

21 September 2022

BY EMAIL

Mr Ranil Jayawardena MP
Secretary of State for Environment, Food and Rural Affairs

Dear Secretary of State

Meeting with Water Sector CEOs 7 September 2022

I would first like to offer my congratulations on your appointment and add my thanks for you taking the time to meet with my sector colleagues and me on the day of your appointment.

You asked me to write to you setting out our plans in a number of key areas of both water and environmental performance. There is much progress to report at United Utilities and I have provided an overview in the appendix to this letter. I would, however, like to draw out a few key points from the detail provided.

We take our responsibilities and obligations to customers and the environment very seriously and are acutely aware that we hold a privileged position as a regulated monopoly water and wastewater company. United Utilities operates in a region with a long coastline, many beautiful and environmentally protected areas and in towns and cities where many of the country's most deprived communities live and work. All of these factors mean that we have to work very hard to provide high quality services to satisfy the needs of customers, communities and the environment.

We believe there is considerable objective evidence that demonstrates we are achieving high levels of performance for our stakeholders, although we know there is always more we can do. We adopt a responsible, long term approach and this is supported by a strong and resilient corporate and financial structure.

To help customers who are struggling to pay, we inject more shareholder funds than any other company in the sector to deliver affordability schemes. We fully support the Consumer Council for Water's innovative proposal for a single social tariff to level up affordability support across the country and sincerely hope that this will receive your support – it will provide much needed help to struggling families during these difficult times.

On environmental performance, we have been awarded the top “four star” rating under the Environment Agency’s annual performance assessment in five of the last seven years. This is against the backdrop of a continuously evolving and tougher assessment regime. We are the sector’s frontier performer on pollution performance and are striving to deliver further improvement this year. These results reflect a culture where we seek to continually improve, innovate and invest for the long term.

Spill performance from storm overflows is a huge area of focus for us all – but particularly in our region where we have a much higher proportion of combined sewers than seen across the country. 55% of our sewer network provides combined foul and surface water transit, compared to the industry average of 27%. This configuration means we are very susceptible to rainfall infiltrating and overwhelming our sewers.

We were an early implementer of spill monitoring and have one of the largest installed bases in the sector – with 100% coverage to be achieved by 2023. This is being supplemented by an innovative investment in sensors and artificial intelligence to provide us with a real time picture of what’s happening in our sewer network. This rich data set is allowing us to interrogate our sewer system performance, identify where and why spills are occurring and take appropriate action. As explained in part 2 of the appendix to this letter, last year we achieved a 29% reduction in reported spills and we are on track to reduce the number further this year with every possibility that we will beat our target of a one third reduction by 2025.

We could go faster. The Environment Agency recently identified the new statutory requirements that companies will be required to deliver in the next regulatory period, AMP8, and beyond. In previous periods we have been able to use transition funding – for example AMP7 money spent in the last year of AMP6 to get an early start on AMP7 requirements. We could extend this principle over the last two years of AMP7 to get an early start on the new requirements with potential to design or even deliver schemes in this current price review period.

We have seen renewed focus this year on water supply resilience, especially in the southern half of the UK as a result of the dry weather. In the North West, we also have challenges to meet in ensuring water resource availability. Over 94% of our raw water is from surface water systems, such as impounding reservoirs, as the geology of the North West and North Wales does not offer aquifers as a more reliable source of raw water. This means we are very dependent upon rainfall throughout the year to maintain stocks. In three of the last five years the dry weather we are increasingly seeing has led to us being very close to being obliged by the EA to implement a temporary use ban. This is something none of us wish to implement but is a pre-condition to securing drought orders which authorise increased abstraction to supplement raw water stocks.

Previous years’ experience has led to many changes in our operations. For instance, we have developed a sophisticated real time water production planning system, we optimise abstraction when the environment can support it to keep reservoirs as full as possible ahead of dry spells and we have invested in a large tanker fleet which can supplement local supplies during shortages or incidents.

The sector and its regulators jointly produced a plan a number of years ago which identified the actions we can take together to enhance national water supply resilience. This was commended to Government by the National Infrastructure Commission and led to the formation of RAPID, a joint regulator team hosted by Ofwat to consider how the options set out in the plan could be evaluated and implemented. Your active support and enthusiasm for plan delivery would be a very welcome enabler to a significant enhancement to national water supply resilience.

Our forthcoming Water Resources Management Plan will make proposals for investment in a number of additional raw water sources in the North West to aid local resilience, reduce the future risk of temporary use bans and provide scope for future water transfers from the North West to the South East when additional water is needed. We are working closely with the EA and Ofwat in support of this approach, through the RAPID partnership and the WRMP framework.

Customer engagement is key to delivering reductions in water demand. This year we have seen the impact of our communications activities with a 12% reduction in demand over the summer – aided - we believe - by reminding customers of the link between energy costs and hot water use (circa 16% of household energy is used to heat water).

At our meeting, you enquired about company activities to reduce leakage. Historically the sector and its regulators have set leakage targets on grounds of cost benefit – referred to as the “sustainable economic level of leakage”. At United Utilities, we have achieved our leakage target for 16 consecutive years. However, increased focus on the environmental impact of raw water abstraction and the impact of climate change has turned this on its head and reducing leakage is now seen as a critical component of resilience, reducing abstraction needs and maintaining and improving the environment for the long term. We set a target of 15% reduction in leakage by 2025 and are on track to deliver that, helped by early start investment before AMP 7 commenced.

None of the improvements we have made in recent years could have been delivered without the support and encouragement of the Defra team and its family of regulators, our Board and our shareholders. The regulatory system incentivises outperformance and, with the support of our Board and shareholders we will have invested almost £1.4bn more than our regulatory determination over this and the previous two regulatory periods to accelerate performance improvements. This includes investing ahead of the next period, AMP8, to get an early start on new requirements arising out of the Government’s recent Environment Act.

We recognise that questions are regularly raised about investor returns and performance pay and whether they are aligned to customer and environmental outcomes. As we set out in the enclosed appendix, we believe that there are very clear and substantial links between performance pay at United Utilities and delivery for customers and the environment. These are transparently disclosed in our annual reporting.

The Board has provided clear commitments about its approach to dividend payments, including safeguards on financial resilience, service resilience, gearing and pensions as well as an explicit, upfront sharing mechanism with customers in the event that dividends were much higher than expected in the regulatory determination. Our shareholders are earning fair returns against the backdrop of a strong performance by the company opposite stretching regulatory targets. However, customers and the environment are also beneficiaries of this performance, including through our voluntary reinvestment of outperformance into the business to deliver longer term improvements.

We believe that if such measures were more widely adopted in the sector, then the link that dividends and rewards have with delivery for customers and the environment would be improved both in quantum and in recognition. In this regard, we support Ofwat’s draft methodology approach in requiring companies to provide better clarity and visibility in these areas, including upfront disclosure of mechanisms to share outperformance with customers.

Thank you once again for engaging so early in your new role. I do hope that my letter gives you a flavour of United Utilities' commitment to deliver for customers and the environment in our region and that the attached appendix addresses the specific areas you asked us to explain.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'SMogford', with a stylized flourish at the end.

Steve Mogford
Chief Executive

Appendix

1. Environmental performance

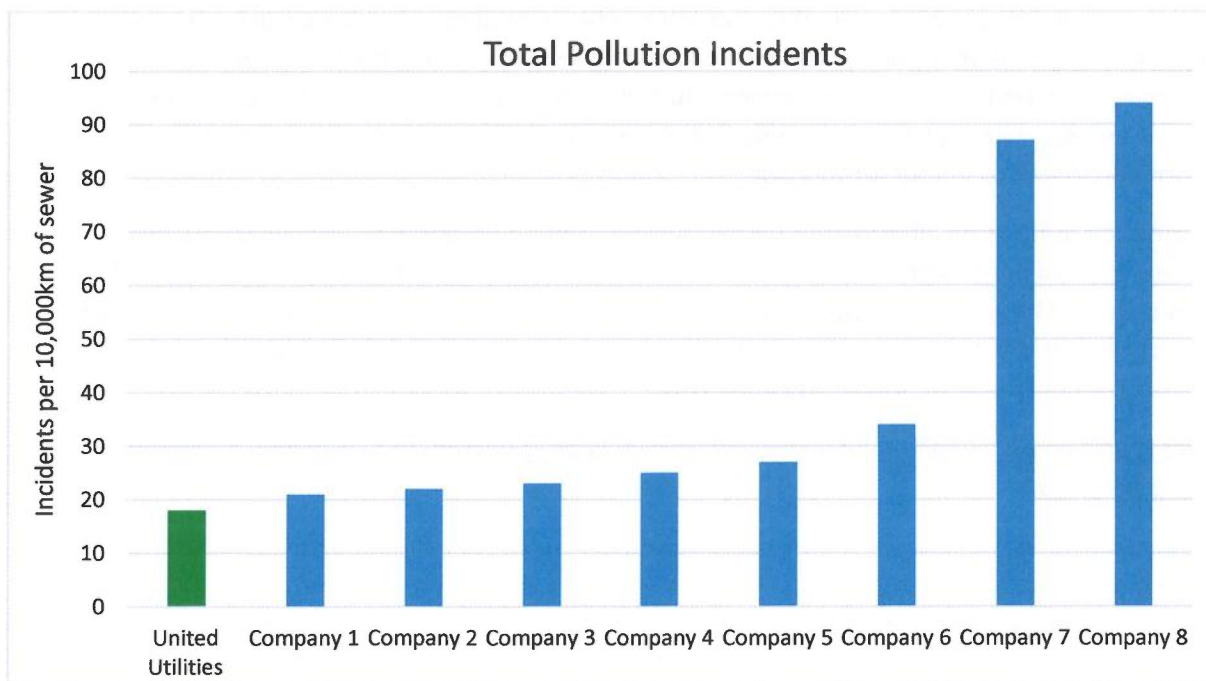
We have a very strong track record on environmental performance

We recognise our duties and responsibilities to the environment and have consistently delivered high levels of performance. In the Environment Agency's annual Environmental Performance Assessment (EPA) report we have been awarded the highest rating of 4-stars (an 'Industry Leading Company') in five out of the last seven years. This has been achieved against the backdrop of a continuously evolving and increasingly stringent assessment regime as the EPA targets have tightened over time.

United Utilities performance on Environment Agency EPA 2015-2021

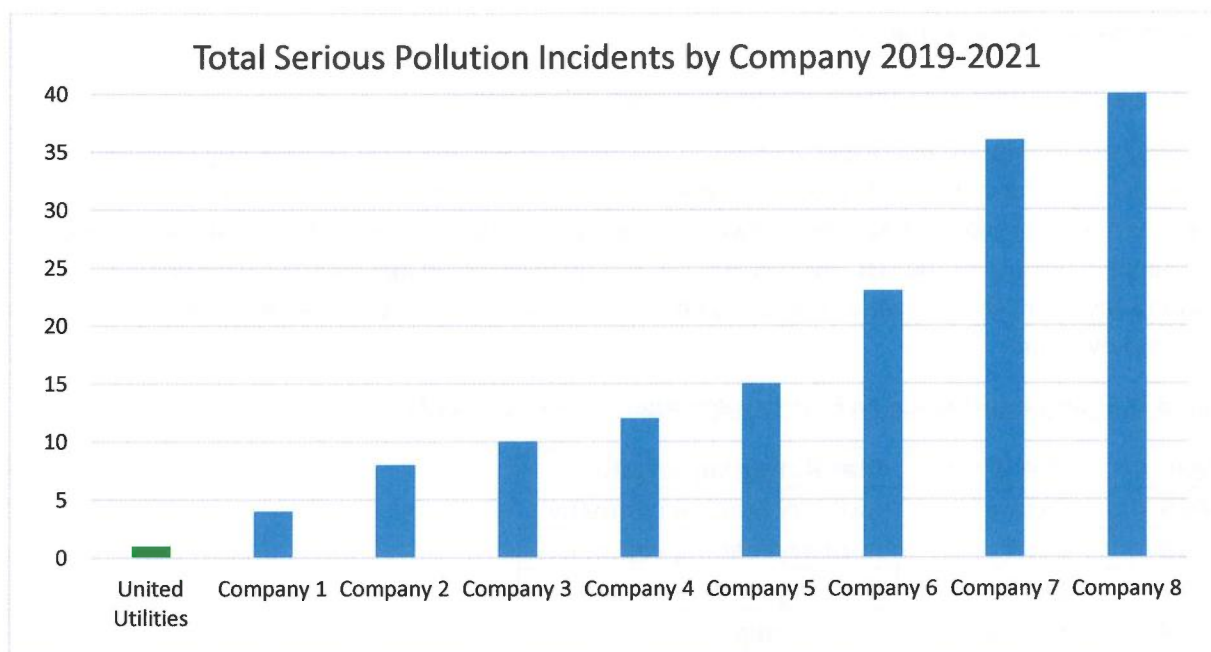
Year	EPA Rating	Star Rating Description
2015	4 stars	Industry leading company
2016	4 stars	Industry leading company
2017	4 stars	Industry leading company
2018	3 stars	Good company
2019	3 stars	Good company
2020	4 stars	Industry leading company
2021	4 stars	Industry leading company

In the 2021 EPA report we are the frontier performing company on environmental pollution in terms of overall levels of pollution (18 incidents per 10,000km of sewer network). The chart below illustrates performance on total pollution incidents from the EPA 2021.



Over recent years we have had the lowest levels of serious pollution incidents (1 incident in 2021). In two of the last three years we have had zero serious pollutions incidents – a record for the sector.

The chart below illustrates performance on the total number of serious pollution incidents over the last three years from EPA 2019-2021.



Our future ambition is to deliver the highest level of environmental performance, acting as role model for the sector

We are striving to deliver further improvements this year. Our ambition is to set new levels of frontier performance for the sector on EPA measures, whilst sharing our experience and knowledge with other companies on how we have achieved this sustained level of high performance. Whilst performance on EPA for 2022 will not be available until the middle of 2023, we track our view of progress through the year prior to the Environment Agency confirming the final year end performance. So far this year we are seeing a further 17% reduction in total pollution events and have zero serious pollution incidents reported. If sustained, this would represent a new frontier performance level for the sector this year.

We continue to focus on all measures within the EPA as our ambition is to achieve the highest possible levels of performance on each sub measure. For 2022 the EPA includes a new metric for Abstraction and Impoundment Licence Compliance and a returning metric for Satisfactory Sludge. Our early indications of performance on these new measures are on track to contribute to our overall aim of retaining our 4-star rating for 2022.

Future reporting of Environmental Performance should be stabilised, to help communicate the sector's progress

We are transparent on how we report our performance on environmental metrics through our annual performance reporting process. The EPA “star” categorisations help provide a readily understood measure of overall relative environmental performance. However, the measures and targets supporting the EPA evolve quite substantially over time. Sometimes this leads to the sector being characterised as having a worse performance year on year – given the EPA “star” categorisation – when the underlying picture is that performance has improved, but subject to even

more stringent ambition, leading to a reduction in the scores reported. This important distinction is often lost beneath headline reporting.

2. Sewage discharges from storm overflows

We have made a commitment to significantly reduce sewage discharges from storm overflows by 2025

At the start of this year we launched our Better Rivers, Better North West programme setting out our commitments to improve the environment and reduce the use of storm overflows. The plan is based around four pledges:

1. Ensure our operations progressively reduce the impact on river health
2. Be open and transparent about our performance and our plans
3. Make rivers beautiful and support others to care for them too
4. Create more opportunities for everyone to enjoy rivers and waterways

These headline pledges are underpinned by detailed and measurable deliverables so that we can track our progress and share with customers how we are doing. You can see more detail on the deliverables at our website, here:

<https://www.unitedutilities.com/corporate/responsibility/environment/reducing-pollution/storm-overflows/our-commitments-to-river-health/>

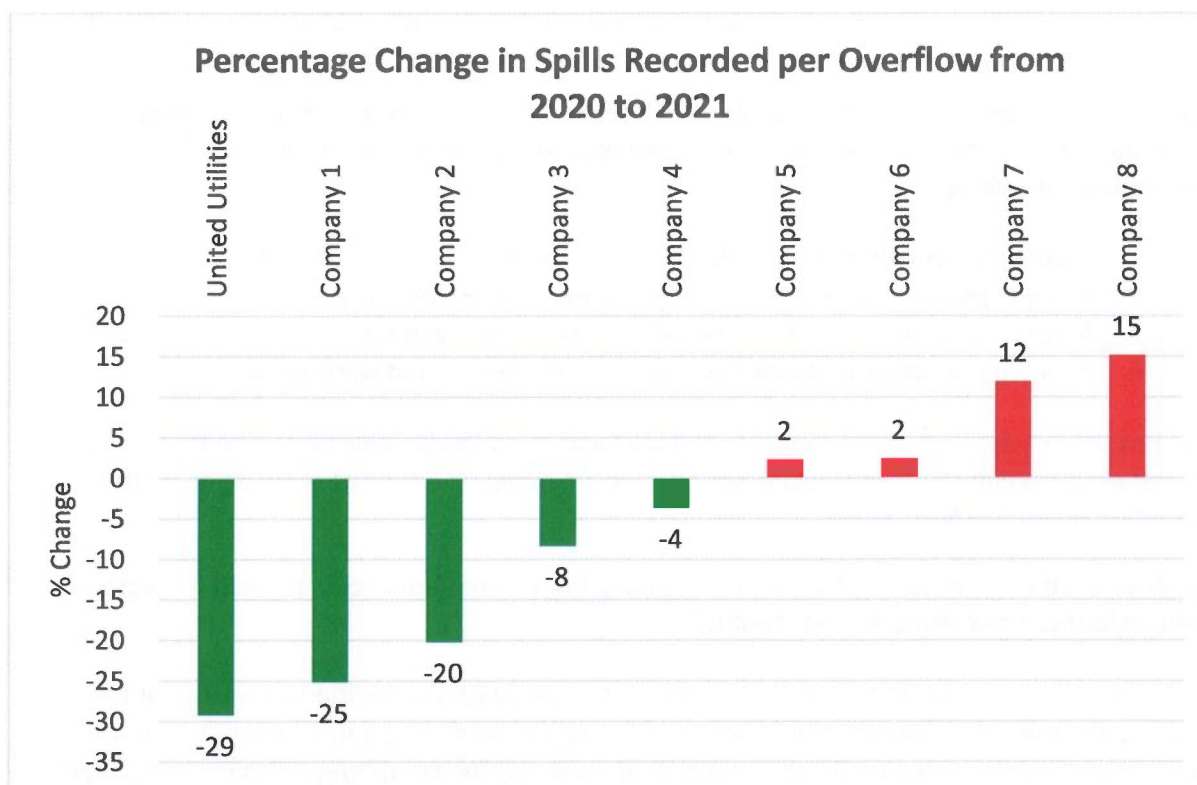
To support delivery of the pledges, we announced a further £250m of additional investment to deliver environmental outcomes. This includes delivering elements of the new Environment Act requirements earlier and improving the health of rivers across the North West. This investment will deliver at least a one third (33%) sustainable reduction in the number of spills reported from our storm overflows by 2025 compared to our 2020 baseline (around 40,000 fewer spills) and more than 180 km of river improved.

This level of improvement is amongst the most ambitious reductions in the sector, notwithstanding that the North West has a number of features which would naturally lead to higher spills than elsewhere in the UK. For example, we know that the North West's geographical position and topography result in 28% more rainfall than other areas, according to Met Office standard average annual rainfall data. We know that a long industrial legacy in the densely populated urban centres of Manchester and Liverpool mean we have more than double the proportion of combined sewers than the industry average (55% of our network is combined compared to an industry-average of 27%).

In addition to our Better Rivers, Better North West programme, we have made a further investment of £100m in our state-of-the-art Dynamic Network Management Platform. This digital solution is now in operation and uses a sensor network across the 77,000km of our wastewater network. The platform aggregates this sensor data and uses artificial intelligence to predict and proactively detect deviations from expected levels of performance. These alerts allow preventative activities from our operational teams that avoid sewer blockages from forming that otherwise could result in an eventual spill from a sewer overflow.

We have made significant progress in reducing the number of reported spills well ahead of our 2025 target

We are pleased to report that from 2020 to 2021 we made a 29% reduction in the number of spills reported from our storm overflows compared to our 2020 baseline, which is the largest year on year reduction in the sector, as shown in the figure below.



The reduction in spills reported in 2021 vs our 2020 baseline has resulted from:

- Intelligent optimisation of our existing network storage assets through our Integrated Drainage Area Studies,
- New automation of storage assets,
- Rapid identification (and rectification) of operational issues through our analytics platform and “spill signature” process,
- Standardisation of data reporting using the UWKIR recommended methodology, as well as,
- Improvements to the accuracy of data from our Event Duration Monitors.

We have seen continued reductions in the number of spills reported from our storm overflows compared to our 2020 baseline during 2022. Whilst the overall reduction cannot be calculated until the end of the year; our current forecast is that we will achieve our original ambition of a 33% reduction three years ahead of our original pledge to deliver this by 2025. If this reduction can be sustained, this will represent very substantial progress having been delivered before September 2023.

However, we are conscious that this year’s performance has been significantly influenced by the very dry summer resulting in less rainfall and consequently less spills. We therefore want to understand the detailed contribution the weather pattern has made this year to the overall levels of spills from overflows. Once we understand this contribution we will be revisiting our original pledge

(for at least a one third sustainable reduction in the number of spills reported from our storm overflows by 2025) to see if we can stretch our performance any further across the next 12 months.

Reducing the impact of storm overflows will require substantial investment over the longer term across the North West, but we are exploring what more can be delivered through an early start programme

We recognise that the primary reason for spills occurring from our overflows relates to the characteristics of the North West's level of rainfall and the high proportion of combined sewers. This means that more rain is collected more often than any other wastewater system in the country.

Addressing these challenges forms part of our work under the Environment Agency's Water Industry National Environment Programme (WINEP) and the Storm Overflows Discharge Reduction Plan set out by your department in August of this year. As Defra's publications noted, reducing the impact of storm overflows will require substantial new investment and this will particularly be the case in the North West region.

Given the scale of the investment required, the new types of solutions required to achieve natural capital outcomes and the urgency placed on reducing discharges from storm overflows we are considering options that may be available for an early start on our WINEP programme ahead of the start of the next Price Control period in April 2025. We intend to discuss these options further with Ofwat and the Environment Agency as part of our early WINEP submission process this autumn.

3. Water security and drought

Through proactive management of our water system we have avoided the need for Temporary Use Bans this year

Water supply resilience is a key area of focus for our company and the sector. Whilst this year's dry weather has brought resilience into sharp focus for the southern half of the country, this is not a new situation for the North West. Over 94% of our raw water is collected in surface water systems (such as impounding reservoirs) around our region and in North Wales and so we are very dependent upon rainfall throughout the year to maintain stocks. In three of the last five years the dry weather we are increasingly seeing has led to us being close to being obliged by the EA to implement a temporary use ban. Our learning from these experiences influenced our readiness for 2022.

We use Met Office short, medium and long term forecasting to predict the likelihood of drier periods of weather. From March 2022 onwards forecasts consistently indicated the likelihood of "average" or "drier than average" conditions for the summer. This led us to activate our 'resilience mode' of operations. This mode of operations utilises the investment we have made in our integrated regional system enabling us to move large volumes of water about the network to balance customer demand and the utilisation of water resources to minimise the likelihood of issues with water security. We have a sophisticated real time water production planning system that enables this regional plan to be enacted. So far this year, this resilience mode of operation has moved over 12 billion litres of water across the North West regional water grid. Achieving movement of these volumes of water requires system careful management and incurs additional operating costs. However, we recognised that these are prudent and responsible actions that should be taken in order to minimise the risk of water shortages in the region.

Meanwhile, as well as ensuring that water availability was optimised, we also worked hard to deliver significant customer campaigns around water efficiency before and during the summer period. This has included a fully integrated campaign, using TV, commercial radio and targeted social media, supplemented with local press advertising, out of home placement, using digital screens on well used commuter routes and digital screens on our vehicles, and community events with the use of our pop-up help centres. To bring the scale of this activity to life here are some of the key facts:

- **TV** has exposed water saving messaging to over **82%** (4.8m) of adults within the region
- **Regional radio** reach of around 80% of adults across the North West, with the opportunity to hear the ads 13-14 times equals 52m total impacts
- **Direct messaging** – we issued 4,000 letters to customers who have leaking toilets with advice on how to fix and 800,000 emails sent to customers in dry-weather areas of the region
- **Social media** - over 11m impressions, generating high engagement, with nearly 6m video views.
- **United Utilities employee programme** – “Save water, Save energy, Save money” campaign to over 5,000 employees is running through our employee channels across our North West sites

Similar to many other areas of the country, the long term forecast from the Met Office became a reality in the spring and summer of 2022. For the North West we have seen just 63% of the long term average rainfall expected during July & August, with specific local areas receiving less than half of the long term average. A number of our key water resources are expecting the March to September period to be the second or third driest year on record for rainfall.

This use of forecasts, our past learning, customer engagement and the application of our resilience mode of operations have meant that whilst reservoir stock levels are lower than normal for this time of year, we have not had to introduce any customer restrictions such as Temporary Use Bans ('hosepipe bans') this summer. In fact, we have not introduced Temporary Use Bans anywhere in our region for well over a decade. We anticipate this mode of operations may be required next year dependant on the weather forecasts and therefore we will continue to operate in this way through the autumn period to ensure we achieve a refill of our water resources before next year.

In the meantime, we continue to promote water-saving messages to customers to assist with reducing demand during the crucial autumn refill in preparation for the summer of 2023. We have found that customer behaviour in response to these messages is strongest when the link to energy costs is highlighted and customers recognise that using less water – especially heated water – helps save money.

We have developed future plans to enhance water security in the North West

Our draft Water Resources Management Plan (WRMP) is due to be submitted in October. This sets out our strategy to achieve a long-term, best value and sustainable plan for water supplies in the North West. It sets out the steps required such that we have an adequate supply to meet demand over the 25 years from 2025 to 2050 and beyond. This is our most complex and ambitious plan to date, utilising the latest techniques to forecast supply and demand and taking into account new environmental and drought resilience requirements, as well as future customer needs assessed under regional and national planning frameworks.

This plan reflects the continuation of our leakage reduction and water efficiency activities set out in our Water Resources Management Plan 2019 and continues to focus on these activities to meet

future government aspirations for leakage and demand reductions across the country. Adopting a twin-track approach to supply-demand resilience, our plan also contributes to government objectives to deliver a national water transfer network and other new supply infrastructure to improve drought resilience and address increasing pressures on water supplies across England.

We have placed customers at the heart of our decision making and conducted research to determine their preferences, both in terms of future levels of service and how to ascribe value to our plan. Based on customer feedback, we are proposing to reduce the future risk of temporary use bans. Protecting the environment is also fundamental to our plan, and the changes to temporary use bans will be accompanied by a corresponding reduction in the risk of drought permits. Our draft Water Resources Management Plan 2024 provides the following key benefits & activities:

- **Ambitious targets:** We plan to halve the level of leaks and reduce water use per person per day to 110 litres by 2050; the reduction in demand for water will contribute to our commitment to reduce carbon emissions.
- **Major rollout of smart metering:** As part of this plan we are proposing a significant rollout of smart water meters, continuing our incentives for property developers to build water efficient homes and introducing our lowest bill guarantee to support customers with transitioning from unmeasured to measured (metered) billing.
- **National Water Trading:** Our plan supports national planning by developing options which would allow us to transfer large volumes of water outside our region, at times of need, making us a net exporter of water to address imminent water needs elsewhere in the country.
- **Halving the likelihood of introducing a Temporary Use Ban (TUB):** Building these options earlier than needed for trading will help us to deliver improved levels of service for temporary use bans and drought permits by 2030, benefitting customers and the environment. This will result in us halving the likelihood of the need to introduce a temporary use ban from a 1 in 20 year to a 1 in 40 year likelihood.

In the longer term, these new supply options in the North West, progressive savings from reducing leaks and lowering water use by customers will mean we can deliver water transfers while maintaining our improved levels of service. We have tested a range of scenarios and pathways to ensure that our plan can adapt to future uncertainty in the face of climate change, population growth and environmental changes.

In summary, we believe that our proposed best value plan offers a flexible, low regrets solution, which provides environmental improvements and benefits customers in the North West around water security as well as supporting national water resource needs. We are hopeful that Defra, the EA and Ofwat will recognise both the value and option value that our plan will create.

We are working with three other water companies to develop and realise a 200Ml North-South water transfer

In addition, through our leading role in Water Resources West (WRW) and regional planning, we are actively helping to solve some of the largest water supply risks in the country. In particular, we sponsor the North West Transfer (NWT) Strategic Resource Option (SRO), which is the United Utilities Water component of the Severn to Thames Transfer (STT) SRO. The STT scheme is being developed collaboratively by Severn Trent Water, United Utilities Water and Thames Water as one of a number of regional transfer schemes assessed through the RAPID to address regional and national water resources planning needs.

The STT scheme involves transferring water from the River Severn to the River Thames where it can be abstracted by Thames Water, and potentially other companies in the South East. When there is insufficient flow in the River Severn, support can be provided through the schemes proposed by both Severn Trent Water and United Utilities. The schemes in the North West involve transferring a total of 205 million litres of raw water a day from Lake Vyrnwy into the River Severn, and into Severn Trent Water's area. In order to mitigate the impact on customers and the environment our scheme involves developing new water sources in the North West. This would mean that overall resilience in the North West would be improved and water could be provided to the south of the country when resources there are under stress.

Taken together, this is a major scheme which crosses water company and national boundaries across England and Wales, which is ambitious in scope and in which United Utilities has been a key proponent. We will be submitting our latest proposals as part of RAPID's "Gate 2" process later this year and hope and expect that we will receive approval to continue work towards realising this opportunity, including development of resource options in the North West.

4. Leakage

Our activities on leakage are delivering a step change in performance

As part of our long term plans on leakage we have committed to halve leakage by 2050. As an intermediate aim, we are targeting a reduction of 15% by 2025. Our leakage performance last year achieved the lowest ever level of leakage in the North West. We are on track to deliver the 15% reduction by 2025, having achieved a 7% reduction during the last two years, helped by early start investment we made before AMP 7 commenced. This recent performance represents the largest rate of change in leakage performance in over two decades and one we anticipate will continue up to 2025 to achieve our first major milestone in terms of our longer term target.

This performance has been enabled by a number of key activities:

- **Stopping leaks before they occur through the use of Pressure Management Valves.** Most pipe bursts occur due to pressure fluctuations forcing the pipes to continuously expand and contract, resulting in stress fractures. Active pressure controls achieve a calmer network – and fewer bursts – by maintaining constant pressure.
- **Installing more than 72,000 sensors on our pipe network that listen for leaks.** We've developed and deployed artificial intelligence which uses rapid machine-learning to interpret the unique data trail left by leaks, tracking them down to pinpoint their exact location and identifying their size, just by the sound they make. This technology has a greater than 85 per cent success rate, improving the rate leaks are found and outperforming traditional leak detection methods.
- **Core business activity with dedicated resources.** Each year, 70 Customer Technicians and 200 Leakage Technicians spend 300,000 hours using advanced acoustic technology to locate leaks day and night. These activities lead us to repair more than 32,000 leaks every year
- **Helping customers identify leaks on their property and in their plumbing.** Estimated losses from customers' own supply pipes and inside the home amounts to around 8% of the total water we supply every day, representing around a third of total leakage. We have carried out 20,000 home water checks to help customers we think may have a leak to find it and save water and money. 80% of leaks found in customers' properties are caused by toilets so we've shared over 245,000 'leaky loo strips' over the past 18 months, highlighting the vast

volumes of water lost – up to 440 litres a day – providing customers with a means to check their own loo and helping them to find a plumber to fix it. Where we have given advice and found a leak, water consumption has reduced by 34% and by providing customers with the knowledge, tools and incentives we have seen a 23% reduction in customer-side leaks in homes that have a water meter.

Due to these activities we have seen a significant improvement in leakage performance over the last three years.

We are clear, however, that as a company we have more to do to drive leakage to lower levels and are committed to identifying and operationalising innovative approaches to deliver this aim. Our approach to future reduction is a continuation and refinement of our current strategy, starting with proactive prevention of leakage through:

- Ensuring that our water network is effectively optimised and managed via 'calm networks'¹, live valve status and remote control;
- Applying intelligent maintenance to water network assets; and
- Improving the overall asset health of the water network, ensuring that we have already applied appropriate operational mitigation and that any new network is leak-free.

This approach is reflected in our asset rehabilitation, replacement and Water Dynamic Network Management (Water DNM) plans. Water DNM involves installing monitoring technology to enable us to proactively pinpoint and prevent leaks or reduce leak run times.

In addition to proactive prevention, our future plans ensure our ability to detect and repair any leaks that do occur exploits the latest innovation so that we:

- Prioritise targeted enhanced monitoring; and
- Use the latest data analytics and prediction techniques to shift the balance from customer reported leaks to proactively found leaks.

To achieve this we will work with our suppliers to develop and implement automatic correlation for pinpointing leaks to reduce their runtimes and disruption by continuing to seek out and implement 'no dig' and 'in pipe' repair techniques, as well as utilising temporary repairs for leak mitigation. We are conducting trials of innovative technologies, which can help to reduce including a trial of a mobile app that manages and monitors valve operations and reduces transient pressure waves on a potable water network.

As part of this future plan, as explained previously, we are proposing a significant rollout of smart water meters that will support rapid identification of leaks that occur on a customer's property.

We also need government support to ensure that we are able to further help reduce leakage in the home, on private property and promote water efficiency product labelling which will help to reduce overall water demand.

¹ 'Calm networks' aim to minimise the risk of inducing surge pressures and flow as a result of the way hydrants, valves and pumps are operated. This is primarily achieved through effective training of operatives, including employees and third parties who interact with the water network (e.g. fire service and large industrial users).

5. Dividends – our performance in AMP7

Priority is given to customer support first, before any dividend is paid

In our AMP7 business plan, we committed that £71m of shareholder funds would be used to support customers in financial need. We were clear that this contribution from shareholders would take priority over any dividend payment. Shareholders have forgone returns to which they would otherwise be entitled and we now expect their contributions towards customer support schemes to total at least £142m over the AMP.

Dividends paid in AMP7 to date are in line with the returns expected in the regulatory determination

So far in AMP7, United Utilities Water has paid a base dividend of 4% of equity. This is in line with Ofwat's expectations for a company that is performing in line with its determination and with a modest level of RCV growth. Given our performance record during the AMP, we believe that this is reasonable and fair to investors.

Additional dividends are subject to pre-commitments by the Board for responsible behaviour and direct customer benefits

We have provided industry leading assurances about how the Board would consider any further dividend distributions which go beyond the base dividend. The Board has committed that the company would not make such distributions if – amongst other things – such a payment would put the company's financial resilience at risk, left the company highly geared, meant the company was unable to finance future pension liabilities or that the company was unable to remedy service failures. As a further, explicit safeguard, the company committed that if distributions were much higher than envisaged in the regulatory determination (i.e.: in excess of 7% of equity) then anything above this level would be subject to an automatic sharing mechanism such that customers would see equal benefits, either through bill reductions or investment in community projects.

We have always said that the Board would stand ready to be judged based on the actions it took. In view of the uncertain effect of COVID-19, the United Utilities Water Board took the prudent step of not making any dividend payments in 2021, instead deferring these until it was clear that the impact of COVID-19 was known and had been mitigated.

We are transparent about these policies and how the Board meets the commitments it has made to customers in the North West

All of this information is disclosed in our annual performance report. In particular, our commitments on dividends and the Board's explanation of those paid to date can be found on pages 138-141 of our 2021/22 Annual Performance Report which is available at this address:

<https://www.unitedutilities.com/globalassets/documents/pdf/united-utilities-annual-performance-report-2021-22>

We are using outperformance in AMP7 to reinvest in the business for future service and environmental benefits

In AMP7 we are proposing to invest £765m in the business, above the original Final Determination allowance, to enhance future service to customers and provide earlier environmental benefits, such as our Better Rivers: Better North West plan and our Dynamic Network Management platform. This is money that, in principle, could have been used to support additional distributions to shareholders.

However, the company is demonstrating responsible behaviour, reinvesting in the business for the longer term and using the benefits accruing to its strong performance to invest in the future.

We support moves to increase transparency and accountability across the sector

We believe that we are setting the highest standards in the industry for responsible corporate behaviours on dividends and outperformance sharing in AMP7. We have formalised and pre-committed to behaviours which we exhibited in AMP6 in order to build greater trust, transparency and confidence with stakeholders and we expect to outline a similarly strong proposition in AMP8 which achieves a fair outcome for shareholders and industry leading safeguards and sharing arrangements for customers. The details of this will depend upon the regulatory determination reached as part of PR24, but we applaud Ofwat's stated intention to get all companies to reveal plans for the future sharing of outperformance as part of the price control assessment process. We believe this will help raise standards across the industry, to the ultimate benefit of the sectors reputation and the degree of trust that customers can have in the fairness of the regulatory contract.

Continuing support from investors will be essential to delivering future rounds of investment in services, infrastructure and the environment

Our expectation is that meeting the long term environmental ambitions set out in the Environment Act, the WINEP and related government policies will require a continuing stream of private investment to facilitate the investment for delivery. Indeed, our expectation is that considerably more equity is likely to be required given the size and scale of investment to deliver programmes in AMP8 and AMP9.

Equity investment cannot be taken for granted; it needs to be attracted. The water industry in England can currently attract investment at competitive rates of return because of a long-standing reputation as a desirable and reliable investment destination, with stable and supportive statutory and regulatory regimes. We believe that a deepening politicisation of returns presents a real risk to attracting future investment at competitive rates. This is particularly the case where companies who are delivering and outperforming regulatory requirements become perceived as being potentially unable to provide investors with a reasonable rate of return because of broader political headwinds.

We consider that the existing economic and environmental regulatory systems provide the right disciplining mechanisms for poor performing companies. However, companies that are showing expected levels of performance for its stakeholders and who have built substantial financial resilience through many years of good behaviour and self-restraint should be able to point to a regulatory system which enables them to provide investors with fair and stable returns as a quid pro quo for their commitment to investment. This is not unique to the water industry; investors in any UK utility sector (energy, nuclear, transport and so on) will all want to have confidence that their investments can secure a reasonable balance of risk and return.

6. Executive performance pay – our performance in AMP7

We have a strong track record of alignment of executive performance pay towards customer and environmental priorities

Executive performance pay at United Utilities has a strong track record of demonstrable links to delivery for customers and other stakeholders, rather than being entirely focused on shareholders.

In AMP7 we have taken steps to ensure that delivery for customers is even more strongly embedded and demonstrated in our pay policies.

The long term plan awards granted during 2021/22 were based on a 50% weighting towards achieving strong returns on regulated equity – a key measure utilised by Ofwat and equity investors to demonstrate under- or out-performance of the regulatory contract – and a 50% weighting towards an explicit basket of customer measures. Customer measures were determined following a consultation exercise to ensure they were aligned to key customer priorities.

The customer and environment focused measures and their weightings have been transparently disclosed in our annual performance report (see pages 169-170) and are reproduced below for convenience:

Measure/Target area	Weighting
Achieving a strong performance in Ofwat's CMEX measure of customer satisfaction	5%
Lifting customers out of water poverty	5%
Expanding coverage of our Priority Services register to more customers that would benefit from support	5%
Improving performance on sewer flooding	5%
Improving performance on pollution incidents	5%
Improving treatment works compliance	5%
Reducing the number of customers who need to contact us regarding water quality	5%
Improving leakage performance	5%
Improving our "Compliance Risk Index" score as measured by the Drinking Water Inspectorate	5%
Achieving a strong Environmental Performance Assessment rating from the Environment Agency	5%

For 2022/23, long term incentives were reviewed and updated to reflect additional emphasis on environmental measures – including our work on cleaner rivers and carbon reductions. The revised weightings are set out in our Annual Performance Report (pages 171-172) and reproduced below:

Measure/Target area	Weighting
Transitioning our vehicle fleet from conventional vehicles towards low carbon vehicles	2.5%
Delivering peatland restoration	2.5%
New woodland creation	2.5%
Improving the carbon performance of our supply chain	2.5%
Lifting customers out of water poverty	5%
Expanding coverage of our Priority Services register to more customers that would benefit from support	5%
Improving performance on sewer flooding	5%
Improving performance on pollution incidents	5%
Improving treatment works compliance	5%
Improving leakage performance	5%
Improving our "Compliance Risk Index" score as measured by the Drinking Water Inspectorate	5%
Achieving a strong Environmental Performance Assessment rating from the Environment Agency	5%

These targets mean that executives have long term incentives to deliver on issues that are important to customers and the environment.

Likewise, annual bonus incentives demonstrate a clear link to customer and environmental priorities. As set out in our Annual Performance Report (pages 170-171) the weighting of the 2022/23 annual bonus structure is as follows, building on a similar approach used in 2021/22:

Measure/Target area	Weighting
Underlying operating profit (encouraging sustainable cost efficiency)	25%
Customer service: Strong ranking in Ofwat's customer service survey (CMEX)	10%
Customer service: Reducing the number of written complaints	5%
Customer service: Reducing the number of contacts from customers regarding water quality (appearance)	10%
Delivering our Better Rivers commitments	10%
Delivering strong performance on Ofwat's regulatory performance targets as measured through outcome delivery incentives	25%
Efficient, on time and high quality delivery of the company's capital programme	15%

We provide transparent disclosure of performance pay policies and awards, in line with all relevant corporate governance requirements

The approach to executive performance pay and disclosure of drivers and outcomes is transparently disclosed in our annual performance report (see pages 161-172) and the Group Annual Report and Financial Statements (see pages 160-191). The Group Annual Report and Financial Statements is available at the following address:

<https://unitedutilities.anualreport2022.com/media/0p2jagga/30900-united-utilities-ar2022-client-pfp-070622.pdf>

As well as having a clear link to customer priorities, the approach meets all corporate governance requirements including, but not limited to, those set out in the Corporate Governance Code. The Remuneration Committee operates policies which require Directors to retain awards post-vesting and which have opportunities for withholding and/or clawback provisions to be implemented post-award where new information comes to light. The Committee reviews targets on an annual basis to ensure they are stretching and do not provide rewards for failure.

We will continue to adopt an approach that demonstrates strong alignment of executive performance pay with customer and environmental priorities. In line with our approach so far this AMP, we will continue to adjust the composition of future awards to reflect emerging priorities. We intend to undertake further consultation exercises with customers to further test alignment of remuneration incentives to the things that they believe are important. We will work with shareholders to ensure that they continue to support our approach of incentivising directors on the basis of their delivery for the broad range of company stakeholders, not just investors. This will ensure that we are able to commit to a strong proposition as part of the upcoming price review submission.

We hope that over time there will be more recognition that – in United Utilities Water's case – the metrics and targets used for executive performance pay demonstrate a strong link to customer and environmental interests. The approach embedded by the Remuneration Committee shows a visible and transparent reflection of the company's broad range of stakeholders. This is appropriate, because we hold a privileged position as a monopoly provider of a vital public service.

