	11301	2.79
51	43530	39.34	141	35476	12.79	231	11814	5.55	321	23441	2.78
52	24453	39.33	142	8377	12.73	232	6329	5.51	322	8113	2.78
53	6232	38.01	143	10752	12.39	233	6227	5.49	323	10252	2.77
54	32926	36.46	144	12601	12.26	234	8146	5.46	324	7622	2.77
55	19129	35.20	145	14241	11.95	235	10531	5.46	325	7686	2.73
56	18582	32.84	146	5861	11.92	236	7151	5.38	326	5411	2.73
57	10966	31.68	147	26635	11.63	237	6180	5.36	327	7210	2.64
58	12764	31.63	148	8614	11.60	238	8053	5.25	328	8900	2.62
59	14164	30.59	149	12032	11.55	239	6588	5.14	329	10749	2.60
60	30084	30.42	150	12655	11.47	240	11717	5.13	330	6694	2.59
61	21206	30.34	151	9558	11.42	241	11533	5.12	331	6666	2.58
62	10138	28.43	152	12531	11.22	242	8350	5.05	332	9509	2.55
63	11337	26.92	153	9962	11.05	243	5969	5.05	333	10057	2.54
64	6550	25.69	154	11531	10.92	244	11238	5.03	334	5645	2.54
65	14846	25.10	155	9612	10.92	245	6011	4.96	335	6242	2.53
66	11521	24.96	156	15426	10.87	246	8629	4.90	336	5892	2.53
67	15429	24.79	157	19806	10.82	247	9366	4.84	337	11504	2.53
68	17008	24.72	158	15838	10.80	248	5196	4.82	338	7154	2.53
69	14184	24.64	159	27143	10.75	249	13321	4.71	339	9357	2.50
70	15118	24.56	160	32366	10.64	**250***	**5035**	**4.70**	340	4939	2.49
71	49930	24.47	161	7682	10.60	251	10053	4.69	341	4419	2.47
72	22455	24.41	162	15836	10.58	252	11978	4.63	342	14248	2.47
73	12329	23.90	163	12669	10.55	253	14806	4.55	343	7261	2.41
74	42005	23.27	164	5394	10.49	254	5954	4.54	344	12844	2.37
75	9688	23.00	165	33637	10.43	255	10869	4.54	345	4673	2.32
76*	**6423**	**22.91**	166	9513	10.24	256	7474	4.52	**346***	**5357**	**2.28**
77	7297	22.77	167	8465	10.11	257	6259	4.51	347	7546	2.27
78	27620	22.67	168	13333	10.10	258	5359	4.48	348	12611	2.27
79	14172	22.65	169	9321	10.04	259	15693	4.47	349	9748	2.21
80	28352	22.64	170	6807	10.01	260	6836	4.45	350	9322	2.18
81	115738	22.62	171	13357	10.00	261	7950	4.42	351	6331	2.17
82	16483	22.28	172	13769	9.99	262	9687	4.42	352	25845	2.16
83	26633	21.62	173	43119	9.99	263	4491	4.32	353	4926	2.14
84	8047	21.02	174	6808	9.93	264	8241	4.32	354	5413	2.11
85	9165	20.76	175	13953	9.80	265	5923	4.30	355	21617	2.06
86	11946	20.61	176	12790	9.71	266	8283	4.29	356	8653	2.04
87	10780	19.72	177	8374	9.49	267	6954	4.25	357	4836	2.04

88	12205	19.19	178	8002	9.42	268	15742	4.24	358	19323	2.03
89	9525	19.15	179	10875	9.39	269	11272	4.21	359	15691	2.02
90	10446	19.14	180	10575	9.28	270	8628	4.19	360	10055	2.00
* These are trunk mains not in the strategic resource zone									361	8347	2.00

Water resilience service baseline 31st March 2020
The WTW and trunk mains risk assessments were completed to confirm the Water Resilience Service baseline risk as of 31st March 2020.

- The March 2020 WTW risk has changed from 18,593 in 2018 to 14,893 customer supply days lost/year and
- The March 2020 trunk main risk baseline remained unchanged at 8,047 customer supply days lost/year
- This produces an overall March 2020 baseline of 22,940 customer supply days lost/year.

Performance during AMP7 will be measured relative to this value.

Assurance
All data within our Annual Performance Report is subject to a structured three lines of assurance process as set out within Appendix 1 of the APR.

Independent technical assurance was undertaken to the 2020 baseline starting on 7th April 2019 by Jacobs. The audit report concludes that:

- *The decrease in peak deficit at Wybersley WTW and decrease in flood/storm risk at Bridge End WTW, are reasonable.*
- *The decrease in peak deficit supply duration at Sweetloves at WTW, is reasonable.*
- *The baseline peak demand deficit for Sweetloves WTW must be revised to 14 Ml/d.*
- *The increase of calculation accuracy, is reasonable.*

The recommended change to the peak demand deficit for Sweetloves WTW that was made in 2019 has been incorporated into the calculation of the 2019/20 baseline.

Any changes in the risk position that are claimed within the year, for each year between 2020 and 2025, will also be subject to independent technical assurance.

3.2 Enhancing natural capital value for customers

ODI reference

PR19UU_C08-CF - Enhancing natural capital value for customers

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"Prior to the start of the 2020-25 period, the company will set a baseline level of performance which will be based on the assumed delivery of statutory requirements for improvements to water quality, as set out in the Environment Agency's Water Industry National Environment Programme (WINEP) and other performance commitments. This baseline level of performance will be subject to an independent audit to determine its reliability".

"The company will measure added natural capital value by identifying the ecosystem services that are delivered using a non-conventional approach. The company will restrict its measurement of ecosystem services to six defined services which its customers consider to be important, as set out below".

"An independent third-party organisation will then attribute monetary values to these ecosystem services using an assured Natural Capital Accounting methodology, which will be based on unit values taken from national guidance, policy and peer reviewed research. HM Treasury Green Book guidance on discounting future cashflows will be used to derive a net present value for these ecosystem service benefits, based on an assumed time horizon of 30 years. It will be assumed that all solutions achieve their respective natural capital benefits for the entirety of this 30 year timespan".

"To calculate the added value created by non-conventional solutions, the calculated ecosystem service benefits accrued from the non-conventional approach will then be compared to those accrued under a conventional approach, as defined within the company's baseline level of performance".

"The company will ensure that its baseline level of performance is subject to an independent audit. The company will obtain assurance by an appropriately qualified third party of its performance".

In this section we provide:

- Definition of the ODI
- Details of the 2019/20 baseline
- Overview of the assurance undertaken on this baseline

ODI Definition

This measure reports the estimated added natural capital value, in millions of pounds, created by delivering investment outcomes through non-conventional approaches, as compared to delivering outcomes through conventional approaches.

For the purposes of this performance commitment:

- a non-conventional approach is defined as a solution that is not conventional but incorporates green solutions and/or catchment solutions to deliver on regulatory requirements and deliver added value;
- a conventional solution is defined as an intervention principally consisting of the construction of new hard engineered assets, the enhancement of existing hard engineered assets or the augmentation of the operation of an existing hard engineered asset.

A conventional solution also includes any existing operational activity undertaken outside of a capital scheme which has the potential to be improved to deliver added natural capital value.

The measure only includes ecosystem service benefits which demonstrably relate to one of the following six categories:

- Water quality
- Flooding
- Climate change
- Biodiversity
- Recreation and amenity
- Health and wellbeing

The baseline level of performance will be based on the natural capital value generated by the company delivering an agreed programme of WINEP3 catchment and integrated catchment schemes.

In order to protect customers in the event of outperformance, the possible outperformance payments that can be accrued from each scheme will be capped at 10% of the totex cost of the scheme.

A glossary of definitions for this measure is set out in Annex 3 to the United Utilities PR19 final determination performance commitments appendix. These definitions will apply for the purposes of measuring performance in the baseline and throughout AMP7. https://www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-United-Utilities-Outcomes-performance-commitment-appendix.pdf

The performance commitment assesses the total added natural capital value generated through the use of non-conventional solutions to deliver water quality improvement schemes (£m).

The annual performance commitment targets, as set out in the FD, including caps and collars are shown in the table below.

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
PCC performance commitment	£m	0.000	1.750	0.000	0.000	2.250
Underperformance collar	£m	0.000	0.000	0.000	0.000	0.000
Outperformance cap	£m	9.000	5.750	4.000	4.000	4.000

2019/20 baseline

We have developed a baseline based upon 188 eligible schemes that are included on the WINEP and deliver a statutory/regulatory requirement that provides a water quality benefit. These schemes are no fixed and any natural capital benefit claimed against this measure will be through one of these schemes.

We have confirmed the solution for these schemes that was included within our PR19 business plan. When deciding whether to apply a conventional or non-conventional approach to deliver a particular scheme, we applied a standard methodology that is aligned with price review guidance and best practice to select the solution which is the best value and manages the risk to the environment. This methodology includes an assessment of the whole life costs required to deliver each type of solution.

For each of these solutions we have assessed the natural capital benefit against each of the six criteria set out within the definition. Although it should be noted that many of these schemes utilise conventional solutions, which do not generate any natural capital benefit against the six criteria used within this measure and are therefore reported as £0 in the baseline.

We have summed the benefits from each criteria to generate a baseline natural capital position for all 188 schemes. The natural capital benefit claimed against this measure during the AMP7 period, will be assessed relative to the natural capital benefits of these baseline solutions.

We have ensured that the baseline level of performance was subject to an independent audit, by obtaining assurance by an appropriately qualified third party, Vivid Economics.

The latest version of B£ST Natural Capital Valuation Tool has been used to calculate the baseline. For each scheme a copy of the B£ST spreadsheet has been created and saved.

B£ST recommends using confidence scores to arbitrarily scale valuations. However, in discussion with Vivid Economics we only applied confidence scores where a valuation methodology specifically requires them. The rationale for this is that applying confidence scores is not best practice for these type of assessments outside of B£ST.

We will report against this baseline each year with any natural capital benefit generated through the adoption of non-conventional solutions being subject to independent assurance.

Assurance

We engaged Vivid Economics to provide assurance that UU's Outcome Delivery Incentive (ODI) for Natural Capital is aligned with Ofwat's expectations and UU's customers' wider interests.

UU's Natural Capital ODI process involves two phases.

In Phase 1, the baseline level of performance was calculated prior to the beginning of AMP7.

The assurance process for Phase 1 of this project was undertaken in four stages and involved regular reviews of UU outputs and guidance on best practice. Draft documents produced by UU were reviewed by Vivid to ensure that UU's baseline calculation procedure meets obligations set by Ofwat

A full record of the issues highlighted by Vivid during the assurance process were detailed and recorded, each of these issues was then signed off to ensure that no outstanding actions remained.

In Phase 2, UU will calculate the level of performance for each of its schemes undertaken in AMP7 that comply with the performance commitment.

When deciding whether to apply a conventional or nonconventional approach to deliver a particular scheme, we will apply a standard methodology that is aligned with price review guidance and best practice to select the solution which is the best value and manages the risk to the environment. This methodology will include an assessment of the whole life costs required to deliver each type of solution, the conventionality of the solution, assessment of best value option selected and claimed added value contributing to this performance commitment.

This process will also be subject to annual independent assurance.

3 Gap sites (Retail)

ODI reference
PR19UU_ E05-HH – Gap Sites (Retail)

Requirement
In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"The company is to provide an independent report setting out assurance that it has rigorous processes that are correctly implemented to identify and bill newly built properties".

In this section we provide:

- Definition of the ODI
- Preparatory work
- Overview of the assurance undertaken

ODI Definition
The gap sites (retail) measure assesses the number of connected properties in our supply area which we have identified as not being billed for water and/or wastewater services each year and are added to our billing system as residential customers.

We will use external and internal data sources to verify if it has properties in its region which it has not captured onto our billing system.

Properties which are listed on 'AddressBase' Premium or other third party data sets but not already registered on internal billing or geographic information systems will be put forward for verification.

As part of verification we will conduct and provide evidence of manual checks on the properties believed to be missing from the billing system to ensure that we are correct in identifying these as gap sites.

This includes checking if the property is connected for services on the billing system already, potentially with a slightly different address, or if the property is listed on Council Tax registers or Land Registry.

Preparatory work
We have now developed our methodology and processes for reporting this measure.

This includes defining the data sources we will use as well as the manual processes we will use to determine and investigate gap sites.

Assurance
The ODI specified that the company is to provide an independent report setting out assurance that it has rigorous processes that are correctly implemented to identify and bill newly built properties. To achieve this we appointed our Technical Auditor Jacobs to review our connections process with the specific scope to provide external technical assurance of the processes in place at UU to ensure all newly built properties connected to the UU network are identified, captured and transferred to the ALTO billing system, thus ensuring UU raise bills adequately and do not on increase the Gap Site population.

Jacobs completed this activity in April 2020 and provided us with their report which in summary states "*…we consider UU has rigorous processes in place to ensure newly built properties that are connected to the UU network are identified, captured and billed, thus minimising the number of 'gap sites' in the network*."

3.4 Systems thinking capability

ODI Reference

PR19UU_ E06-CF - Systems thinking capability

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"A third party will provide an assured maturity assessment methodology, which includes externally benchmarked and fully assured capability maturity level definitions which align with external models for businesses operating in similar asset intensive industries."

"The assessment methodology measures the end to end systems capability with a pass or fail assessment against a 220 point assessment across 44 questions, grouped into eight areas, each with a five point maturity scale of assessment."

"A third party will make an assessment to ascertain the maturity level on an annual basis."

"The company will conduct annual assurance from an appropriately qualified external third party which confirms that the reported maturity scores have been achieved in all eight capability areas and against the requirements of all 44 questions using a consistent methodology".

In this section we provide:

- Definition of the ODI
- Details of the maturity assessment methodology
- Overview of the assurance undertaken on this methodology and our 2019/20 assessment

ODI Definition

Systems thinking is a long-term strategy, requiring substantial investment in business change. This measure will incentivise us to accelerate innovations and improvements in our system thinking maturity.

For the purposes of this measure Systems Thinking capability is assessed at a business level against benchmarked 'maturity levels' which range from one (the lowest level and therefore least mature) to five (the highest attainable level and therefore the most mature).

The level of maturity refers to UU's progress in delivering its Systems Thinking capability model, which aims to increase the levels of automation and connectedness across the business.

The measure tracks the annual year on year movement in maturity levels. The measure is incremental, not cumulative, in order to ensure that the company is not rewarded twice for the same improvement.

In order to achieve an improvement in one level of organisational-level capability maturity, we must achieve the improvement in capability in all eight capability areas and against the requirements of all 44 questions at the appropriate maturity level. The eight capability measures are:

- Customer Experience
- Work Scheduling
- Operational Monitoring
- Data and Information Management
- Operational Control
- Process Excellence
- Product Planning & Optimisation
- Asset Lifecycle Management

There is no aggregation, offsetting or averaging of different capability attributes in assigning an overall level of systems thinking maturity; all 44 questions must reach the target maturity level for the performance commitment, at a company level, to be met.

This is a reputational performance commitment that assesses the maturity level, reported as a number to zero decimal places. The annual performance commitment targets, as set out in the FD, is shown in the table below.

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
PCC performance commitment	Number	1	2	2	2	2

2019/20 Methodology and baseline
In line with the requirements set out within the FD, we have used a third party (Accenture) to provide an assured maturity assessment methodology, which includes externally benchmarked and fully assured capability maturity level definitions which align with external models for businesses operating in similar asset intensive industries.

The Capability Assessment Methodology used by Accenture has been developed to provide UUW a clear and structured process through which systems thinking capability maturity can be measured. This structure, combined with the assessment criteria and requisite evidence of current performance provide UUW a transparent and auditable means of assessing maturity level outcomes providing customers and Ofwat confidence in evolution of UUW's systems thinking capability over the long term.

The purpose of this methodology is to establish a baseline position and articulate the systematic approach to be followed by UUW in assessing their systems thinking capability, which will effectively enable, manage and improve the delivery of better service and value for money for their customers whilst increasing business resilience.

The methodology has five sequential steps, enabled by the Capability Maturity Quantification Tool, which combined, produce the capability maturity level outcomes for the business (see Figure 1 Maturity Assessment Process below). This process represents best practice in assessing capability maturity, provides a common vocabulary and creates repeatability of the delivery process.

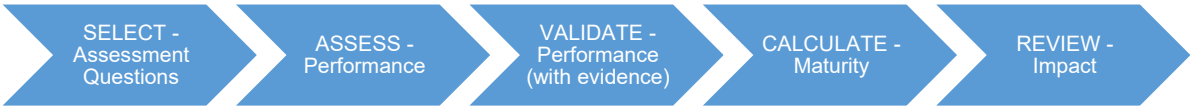

Figure 1: Maturity Assessment Process

1. Select - Establish which assessment questions are being reviewed and mobilise the appropriate Subject Matter Advisors (SMA)
2. Assess - This second step refers to the completion of the maturity assessment and includes group discussions and challenge where the current 'status quo' (of performance) against the set assessment criteria for each assessment question is assessed by the Facilitators and relevant SMA's from the business. The results against each assessment question is then supported and validated with evidence in the next step
3. Validate - The third step requires the substantiation of the maturity assessment results with hard evidence. The relevant business SMA is required to provide undisputed facts (i.e. systems and tools actively in use, dashboards or monitoring data and statistics) that verify the accuracy of the maturity assessment outcomes
4. Calculate - Underlying the process is a quantification tool that automatically converts the results from the maturity assessment into an overall capability maturity outcome for the business
5. Review - The final step refers to analysing the outcomes of the maturity assessment results year on year against the UUW baseline and maturity development plan to understand how UUW's systems thinking capability has developed in the period since the last assessment compared to how it was expected to develop

This assurance has confirmed the baseline for the reported maturity score in all eight capability areas and against the requirements of all 44 questions using a consistent methodology.

This assurance will be carried out throughout the period of the ODI

Assurance
The Accenture rating is an annual process of review and audit. To further drive performance improvements, UU has assigned Subject Matter Experts to work with Accenture and to internally drive up performance in areas that are lagging behind target performance levels.

In addition to the work undertaken by Accenture, technical assurance was also undertaken of the application of this methodology to develop the March 2020 baseline scores. This work was undertaken by Jacobs, completing on 12 June 2020.

The audit report noted that UU has defined the minimum standard required against each performance category and that the overall level of performance of Systems Thinking assigned will be at the least performing category.

3.5 Raising customer awareness to reduce the risk of flooding

ODI reference

PR19UU_ G04-WWN - Raising customer awareness to reduce the risk of flooding

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"The Brand Tracker is a quantitative online survey that is conducted three times a year with 1,000 (or more) residential customers. It measures its activities over the previous three to four months. Customers should be a representative mix of age, gender, region, metered / unmetered customers and urban / suburban customers.

The results for this measure will be based on an even average across two questions, one question will refer to general customer awareness of what not to flush or pour, and the second shall refer to specific customer awareness of United Utilities messaging around this topic.

The annual total will be a simple average of the result of the three surveys.

The baseline will be set in 2019-20.

The measure will be tracked by an independent customer research organisation annually".

In this section we provide:

- Definition of the ODI
- Details of the 2019/20 baseline
- Overview of the assurance undertaken on this baseline

ODI Definition

This measure assesses delivery of an increase in customer awareness aimed at changing behaviour on items that should not be flushed down the toilet and not poured down the drain.

The baseline awareness will be set using the Brand Tracker online survey.

Performance through the period 2020 to 2025 will be tracked by engaging with an independent customer research organisation to repeat the survey annually to track changes in awareness.

The performance commitment is measured as the percentage change from the baseline, reported to one decimal place. The annual performance commitment targets, as set out in the FD, is shown in the table below.

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
PCC performance commitment	%	2.0	4.0	6.0	8.0	10.0

Incentive payments are £0.086 / % change. With the measure having penalties and rewards and no caps or collars.

2019/20 baseline

In line with the FD requirement, we have calculated the 2019/20 baseline for this measure using three surveys undertaken during 2019/20. The questions are in two parts, with the score for each part being averaged to generate the baseline score:

<u>General customer awareness of what not to flush or pour</u>

This is made up of two questions; the questions, scores for each survey and average score for each question and then this part of the survey are set out in the Table below:

	Survey 1	Survey 2	Survey 3	Average
Q1a) Have you seen or heard any information recently about the following: What you shouldn't flush down the toilet	41%	40%	33%	38.00%
Q1b) Have you seen or heard any information recently about the following: What you shouldn't put down your sinks or drains	30%	29%	23%	27.33%
General customer awareness question				32.665%

Specific customer awareness of United Utilities messaging around this topic

This is made up of one questions; the questions, scores for each survey and average score are set out in the Table below:

	Survey 1	Survey 2	Survey 3	Average
Q2) Have you seen or heard any information recently about the following: What you shouldn't flush down the toilet	18%	18%	17%	17.67%

Calculation of baseline score

The baseline score is the average of these two scores and is 25.2% (to one decimal place).

Assurance
The scores for this measure are based upon our "brand tracker" surveys which are carried out by an independent customer research organisation, McCann, Manchester.

3.6 Hydraulic internal flood risk resilience

ODI reference

PR19UU_ G05-WWN - Hydraulic internal flood risk resilience

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"The modelled risk will be as calculated in 2018-19".

"The company must publish independent reports of the assessment audit of the baseline position and then further audits of assessment of any changes in the risk position claimed within the year for each year between 2020 and 2025".

"If changes are necessary to the methodology or underlying data, the reports will make an assessment of any potential impact on reported performance and state the impact on the baseline position and any earlier reported years".

In this section we provide:

- Definition of the ODI
- Details of the 2018/19 baseline position
- 2019/20 performance update
- Overview of the assurance undertaken

ODI Summary Definition

This performance commitment measures the number of predicted flooding incidents each year at properties that had repeat flooding between 2012-13 and 2017-18.

It is measured and reported as the number of modelled internal flooding incidents. For instance in terms of annualised risk, flooding on a 1-in-1 event would equal 1 annualised incident while flooding on a 1-in-10 event would be equivalent to 0.1 annualised incidents.

The modelled risk (for each listed property) will be as calculated in 2018-19.

Throughout the period 2020-2025, risk values will be updated for each listed property where a permanent intervention is carried out.

Risk levels will only be updated where the modelled risk changes solely due to a permanent intervention being carried out in the period with the intention of providing or freeing up additional hydraulic capacity and will include:

- sewer upsizing;
- online or offline storage;
- flow transfer;
- surface water removal including green infrastructure solutions; and
- physical disconnection from a surcharging sewer.

The reduction in risk score will be the difference between the remaining 2040 risk following an intervention, and the baseline risk level.

Where properties are not already on the list and are impacted by a repeat flood after 1 April 2018, they will be added to the measure using a consistent method with those currently included.

The measure also excludes properties that have had previously completed schemes unless an intervention is deployed that creates additional sewer capacity beyond that provided by the original project therefore providing an additional modelled flood risk benefit, properties where construction is underway at 30 June 2019 and impacts of 2019-20 hydraulic modelling undertaken for network investigations and modelling risk for proposed development

The performance commitment assesses the number of modelled internal flooding incidents to two decimal places (£m).

The annual performance commitment targets, as set out in the FD, including caps and collars are shown in the table below.

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
Performance commitment	Number	60.04	59.04	58.04	57.04	56.04
Underperformance collar	Number	78.04	78.54	79.04	79.54	80.04
Outperformance cap	Number	37.90	36.90	35.90	34.90	33.90

2018/19 Baseline
We provided details of the 2018/19 baseline and independent assurance on this baseline position, to Ofwat in September 2019, within document J002 Outcomes.

This document set out the 2018/19 baseline value for the measure and proposed targets, caps and collars that were reflected in the FD and shown in the table above.

We also provided these target values and a forecast 2019-20 value for the measure of 61.04 in table OC2.1, which was part of UU document 'Representations: Outcomes – J002a', which was also provided in September 2019.

2019/20 performance update
The 2019/20 risk level for this measure does not revise the 2018/19 baseline for the measure and does not directly generate any AMP7 incentive payments. We have therefore provided this information mainly to provide transparency on progress against the measure in advance of reporting against the measure in 2020/21.

During the year we experienced a number of severe storms. These led to an additional 131 properties now becoming repeat flooding properties. This figure includes 32 becoming repeat internal flooding properties, 74 becoming repeat external flooding properties and 25 becoming both internal and external.

The risk associated with these properties was calculated in line with the definition as set out in the final determination, with this increasing the risk score at the end of 2019/20 by 8.39 to 69.43.

The performance commitment specified that only work which started construction after June 2019, could be used to reduce risk levels, and although a significant amount of work has commenced, none of this work had been fully completed by 31 March 2020 and as such there was no offsetting reduction to the risk score.

This means that the risk score for this measure at 31 March 2020 was 69.43.

Assurance
All data within our Annual Performance Report is subject to a structured risk based three lines of assurance process as set out within Appendix 1 of the APR.

As the information reported against this measure is not actively used in determining incentive payments against the AMP7 measures and is not used to reset the baseline for the measure, the risk level was medium, with elements of the documentation still being in draft form prior to finalisation in advance of reporting in 2020/21.

This information was however, subject to independent review by Jacobs, its audit comprised of:

a) Checking methodology against FD19 approach for consistency, through questioning and review of draft method statements

b) Discussing the nature and robustness of proposed controls and checks, key data sources and assumptions

c) Review of the HFRR update process document

d) Examining the current baseline calculation spreadsheet – FY20 additions + HFRR properties

e) Challenging target MoS values/trend are consistent with expectations and proposed programme of interventions

f) Identifying risks to the MoS, uncertainties and mitigation measures are being considered

g) Proposing recommendations once reporting of the MoS is formally implemented

This work was undertaken from May to July 2020 with observations that:

- The outline methodology appears consistent with the FD19 agreed methodology and generally provides a clear explanation, with examples, as to the purpose, benefit and how it will work
- The HFRR update process document has been provided; this is clear and needs to be incorporated into the final methodology
- We queried the basis for the use of a 1 in 20-year event threshold and whether this would detract from consideration

of less frequent but more extreme events. It was explained that the focus for these MoS was on the more frequent and persistent events that cause ongoing distress to customers. The extreme event risks have not been forgotten and would be covered by complementary MoS (e.g. G01-WWN Risk of storm flooding) and additionally would become an increasing focus as the more immediate challenges of the more frequent flooding events are addressed

- We were shown the HFRR Properties spreadsheet, detailing the model baseline calculation and this appeared consistent with the outline methodology
- The final documentation pack should include assumptions for change factors such as climate, growth and creep
- The final documentation pack should include clear descriptions of controls, checks and governance
- We were shown an example document that was proposed as a potential basis for the solution delivery evidence pack. A number of suggested developments were proposed e.g. a sign off sheet; make more solution focussed; make a 'live' controlled document; develop the detail to justify the option

The audit also confirmed the 2019/20 starting level of 69.43 and concluded that "*We acknowledge that the final methodology and P&CS are not available at this stage and are in development. We have no concerns with the methodology as proposed and welcome the use of a forward-looking and innovative measure. We recommend that the relevant reporting documentation and evidence is compiled when it is feasible to do so*".

Reporting during the AMP7 period, will be based upon the finalised documentation and governance processes and will be subject to independent review.

3.7 Hydraulic external flood risk resilience

ODI reference

PR19UU_ G06-WWN - Hydraulic external flood risk resilience

Requirement

In the PR19 United Utilities outcomes performance commitments appendix Ofwat set out the following reporting requirements:

"The modelled risk will be as calculated in 2018-19".

"The company must publish independent reports of the assessment audit of the baseline position and then further audits of assessment of any changes in the risk position claimed within the year for each year between 2020 and 2025".

"If changes are necessary to the methodology or underlying data, the reports will make an assessment of any potential impact on reported performance and state the impact on the baseline position and any earlier reported years".

In this section we provide:

- Definition of the ODI
- Details of the 2018/19 baseline position
- 2019/20 performance update
- Overview of the assurance undertaken

ODI Summary Definition

This performance commitment measures the number of predicted flooding external each year at properties that had repeat flooding between 2012-13 and 2017-18.

It is measured and reported as the number of modelled external flooding incidents. For instance in terms of annualised risk, flooding on a 1-in-1 event would equal 1 annualised incident while flooding on a 1-in-10 event would be equivalent to 0.1 annualised incidents.

The modelled risk (for each listed property) will be as calculated in 2018-19.

Throughout the period 2020-2025, risk values will be updated for each listed property where a permanent intervention is carried out.

Risk levels will only be updated where the modelled risk changes solely due to a permanent intervention being carried out in the period with the intention of providing or freeing up additional hydraulic capacity and will include:

- sewer upsizing;
- online or offline storage;
- flow transfer;
- surface water removal including green infrastructure solutions; and
- physical disconnection from a surcharging sewer.

The reduction in risk score will be the difference between the remaining 2040 risk following an intervention, and the baseline risk level.

Where properties are not already on the list and are impacted by a repeat flood after 1 April 2018, they will be added to the measure using a consistent method with those currently included.

The measure also excludes properties that have had previously completed schemes unless an intervention is deployed that creates additional sewer capacity beyond that provided by the original project therefore providing an additional modelled flood risk benefit, properties where construction is underway at 30 June 2019 and impacts of 2019-20 hydraulic modelling undertaken for network investigations and modelling risk for proposed development.

The performance commitment assesses the number of modelled external flooding incidents to two decimal places (£m).

Annual Performance Report 2020

Appendix 3 – Leakage, PCC and AMP7 PC update

The annual performance commitment targets, as set out in the FD, including caps and collars are shown in the table below

	Units	2020-21	2021-22	2022-23	2023-24	2024-25
Performance commitment	Number	254.53	232.33	210.13	187.93	165.73
Underperformance collar	Number	289.93	301.03	312.13	323.23	334.33
Outperformance cap	Number	153.43	131.23	109.03	86.83	64.63

2018/19 Baseline

We provided details of the 2018/19 baseline and independent assurance on this baseline position, to Ofwat in September 2019, within document J002 Outcomes.

This document set out the 2018/19 baseline value for the measure and proposed targets, caps and collars that were reflected in the FD and shown in the table above.

We also provided these target values and a forecast 2019-20 value for the measure of 276.73 in table OC2.1, which was part of UU document 'Representations: Outcomes – J002a', which was also provided in September 2019.

2019/20 performance update

The 2019/20 risk level for this measure does not revise the 2018/19 baseline for the measure and does not directly generate any AMP7 incentive payments. We have therefore provided this information mainly to provide transparency on progress against the measure in advance of reporting against the measure in 2020/21.

During the year we experienced a number of severe storms. These led to an additional 131 properties now becoming repeat flooding properties. This figure includes 32 becoming repeat internal flooding properties, 74 becoming repeat external flooding properties and 25 becoming both internal and external.

The risk associated with these properties was calculated in line with the definition as set out in the final determination, with this increasing the risk score at the end of 2019/20 by 18.89 to 295.62.

The performance commitment specified that only work which started construction after June 2019, could be used to reduce risk levels, and although a significant amount of work has commenced, none of this work had been fully completed by 31 March 2020 and as such there was no offsetting reduction to the risk score.

This means that the risk score for this measure at 31 March 2020 was 295.62

Assurance

The Hydraulic external flood risk resilience measures was audited alongside the Hydraulic internal flood risk resilience measure and was subject to the same findings and recommendations as detailed in the section above.

Appendix 4

Certificate demonstrating the delegated authority to sign off the Condition I certificate (ring fencing)

July 2020

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United Utilities Water Limited

United Utilities
Water for the North West

EXTRACT FROM THE MINUTES OF A MEETING OF THE BOARD OF DIRECTORS HELD ON 30 JUNE 2020, BY TELEPHONE CONFERENCE

.....

11. ANNUAL PERFORMANCE REPORT 2020 AND ASSURANCE

.....

11.12 The Board also approved the Condition I and Condition K Certificates (the Certificates) and delegated authority to sign the Certificates on behalf of the Company to any one director.

.....

Certified to be a true extract.

SR Gardiner

Simon Gardiner
7 July 2020

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