

UUW92

# Summary Tables - Commentaries

October 2023

Data Table Commentaries

This document provides a commentary and supporting information for the Summary PR24 data tables

# Executive Summary

We are pleased to present United Utilities Water's plan for the North West for 2025-2030. This plan is all about ensuring that we provide great water that makes the North West stronger, greener and healthier.

## **A plan for five different counties and the people that live in them (Chapter 2)**

We are investing in new capabilities and structuring our operations so that we will deliver our plans and communicate our performance on a local basis, providing more transparency and insight about our service than ever before.

## **Customers and stakeholders have shaped our plan (Chapter 3)**

We have built our plan on customer research and stakeholder engagement. Our engagement approach has delivered deep levels of insight, supported by exceptionally high quality research. Based on rigorous research studies across all groups, we are confident that 74% of customers support our proposed plan.

## **More affordability support than ever before and extra help for those that need it (Chapter 4)**

This plan will deliver more investment in the region's water and sewerage infrastructure than at any time in the last 100 years. This entails a seven-fold increase in environmental investment compared to AMP7, from a £13.7bn totex programme. Our plan reflects over £1.9bn of efficiencies but, even so, customer bills will need to increase by approximately £22 on average in each year (before inflation) between 2025 and 2030.

We respond to this by proposing to put in place our largest ever package of affordability support, including an unprecedented package of over £500m of affordability support to help customers who might otherwise struggle to pay their bill. We aim to ensure that there will be no increase in the level of water poverty in the North West.

## **An ambitious plan to deliver our best ever service levels (Chapter 5)**

We've put together an ambitious plan that delivers on customer and environmental priorities and targets stretching performance over the longer term.

We recognise that customers and stakeholders are particularly concerned about the health of the region's rivers and waterbodies and the discharges from storm overflows. This plan takes decisive action to deliver a step change in performance and work towards our longer term targets. We propose £2.9bn of investment to improve 437 of the region's storm overflows. This will enable us to target reducing the number of times overflows "spill" by over 26% during AMP8 and so deliver a 60% reduction across the decade to 2030.

## **Delivering social and environmental value (Chapter 6)**

Our plan will deliver more value to the region than ever before, with an environmental programme of £5.7bn. We estimate that our plan creates over £35bn of social and environmental value in the region, and could support an additional 6,000 jobs in our supply chain compared to AMP7.

## **Resilient services and a focus on asset health (Chapter 7)**

Our AMP8 programme proposes an increased rate of mains renewal, part of nearly £1bn to build a more resilient water network – fixing leaks and replacing & renewing 950 km of old pipes and mains. We also propose to invest over £350m in new water sources to ensure a reliable supply of water and support national water needs in the face of climate change.

## **Delivering at an efficient cost (Chapter 8)**

Innovation, solution optimisation, robust cost challenge and effective use of markets are enabling us to drive around 14% efficiency into our plan. We will deliver more improvements from base expenditure – any increase in base costs reflects areas where scope is larger in AMP8, as set out in our cost adjustment claims. Other

forecast cost increases are being offset by stretching efficiencies, and we expect our proposals to meet efficient benchmarks when assessed by Ofwat.

We are leveraging partnership funding to deliver benefits to customer bills, and propose further projects to be delivered by direct procurement across AMP8 and AMP9, in addition to our pathfinder HARP DPC project.

### **A responsible approach to financing and corporate behaviour (Chapter 9)**

We plan to finance the increased investment in a responsible and sustainable way – this is a hallmark of United Utilities. As a listed company, we uphold the highest standards of corporate governance and through AMP7 have been a sector leader in taking a responsible and transparent approach to gearing, dividends, pensions, sharing benefits with customers, and executive performance pay. We will continue to go beyond licence requirements in every one of these areas, exceeding the minimum standards.

We will also continue to ensure that over 60% of performance pay incentives for executives are clearly linked to delivery for customers, communities and the environment and that at least 75% of annual bonus outcomes are linked to customer and environmental performance measures. Our Board is committed to providing transparent decision making on dividends and executive pay.

### **A plan we can deliver from a water company you can trust (Chapter 10)**

We have comprehensively assessed the deliverability of our plan, and been proactive by putting in place the people, structures and support we need to deliver our ambitions in AMP8. The plan is efficient, value maximising, innovative, robust and deliverable.

Our track record provides confidence that not only can we deliver, but that we can do so in a way that engenders trust and confidence in the company as a service provider. In addition to our track record, you can read more about our long term plans in *UUW12 - Long Term Delivery Strategy*.

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# 1. SUM1 – Performance commitments

## 1.1 Whole table

- 1.1.1 We are proposing significant improvements across the full suite of common performance commitments, building on our significant improvements in performance over AMP7, in which we are one of the better performing companies in the sector, despite the significant challenges with operating in the North West, particularly on the wastewater service.
- 1.1.2 We would note two areas in particular:
- Sewer flooding (SUM1.4) – we are proposing another significant improvement in performance in AMP8, a 32% reduction in flooding incidents per 10,000 connections. This builds on the 34% reduction that we expect to deliver over AMP7, which in total delivers against the two AMP strategy that we proposed in our PR19 business plan.  
As set out in Chapter 5 of our PR24 plan, in *UW30 - Performance commitments technical document* and in the drainage section in *UW44 - Cost adjustment claims*, we are strongly urging Ofwat to recognise the significant impact that external factors have on the sewer flooding incidents experienced by companies, most notably urban runoff and the proportion of combined sewers. We believe that Ofwat should set an ‘environmentally adjusted’ target for sewer flooding that accounts for the impact of those factors; and
  - Overflows (SUM1.17) – we are proposing a 33% reduction to 20 spills by the end of AMP8, which represents a very significant move towards the long term target of 10 spills. However, we will not be at Ofwat’s expectation of 20 spills in 2025. There is significant evidence to support our current position in *UW64 – Wastewater quality overflows enhancement claims*, and why 20 spills is not a reasonable expectation for current spill levels in our region.
- 1.1.3 Overall we have an ambitious plan, that delivers significant improvement in service for customers and the environment, with a fair balance of risk and return for the company.

## 2. SUM2 – Key business plan metrics

### 2.1 Whole table

- 2.1.1 We forecast a steady increase in customer numbers and in the required increase in water and wastewater infrastructure to supply those customers. We have an active and effective market in the North West for providing services to new developments, leaving UW as a minority supplier of such services. This, and more on our approach to markets is set out in *UW50 - Ensuring value for customers through the use of Markets*.
- 2.1.2 Our proposed improvements in leakage, per capita consumption and business demand help to offset the need for significant investment in new resources in order to satisfy that new demand.
- 2.1.3 We are forecasting to hold energy consumption flat in the water service, but it will increase in the wastewater service, due to significant investment in new environmental obligations set out in the WINEP.
- 2.1.4 There is a circa 50% increase in wastewater RCV (from opening AMP8 RCV, inclusive of midnight adjustments), which is reflective of the very significant enhancement investment programme that is required in AMP8 to meet obligations in the WINEP.
- 2.1.5 NB. The data table contains a calculation error on line 2.26 for 31 March 2030 Closing RCV, as the sum formula appears to have been overtyped with a "0".

## 3. SUM3 – Cashflows and WACC

### 3.1 Whole table

- 3.1.1 The financial tables present evidence of financeability, built on our responsible capital structure, financial policies and corporate behaviour underpinned by our strong track record, which inspires trust in our long-term stewardship of the business for the benefit of all of our stakeholders.
- 3.1.2 We have adopted Ofwat's 'early view' WACC, which was a spot position using a data cut-off of 30 September 2022. Due to subsequent significant changes in interest rates and other market derived data (and a much changed macroeconomic environment), we do not consider the 'early view' WACC to be fully reflective of the cost of capital over AMP8. We expect Ofwat to update the WACC appropriately at its final determinations and we set out the broader considerations in relation to such update in supplementary *UW73 – Third part report cost of capital considerations*.
- 3.1.3 For both PAYG and RCV run off we have used natural rates without additional acceleration. Further supporting details are provided in the supplementary document *UW71 - RCV run off rates*.
- 3.1.4 We have circa £1bn of carried forward value from AMP7 reconciliation mechanisms, which is split 60:40 between RCV and revenues. For the actual company we have utilised positive reconciliation adjustments as an alternative choice to additional equity issuance or dividend restriction, to ensure that customers do not bear the costs of resolving actual company financeability constraints.
- 3.1.5 We have forecast significant increases in grants and contributions, mainly due to meeting the expected needs of HS2. We continue to believe that non-s185 diversions should be removed from the price control, as set out in *UW54 - Developer services business plan*.
- 3.1.6 We have not applied any revenue re-profiling, given the expected need for further significant investment programmes in AMP9 and beyond - we don't consider it appropriate to re-profile revenues in a way that creates additional price increases in 2030.

## 4. SUM4 – Expenditure

### 4.1 Whole table

- 4.1.1 Our totex plan is the largest ever plan in living memory, with significant increases to required enhancement expenditure, largely driven by the statutory WINEP programme. Further details are set out in Chapter 8 and our related enhancement claims.
- 4.1.2 We have sought to make use of Direct Procurement where feasible, but note the challenge to that driven by the WINEP timetable. We have set out our thoughts in *UUW43 - WINEP optimisation*.
- 4.1.3 Where feasible, we have also made use of Ofwat's proposal to implement Price control deliverables, to better provide customer protection against non-delivery or late delivery – we have set out our proposed approach in Chapter 8.

#### **Mandatory expenditure**

- 4.1.4 In the table we have assumed that all WINEP expenditure is mandatory. In tables CW14/CWW14 – Best value analysis of alternative option, there is a least cost alternative for the WINEP programme provided. While the least cost alternative represents a cheaper solution, it does not deliver the most value for customers.

#### **Table changes**

- 4.1.5 We wish to outline a difference between Ofwat's final methodology and the company's plan with respect to table SUM4. We believe there are formula errors in SUM4.18 (cell G27) and SUM4.20 (cell G29) as these formulas do not reference the totals columns within table CWW1a and do therefore not present the total AMP8 view of Base - wastewater totex and developer services - wastewater net totex respectively.
- 4.1.6 We have not made any amendments to the template table released by Ofwat, but we present what we believe to be the correct values in Figure 1 below, followed by proposed cell formula changes.



Figure 1: Amended SUM4 table

SUM4 Expenditure						
Line description	Units	DPs	Mandatory	Discretionary	Total	PR24 reference
			2025-30	2025-30	2025-30	
<b>Net totex - water</b>						
Enhancement water totex - Environmental	£m	1	98.1		98.1	SUM4.1
Enhancement water totex - WRMP	£m	1	273.9	204.1	478.0	SUM4.2
Enhancement water totex - resilience	£m	1	36.1		36.1	SUM4.3
Enhancement water totex - net zero	£m	1	0.0	56.8	56.8	SUM4.4
Enhancement water totex - other	£m	1	259.1	92.2	351.3	SUM4.5
Total water enhancement net totex	£m	1	667.3	353.1	1020.3	SUM4.6
Base - water totex	£m	1	2909.7		2909.7	SUM4.7
Total water net totex excluding developer services	£m	1	3576.9	353.1	3930.0	SUM4.8
Developer services - water net totex	£m	1	-117.5		-117.5	SUM4.9
Total water net totex	£m	1	3459.4	353.1	3812.5	SUM4.10
<b>Net totex - wastewater</b>						
Enhancement wastewater totex - Nutrient removal	£m	1	924.6		924.6	SUM4.11
Enhancement wastewater totex - storm overflows	£m	1	603.3		603.3	SUM4.12
Enhancement wastewater totex - Other environmental	£m	1	3907.6		3907.6	SUM4.13
Total wastewater enhancement environmental net totex	£m	1	5435.5	0.0	5435.5	SUM4.14
Enhancement wastewater totex - net zero	£m	1	0.0	143.5	143.5	SUM4.15
Enhancement wastewater totex - other	£m	1	570.1		570.1	SUM4.16
Total wastewater enhancement net totex	£m	1	6005.6	143.5	6149.1	SUM4.17
Base - wastewater totex	£m	1	2925.0		2925.0	SUM4.18
Total wastewater net totex excluding developer services	£m	1	8930.7	143.5	9074.2	SUM4.19
Developer services - wastewater net totex	£m	1	-137.4		-137.4	SUM4.20
Total wastewater net totex	£m	1	8793.2	143.5	8936.7	SUM4.21

4.1.7 Further detail on the formula change is presented below.

**SUM4.18 (cell G27)**

**Original formula:**

- =CWW1a!AB10+CWW1a!AH10+CWW1a!AN10+CWW1a!AT10+CWW1a!AZ10+CWW1a!AB21+CWW1a!AH21+CWW1a!AN21+CWW1a!AT21+CWW1a!AZ21

**Revised formula:**

- =CWW1a!AV10+CWW1a!BG10+CWW1a!BR10+CWW1a!CC10+CWW1a!CN10+CWW1a!AV21+CWW1a!BG21+CWW1a!BR21+CWW1a!CC21+CWW1a!CN21

**SUM4.20 (cell G27)**

**Original formula:**

- =CWW1a!AB12+CWW1a!BG12+CWW1a!AN12+CWW1a!AT12+CWW1a!AZ12+CWW1a!AB23+CWW1a!AH23+CWW1a!AN23+CWW1a!AT23+CWW1a!AZ23 - (CWW1a!AB18+CWW1a!AH18+CWW1a!AN18+CWW1a!AT18+CWW1a!AZ18) - (CWW1a!AB29+CWW1a!AH29+CWW1a!AN29+CWW1a!AT29+CWW1a!AZ29)

**Revised formula:**

- =CWW1a!AV12+CWW1a!BG12+CWW1a!BR12+CWW1a!CC12+CWW1a!CN12+CWW1a!AV23+CWW1a!BG23+CWW1a!BR23+CWW1a!CC23+CWW1a!CN23- (CWW1a!AV18+CWW1a!BG18+CWW1a!BR18+CWW1a!CC18+CWW1a!CN18)- (CWW1a!AV29+CWW1a!BG29+CWW1a!BR29+CWW1a!CC29+CWW1a!CN29)

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**Water for the North West**