

# **United Utilities Water Limited PR14 Reconciliation Executive Summary and Overview**

**July 2018**

# Background and purpose of this document

During 2018, all Water companies including United Utilities will be publishing both their Annual Performance Reports (APR) and their 2019 price review (PR19) business plans.

Our Annual Performance Report, which we have published alongside this submission, provides customers and other stakeholders with a detailed and transparent commentary on our performance in 2017/18. Our PR19 business plan, which will be published in September, sets out the detail of our proposals for the 2020 to 2025 period.

Although the focus of our PR19 business plans is the 2020-25 period, the plan needs to take account of the incentive regimes that apply to our actual and anticipated performance in the 2015 to 2020 period. We have therefore added additional information to our 2017/18 Annual Performance Report setting out how we anticipate we will perform in the remaining two years of the 2015 to 2020 period.

**This document, which is being provided in advance of the main PR19 business plan submissions, sets out how we have performed against the PR14 incentive regimes for the first three years of the AMP6 period and how we expect to perform in the final two years of the period. It also sets out how this performance is reflected in revenue and the opening RCV adjustments that would be made as part of the PR19 process.**

The Full July 2018 PR14 reconciliation document and associated data tables and models is available on the U UW website at the flowing URL: <https://www.unitedutilities.com/corporate/about-us/our-future-plans/looking-to-the-future/>

## Contents

Background and purpose of this document .....	2
Executive summary .....	3
1 Overview of PR14 Reconciliation .....	3
1.1 Wholesale performance commitments .....	<b>Error! Bookmark not defined.</b>
1.2 Wholesale totex incentives.....	<b>Error! Bookmark not defined.</b>
1.3 Household Retail incentives .....	<b>Error! Bookmark not defined.</b>
1.4 Other incentive mechanisms .....	<b>Error! Bookmark not defined.</b>
1.5 Application of adjustments to revenue and regulatory capital value .....	<b>Error! Bookmark not defined.</b>
1.6 Impact of the adjustments on customer bills .....	<b>Error! Bookmark not defined.</b>
1.7 Engagement on our AMP6 performance.....	<b>Error! Bookmark not defined.</b>
1.8 Assurance.....	<b>Error! Bookmark not defined.</b>

# Executive summary

1. **Delivery in AMP 6 against a challenging set of performance commitments across water and wastewater:** We expect to earn a £10m net ODI reward over the regulatory period
  2. **Top half sector performance on SIM overall, ending the AMP as upper quartile WASC:** Eligible for a £12.69m reward, based on consistent application of PR14 methodology
  3. **Recognised as a strongly performing company across a range of metrics:**
    - a. Four star EA rating – third consecutive year of industry leading environmental performance
    - b. World Class status on Dow Jones Sustainability Index
    - c. Retained “self-assurance” status on Ofwat company monitoring framework
    - d. Top water and sewerage company on UK Customer Service Institute rankings
- **Strong performance in delivering West Cumbria pipeline ahead of schedule:** Early completion of work expected in first year of AMP7
  - **£100m totex outperformance against AMP6 scope:** Targeted £250m reinvestment for resilience leads to £150m reported overspend against PR14 totex assumption
- Proposed reconciliations developed using relevant PR14 rulebook:** Net impact of AMP6 adjustments increase average customer bills in 2024/25 by less than £1

## 1 Overview of PR14 Reconciliation

At PR14, Ofwat set companies stretching performance and efficiency targets for performance during the period from April 2015 to March 2020. UuW was set a significant efficiency challenge over and above those reflected in its plan and allowed menu totex in the final determination was £140m lower than in our final proposals. Targets for a number of performance commitments were also increased, notably sewer flooding performance and our performance under our water quality service index measure.

We have had to deliver on a number of fronts to meet these challenge. In particular, we have had to challenge costs, rework scope and find innovations in efficiency and delivery. During AMP6 we continued a company-wide modernisation programme based on “Systems thinking”. This approach optimises end-to-end business processes, making better use of data and information technology, supported by targeted upskilling of employees. This capability allows us to capture large volumes of data and to monitor and control our systems centrally from our Integrated Control Centre and has facilitated a more proactive approach to our operations, which is delivering enhanced levels of service and resilience along with sustainable improvements in efficiency.

We are seeing the benefits of this approach. In 2017/18 we achieved our best ever scores against Ofwat’s qualitative Service Incentive Mechanism (SIM), positioning us first in the industry in the final qualitative survey of the year. In July 2017, we retained our Industry Leading Company status, for the second year, in the Environment Agency’s Environmental Performance Assessment and expect to retain our 4\* rating for three years in a row in July 2018.

We have maintained our strong environmental, social and governance credentials, throughout the period, retaining a World Class rating in the Dow Jones Sustainability Index for the tenth consecutive year against a benchmark of ever-rising standards. And in July 2018 we ranked the top water and sewerage company by the UKCSI.

During AMP6, the retail non-household market was opened to competition. UuW exited this market and transferred this area of the business to a joint venture with Severn Trent - Water Plus - on 1<sup>st</sup> April 2016.

## PR14 Reconciliation Appendix E Table Commentary

We have also experienced a number of significant operational incidents during the period. Severe winter storms in 2016/17 and a major water quality incident at our Franklaw WTW in Lancashire both resulted in major service disruptions to customers. Following these incidents we undertook comprehensive lessons learnt exercises and have shared the lessons with industry stakeholders.

In early 2018 the country suffered a severe weather event with a sharp freeze followed by a rapid thaw. This event presented significant operational challenges for UUW, although we were able to minimise the impact on customers by implementing many of the lessons that we had learnt from Franklaw, from deeper understanding of customers and by successfully utilising the systems thinking approach and managing the incident from our internal control centre.

### 1.1 Wholesale performance commitments

Performance against our performance commitments and outcome delivery incentives is reported within our Annual Performance Report (APR). To support this submission our 2017/18 APR contains additional detail on our predicted performance in the remaining two years of the AMP6 period.

The detailed review of the performance against each measure for the first three years of the period, together with our prediction of likely performance against each measure for the remaining two years of the period, from this year's APR, has been reproduced as **Appendix A** to this document.

A number of our performance commitments measured the delivery of the outcomes from the AMP6 quality enhancement programmes or other similar programmes of work. Full details on the delivery of all the projects within these programmes is set out in **Appendix C** to this document.

Our AMP6 performance commitments set through the PR14 process were challenging and required significant improvement to our operational performance in order to avoid a net penalty and earn a net reward.

Although our performance levels have generally improved – in many cases significantly so - we have not always been able to meet or outperform the performance targets set. Our performance to date on the wastewater service has been positive and in the first three years of the period, has generated a net outperformance payment of £31.28m. Performance against the water service measures has been more challenging and has generated a net penalty of £29.11m.

The performance targets for some of our measures also become increasingly challenging in the latter years of the period. Overall we estimate that we will end the five year period with a net ODI reward of £10m across water and wastewater. This includes the £21m reward that we anticipate as a consequence of accelerating the major scheme that we are implementing in Cumbria to allow us to supply the West Cumbria area with water from Thirlmere reservoir.

Experience of our ODIs over AMP6 has demonstrated that several measures are highly sensitive to external factors which are partially or substantially outside our control, for example if the dry spell that we were experiencing in the spring of 2018 continued for an extended period. Therefore it is difficult to accurately predict the exact penalty or reward that we will achieve against our measures, although we would expect to probably end the period with a net reward of between zero and £30m.

### 1.2 Wholesale totex incentives

As part of the PR14 process we made a totex menu choice of 106.2 for wastewater and 100.5 for the water service. This resulted in an assumed totex for the water service of £2.348bn and an assumed totex for the wastewater service of £2.940bn.

During the AMP6 period, we significantly accelerated our investment programmes to deliver a better performance against our performance commitments to support the implementation of our systems thinking

## PR14 Reconciliation

### Appendix E Table Commentary

capability. We expect to be able to deliver the AMP6 programme of work on a like for like and outturn cost basis, for approximately £100m lower than the totex assumed at PR14.

We have however, committed to an additional £250 million of investment to support resilience projects bringing additional customer benefits both over the next three years and in the longer term. Therefore, we are anticipating that total totex spend will be approximately £150m higher than assumed within PR14 price limits.

### 1.3 Household Retail incentives

During the AMP6 period we implemented a major transformation programme designed to allow us to both reduce our cost to serve and improve customer service, with investment in this programme being underpinned by an ODI. As we have revised the scope of this programme and have been able to deliver the programme at lower cost than anticipated, we will be returning £4.27m (2017/18 prices) of allowed depreciation to customers. Full details of this programme of work and the basis for the proposed adjustment are set out in **Appendix B** to this document.

The success of this programme has been an important driver in the 25% reduction planned to our costs in the AMP6 period. Our customer service as measured through the Service Incentive Mechanism (SIM) has also significantly improved. Although final performance against this measure is dependent upon the relative performance of other companies, using the PR14 approach to calculating SIM rewards we are predicting that our improved position will generate reward of £12.69m nominal (£11.45m 2017/18 prices).

### 1.4 Other incentive mechanisms

**Wholesale Revenue Forecasting Incentive Mechanism (WRFIM)** - The WRFIM incentivises companies to improve their revenue forecasting by adjusting future revenues during the AMP6 period to account for any over or under recovery in previous years and applying a penalty if companies over or under recover by 2% more or less than the allowed revenue. Since 2015/16, the wholesale water variance has been no more than 1.3%, being at 1.3% in 2015/16, and 0.2% and 0.4% in 2016/17 and 2017/18 respectively. The wholesale wastewater variance has been no more than 0.2% this AMP. Therefore we have not incurred any penalty against this mechanism to date and, based on our latest forecasts, we do not expect to incur one in the remaining two years.

**Household retail mechanism** - The household retail price control also provides for annual revenue adjustment factors to reflect differences between actual and expected customer numbers and numbers of metered customers. Customer numbers have been slightly above PR14 assumptions. We are proposing to recover £6.34m (2017/18 prices) of additional revenue, in line with this mechanism.

**Land Sales** - The land disposals mechanism returns money to customers via reductions to the RCV, from the net proceeds of disposals of land during the period, after the deduction of all offsetting costs. The value of this during the AMP6 period is £6.57m.

**Water trading incentives** - To encourage better, more sustainable use of water resources within the UK, incentives designed to encourage efficient water trading between companies were introduced for AMP6. We do not expect to benefit from this incentive during the AMP6 period.

**Reconciling 2010-15 performance** - The PR14 price review and final determination made revenue and RCV adjustments that reflected the anticipated AMP5 outturn position against the AMP5 incentive mechanisms. Due to the timing of the review, these adjustments were based upon four years of actual performance and one year of predicted performance. Ofwat published the final position on these measures in December 2017 and these adjustments have been reflected within this submission.

**CIS RCV inflation adjustment** - Following the PR14 final determination Ofwat identified an adjustment to indexation that should be made in determining the starting RCV for AMP7. The value for each company was set

## PR14 Reconciliation Appendix E Table Commentary

out in its 2010-2015 reconciliation document published in December 2017. This adjustment has also been reflected within this submission.

## 1.5 Application of adjustments to revenue and regulatory capital value

As part of the PR19 process we will adjust the required revenue and wholesale regulatory capital value (RCV) to account for our actual and forecast performance against the incentive mechanisms set out above.

The incentive mechanisms cover the full range of activities within the wholesale and retail businesses, rewarding or penalising companies to ensure that customer bills reflect actual performance and actual customer service. Revenue requirements and wholesale regulatory capital value (RCV) adjustments are calculated using the process and models set out within Ofwat’s relevant “PR14 reconciliation rulebook” methodology<sup>1 2</sup>.

As part of the PR14 process, the wholesale incentive mechanisms were applied to the water and wastewater price controls. However, for PR19, the impact of these incentives will need to be attributed across four PR19 wholesale price controls. We have therefore made a number of assumptions in attributing these incentives, which are set out in Section 2 of this document.

**At aggregate level the adjustments would increase allowed revenues by £12.38m (2017/18 prices), which translates to £13.22m when applied during the AMP7 period, taking account of financing adjustments. The adjustments also reduce the starting RCV by £14.82m.**

The following five tables provide a summary of how we are proposing that these revenue or RCV adjustments are applied to each of the five PR19 price controls.

**Table 1 Reconciling AMP6 performance for Water network plus (17/18 CPIH FYA)**

Water network plus (£m)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Total revenue adjustment	(0.27)	(0.27)	(0.27)	(0.27)	(0.27)	<b>(1.35)</b>
RCV adjustment	17.94					<b>17.94</b>

**Table 2 Reconciling AMP6 performance for Water resources (17/18 CPIH FYA)**

Water Resources (£m)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Total revenue adjustment	0.16	0.16	0.16	0.16	0.16	<b>0.78</b>
RCV adjustment	0.00					<b>0.00</b>

**Table 3 Reconciling AMP6 performance for Wastewater network plus (17/18 CPIH FYA)**

Wastewater network plus (£m)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Total revenue adjustment	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	<b>(0.30)</b>
RCV adjustment	(32.76)					<b>(32.76)</b>

**Table 4 Reconciling AMP6 performance for Bioresources (17/18 CPIH FYA)**

Bioresources (£m)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Total revenue adjustment	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
RCV adjustment	0.00					<b>0.00</b>

**Table 5 Reconciling AMP6 performance for Retail household (17/18 CPIH FYA)**

Retail Household (£m)	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Total revenue adjustment	2.82	2.82	2.82	2.82	2.82	<b>14.09</b>

<sup>1</sup> UUW’s PR14 outcomes are aggregated at service level with the net value being applied as a RCV adjustment (reward) or revenue adjustment (penalty). As such, the rulebook models have been applied in this way.

<sup>2</sup> UUW has a financial ODI which applies to the household retail control, as no model exists for household retail ODIs a wholesale model has been used to determine the impact of this ODI on PR19 revenue.

## **PR14 Reconciliation**

### **Appendix E Table Commentary**

The aggregate adjustments shown in the tables above are made up from adjustments through eight separate incentive mechanisms. The impact of each of these mechanisms on PR19 revenues or the PR19 opening RCV value are summarised below and set out in detail in Section 2 of this document.

## PR14 Reconciliation

### Appendix E Table Commentary

#### Revenue adjustments by component

The revenue adjustments resulting from each of the AMP6 reconciliation mechanisms that apply to each PR19 price control are set out in **Tables 6 to 8** below.

**Table 6 Water Service revenue adjustments £m 2017/18 CPIH FYA prices (post profiling adjustment)**

Water Revenue Adjustments	Subtotal	2020-21	2021-22	2022-23	2023-24	2024-25
Final 2010-15 reconciliation	<b>(12.493)</b>	(2.499)	(2.499)	(2.499)	(2.499)	(2.499)
Water trading	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00
WRFIM	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00
Outcome delivery incentive (net penalty)	<b>(25.088)</b>	(5.018)	(5.018)	(5.018)	(5.018)	(5.018)
Totex menu revenue adjustment	<b>37.009</b>	7.402	7.402	7.402	7.402	7.402
Water service: revenue adjustment	<b>(0.572)</b>	(0.114)	(0.114)	(0.114)	(0.114)	(0.114)

**Table 7 Wastewater network plus revenue adjustments £m 2017/18 CPIH FYA prices (post profiling adjustment)**

Wastewater Revenue Adjustments	Subtotal	2020-21	2021-22	2022-23	2023-24	2024-25
Final 2010-15 reconciliation	<b>(12.747)</b>	(2.549)	(2.549)	(2.549)	(2.549)	(2.549)
WRFIM	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00
Outcome delivery incentive (net penalty)	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00
Totex menu revenue adjustment	<b>12.448</b>	2.490	2.490	2.490	2.490	2.490
Wastewater service: revenue adjustment	<b>(0.299)</b>	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)

**Table 8 Household retail revenue adjustments £m 2017/18 CPIH FYA prices (post profiling adjustment)**

Household Retail Revenue adjustments	Subtotal	2020-21	2021-22	2022-23	2023-24	2024-25
Household retail revenue	<b>6.438</b>	1.288	1.288	1.288	1.288	1.288
Service Incentive Mechanism (SIM)	<b>12.225</b>	2.445	2.445	2.445	2.445	2.445
Customer Experience (CEP)	<b>(4.565)</b>	(0.913)	(0.913)	(0.913)	(0.913)	(0.913)
Household retail revenue adjustment	<b>14.098</b>	2.820	2.820	2.820	2.820	2.820

As can be seen from **Tables 6 to 8** above the PR14 incentive mechanisms generate:

- A net reduction to wholesale water revenues of £0.57m
- A net reduction to wholesale wastewater revenues of £0.30m and,
- A net increase to household retail revenues of £14.1m

## PR14 Reconciliation Appendix E Table Commentary

### Regulatory Capital Value adjustments by component

The adjustments for each mechanism that we are proposing to make to the opening water network plus and wastewater network plus RCV are set out in **Tables 9 to 12** below.

**Table 9 PR14 Water service RCV reconciliation adjustments expressed in 2017/18 FYA CPIH deflated price base**

Water RCV Adjustments excluding the PR09 CIS correction	£m
Net PR14 RCV adjustment carried forward to PR19	36.69
Outcome delivery incentives net reward	0.00
AMP6 Totex menu RCV adjustment	67.86
NPV effect of 50% of proceeds of land disposals 2014-20	(6.26)
Other adjustment to wholesale water RCV	0.000
<b>Total Water RCV Adjustment</b>	<b>98.29</b>

**Table 10 All Water Service RCV adjustments expressed in 2017/18 FYA CPIH deflated price base**

Water RCV Adjustments (total)	£m
Net impact of PR14 mechanisms	98.29
PR09 CIS RCV indexation adjustment	(80.35)
<b>Total Water RCV Adjustment</b>	<b>17.94</b>

**Table 11 PR14 Wastewater service RCV reconciliation adjustments expressed in 2017/18 FYA CPIH deflated price base**

Wastewater RCV Adjustments excluding the PR09 CIS correction	£m
Net PR14 RCV adjustment carried forward to PR19	52.93
Outcome delivery incentives net reward	35.20
Totex menu RCV adjustment	15.51
NPV effect of 50% of proceeds of land disposals 2014-20	(0.31)
Other adjustment to wholesale wastewater RCV	0.000
<b>Total Wastewater RCV adjustment</b>	<b>103.33</b>

**Table 12 All Wastewater Service RCV adjustments expressed in 2017/18 FYA CPIH deflated price base**

Wastewater RCV Adjustments	£m
Net impact of PR14 mechanisms	103.33
CIS RCV indexation adjustment as at 31 March 2015	(136.09)
<b>Total Wastewater RCV adjustment</b>	<b>(32.76)</b>

As can be seen from **Tables 9 and 11** above the PR14 incentive mechanisms generate a net increase to the opening RCV for both the water and wastewater services. As shown in **Tables 10 and 12**, this increase is however offset by a reduction to each RCV as a consequence of the PR09 CIS indexation adjustment.

The net impact of these adjustments is to increase the Water RCV by £17.94m and to reduce the Wastewater RCV by £32.76m.

## 1.6 Impact of the adjustments on customer bills

Customer bills in the AMP7 period will be made up from separate wholesale and retail components.

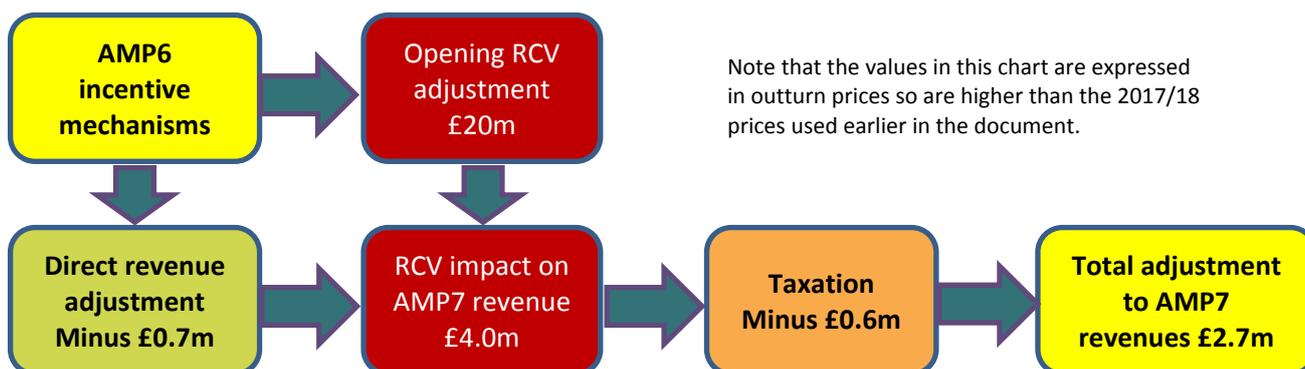
The PR19 process will determine the revenue that U UW can recover through the wholesale and retail price controls. This revenue is obtained through household customer or non-household customer bills.

### Impact of the adjustments on wholesale component of customer bills

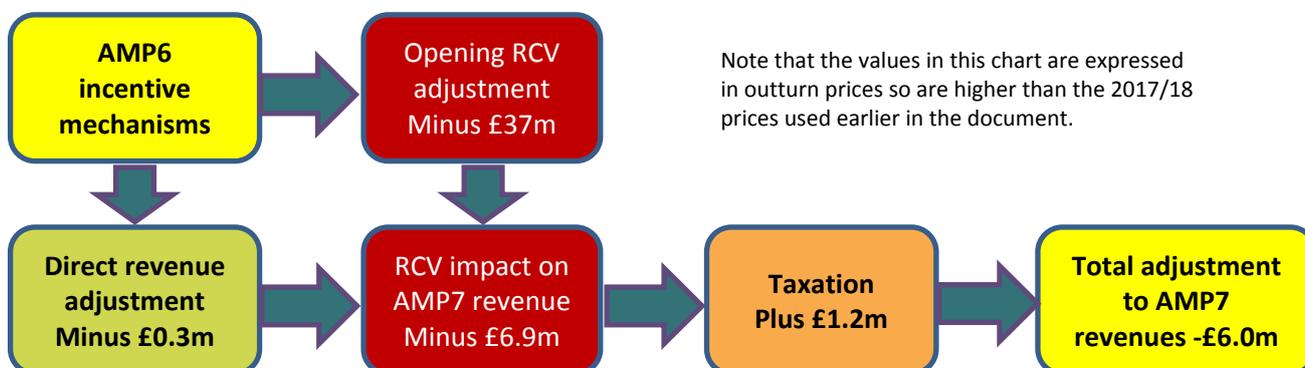
There are two forms of wholesale adjustments: direct adjustments to revenue or indirect adjustments to revenue made through “midnight adjustments” to the opening AMP7 RCV. The adjustments to the RCV are recovered over the longer term with only a proportion of this value being recovered through bills in the AMP7 period.

U UW also needs to pay tax, so if the adjustments increase revenue we pay more tax and if they reduce revenue we would pay less tax. The total adjustment to AMP7 wholesale revenue is the sum of these three components. The wholesale water and wastewater revenue adjustments are set out in Figure 1 and 2 below.

**Figure 1 Impact of the adjustments on Water Service revenues (expressed in outturn prices).**



**Figure 2 Impact of the adjustments on Wastewater Service revenues (expressed in outturn prices).**



## PR14 Reconciliation

### Appendix E Table Commentary

Approximately two thirds of this wholesale revenue is recovered through household customer bills, with the household revenue being recovered through UUW s approximately 3.1m customers and then divided by 5 to produce an annual average bill impact. This process is demonstrated in **Table 13** below.

**Table 13 Indicative impact on average household bills expressed in 2017/18 FYA CPIH deflated price base**

	Adjustment to UUW revenue in AMP7 (£m)	Revenue impact through Non Household bills (£m)	Revenue impact through Household bills (£m)	5 year household bill impact (£)	Annual average household bill impact (£)
Water	2.7	0.9	1.8	0.58	0.12
Wastewater	(6.0)	(2.0)	(4.0)	(1.29)	(0.26)
Wholesale total	(3.2)	(1.2)	(2.2)	(0.71)	(0.14)

### Impact of the retail adjustments on customer bills

The net impact of the PR14 incentive regimes will be to increase household retail revenues by £14m (2017/18 prices, which equates to approximately £16.5m at outturn prices or £3.3m for each year of the AMP7 period.

As UUW has approximately 3.1 million household customers this would increase the average annual household retail charge by approximately £1.07 per year.

### Combined impact on average household bills

**Table 14** below shows how the adjustments to wholesale and retail revenues are combined to produce the net impact of the adjustments on an average household customer bill.

**Table 14 Indicative impact on average household bills expressed in 2017/18 FYA CPIH deflated price base**

Bill component	Impact of the adjustments on annual average household bills (£)
Wholesale water impact (£)	0.12
Wholesale wastewater impact (£)	(0.26)
Household retail impact (£)	1.07
Net impact on average household bill (£)	0.93

As can be seen the impact of the adjustment mechanisms would be to increase average household bills by approximately £0.93 per annum for the AMP7 period.

The impacts of each incentive mechanism on average household bills is set out in **Table 24** within Section 2 below.

## 1.7 Engagement on our AMP6 performance

### Regular, transparent reporting of progress

As part of our last price review submission, we committed to providing annual reporting on progress against our targets during the AMP6 period. We also committed that our reporting would be overseen by YourVoice, the North West Customer Challenge Group, which had overseen our engagement with customers during the development of our PR14 business plan.

In line with this commitment, we currently develop and publish an [Annual Performance Report](#) and a range of supporting publications, which are designed to transparently set out our progress against our AMP6 commitments and targets.

To minimise the potential for ambiguity in the interpretation of our performance commitments, we also developed and published a performance commitment definition document. This document is designed to complement the information contained with the United Utilities company specific appendix to the PR14 final determination and provides detailed definitions and interpretations for all of our performance commitments. Our definition document for AMP6 is published on our web site and is available via this [link](#).

Two key aspects of our annual reporting are the consultation and the publication of our annual assurance plans and the publication of a customer-focused version of the APR, which achieves the Crystal Mark for plain English. We also use other channels to explain our performance to customers and other stakeholders.

We have worked with YourVoice to review and continually enhance the coverage and clarity of our reports and by taking on board their comments, we have sought to improve both the presentation of, and engagement with our reporting.

### Feedback on our reporting

To obtain feedback - and to continue to improve the coverage and clarity of our Annual Performance Report - over two weeks in October 2017 we posted items on social media about our APR, using advertising and geographical targeting to gain large exposure to the North West.

One set of posts was targeted to drive online traffic towards detailed information about current performance levels and this achieved 10,000 views (6,000 to the annual performance webpage, the rest across blogs used to raise awareness on specific points such as water efficiency).

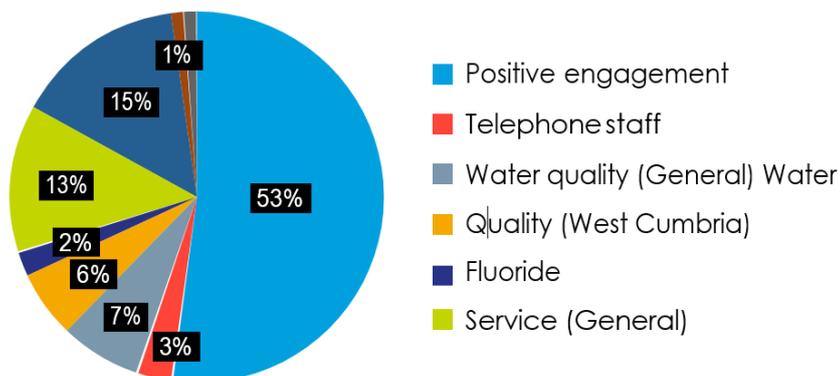
Prior to this campaign, we received just 120 page views over a two week period so this was a marked contrast. The table below summarises the scale of engagement achieved on the APR.

**Table 15 Scale of engagement**

Platform	Total reach	Total engagements
Facebook	311,895	6,566
Twitter	289,786	13,879
LinkedIn	40,580	678

Our posts were designed to encourage two way dialogue with customers and generated exchanges on a variety of topics. The chart opposite shows a breakdown of the 380 social media conversations.

**Feedback topics on social media campaign October 2017**



## PR14 Reconciliation Appendix E Table Commentary

### A range of targeted publications

The Annual Performance Report (APR) is one of a number of publications on our website that together are designed to ensure that the reporting of the performance of U UW and the United Utilities Group 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**<sup>3</sup>. This report is now published as an interactive web page on a dedicated micro site within the UU website and is designed to provide detailed information on the financial position and governance of the group, mainly targeted at equity and debt investors.

To complement this report, the **United Utilities Water Limited Annual Report and Financial Statements**<sup>4</sup> provides detailed information on the financial position of U UW and forms the basis of the Regulatory Accounts, which are set out within the Annual Performance Report.

Information to describe the way that the group has operated and demonstrate the extent to which we have upheld the highest standards of performance with respect to the way we work with employees, customers and our impact on the environment, is published on our **corporate responsibility website**<sup>5</sup>. This website is used to communicate relevant information more regularly than would be the case through a traditional annual report.

### Engagement on the outcome of the PR14 reconciliation process

We have actively engaged with YourVoice on our performance against our performance commitments and where necessary on our improvement plans, throughout the AMP6 period.

We have also reviewed in more detail with YourVoice our approach to the three performance commitments where there is potential ambiguity of the outcome assessment. These are:

- A1: Drinking Water Safety Plan risk score (Wholesale Water price control)
- S-D3: Rivers improved wastewater (Km) (Wholesale Wastewater price control)
- R-A2: Customer experience programme (Household retail price control)

We proposed changes to the two wholesale ODIs, with these changes being reflected in a corrigendum published on Ofwat's website. The basis and potential impact of these revisions had been reviewed in detail in advance by members of YourVoice, which provided support for the revisions.

The customer experience measure and the impact of the improvements that this measure has been designed to generate, has also been reviewed with YourVoice several times during the period. We reviewed details of the programme, including the rationale for the revised scope of the programme, with the group. Details of this measure and the reviews and assurance that have been applied are set out in **Appendix B**.

The PR14 reconciliation submission, including the results of the PR14 incentive mechanisms and the impact that this will have upon AMP7 bills was reviewed with YourVoice meetings and sub-group meetings in May, June and

---

<sup>3</sup> The United Utilities Group PLC Annual Report and Financial Statements is available via the following link: <http://unitedutilities.annualreport2018.com/>

<sup>4</sup> The United Utilities Water Limited Annual Report and Financial Statements is available via the following link: <https://www.unitedutilities.com/corporate/investors/reports-and-results/company-reports/>

<sup>5</sup> The corporate responsibility website is available via the following link: <https://corporate.unitedutilities.com/corporate/responsibility/>

## PR14 Reconciliation Appendix E Table Commentary

July 2018. As part of this review it was agreed that anticipated future performance levels would be added to the customer summary of our 2017/18 APR, which is available via the attached [link](#).

### 1.8 Assurance

The data used to populate the data tables and models for this submission has been derived from three main sources:

- **Actual data for the first three years of the AMP6 period:** this data has been subject to detailed assurance processes as set out within each year's APR
- **Predicted data for the remaining two years of the AMP6 period:** this data has been subject to level 1 (Executive director) review and sign off and has been subject to independent review
- **Historic data from AMP5 or previous periods:** this data has already been determined by Ofwat and has been used without any subsequent adjustments within this submission

The actual data for the first three years of the period, has been subject to a detailed three lines of assurance approach.

- Data providers, their managers and business unit directors have produced and approve the data and audit trails that were developed to support the values and data reported within this submission. Reported data is reviewed and signed off before presentation to the UJW Board.
- The Economic Regulation team has provided the assurance and governance framework for the data collection and review process and has provided oversight of the application of this process. UJ Corporate Audit has undertaken a review of the accuracy of the data within the submission and to confirm that the assurance framework has been fully applied.
- The UJW Financial auditor (KPMG) or the UJW Independent Technical Auditor (Halcrow Management Sciences (HMS)) has reviewed each of the data methodologies and audit trails and have provided audit opinions or independent technical assurance statements for the UJW Board. These opinions or statements are published within each year's Annual Performance Report.

The data for the final two years has been based upon predicted performance. Assumptions for the final two years have been developed on a bottom up basis and have been developed to be consistent with historic performance or expenditure levels, but taking account of ongoing plans and proposed future interventions. The predicted performance levels have been reviewed and endorsed by the director accountable for delivering the performance or expenditure levels.

The methodology used to undertake the analysis and the checks and controls that have been put in place to confirm that this data has been transposed and analysed correctly has been fully documented, with these documents and supporting data being subject to detailed internal governance and review processes.

The information within the submission has also been subject to an independent review undertaken by UJ Corporate Audit. This review had the objectives of confirming:

- The validity and consistency of the data reported in the supporting data tables
- Consistency of the commentary with the underlying data
- Compliance of the reported data and commentary with key aspects of PR19 methodology and PR14 reconciliation rulebook
- Overall governance arrangements in place to ensure the regulatory data is complete & accurate and reported in line with the required timescales
- Confirmation that assurance activities have been completed
- Board Assurance statements are supportable, in particular in respect of the stated assurance activities

## PR14 Reconciliation Appendix E Table Commentary

The review concluded that: *“Based on the work carried out, we are satisfied that the overall governance and assurance arrangements in place to ensure the accuracy and completeness of PR14 reconciliation early submission data, have been followed. Our sample testing also confirmed that the submission data reported is supported by underlying records and systems, is consistent with previously reported data within the Annual Performance Report, and has been compiled in accordance with the PR14 Rulebook.*

*In addition, we are satisfied that the statements within the associated Board Assurance Statement are supportable.”*

The scope of the U UW Technical Auditors review of the 2017/18 regulatory reporting process (RR18) was also extended this year to review the forecast data for the remaining two years of the period.

This review is published within our 2017/18 Annual Performance Report and concluded that *“On the basis of our audit work and with exceptions as noted in Appendix 1 and 2, we are satisfied that the information within and which supports the RR18 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”.*

The PR14 reconciliation submission and the results of the assurance process were reviewed at the June 2018 U UW Board meeting, which endorsed the submission and approved the signature of a supporting Board Assurance statement.

## PR14 Reconciliation Appendix E Table Commentary

### Board Assurance statement

We, the Board of United Utilities Water Limited (Uuw, or the Company) are satisfied that:

- The data and information contained within this submission has been subject to the same robust approach to assurance and governance that we are using for our PR19 business plan submission
- The information provided sets out how the company has performed, and is forecast to perform, over the 2015-20 period, against the PR14 Final determination and our statutory and licence obligations
- The proposed adjustments follow the PR14 reconciliation rulebook methodology, with any variations to the default application of the rulebook clearly identified

In making this statement we have considered the evidence provided by the Executive to the Uuw Board, the assurance provided by KPMG and CH2M on the factual AMP6 data reported for the first three years of the submission and the review of the submission undertaken by UU Corporate Audit.

The Corporate Audit review had the objectives of assuring:

- The validity and consistency of the data reported in the supporting data tables
- Consistency of the commentary with the underlying data
- Compliance of the reported data and commentary with key aspects of PR19 methodology and PR14 reconciliation rulebook
- Overall governance arrangements in place to ensure the regulatory data is complete & accurate and reported in line with the required timescales
- Confirmation that assurance activities have been completed
- Board Assurance statements are supportable, in particular in respect of the stated assurance activities

Signed on behalf of the Board



Steve Mogford

Chief Executive Officer

This board assurance statement was approved at a meeting of the board of directors of United Utilities Water Limited on 25 June 2018 and signed on its behalf by Steve Mogford, Chief Executive Officer.