United Utilities 2021/22

Annual Performance Report

Water for the North West

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Introduction

A regulated water and wastewater company

United Utilities Water Limited (UUW) provides regulated water and wastewater services in the North West of England, serving over seven million people and 200,000 businesses. Its ultimate parent company is United Utilities Group PLC, a publicly listed company on the London Stock Exchange. We are regulated by Ofwat, the economic regulator of the water sector in England and Wales; the Drinking Water Inspectorate and the Consumer Council for Water (the quality regulators); the Environment Agency and Natural England (the environmental regulators); and the Department for Environment, Food and Rural Affairs.

Our purpose

We are a purpose led organisation. Our purpose is to provide great water and more for the North West. This is the reason we exist, and is what drives us to continually improve our performance.

Our vision

Our vision is to be the best UK water and wastewater company.

Our strategic themes

Our strategy is broken down into three strategic themes, which form the framework for what we do:

- The best service to customers
- At the lowest sustainable cost
- In a responsible manner.

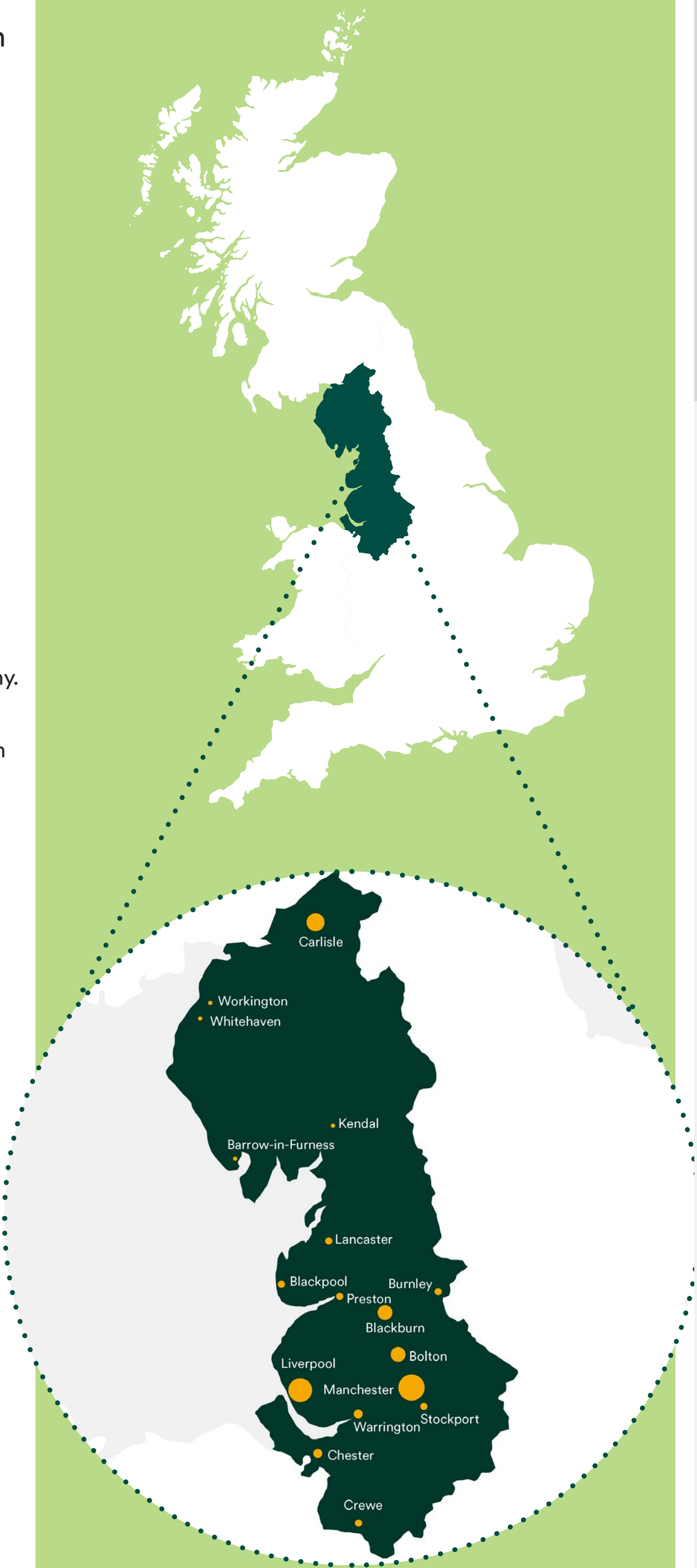
Our core values

Our core values provide the cultural framework within which we operate.

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

Performance reporting

Like all large water and wastewater companies in England and Wales, we report performance against a price and service package for customers and the environment. This package was determined through a price review process. The business plan we proposed was subject to scrutiny and changes following an extensive review by the regulator, Ofwat. This resulted in a final determination (FD) which set benchmarks for the services we should deliver and the cost for delivering them. We report against targets set in the FD.



Introduction

The FD covers the five-year period running from April 2020 to March 2025. This five-year period is often referred to as AMP7, and this report has been produced to reflect performance up to the end of year two of AMP7.

The Annual Performance Report

This Annual Performance Report (APR) tracks performance against the AMP7 FD. It provides an update on the delivery of our performance commitments at the end of year two and a forward looking view of performance anticipated for future years. It also includes information about our financial performance, our assurance approach and the board's approach to leadership, transparency and governance.
We publish a suite of documents which support the APR. This helps to provide a wide range of information to a variety of different stakeholders, regulators and customers in formats that help them access the data they want. We actively seek and act on feedback we receive on our publications and this helps us to support engagement with our reporting. Any comments about this or any other of our publications can be sent to: myview@uuplc.co.uk.

The summary below outlines the key information that we publish:

- Annual Performance Report (this document) – A comprehensive, detailed and assured account of our performance
- Customer focused summary – An overview of our performance structured around seven key outcomes. This customer focused document is presented so as to achieve a Crystal Mark for plain English
- Performance infographic – A graphic which highlights our key deliverables and is published on our website and on social media platforms
- Summary animation – A short, narrated animation describing our performance highlights
- Accounting methodology statement – An overview of the process used to prepare the upstream services tables in the APR, with commentary on significant movements
- YourVoice customer panel reflections – Independent reflections and feedback on UUW's performance during year two from the YourVoice customer panel

United Utilities Water Limited's ultimate parent company is United Utilities Group PLC, a company listed on the London Stock Exchange. Additional information about UUW and the group and how we deliver water and more for the North West can be found in the United Utilities Group PLC Annual Report and Financial Statements. This is an integrated strategic, governance and financial report which is available as an interactive website at:

www.unitedutilities.com/corporate/investors/results-and-presentations/annual-reports

The report is designed to provide detailed information on the strategy, performance and governance of the group from a financial and non-financial position. It provides extensive disclosure on the performance metrics we use to measure how we are creating value for communities, customers, employees, the environment, investors and suppliers. It contains useful information for anyone wanting to understand more about UUW, its work and how it is governed and should be read in conjunction with this report.

We also publish other key performance information on our corporate responsibility website which can be found at: www.unitedutilities.com/corporate/responsibility

This website is designed to describe the way that the group has fulfilled its purpose and demonstrate the extent to which we have upheld the highest standards of performance with respect to the way we work.

Together, the reports and our website provide a clear and comprehensive view of our purpose, performance, delivery and governance which is reliable, accurate and transparent.

Transparent reporting

The provision of reliable, accurate and transparent information and data is an essential part of building and maintaining trust with customers and other stakeholders who rely on the services we provide.

Given our position as a provider of essential public services, we have a responsibility to provide accurate and easily accessible information about performance. We pride ourselves on publishing trusted information and have a proven track record of providing open, transparent and high quality information about our performance to customers, stakeholders and regulators.

We have a sound approach to assurance which is a key enabler to high quality data provision. We intend to maintain, and where appropriate evolve, our approach to assurance throughout AMP7 to build further on the trust we have earned, make improvements where shortcomings are identified and to enhance the confidence that customers, regulators and other stakeholders can have in United Utilities' performance reporting.

We have applied our assurance approach to the data and information that is within this document and the supporting APR publications. This helps to ensure that the information we provide receives the appropriate level of challenge, review and approvals.

We have published details of our final assurance plan for year two of AMP7 and a description of our assurance framework which can be found at: www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020-25/

Introduction

YourVoice

The YourVoice panel plays an important role in monitoring, challenging and reporting on the delivery of our AMP7 business plan commitments.

As an independent panel of individuals from different sectors and backgrounds and with a variety of different areas of expertise, YourVoice looks at how the company can continue to capture and strengthen the views and engagement of customers in our activities.

You can read more about the work of the panel on our website at: www.unitedutilities.com/corporate/about-us/performance/yourvoice

Structure of the Annual Performance Report

We have structured our report so that we can meet Ofwat's reporting requirements and provide a comprehensive overview of financial and non-financial performance. The main sections of the document are outlined below.

Introduction
Overview and navigation of the document

Executive summary
Sets out the key messages of this report

Risk and compliance statement
Board confirmation that UUW has complied with its relevant obligations in year two

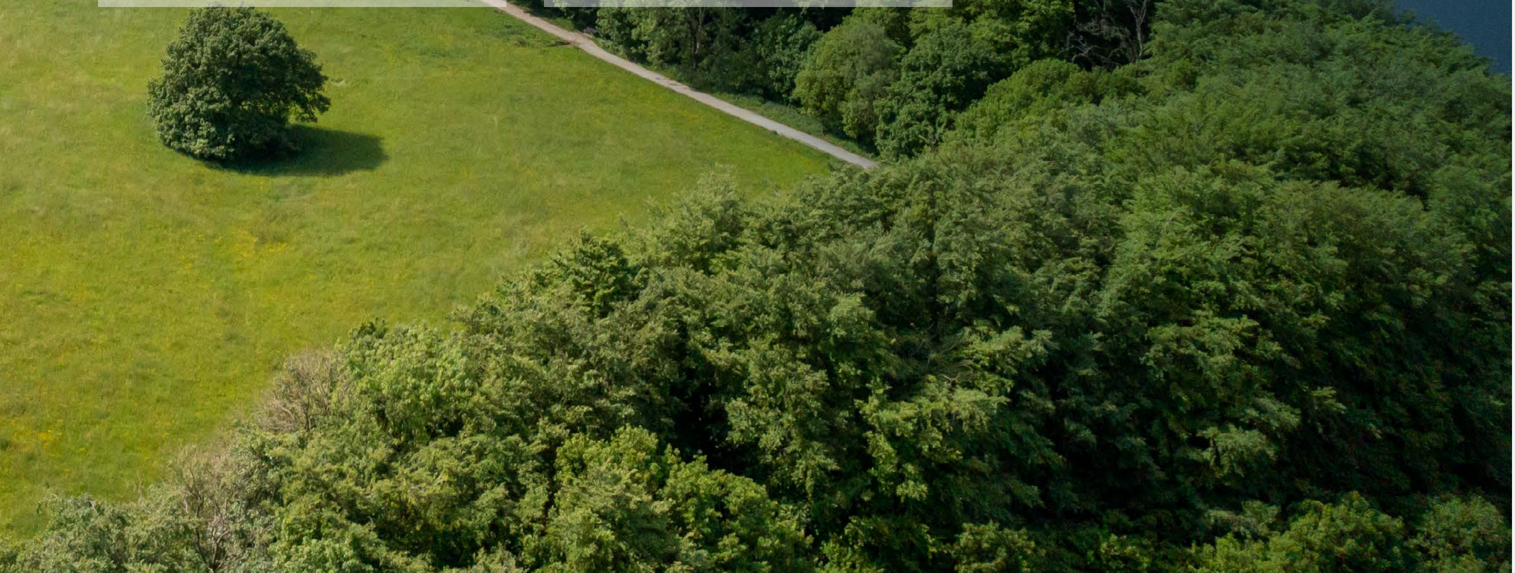
Performance summary
Summary of our year two performance structured around our seven outcomes

Regulatory accounts
Detailed regulatory accounting data and disclosures, including copies of the pro forma data tables

Appendix 1
A summary of the assurance undertaken to support this report, including a summary of the assurance findings

Appendix 2
Certificate to demonstrate the delegated authority to sign off Condition I (ring fencing)

Appendix 3
Non-standard performance commitments calculations



2021/22 United Utilities Water Board statement

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

This statement demonstrates how United Utilities Water Limited's board of directors (the board) has met the BLTG objectives during 2021/22. It references the provisions set out within the guidance when explaining how we are delivering against these objectives.

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

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

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

We believe our purpose, strategy, vision and values will promote the long-term sustainable success of the company, further customers' interests, and create value for shareholders and other stakeholders. Our intention is to hand over the business to our successors in a better and more resilient position for the future. The structure of our purpose, strategy, vision and values is set out on pages 16 and 17 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements. As individual directors, we are mindful of our statutory duty to act in the way each of us considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to S172 (1) (a-f) of the Companies Act 2006.

Provisions:

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

As a provider of an essential service in our region, our purpose is to provide great water and more for the North West. Our three core values – customer focused, innovative and trustworthy – provide the cultural framework through which we operate. Behaving responsibly has been part of the United Utilities ethos for many years and aligns with our purpose. The corporate responsibility committee has a principal role in the group's governance structure. It leads, on behalf of the board, in the review and challenge process to ensure management's activities in the increasingly broad area of environmental, social and governance matters, are consistent with that of a business behaving in a responsible manner. The report of this committee, which includes a look forward in to the next year can be found on pages 156 to 159 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements.

We work to deliver our vision to be the best UK water and wastewater company through three strategic themes of providing the best service to customers, at the lowest sustainable cost and in a responsible manner. In defining the company's purpose, the board took into account information and views from stakeholders through utilising research and engagement – including that which contributed to our AMP7 business plan – and the other feedback and intelligence obtained from customers through both programmatic research and day-to-day interactions. It is a standing item for the board's corporate responsibility committee to discuss engagement with national and regional stakeholders each time it meets. For the year ended 31 March 2022, the board is satisfied that the formulation of our aspirations in terms of our purpose, vision, values and culture have been informed by our stakeholders and we operate our business in such a way that will create long-term value for all. We believe the company has played its part in contributing to the North West and has demonstrated the 'more' of its purpose for our customers, employees, shareholders and other stakeholders.

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

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

- **The best service to customers** – We put customers at the heart of everything we do. As well as delivering a reliable service of great tasting water and removing wastewater, we proactively keep customers informed about any work we are doing in their area and communicate with them in ways that meet their individual needs; for example, we now use 'push texts' to send updates and alerts to customers within a specified location. The best service to customers means being available for them when they need to contact us, always interacting in a friendly and helpful manner, and offering tailored support and assistance for customers when they need it. As well as these day-to-day interactions, it means consulting and understanding more broadly what matters to them about the service we deliver. This shapes what we do across our range of activity. For example, we redesigned our bills based on customer research and feedback so that they were more helpful for customers, whilst on the wastewater network our Dynamic Network Management programme is installing digital sensors to help us proactively understand when the system is not performing as it should. The sensors send an alert back to a central system, meaning we can better respond in real time to deviations in performance, identifying and resolving issues before they impact on customers or the environment.
- **At the lowest sustainable cost** – To run a resilient business, it is important to ensure cost reductions are sustainable so that we can keep them down without compromising on resilience or the quality of service we deliver. When we develop our plans and assess different options for consideration, we look to minimise the whole-life cost. This fits with the total expenditure (totex) model, because the most cost-effective option

can vary between traditional operating expenditure (opex) or capital expenditure (capex) solutions. Our Systems Thinking approach helps us look holistically at all options, and operating our entire network as a system rather than discrete assets opens up new avenues that would otherwise not have been available.

- **In a responsible manner** – We will only deliver our purpose and create and maintain value for our stakeholders if we act in a responsible manner. This means protecting and enhancing the natural environment, using natural solutions where possible, and reducing our carbon footprint and waste. It means promoting a safe, healthy and engaging workplace for our employees, supporting their physical and mental health. It drives us to support local communities on issues that matter to them, and to work with local schools and training facilities to promote skills for the future. Above all it means we are open, honest and transparent in our dealings and in reporting our performance. As part of our Catchment Systems Thinking (CaST) Fund, we provided funding to community groups across the North West to deliver elements of our catchment management approach, focused in particular on community engagement with nature or helping shape and promote natural capital markets. One of the first projects to receive funding is led by the Mersey Rivers Trust and focuses on establishing community participation in the lower catchment area of the River Bollin. It aims to increase the number of people connecting with nature and accessing local blue-green space for health and wellbeing. The project will engage volunteers and landowners in restoring the reed bed habitat at Tatton Mere, a popular recreational site in Cheshire.

Our core values are:

- **Customer focused** – Customers are at the heart of everything we do and we aim to provide a great and resilient service at the most efficient cost.
- **Innovative** – We continually look for new ways to make our services better, safer, faster and cheaper.
- **Trustworthy** – We make promises knowingly and keep them, behaving responsibly and with integrity towards all of our stakeholders.
- **Culture** – As well as our purpose, strategy and core values, we monitor our culture against key categories relating to our people, such as engagement, health and wellbeing, diversity, and development.

The United Utilities Group PLC Annual Report and Financial Statement sets out additional information about these strategic themes and how they run through everything we do. For further information and explanation of our approach, we would refer in particular to the 2021/22 Strategic Report (pages 16 to 109).

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

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

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

In addition to the existing reporting presented to the board, management has developed the United Utilities cultural model and a dashboard of cultural metrics to provide a comprehensive overview to support the board in fulfilling its role in monitoring and assessing culture. The model reflects our people, our value and our purpose. The dashboard comprises relevant metrics derived from the annual employee engagement survey; human resources policies in relation to diversity and inclusion and training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other measures underpinning our purpose of 'providing great water and more for the North West'.

We are pleased to have received external validation of our approach to monitoring culture, featuring as a best practice case study with the Financial Reporting Council 'Creating Positive Culture Opportunities and Challenges Report', December 2021. A recent independent audit found our approach to be a "pragmatic and effective model for supporting the board in its role of monitoring and assessing culture and a useful framework for driving improvements and interventions" (PwC, February 2021).

Our employees are at the heart of the culture of our business and their 'lived experience' is a key part of the board's assessment and monitoring of culture. Alison Goligher, the current designated non-executive director for engagement with the workforce, facilitates two-way dialogue between the board and employees. Alison chairs the Employee Voice panel (the panel) formed from representatives of a number of employee groups and employee networks from within the business and with representatives drawn from across the geographical region. There is an open invitation to all board members to attend meetings of the panel and during this year, Sir David and Kath Cates have participated and answered questions from panel members on board strategy.

Alison has met the panel virtually four times throughout the year. In order to ensure two-way communication, Alison provides updates to the panel from the perspective of the board and its committees, and similarly she provides feedback to the board on the work of the panel. Alison has regular meetings with senior trade union representatives as part of the agreed panel approach.

The panel has adapted its approach during the pandemic and moved from face to face and site meetings to virtual meetings. These have proved popular with panel members, particularly field based operational staff who find it much easier to attend virtually than travel from their operational sites. There are 30 members of the panel and membership rotates approximately every two years.

2021/22 United Utilities Water Board statement

The panel has been provided with business updates and information sessions to broaden their knowledge of board and corporate governance and have three key sub-groups focused on continual improvement of the employee opinion survey, supporting our employee networks to promote support and inclusion across the company and to explore in more detail the drivers and measures of organisation culture. The culture sub-group has focused its energies on obtaining a grass-roots view of the changes to ways of working during the pandemic and contributing to the 'next ways of working' project and on the discussion of topical issues relating to culture, such as the focus on racial inequality.

Employees' views are measured annually through the employee engagement survey with the objective of taking any required action to improve how permanent employees feel about the company and understand its direction. Employees are provided with information through briefings and access to online materials, to enable them to understand the financial and economic factors affecting the group's performance. Along with our employee relations team, our CEO holds regular face-to-face meetings with senior trade union representatives to facilitate two-way communication and engagement with the views of employees' representatives.

The group has a commercial arrangement with a third party for the provision of agency staff and contractors. Engagement and communication in relation to these members of the wider workforce is managed directly by the third party via a dedicated third party account manager who liaises directly with the company's human resources team. If there is any significant change activity, a representative of the third party joins the project team, thereby ensuring consistency when communicating key information to employees, agency staff and contractors.

The board remains committed to embedding a health and safety culture to ensure employees go home safe and well, and regularly receives updates on health, safety and wellbeing activities and health and safety incidents of employees and contractors. The implementation of employee wellbeing policies and activities continued to be a major focus throughout the year. From an external perspective, the board reviewed the approach and progress of work to identify areas where there is any risk of modern slavery occurring in our supply chain and it approved the 2022/23 slavery and human trafficking statement.

Taken together, the board is satisfied that policies, practices and behaviours within the business are aligned with the company's purpose, vision, values and strategy. Further information about how the board monitors culture and employee engagement are set out on pages 125 to 126 of the 2021/22 United Utilities Group PLC Annual Report and Financial statements.

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

The group operates a structure that allows directors to be members of the boards of both UUW and its ultimate holding company, United Utilities Group PLC (UUG). These arrangements have been in place since March 2011 and were in place throughout the year ended 31 March 2022.

As a listed company UUG has applied the principles and reported against the provisions of the 2018 UK Corporate Governance Code (the code), for the year ended 31 March 2022.

Further detail on the reporting on the application of the principles and against the provisions of the 2018 UK Corporate Governance Code is provided on pages 116 to 199 of the 2021/22 United Utilities Group PLC Annual Report and Financial statements.

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

On pages 46 to 49 of the 2021/22 United Utilities Group PLC Annual Report and Financial statements we set out our planning for the short, medium and long term. The board has full visibility as plans are presented to the board throughout the year.

Provisions:

i. **The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.**

The UUW board has full responsibility for all aspects of its business as an appointee. Furthermore there are no items/topics relating to the regulated activities of UUW contained within UUG board's schedule of matters reserved for its own decision.

UUW and UUG are distinct legal entities and are operated as such. Notwithstanding that the same individuals are directors for both companies and scheduled board meetings of each company are held on the same day, they are held as separate meetings with board packs and agendas being prepared for each company's meeting, thereby creating distinction between meetings. Given that UUW represents approximately 99 per cent of UUG's revenues, decisions taken for UUW are unlikely to be in conflict with those of UUG. Were that to be the case, the directors would be responsible for taking decisions on behalf of each entity in accordance with S172 of the Companies Act 2006, and acting in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. The company secretary would advise on any potential conflict of interest, and the board would seek independent advice on any matter if thought necessary.

Matters that have been reserved for decision by the UUG board can be found on our website: **www.unitedutilities.com/globalassets/documents/pdf/03---schedule-of-matters-reserved-for-decision-by-the-board.pdf**

ii. **Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.**

The UUW board has delegated specific powers, subject to certain limits, relating to the capital investment programme to the UUW capital investment committee and in relation

2021/22 United Utilities Water Board statement

to financing, by way of power of attorney, to the Chief Financial Officer and/or the Treasurer. UUW does not duplicate board committees already in operation at the UUG level (the board committees). The activities of the board committees, as required in accordance with the code, whose members are made up entirely of independent non-executive directors (in accordance with provisions 9 and 10 of the code who are directors of the company) are necessarily targeted towards UUW matters, given that UUW represents approximately 99 per cent of UUG's revenues. The alignment of the interests of UUW and UUG ensures that the interests of UUW and its customers are safeguarded, and avoids unnecessary duplication. The group has operated in this manner since 2011.

Further information about the UUG committees and approach to board governance can be found in the 2021/22 United Utilities Annual Report and Financial Statements on pages 112 to 198. This includes reports from the Nomination committee (pages 130 to 139), the Treasury committee (page 155), the Audit committee (pages 143 to 154), the Corporate responsibility committee (pages 156 to 159) as well as the Annual statement from the remuneration committee chair (pages 160 to 162).

iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.

Meetings of the board are fully focused on the company's regulated obligations and activities as an appointee in accordance with its licence as a provider of water and wastewater services and the board is supported by the director of strategy, policy and regulation. Typically, board meetings receive the following standing items: operational activities and incidents; review of performance against operational and financial KPIs; regulatory updates and customer updates.

The board, whose directors' biographies can be found on pages 112 to 115 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements, includes a strong independent non-executive representation with a diverse range of backgrounds, skills and experience. As part of the director recruitment process, potential conflicts of interest would be assessed to ensure the suitability of the candidate in this respect (amongst others). A register of directors' interests is maintained and directors are asked to identify any potential conflicts of interest on any subject matter on the board's agenda at each meeting.

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

Excellent governance is part of who we are and United Utilities was delighted to be accredited with the Fair Tax Mark for the past two years. We participate in a range of global Environment, Social and Governance (ESG) ratings, indices and frameworks to benchmark our approach against best practice and emerging sustainability challenges. We target being 'upper quartile across a suite of investor indices' to demonstrate our performance. We adhere to the highest levels of corporate governance. Fairness and transparency is key to the way we report, the way we operate, and the way we interact with all our stakeholders. In the last reporting year, the board has reviewed the effectiveness of the whistleblowing policies and processes and incidents under investigation and noted the activities within the business to prevent and detect fraud. It concluded that the whistleblowing policies and processes were effective and noted the activities within the business to protect and detect fraud, the latter having been reviewed by the audit committee. During the year, the audit committee asked management to commission an independent review of the group's fraud risk management framework to assess its maturity and identify any enhancements required given the evolving nature of business processes and the working environment. This was felt to be timely, particularly in light of the need for remote working during the pandemic and the subsequent move to hybrid working in some areas of the business. An action plan to strengthen the approach to fraud risk assessment has been implemented, overseen in the first instance by the security steering group forum and with the final report presented to the committee.

Our human rights policy can be found on our website

www.unitedutilities.com/corporate/responsibility/our-approach/human-rights/

with links to other related policies including our modern slavery policy and our approach to sustainable supply chain called United Supply Chain. We work with suppliers and contractors whose business principles, conduct and standards align with our own. We support the appointment of a small business commissioner to investigate companies who do not treat suppliers fairly, are a signatory to the Prompt Payment Code, and fully comply with rules on reporting payments to suppliers.

In recent years the UK water sector has faced challenges to its legitimacy, and questions raised about the ownership structure of the sector. We have been open and transparent in reporting our equity and debt financing arrangements and do not use offshore financing vehicles. Throughout AMP6 we developed a sound approach to assurance which is a key enabler to providing high quality data provision. We are maintaining, and where appropriate evolving, our approach to assurance into AMP7 to build further on the trust we have earned, making improvements where shortcomings are identified and to enhance the confidence that customers, regulators and other stakeholders can have in our performance reporting.

Each year the board reviews and discusses the evaluation of the board, its committees and individual directors and conflicts of interest. Once every three years this process is undertaken by an external organisation and in the intervening years the evaluation is facilitated by the company secretary. An external review was last undertaken in February 2021; the review this year was facilitated by the company secretary in February 2022. This process identified action points and any ongoing training needs. Further details can be found on pages 135 to 138 of the 2021/22 United Utilities Group Annual Report and Financial Statements. As part of its annual governance processes, the terms of reference for the audit, remuneration, treasury and corporate responsibility committees were reviewed by each committee and the board received post-meeting reports from the chairs of each committee summarising discussions and actions. It implemented matters arising from its biannual updates on changes and developments in corporate governance as thought fit. Further details of the company's approach to transparency and governance can be found in the corporate governance report contained within pages 110 to 199 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements.

2021/22 United Utilities Water Board statement

Provisions:

i. **A detailed explanation of the structure of the United Utilities group is set out on page 124 of the 2021/22 United Utilities Water Limited Annual Report and Financial Statements.**

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

In May 2020 the UUW board determined that in the context of the COVID-19 pandemic and the level of uncertainty at that time, no dividend payments would be made by UUW during 2020/21. In the 2020/21 APR we explained that the deferral of the 2020/21 base dividend payment was to be kept under review by the UUW board, with a view to reinstating the dividend later in the AMP7 period at such time as there is more certainty in relation to the prevailing economic conditions following the pandemic, and the financial position had become more clear.

During 2021/22 the board further reviewed the position and determined that there was sufficient certainty about the impact of the pandemic on the business and on the economy more generally such that dividend payments could be reinstated. Further detail on the dividend policies and dividends paid, and how these take account of delivery for customers and other obligations is provided in section 2.4 of this Annual Performance Report.

iii. **An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.**

The principal risks and uncertainties to the success of the business and the ways in which these risks are managed, monitored and mitigated are set out on pages 104 to 109 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements.

iv. **The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.**

The table below sets out, for the year ended 31 March 2022, the number of scheduled meetings of the United Utilities Water Limited board that were attended and the maximum number of scheduled meetings that could have been attended.

Sir David Higgins	8/8
Steve Mogford	8/8
Phil Aspin	8/8
Mark Clare	8/8
Liam Butterworth(1)	1/1
Stephen Carter	8/8
Kath Cates	8/8
Alison Goligher	8/8
Brain May(2)	4/4
Paulette Rowe	8/8
Doug Webb	8/8

(1) Liam Butterworth was appointed as a non-executive director on 1 January 2022.

(2) Brian May stepped down from the board on 23 July 2021.

Memberships of board committees and attendance at these is set out in the Governance section of the 2021/22 United Utilities Group PLC Annual Report (pages 111 to 198).

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

A detailed explanation of the group's directors' remuneration policy and its application during 2021/22 is set out on pages 169 to 176 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements. Details of remuneration for the directors of UUW is set out within Section 2.5 of the Annual Performance Report and 125 to 127 of the United Utilities Water Limited Annual Report and Financial Statements. The criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied, with executive pay arrangements aligned to our purpose, vision, values and strategy, thereby incentivising great customer service and the creation of long-term value for all.

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

As detailed above, the group operates a structure with the same directors sitting on the boards of both UUW and UUG, thereby increasing the efficiency and effectiveness of the corporate governance structure. As a result and given that UUW represents approximately 99 per cent of UUG's revenues, the company does not duplicate the board committees already operating at the UUG level. Full details of the UUG board and board committees are set out within the Governance section of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements (pages 110 to 199).

Provisions:

i. **Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify which customer and stakeholder expertise is needed in the boardroom and how this need is addressed.**

The board and the board committees have an appropriate combination of skills, experience and knowledge, biographies of the directors are set out on pages 112 to 115 and the skills matrix of directors is set out on page 134 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements. Consideration is given to the length of service of the board as a whole and membership is regularly refreshed, non-executive directors would normally only serve a term of up to nine years in accordance with the code (the tenure of board directors is set out on page 132 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements). Appointments to the board are subject to a formal, rigorous and transparent procedure. The board diversity policy (see page 134 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements) is taken into account during the recruitment process. The policy incorporates targets for gender and ethnic diversity, which are to maintain at least 40 per cent female representation and to have at least one director from a minority ethnic background* and to have at least one of the positions

2021/22 United Utilities Water Board statement

of: chair, CEO, senior independent director or CFO held by a female. These targets will be met as of the end of July 2022. An effective succession plan is maintained for board and senior management. Improving diversity and inclusion within the group has been high on the board agenda. Further detail is set out on pages 134 to 135 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements.

*Defined by reference to categories recommended by the Office for National Statistics (ONS) excluding those listed by ONS as coming from a white ethnic background.

ii. **Independent non-executive directors are the largest single group on the board.**

There are currently seven independent non-executive directors on the board out of a total of eleven (at May 2022). Their biographies can be found on pages 112 to 115 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements. Independence is tested against the criteria set out in the code.

iii. **The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.**

Sir David Higgins was appointed to the board in May 2019 as chair designate and in line with the BLTG provisions, he was independent on appointment when assessed against the circumstances set out in the code. He was appointed as Chair of the board on 1 January 2020. The roles and responsibilities of the Chair are set out as part of the group's governance framework.

iv. **There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.**

A board evaluation is conducted annually, with an independent assessment every third year, as has been the case for a number of years. This year the evaluation was facilitated internally by the company secretary, in consultation with the Chair and the board committee chairs. The most recent external audit was conducted during 2020/21. Full details can be found on page 135 of the 2021/22 United Utilities Group PLC Annual Report and Financial Statements.

v. **There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.**

Details of the approach to board succession can be found on pages 133 to 135 of the 2021/22 United Utilities Group PLC Annual Report and financial Statements.

vi. **To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.**

Liam Butterworth was appointed to the board in January 2022 and met (via video call) with representatives of Ofwat prior to his appointment to the board on 1 December 2021, as have all non-executive directors since April 2016.

vii. **There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.**

Independent non-executive directors form the members of the board committees and chair the audit, remuneration, treasury and corporate responsibility committees.

E) Delivering for customers and stakeholders.

We believe that we are delivering a strong performance for customers and stakeholders and have described this both in section 1.1 of this Annual Performance Report and in the strategic report in pages 16 to 110 of the 2021/22 United Utilities Group PLC Annual Report.

Examples of delivery include helping over 200,000 households currently struggling with their bills through our extensive range of affordability schemes, including leading the utility sector in implementing Open Banking, which has helped us deliver even better customer service. It takes a process that previously could have taken weeks down to just a few minutes, allowing us to find the most suitable support scheme for customers quickly. There is always more we would like to be able to do though, and we are a leading supporter of the Consumer Council for Water's drive to introduce a national social tariff. This would help to deliver a fairer sharing of support across the country, as we believe the right support should be provided to those who need it regardless of where they live in the country.

Our focus is on investing in and delivering sustainable operational performance. In 2021/22 we achieved over 78 per cent of our performance commitments.

In wastewater, the benefits of our Pollution Incident Reduction Plan are being realised. We are sector frontier on pollution incidents, having reduced overall pollution by a third since the start of the AMP. Our treatment works compliance remains strong and we expect to remain green on this measure in the Environment Agency's annual performance assessment for 2021.

In water, we are investing £100 million in our water network to reduce incidences of discolouration experienced by customers. Progress to date has been good with a more than 30 per cent reduction in discolouration reports by customers in the first three months of 2022 when compared to 2021. We outperformed our leakage target for the 16th consecutive year.

Our focus and targeted investment is helping us to deliver great service to customers and this year we have continued to perform well against C-MeX and D-MeX. We have again achieved the BSI accreditation for customer vulnerability for providing services for our most vulnerable customers.

We are on track to deliver our AMP7 environmental improvement programme, which will improve river and bathing water quality in the North West, and have made good progress against our carbon pledges. We are upper quartile across a suite of environmental, social and governance (ESG) indices, and our robust balance sheet provides long-term financial resilience.

We are achieving higher outperformance payments thanks to strong operational performance against customer outcome delivery incentives as well as financial outperformance. As a responsible company we are sharing this success with customers, as we did in AMP6, by investing £765 million to help accelerate further enhancements for customers and the environment.

2021/22 United Utilities Water Board statement

Remuneration arrangements for executive directors are aligned to our purpose, vision and strategy helping to incentivise great customer service and the creation of long-term value for customers and other stakeholders, including the environment. The table on page 166 summarises how our incentive arrangements are lined to our business strategy. During the year our remuneration arrangements were thoroughly reviewed, with a key area of focus being on how we could strengthen the extent to which environmental, social and governance matters are reflected going forward. There are extensive disclosures in relation to executive remuneration on pages 161 to 172 of this Annual Performance Report. Additional information and context is also available in the remuneration committee report on pages 160 to 191 of the 2021/22 United Utilities Group PLC Annual Report.

In respect of our long-term incentives (LTIs), performance is measured over at least a three-year period but outcomes only become available to the directors after at least five years from grant. Since 2020, half of the overall outcome available for our LTI is based on key performance indicators including operational, service resilience, and from 2022 will reflect our performance on specific carbon measures, all of which capture the stretching delivery of performance in the interests of customers and the environment. The other half is related to our performance against return on regulated equity targets, where performance is influenced by the extent to which we deliver for customers. Overall, since 2020 at least 50 per cent of our LTI is based on customer and environmental objectives, including 10 per cent specifically related to carbon reduction initiatives.

Pages 168 and 169 of this Annual Performance Report provide details about the outcome of the LTI that was granted in 2019 and had a performance period that ended on 31 March 2022. This 2019 LTI had different performance measures than those which have applied since 2020 as outlined above. Overall, one-third of the 2019 LTI was based directly on our customer service performance (C-MeX contacts and written complaints). Whilst the final outcome will only be confirmed in the summer of 2022 when the complaints performance of all other water companies is known, we believe we have performed very well in this area and will have reached our stretch target in full. The other two-thirds of the 2019 LTI is based on our performance against return on regulated equity and shareholder return targets, where our performance has also been strong. Overall, we expect that the vesting outcome for the 2019 LTI will be 100 per cent once the customer service performance component is confirmed.

In respect of the annual bonus scheme, performance is measured over a one-year period but half of the outcome is deferred in to shares and only become available to the directors three years after the cash bonus is paid.

For a number of years the measures used in our annual bonus arrangements for executive directors incentivise stretching performance delivery for customers, including on our environmental commitments and obligations, with an overall weighting of 75 per cent. In respect of the performance year 2021/22, customer satisfaction and employee engagement remain high, we have achieved our best ever performance against customer outcome delivery incentives (ODIs), we are on track to deliver our AMP7 environmental improvement programme, and we have again achieved the maximum 4 star "industry leading company" status against the Environment Agency's annual performance assessment. Details about how this performance has impacted the executives directors' bonuses are shown on pages 168 to 169 of this Annual Performance Report

As outlined on pages 170 to 171 of this Annual Performance Report, following a review during the year we have introduced two new performance measures to our 2022/23 annual bonus scorecard, one focusing on improving the appearance of drinking water, and the other one delivering on our Better Rivers commitments (further details of which are available on page 67 of the 2021/22 United Utilities Group PLC Annual Report). We have revised our existing Time, Cost, Quality index measure to place renewed emphasis on the efficiency of our capital delivery programme and to reflect the carbon impact of enhancement projects. Details of our performance against these measures will be included in our 2022/23 Annual Performance Report.

For all incentive outcomes, legally enforceable mechanisms are in place to enable the company to withhold amounts due, or recover amounts already paid, in circumstances if relevant information becomes known at a later point.

Signed on behalf of the board

Sir David Higgins
Chair

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the United Utilities Water Limited board on 28 June 2022 and signed off on its behalf by Sir David Higgins Chair and Steve Mogford, Chief Executive Officer.

Executive summary

This is our second Annual Performance Report of AMP7, the five year price control period running from April 2020 to March 2025. In this document we set out information about both our financial and non-financial performance against the targets and commitments set for the period. This report covers year two of the AMP, running from April 2021 to March 2022.

This year we continued to deliver strong sustained operational and financial performance and have met or exceeded over 78 per cent of our performance commitments. We have built on strong foundations delivering value through sector leading levels of customer satisfaction and further improving operational performance, making investments beyond the scope of our AMP7 Final Determination to drive sustainable performance and growth.

We are embedding our Dynamic Network Management programme, which is our ground-breaking £100 million Systems Thinking network, the first of its type in the world. We have installed more than 8,000 sensors on our sewer network linked to an innovative artificial intelligence platform. The data and information produced by this system means we are proactively finding and fixing issues within the sewer system before they cause an incident or have an impact on customers or the environment. This helps us to improve our performance for flooding, blockages and pollution incidents.

We continue to improve the resilience of our water supply. This year we achieved our leakage target for the 16th consecutive year and delivered our second best ever performance for supply interruptions. We have launched our Water Quality First Programme which includes a number of short, medium and long term actions to help us improve the way we run our water treatment works and network to provide better service to customers. We are investing £100 million in our water network to help to reduce incidences of discolouration experienced by customers and have expanded and accelerated our mains flushing activities.

Supporting customers who are struggling to pay their bills is extremely important to us. Many people across the country are facing real challenges as we emerge from a global pandemic and are faced with significant rises in the cost of living. We serve many of the most deprived areas in England and Wales, so it is more important than ever that we are doing what we can to help customers. Through our extensive range of affordability support schemes, we continue to help those that are struggling most, supporting over 200,000 households. Our sector leading package of support which is worth around £280 million over AMP7 is providing much needed financial assistance to struggling households in the North West. We are leading the sector in implementing Open Banking. This takes a process that could have taken weeks down to just a few minutes, allowing us to find the most suitable support scheme for customers quickly.

We have delivered strong financial performance during what has been a challenging year for businesses. We have achieved this through strong financing, tax and ODI performance and continue to maintain one of the strongest balance sheets in the sector. We are on track to deliver our AMP7 environmental improvement programme, which will improve river and bathing water quality in the North West, and have made good progress against our carbon pledges. We are upper quartile across a suite of environmental, social and governance (ESG) indices, and our robust balance sheet provides long-term financial resilience, giving us confidence in our ability to continue to create value for customers, the environment, and other stakeholders.

Ten highlights from this year's performance:

01 WE MET OR EXCEEDED OVER 78 PER CENT OF ALL OF OUR PERFORMANCE COMMITMENTS

02 WE ACHIEVED OUR LEAKAGE TARGET FOR THE 16TH CONSECUTIVE YEAR

03 WE ARE SUPPORTING OVER 200,000 HOUSEHOLDS THROUGH OUR EXTENSIVE RANGE OF AFFORDABILITY SCHEMES

04 REDUCED POLLUTION INCIDENTS BY MORE THAN ONE THIRD SINCE THE BEGINNING OF THE AMP

05 DELIVERING OUR DYNAMIC NETWORK MANAGEMENT PROGRAMME TO PROACTIVELY FIND AND FIX ISSUES ON THE SEWER NETWORK

06 INCREASED THE NUMBERS OF CUSTOMERS SIGNED UP TO OUR PRIORITY SERVICES TO OVER 180,000

07 79 PER CENT OF CUSTOMERS SAY WE OFFER VALUE FOR MONEY

08 LEADING THE SECTOR IN IMPLEMENTING OPEN BANKING

09 EARNED FINANCIAL REWARDS FOR STRONG PERFORMANCES ON THE C-MEX AND D-MEX MEASURES OF CUSTOMER SATISFACTION

10 WE HAVE REPLACED LEAD PIPEWORK AT OVER 3,500 CUSTOMER PROPERTIES, HELPING TO IMPROVE THE WATER QUALITY AT CUSTOMER'S TAPS

Executive summary

Looking forward to the future we are investing in a Better Rivers plan, which will see us make an early start on provisions within the Environment Act and will support a reduction in spills. We have made four pledges to deliver over the next three years, and in doing so we will kick start a river revival ahead of AMP8.

More details of our plan can be found on our website at www.unitedutilities.com/corporate/responsibility/environment/reducing-pollution/storm-overflows/our-commitments-to-river-health/

In year two we have focused on investing in sustainable operational performance and customer service whilst delivering value for our stakeholders. Customer satisfaction and employee engagement remain high and our performance has been strong across water, wastewater and retail and we have achieved or exceeded 78 per cent of our performance commitments for the year.

In wastewater, the benefits of our Pollution Incident Reduction Plan, which focuses on culture, systems thinking training and maintenance are being realised. We are at the sector frontier on pollution incidents, having reduced overall pollution by a third since the start of the AMP. We have continued to develop and implement a wide range of schemes and initiatives to improve our performance for sewer flooding. This year we achieved our target for external flooding and whilst we failed to meet our target for internal flooding, there has been a notable improvement in performance compared to the prior year. We expect to make further improvements in our sewer flooding performance as we embed our Dynamic Network Management programme. This will help us proactively identify and resolve operational problems within the sewer network before they impact customers, the environment or stakeholders.

Under our recycling biosolids performance commitment we have successfully recycled over 99.9% of our biosolids this year. Over the last year we implemented several measures including enhanced training and a focus on sampling to improve our performance.

We have achieved our leakage targets for the 16th consecutive year and are on track to deliver a 15 per cent reduction over AMP7. We delivered our second best ever performance for interruptions to supply with a performance of 7 minutes and 58 seconds. We are continuing to work with customers to help their understanding of efficient water use and make informed choices where possible, and although we did not meet our target for per capita consumption in year two we did improve our performance.

We supply a very high level of water quality and we have continued to deliver a water quality improvement programme this year, focusing on training and behavioural change for our staff, process improvements and targeted investment. There are, however, some areas where we will look to improve in future years. We are making additional investment in our water network to improve performance and deliver our targets for the compliance risk index and for reducing water quality contacts due to taste, smell and appearance.

Our focus and targeted investment is helping us to deliver great service to customers and this year we have continued to perform well against C-MeX and D-MeX. We have again achieved the BSI accreditation for customer vulnerability for providing services for our most vulnerable customers and have increased the number of customers registered for our Priority Services to over 186,000.

We strive to improve our customer data in order to ensure that all those who use our services are correctly billed, which in turn ensures fairer bills for everyone. Our performance on voids has achieved its target this year, whilst we have improved our data on gap sites for both households and non-households. We have also benefited from our non-household vacancy incentives scheme, which incentivises retailers to identify occupied non-household premises that are showing as vacant and should therefore be billed.

Delivering our promised outcomes

Over AMP7 we will be delivering across seven different outcomes. Each outcome consists of a number of different performance commitments. In section 1.1 of this document we have provided further narrative around each of these outcomes, explaining why each is important to customers. This section details each of the 46 different performance commitments which sit within the outcomes, describing the actions we have taken in delivering our performance and targets for year two. The table below outlines each of the seven outcomes, the number of performance commitments in the outcome, how many performance commitments we have successfully delivered in year two and the net outcome delivery incentive (ODI) position. In Appendix 1 we outline our approach to assuring our data and information. We also provide details on any areas where we are not fully compliant with reporting methodologies, including the reason for non-compliance, its impact and the actions we are taking to address the issue.

Outcome description	Number of performance commitments passed per outcome	Net ODI position (£m)
Your drinking water is safe and clean	3/5	-1.048
You have a reliable supply of water now and in the future	8/11	2.703
The natural environment is protected and improved in the way we deliver our services	7/9	5.568
You're highly satisfied with our service and find us easy to do business with us	4/5	3.209
We will improve the way we work to keep bills down and improve services	8/8	11.324
Collect and recycle wastewater	1/2	-0.056
The risk of flooding for homes and businesses is reduced	5/6	3.733
Total	36/46	25.433

Our expenditure and revenues

Introduction

The PR19 price review process was structured around four wholesale price controls and two retail price controls.

The wholesale business undertakes the operational activities of collecting, treating and distributing water to customers and then collecting and treating the wastewater and managing the bioresources produced by the wastewater treatment process. At PR19 the two previous wholesale price controls (water and wastewater) were further split out to create four distinct price controls: water resources, water network plus, wastewater network plus and bioresources.

The retail business undertakes the customer contact and billing activities and this continues to be split into two separate price controls. One of these is for retail services for household customers, which we continue to operate. The other retail services is for business and other non-household customers.

The non-household retail market opened to competition in April 2017, following which UUW exited the non-household retail market and non-household customers have been able to obtain their retail services from a number of retailers. Further details of the non-household retail market can be found on the Open Water website.

The remainder of this section of the APR sets out how we have performed against the PR19 expenditure and revenue assumptions for the wholesale price controls and the household retail price control.

Wholesale

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

In section 1.1 of this document we set out that the performance expectations of the wholesale services are captured by performance commitments with associated outcome delivery incentives. The PR19 process also determined the assumed levels of total expenditure (totex) that were required to deliver these performance levels and to continue to meet our other regulatory and statutory obligations.

These expenditure assumptions across the four wholesale price controls were then used to determine the amount of revenue that would need to be recovered from customers to allow the business to finance the delivery of the operational and capital expenditure programmes for AMP7, to provide ongoing finance for the previous investment programmes and to pay tax on our operations.

Totex incentivisation

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

Any variance between the initial totex assumptions and actual expenditure over the full five-year period will be assessed through the cost reconciliation mechanism at the end of the regulatory period. This mechanism ensures that if we have been able to make greater efficiencies than assumed in the final determination then, for the majority of spend, half of the saving would be retained by the company and half would be returned to customers. Similarly, if our expenditure is higher than the determined allowance, half of the increased expenditure would be recovered from customers and half would be paid for by the company.

The impact of any net variance will be assessed as part of the PR24 price review process which concludes in 2025 and will then be reflected in customer bills during subsequent periods.

Interaction of operational and financial incentives

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

Wholesale expenditure

Our wholesale totex expenditure, as compared with the totex expenditure levels set out in the PR19 final determination, is shown in the table below.

Wholesale expenditure in 2021/22 (out-turn)

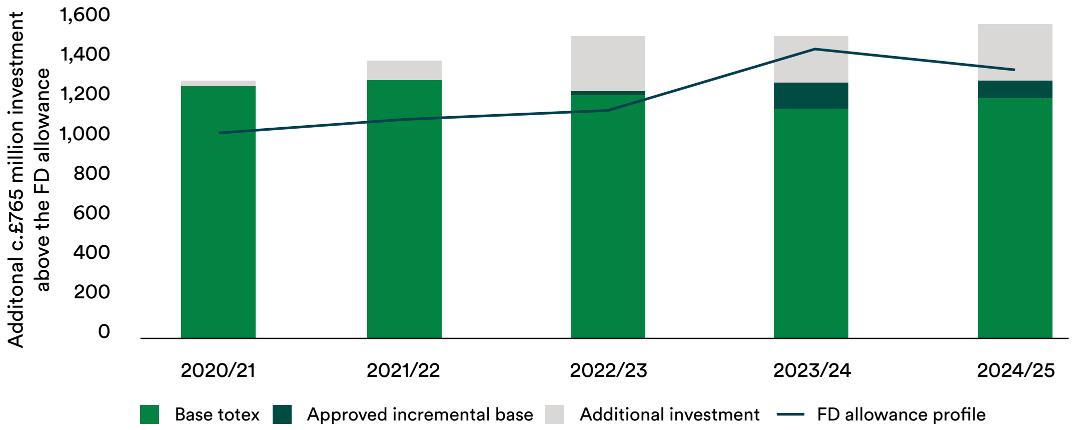
	Spend – year ending 31 March 2022		
Financial measure	**FD assumption[(1)] (£m)**	**Actual (£m)**	**Variance (£m)**
Water resources totex	83	82	-1
Water network plus totex	463	567	+104
Wastewater network plus totex	496	630	+134
Bioresources totex	83	69	-14
Total totex	**1,125**	**1,347**	**+222**
Shadow RCV (March 2022)	12,336	12,357	+21

(1) Inflated from FD allowances (presented in 17/18 prices) to out-turn applying 21/22 average CPIH. Includes allowance for Green Recovery schemes.

Information from APR table 4C and 4U

Our expenditure and revenues

Net regulatory totex



Total expenditure in 2021/22 was significantly higher than assumed within the PR19 FD, with total actual totex spend of £1,347 million compared to £1,125 million assumed in the FD.

The key reason for this increased expenditure is because we have chosen to accelerate our AMP7 investment programme. In addition to accelerated spend of just over £200 million in 2020/21, we chose to accelerate further spend of just over £150 million in 2021/22 to enable us to deliver benefits sooner – including improved customer service, outcome delivery incentive performance and efficiencies

As the above chart shows, we expect to continue to accelerate spend in 2022/23. However, our current plans indicate that we should be able to deliver our overall AMP7 FD programme of work at the allowed level of expenditure across the five-year regulatory period. This means that this element of overspend in years 2020/21, 2021/22 and 2022/23 relates to timing differences only, with more spend earlier in the period and less spend later in the period.

In addition to the accelerated spend, we also announced our intention to invest a total of £765 million beyond the FD allowance over AMP7 (shown in the above chart). This reflects c.£250 million investment to improve service for customers (including c.£100 million investment in Dynamic Network Management, c.£100 million investment in drink water quality improvements, and spend to save opportunities), c.£250 million investing outperformance for environmental improvements to ensure delivery of the new Environment Act 2021 requirements, and c.£265 million approved incremental base investments for projects where regulatory allowances and mechanisms have been secured following the FD. In 2021/22 we incurred £76 million of spend in relation to additional projects outside of the FD scope. This is in addition to the £32 million of overspend reported in 2020/21, resulting in a cumulative overspend of £108 million across the first two years of the 2020–25 period.

Our capital delivery continues to be achieved in an effective and efficient manner as measured by our internal time, cost and quality index (TCQi). We have maintained our high performance scores at over 95 per cent, meaning that, on average, over 95 per cent of our capital expenditure in the last year was delivered to time, at the budgeted cost and meeting the high level of quality required.

Our expenditure and revenues

Household retail

Overview of the retail price control and incentives

2021/22 performance – household retail

The PR19 process determined an allowed 'cost to serve', plus an assumed margin that could be recovered for providing retail services to household customers. The allowed cost reduces through the AMP7 period in real terms, as no direct allowance is made for inflation.

The initial cost to serve allowance was based upon assumed numbers of customers through the period. Total allowed cost to serve levels for each year therefore vary depending upon actual customer numbers.

Measure	Ofwat FD assumption	Allowance based on actual customer numbers	2021/22 actual	Variance
Cost to serve excluding margin	£94.4m	£97.5m	£106.1m	£8.6m

Actual household customer numbers at 3.16 million (table 2F) were 99,408 higher than assumed in the PR19 FD. This change has primarily been driven by higher than forecast new connections and a reduction in void premises. Taking account of an increase in customer numbers, allowed operating costs for 2021/22 were £97.5 million.

Actual operating costs in the year (as set out within APR table 2C) were £106.1 million which is £8.6 million higher than the retail cost allowance. The increase in cost above the original FD assumptions is attributable to the impacts of COVID-19 on cash collection and therefore bad debt. The costs are, however, £1.6 million lower than in 2020/21 as detailed in the retail expenditure chapter (section 1.5).

Our expenditure and revenues

Our financial performance

Overview of the PR19 determination

Consistent with prior regulatory periods, Ofwat developed the PR19 determinations for all companies based upon a notional capital structure (rather than basing them on company specific capital structures). It applied a common weighted average cost of capital (WACC) for all companies of 2.96 per cent real (CPIH), inclusive of 0.04 per cent retail allowance (this excludes the 'fast-track' reward given to some companies).

To demonstrate that the plan was financeable, the anticipated performance against a key suite of equity and debt financial indicators was set out as part of each company's determination. In addition, Ofwat set out the assumed notional base case return against the company's regulatory equity (RORE). For UUW, this value was 3.86 per cent (CPIH) on average across AMP7.

UUW was one of only three companies across the industry fast-tracked through the PR19 process during 2019/20. As well as allowing us to achieve a flying start on our investment programme for this AMP, our fast-track status also provided a reward equivalent to an annual 0.1 per cent of regulated equity, worth around £25 million across the 2020–25 period.

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

2021/22 performance – UUW financial performance

Overall, we have delivered a strong set of financial results for the year ended 31 March 2022.

Operating profit levels remain consistent with last year, reflecting an increase in revenue as business consumption returns to pre-pandemic levels, partly offset by inflationary increases in our core costs, including increased power costs. As power is a significant cost for our business we have a progressive policy of hedging to minimise short-term volatility. This has helped mitigate some of the inflationary impact and puts us in a relatively strong position next year, having hedged over 90 per cent of the commodity price risk.

We continue to maintain a strong balance sheet, with a low customer debtor risk and RCV gearing of around 65 per cent, which supports our strong credit ratings.

In total over 2020–2025, we expect to raise around £2.7 billion to cover refinancing and incremental debt, supporting our five-year investment programme. We have already raised c.£1.4 billion, taking advantage of attractive rates and extending our liquidity position out to February 2025. This included a c.£300 million issuance in the prior year under our new sustainable finance framework, allowing us to raise finance based on our strong ESG credentials, issued at a UK corporate record low coupon rate at this maturity of 0.875 per cent.

Our treasury management secured a low cost of debt compared with industry wide regulatory assumptions for AMP7, with an appropriate mix of index-linked and nominal debt. Our hedging policy means we are well placed to manage future financing costs. We have a robust liquidity position with £657 million of available liquidity as at 31 March 2022 and have published a seven year long-term viability statement.

We have a responsible and sustainable dividend policy, with consideration given to a broad range of stakeholders who have interests in the performance of the company. No dividend was paid in 2020/21, due to the COVID-19 pandemic and the level of uncertainty at the time. The board reviewed the position and determined that there was sufficient certainty about the impact of the pandemic on the business and on the economy more generally such that dividend payments could be reinstated this year. As such, this year's dividend represents the cumulative position across the first two years of AMP7.

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

Additional detail is provided within the UUW Regulatory accounts in section 2.

Our expenditure and revenues

Income statement

Our income statements for the years ending 31 March 2022 and 31 March 2021 are summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Income statement measures for the years ending 31 March 2022 and 31 March 2021

Income statement measure (£m)	2021/22	2020/21	Movement
Revenue	**1,822.0**	1,786.9	+35.1
Operating profit	**593.9**	594.2	-0.3
Profit before tax	**399.0**	486.7	-87.7
Profit after tax	**-110.9**	394.7	-505.6

Information from APR table 1A

In 2021/22, regulated revenue increased by £35 million to £1.82 billion, largely reflecting higher consumption as business activity returns to pre-pandemic levels. Non-household revenue has increased by £38 million, with many more businesses able to operate compared with last year, when the impact of the initial lockdown was significant. Whereas household revenue has slightly reduced by £3 million, due to higher consumption particularly during the first half of last year reflecting the initial impact of people being locked down at home through the warm weather of late spring 2020.

Operating profit of £594 million is broadly consistent with 2020/21. The £35 million increase in revenue was mostly offset by inflationary pressures increasing our underlying cost base. This was most notable in relation to power costs, which increased by £17 million compared with the prior year, largely due to price increases. We manage this risk through a progressive policy of hedging the commodity price element of power costs to minimise short-term volatility. Through this hedging policy and self-generation, we locked in the cost on the majority of our consumption for 2021/22 before the most recent energy price rises, which has been fundamental to our ability to minimise the impact on our cost base.

Profit before tax of £399 million was down £88 million. This reflects a £174 million increase in net interest expense due to the impact of higher inflation on our index-linked debt, partially offset by a £71 million increase in net fair value gains on financial instruments (from a gain of £71 million in 2020/21 to £143 million in 2021/22).

UUW has a reported loss after tax of £111 million this year, compared with a £395 million reported profit after tax last year. This £506 million difference reflects the £88 million decrease in reported profit before tax, and a £578 million increase in deferred tax largely due to a one-off charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate, partially offset by a £160 million positive movement in current tax primarily as a result of adjustments in respect of optimising available tax incentives on our innovation-related expenditure in prior years.

Our expenditure and revenues

Financial position

Our financial position for the years ending 31 March 2022 and 31 March 2021 is summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Financial position for the years ending 31 March 2022 and 31 March 2021

Financial position	2021/22	2020/21	Movement
Total assets (£m)	**13,739**	13,541	198
Total liabilities (£m)	**11,733**	11,322	411
Net asset value and total equity (£m)	**2,006**	2,219	-213
Decrease in net cash (£m)	**-477**	151	-628
Net debt (£m)	**7,987**	7,628	359
Ofwat RCV (£m)	**12,336**	11,681	655
'Shadow' Regulatory Capital Value (£m)	**12,357**	11,688	669
Gearing (%)	**64.8**	65.3	-0.5

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

Net assets were down £213 million, with total assets up by £198 million and liabilities up £411 million, impacted by the £359 million increase in net debt (described below). There was a £628 million decrease in net cash, mainly due to dividends paid of £334 million (reflecting the two year cumulative position as the 2020/21 dividend was deferred due to uncertainty re. COVID-19), and the timing of finance raised towards the end of the prior year, reflecting operational financing requirements.

Reported net debt (table 1E) was up by £359 million, largely as a result of net operating cash inflows offset by our net capital expenditure, dividends, indexation and cash interest.

The 'Shadow' regulatory capital value increased by £669 million, due to the high inflation environment resulting in significant RCV growth.

Reported gearing (which uses the RCV incorporated into Ofwat's final determination) remained broadly consistent at c.65 per cent, as both net debt and RCV increased in line with each other, as described above.

UUW's capital structure continues to support an A3 credit rating with Moody's. With UUW having eliminated its pension deficit position and with a lower scheduled AMP7 capital programme compared with AMP6, gearing is expected to end the 2020–25 period lower than it started. In addition, the high inflation environment should result in a natural reduction in gearing, as the RCV will increase in line with inflation, whereas only a proportion of our net debt is index-linked. However, it is still expected to remain above the nominal gearing level of 60 per cent assumed by Ofwat in setting the PR19 FD, largely due to the discretionary expansion of totex to drive performance improvements.

Our expenditure and revenues

Financial metrics

Our performance against the key financial measures set out in the FD for the years ending 31 March 2022 and 2021 is summarised in the table below. This should be read in conjunction with the high level commentary following the table and the detailed information provided within Section 2: Regulatory accounts.

Financial metrics for the years ending 31 March 2022 and 31 March 2021

Financial ratios	Notes	Ofwat PR19 FD assumption	2021/22 actual	2020/21 actual
Interest cover ratio (ICR) (cash)	1	4.58	**6.57**	6.07
Adjusted cash interest cover ratio (ACICR)	1	1.52	**2.42**	2.29
Funds from operations (FFO)/debt	1	10.83%	**11%**	11%
Gearing (net debt/RCV)	1	56.98%	**64.8%**	65.3%
Dividend cover	1	1.56	**-0.33**	–
Retained cash flow (RCF)/Net debt	1	8.58%	**7%**	4%
Return on capital employed (ROCE)	1	4.32%	**5.85%**	4.57%
Credit ratings	2	Investment grade	**A3; BBB+; BBB+**	A3; BBB+; BBB+

Information from PR19 final determination: United Utilities and APR table 4H

Notes:
(1) Ofwat FD ratios are derived on a notional capital structure with a notional cost of debt and reflect 100 per cent of IRE expensed in the income statement.
(2) Minimum credit rating as required in UUW licence.

The interest cover ratios illustrate a company's ability to pay interest on its outstanding debt. The cash interest cover looks at the ratio of funds from operations (FFO) before the payment of interest, to cash interest payable. The adjusted cash interest cover adjusts the numerator by subtracting regulatory depreciation which is an approximation of the capital cost that would be incurred if companies were to maintain the RCV at the same level. Both metrics remain comfortably above the assumptions made in the PR19 final determination.

The FFO/debt ratio is calculated by taking the net cash generated from operating activities, adjusting for changes in working capital and dividing by net debt. This ratio is often used by credit rating agencies to look at the ability of companies to repay their debt and to fund their capital expenditure requirements. It should be noted, however, that each credit rating agency has its own approach to the calculation of these ratios which may differ from the Ofwat calculation method used here. For example, applying Standard & Poor's (S&P's) usual methodology, which deducts all interest to derive FFO compared to Ofwat's method which deducts cash interest only, S&P's FFO/debt for 2021/22 would be lower at around 9 per cent, compared to 11 per cent under Ofwat's FFO/debt metric calculation. The 11 per cent reported under Ofwat's method is in line with Ofwat's PR19 FD assumption.

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

Our credit ratings with Moody's (A3), S&P (BBB+) and Fitch (BBB+), all on stable outlook, remain unchanged from the prior year. These are all well above the minimum investment grade and at or above PR19 business plan targets for Moody's (BAA1) and S&P (BBB+) on a notional basis. No PR19 business plan target was provided for Fitch.

Dividend cover shows the number of times the dividend can be paid from the distributable profits earned in each year. UUW has a reported loss after tax of £111 million this year, largely due to a high deferred tax charge to restate the brought forward deferred tax liability at the new 25 per cent future headline rate. In addition, dividends paid reflect a two-year cumulative position due to the deferral of the 2020/21 dividend. If we exclude the deferred tax charge and normalise dividends paid over the first two years, then the underlying dividend cover would be above the PR19 FD assumption.

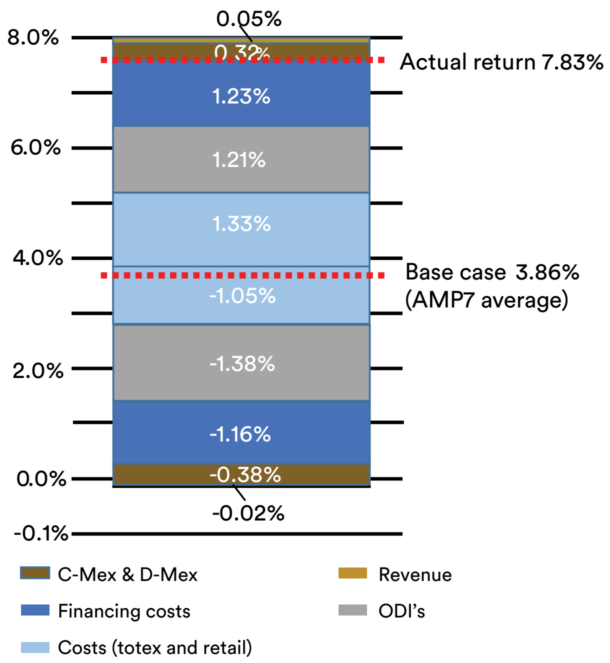
RCF/Net debt shows FFO retained by the business post dividend payments as a percentage of net debt. Similarly RCF/net debt of 7 per cent reported in 2021/22 is below the PR19 FD assumption, largely as a result of the higher dividend payment in the current year as a result of the cumulative two-year catch up.

ROCE measures profit before interest less current tax divided by RCV. ROCE of 5.85 per cent in 2021/22 is higher compared to last year, reflecting a £82 million tax credit adjustment in respect of prior years relating to optimising the available research and development UK tax allowances on our innovation related expenditure.

Our expenditure and revenues

Return on Regulatory Equity (RORE)

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



The RORE value reported in our APR is designed to measure the returns (after tax and interest) that a company has earned by reference to the notional regulated equity, where regulatory equity is calculated from the RCV and notional net debt (60 per cent of RCV).

UUW reported a RORE of 7.83 per cent in 2021/22, driven by our continued improvements in operational performance, together with high levels of inflation which increases financing outperformance, and tax outperformance reflecting our optimisation of available government tax incentives. Underlying RoRE is slightly lower at 7.59 per cent, and excludes the tax that will be recovered through the regulatory sharing mechanism.

Although reported RORE is within the expected range published by Ofwat and exceeds the assumed base case, comparisons between these two values need to be made with care. The assumed return within the FD is based on a theoretical, efficient company with a notional capital structure and a notional cost of debt, whereas the actual values reflect the UUW actual company-specific position. The RORE measure has also changed to align to financial flows for 2021/22 reporting with one key change being that this now includes all tax out/under performance on a new line, whereas previously the components within RORE were all presented post-tax. This means that the numbers are not directly comparable.

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

Base return – The actual base return of 3.94 per cent (real, RPI/CPIH blended) was enhanced by a 0.11 per cent uplift as a result of UUW successfully securing fast-track status at PR19. Note that the Ofwat assumed base return of 3.86 per cent is an AMP7 average and UUW's base return, pre fast-track uplift, was 3.83 per cent for 2021/22.

Operating costs (totex and retail) – Whilst we have incurred significantly more wholesale totex across the year than was assumed in the FD, this has been impacted by the acceleration of AMP7 spend in the period which has been adjusted for in this metric. Our current plans indicate that we should be able to deliver our AMP7 FD programme of work at the allowed level of expenditure across the five year regulatory period.

Totex underperformance reflects the impact of £76m additional investment we are making outside the scope of our FD, equivalent to -0.81 per cent of RORE. This largely reflects our additional investment in Dynamic Network Management and spend to save opportunities.

Costs incurred in household retail have been slightly higher than the FD allowance in 2021/22 predominantly due to the impact of COVID-19 on cash collection rates versus our original assumptions in the first two years of the AMP.

Outcome delivery incentives – Our good performance against performance commitment targets has delivered net ODI outperformance payments of £19.9 million across the wholesale and retail services, equivalent to 0.45 per cent of RORE. This includes an assumed underperformance payment of £2.3m against the per capita consumption ODI, although this will only be determined by Ofwat later in AMP7.

C-MeX/D-MeX – This is a measure of relative intercompany performance, and reported in the APR one year in arrears, as the final position is confirmed by Ofwat following the publication of companies APRs. In 2020/21, we out-performed our peers on C-MeX and D-MeX receiving rewards of £2.1 million and £1.1 million respectively.

Tax – Outperformance within 2021/22 RORE of 2.71 per cent reflects our optimisation of available government tax incentives, including research and development tax allowances, and higher capital allowances driven by UUW's accelerated capital programme and the temporary 'super deductions'.

Financing – Outperformance is mainly attributable to the embedded cost of debt UUW has locked in at lower rates than Ofwat's PR19 FD assumed cost of debt. Ofwat's assumed cost of debt was based on a water industry average and under the regulatory model companies with below average debt can expect to outperform on financing. This year we have seen high levels of inflation, therefore generating further financing outperformance compared to last year.

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

Our expenditure and revenues

Financial flows

RORE represents the real return for each water company assuming a notional capital structure (i.e. 60 per cent PR19 notional gearing level). Financial flows expands on reported RORE by also presenting the actual return on the actual capital structure of the company. It includes the inflationary return to derive total shareholder returns as well as presented retained value, net of dividend distributions.

A summary of our 2021/22 performance is provided below. Table 1F of this APR provides more detail.

Financial measure	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	3.94%	3.54%	3.94%
• Financing	0.00%	4.78%	5.27%
• Operational performance	0.00%	-0.99%	-1.10%
RORE	3.94%	7.83%(1)	8.67%
Total shareholder return	**10.67%**	**14.33%**	**15.14%**
Net dividend	-3.00%	-6.91%	-7.69%
Retained value	**7.67%**	**7.42%**	**7.45%**

(1) Equals reported RORE as presented in table 4.

On a notional equity basis, actual RORE at 7.83 per cent is consistent with the reported RORE metric described in the RORE section above. On an actual equity basis, reported RORE is higher at 8.67 per cent, reflecting the impact of slightly higher actual gearing than the assumed 60 per cent notional level. Total shareholder return includes the inflationary return on RCV of 6.73% (not reflected in RORE which is on a real return basis) and voluntary sharing arrangements which reflects the amount of revenue forgone by the company to fund social tariff discounts for retail customers. Actual retained value of 7.42 per cent on a notional equity basis, and 7.45 per cent on an actual equity basis, is consistent with total shareholder return and dividends paid. Please see section 2.5 of the Annual Performance Report for more narrative on reported financial flows.

Risk and compliance statement

UUW board's Risk and Compliance Statement 2021/22

The board of United Utilities Water Limited (the company or UUW, where the context requires) is required by Ofwat to provide an annual statement confirming its compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers for the report year 2021/22. This statement is complementary to other statutory board statements.

The Statement

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

- Has a full understanding of and has complied with its relevant statutory, licence and regulatory obligations in all material respects in 2021/22;
- Has taken appropriate steps to understand and meet customer expectations;
- Has sufficient processes and internal systems of control to fully meet its obligations;
- Has appropriate systems and processes in place to identify, manage, mitigate and review its risks; and
- Has confidence that the data and information provided to Ofwat and published in the reporting of 2021/22 performance was accurate and complete.

Where there are known material departures from this statement – for example, if there are ongoing significant identified legislative or licence breaches or where systemic issues arose with management controls or processes – then these exceptions are set and explained in the Table of Departures, which immediately follows this Risk and Compliance Statement.

Managing compliance with our obligations

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

The company has an established compliance working group, chaired by the company's Senior Solicitor, with representation from relevant business areas. The group formed in 2015 in order to formally determine how the company's diverse obligations are identified and discharged. The group maintains a log of the company's key obligations, together with a list of the internal policies, associated risk assessment and assurance activities for each obligation. Each obligation also has an owner who is a member of the working group and a named owner of each obligation's linked policy, who usually is more senior and often at executive or board level. The group carries out horizon scanning to identify new legislation and identifies any areas of potential non-compliance against obligations.

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

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

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

- Receives and reviews performance reports from the relevant employees of the company;
- Receives and reviews reports and presentations from the UU Corporate Audit Team, the financial and technical auditors;
- Receives and reviews reports and presentations from the Water, Wastewater and Digital Services, Environment Planning and Innovation, Customer Service and People, Strategy, Policy, and Regulation, Legal, Capital Delivery, Health and Safety and Finance directorates; and
- Has access to executive and senior managers in the company to verify information.

Should a significant regulatory risk or issue materialise during the year, then UUW will update Ofwat accordingly to demonstrate that the company is aware of and is responding appropriately to manage that risk or issue.

Understanding and meeting customer expectations

Our investment priorities and performance targets for the 2020–2025 period were shaped by listening to customers and stakeholders and understanding their priorities for the years ahead. This work informed a series of outcomes, which represent what we are aiming to achieve in the areas that customers and stakeholders told us were most important to them.

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

The performance commitment and outcome delivery incentive framework is designed to reflect customer priorities and

Risk and compliance statement

provide strong incentives for companies to become more innovative and more efficient, both protecting customers against under-delivery and where merited, rewarding companies for outperformance in areas determined as part of a customer focused price review process.

The independent customer challenge group for the North West, YourVoice, has also continued to play a valuable role in challenging our customer engagement and improving the transparency of our reporting. Throughout the year we have continued to work with YourVoice to demonstrate how we are delivering on our performance commitments during year two of AMP7. YourVoice's comments on our performance during the year are published on our website.

https://unitedutilities.com/globalassets/documents/pdf/apr-yourvoice-statement-2021-22

We believe that it is important to be transparent and to provide information to customers and stakeholders that they can trust and that enables them to understand how the company is performing. The summary of the assurance that has been undertaken and the findings from that assurance are set out in Appendix 1 of our 2021/22 Annual Performance Report.

Processes and systems

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

This statement takes into account the relatively stable and regulated nature of the business and is based, amongst other matters, upon a review of the company's performance for 2021/22, the results of the annual management control self-assessment, the work of Corporate Audit and a review of the company's risk management process and register.

In respect of this Statement, assurance is provided by:

- **Using UUW's established processes and methodologies for reporting performance**. This requires data providers, their managers and business unit directors to produce and approve Performance and Compliance Statements that set out the evidence to support the reported performance and control checks that have been applied. Operational performance data is collected at month six, month nine and at year-end.
- **Comparing the reported outturn performance with our company business plan targets, regulatory targets and predicted future performance**. This exercise allows variances to be identified and explored. Where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Regulatory Contract team (within Strategy, Policy and Regulation) and findings are reported to the relevant executive directors, with any material issues highlighted to the UU board.
- **Requiring Business Unit Directors and Senior Managers to complete an annual management control self-assessment questionnaire**. The self-assessment is overseen by UU Corporate Audit and serves as one input to the board's annual review of internal control effectiveness in accordance with good governance principles. The self-assessment questions are intended to assess the application of internal controls, highlighting the incidence of significant weaknesses or failures in controls during the period that have had, or could have, a material impact on the company's performance or condition. The questionnaire covers compliance with both Licence and Water Industry Act obligations.
- **Reviews are undertaken by the UU Corporate Audit team of the company's processes, risks and controls.** In 2021/22, Corporate Audit continued to review the company's processes risks and controls, covering operational areas, support functions (such as finance, digital services, health and safety), and regulatory reporting information/submissions and the Corporate Governance section of the UUG and UUW Annual Report and Financial Statements. Findings are reported to aid the board's decision to approve these reports. The team reviewed UUW's compliance with Ofwat's board leadership, transparency and governance principles as part of their annual review of corporate governance.
- **The Group Audit & Risk board's (GARB's) reviews and monitors of compliance with governance processes, risk management and the internal control framework to identify emerging themes and trends**. In 2021/22, GARB reviews any issues and receives summary level reports (typically by exception) arising in relation to Corporate Audit activities, Management control self-assessment activities, the Risk Management framework as well as other key compliance activities.
- **Reviews are undertaken by UUW's Corporate Audit team and Technical Auditor of the Company's processes, risks and controls**. Their findings are reported to the board to aid the board's decision to approve the annual Risk and Compliance Statement. The effectiveness of the Corporate Audit team is continually monitored through assurance reports, a quality dashboard, an annual stakeholder survey and periodic external assessment.

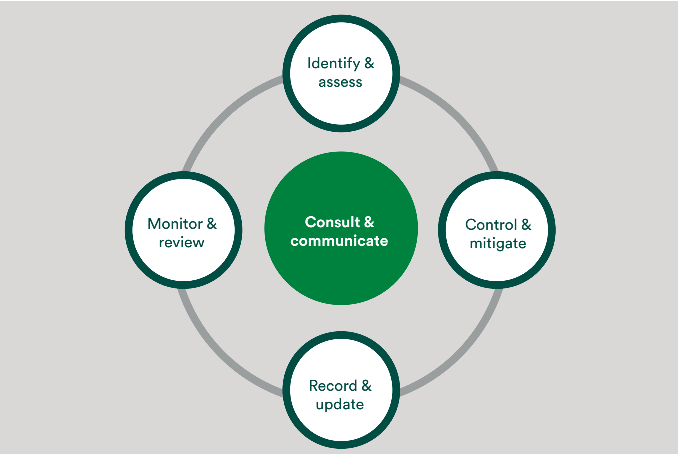
Where material issues are identified and/or the board considers it is unable to support the expectations of the Statement then exceptions are set out in a table following the compliance statement.

Risk and compliance statement

Risk Management

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

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



Key components of the framework include:

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

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

Oversight and governance process

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

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

This practice is in compliance with the UK Corporate Governance Code (2018), and enables reports to be provided to the board for each full and half-year statutory accounting period. The board is therefore able to:

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

Our approach to corporate risk management and principal risks and uncertainties are set out in the United Utilities Group PLC 2021/22 Annual Report and Financial Statements.

www.unitedutilities.com/corporate/investors/results-and-presentation/annual-reports

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

The regulatory reporting risk assessment process and final assurance plan for our 2021/22 regulatory reporting are set out on the United Utilities website: **www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25/**

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

Data and information provision

We have a well-established assurance framework which we apply to regulatory submissions. This framework utilises a targeted risk based assessment process which determines the nature of the governance and the level of the assurance required. This assurance is subsequently applied to each component of our regulatory submissions and forms the basis for assuring our data. We maintain a table of accountabilities which clearly highlights our executive ownership as part of our overall governance framework.

The AMP7 assurance framework has been reviewed and challenged by the board and has been published on the company website at: **www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25**

Data reporting

The accountability for operational performance and regulatory reporting sits within the relevant business units responsible for the day-to-day management of the associated processes. The data which underpins the reporting of performance commitments and other operational performance has an executive sponsor, with their team being responsible and accountable for the end-to-end process from delivery to performance reporting.

Risk and compliance statement

Data assurance

The process by which we capture and report data is defined in a suite of methodology statements, which are developed by subject matter experts. The methodology outlines how we comply with reporting requirements and sets out the systems used to capture and report data, role accountabilities and the processes used to analyse and calculate the resultant performance levels. Additionally the methodology statements include the key process controls and checks that assure the resulting data. Each of the methodology statements is reviewed during the year and signed off appropriately by the relevant senior manager or member of the executive, dependent on the associated level of risk. All data relating to our performance commitments is signed off by an executive owner.

In addition to these methodology statements, Performance and Compliance Statements (P&CS) are compiled that evidence the reported performance and the control checks that have been applied. Operational performance data is collected and reported in this way at month six, month nine and at year-end as part of our regulatory reporting process. This informs management actions to address in-year performance issues. The P&CS is also signed off appropriately based upon the risk level assessed.

Risk assessment

Reported information is risk assessed to determine the minimum level of assurance applied. This is based upon the significance of the data (both financial and reputation) and the materiality of any potential risks or issues. The risk assessment ensures that issues are escalated to, and signed off by, the appropriate accountable manager or executive. This risk assessment is undertaken at least twice annually in order to ensure any emerging risks are taken into account during the year.

Targeted assurance

The process for capturing and assuring our regulatory data is underpinned by a 'three lines of assurance' approach to the analysis, review and assurance of the reporting of regulatory information. In the first line of assurance management has accountability for developing and maintaining sound processes, systems and controls in the normal course of its operations. In the second line of assurance the Strategy, Policy and Regulation team or Finance team has accountability for providing the framework and governance for regulatory reporting and ensure that methodologies have been complied with. The UU Corporate Audit team also provides an independent review of the effectiveness and application of the assurance framework and undertake a number of targeted reviews. A report is presented to the board outlining its findings and any areas of non-compliance. The third line of assurance provides independent audit and assurance activity through independent technical auditors and in some cases specially appointed third party providers. A report is presented to the board outlining its findings and any areas of non-compliance.

Data review

Performance data is used to report performance throughout the business up to board level. Performance data produced either monthly for scorecards or the regular reporting processes outlined above is compared against regulatory targets and predicted future performance. Monthly scorecards are shared widely throughout the business as part of the monthly briefing process. This exercise allows variances to be identified and explored. Following reviews at month six and month nine, where required, explanatory statements are sought from business managers. These statements are analysed and assessed by the Strategy, Policy and Regulation team and findings are reported to the relevant executive directors, with any material issues highlighted to the UUW board. This scrutiny supports understanding of our performance so that it can be explained and challenged. Where necessary corrective action can be taken to try to bring performance back on track.

Board engagement and challenge

The board has considered and challenged the AMP7 assurance approach which supports the publication of its performance data; and the risk and assurance processes, governance structures and individual accountabilities which support the provision of information to the board and other stakeholders. The board is also fully engaged with understanding – and where appropriate challenging – how we perform against our performance commitments, receiving detailed regular performance reports at board meetings, with particular focus at half-year and year-end. At year-end Corporate Audit and the independent technical assurer separately present the results of their assurance findings and any areas of non-compliance.

Other key regulatory submissions are also approved by the board during the year. These are subject to a clearly defined assurance process including risk based assessment, prior to being submitted to the board for consideration. This process includes detailed scrutiny from senior management, first and second line risk and assurance teams, as well as independent experts for third line assurance where required. Exceptions and issues identified from the assurance process and the actions taken to resolve or mitigate them are raised with the board for consideration.

Independent challenge and review

We regularly discuss our performance against targets with the YourVoice panel. Actions and plans to deliver against our targets are reviewed and discussed together with the impacts that these actions have on customers, performance and financial incentives. As part of the year-end process the YourVoice Chair reports the panel's findings directly to the board. We work with the panel to ensure that performance outcomes are communicated clearly and transparently to customers alongside the main Annual Performance Report in a customer focused summary.

Confirmation of key reporting requirements

Corporate governance (Licence condition P3)

United Utilities continues to fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. United Utilities Group PLC (UUG) applies the principles and reports against the provisions of the UK Corporate Governance Code (2018) as disclosed most recently in the UUG PLC 2021/22 Annual Report and Financial Statements. An explanation was provided in respect of provision 38, see page 177.

Ofwat's board leadership, transparency and governance (BLTG) principles came into effect in 2019. These require UUW to meet the objectives of the principles and to explain in an effective, accessible and clear manner how they have done so. The

Risk and compliance statement

board is satisfied that its current practices and application of the BLTG objectives at regulated company level are entirely consistent with the principles published by Ofwat.

In addition, and as required by licence condition P3 the board has developed an annual board statement, which aims to explain how it is meeting the BLTG objectives in a manner that is effective, accessible and clear. This statement is published on pages 7 to 13 of this year's Annual Performance Report.

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

As required by section 35A of the Water Industry Act 1991 UUW has published a statement of directors' remuneration and standards of performance, which can be found in Section 2.5 of our Annual Performance Report. Included within this statement are details of the arrangements and the remuneration that have been paid or become due during 2021/22 to the directors of the company as a result of arrangements for linking the remuneration of the directors of the company to standards of performance in connection with the carrying out by the company of the functions of a relevant undertaker.

Ring-Fencing Certificate (Licence condition P30)

The directors have issued a 'Ring-Fencing Certificate' under paragraph P30 of licence condition P, stating that the company will have available to it: i) sufficient financial resources and facilities; ii) sufficient management resources and systems of planning and; iii) sufficient rights and resources other than financial resources, to enable it to carry out the regulated activities, for at least the next twelve months. This certificate also confirms that all contracts entered into between UUW and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to UUW, to ensure that it is able to carry out the regulated activities. This certification statement can be found in Section 2.5 of our 2021/22 Annual Performance Report.

Transactions with associated company (Licence condition P19)

The directors of UUW have declared, to the best of their knowledge that: i) every transaction between the appointed business and any associated company is at arm's length, so that neither the appointed business nor the associated company gives a cross-subsidy to the other; and ii) that the appointed business neither gives nor receives any cross-subsidy from any other business or activity of the appointee. Information in respect of transactions between UUW and any other business or activity of the appointee or associated company is set out in Section 2.5 of our 2021/22 Annual Performance Report.

Maintaining investment grade credit rating (Licence condition P26)

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

Long-term viability statement

As set out in the long-term viability statement on pages 155 to 157 of this Annual Performance Report, the directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven-year period to March 2029.

Outcome delivery

Performance against the outcomes and performance commitment targets set out in the PR19 final determination is monitored on a monthly basis throughout the business as part of internal company scorecard reporting. Annual and longer-term performance summaries are reported on a regular basis through the year to the UUW board and to the customer challenge group YourVoice.

Full details of the 2021/22 performance against these outcomes is included within Section 1.1 of our 2021/22 Annual Performance Report. Actions that are being undertaken to address any measures where we have not met the target are also set out within the report.

Compliance with sanctions against Russia and Belarus related to the conflict in Ukraine

Our obligations with regard to the sanctions against Russia and Belarus related to the conflict in Ukraine have been reviewed by Legal, Corporate Audit and Supply Chain teams. We are working through a series of checks to ensure that we are compliant with sanctions. No material issues or concerns have been identified to date and we will continue to monitor and check against sanctions.

Signed on behalf of the board

Sir David Higgins
Chair

Steve Mogford
Chief Executive Officer

This statement was approved at a meeting of the board of directors of United Utilities Water Limited on 28 June 2022 and signed off on its behalf by Sir David Higgins, Chair and Steve Mogford, Chief Executive Officer.

Risk and compliance statement

2021/22 departures from the Risk and Compliance statement

The board considers that the company has applied its processes and internal systems of control in a manner that has enabled it, to the extent that it is able to do so from the facts and matters available to it, to identify material departures from the obligations or exceptions in data accuracy or completeness are set out below:

Description of duty/obligation	Purpose of duty/obligation	Reason for departure	Disclosure
Environmental Permitting (England and Wales) Regulations	Compliance with environmental permits	Breach of obligation and compliance with flow to full treatment permit conditions across the water industry is under investigation by Ofwat and the EA.	**Environmental permit conditions** Monitoring compliance with environmental permits is an ongoing process which is embedded in our operating activities. Approaches to monitoring and assessment of compliance risks are subject to continuous improvement through – for example – investments in monitoring and telemetry technologies and enhancements to data analysis. We continue to work with regulators on an ongoing basis to ensure that identified exceptions to existing and evolving methodologies and requirements are understood, investigated and progressed towards resolution on a timely basis. **Environmental permit conditions relating to quality standards** Four treatment works (out of a population of 391 with relevant permits) have been classified as failing their environmental permit at the end of the year due to not achieving the quality standards required from their discharges. All four treatment works failed a single (and different) individual quality standard, these treatment works had between five to eight other quality standards from their site specific environmental permits and all of these other standards were met consistently throughout the year. This element of compliance is reported within the Environmental Agency's Environmental Performance Assessment (EPA)% discharge compliance and this performance will result in an overall discharge permit compliance score of 99%. This level of performance is slightly behind the yearly target set for the performance commitment, "treatment works compliance". More details are provided in Section 1.1 of the APR. **Environmental permit conditions relating to flow to full treatment (FFT) standards** Six treatment works (out of a population of 269 with relevant permits) have been identified as having a risk of non-compliance with their environmental permit conditions regarding flow to full treatment at the end of the year. As part of the National Environment Plan a programme of work is underway across the industry to improve measurement of flow to full treatment compliance through use of MON-3 and MON-4 monitors. This rollout is ongoing and is part of the water industry national environment programme (WINEP) requirements and will allow monitoring to take place in line with a definition of FFT issued by the Environment Agency. UUW is on track to install these monitors in line with the delivery plan agreed with the EA and as the monitors are brought into service, we are monitoring flow using the new equipment in line with the EA's methodology. In the absence of these monitors, our historic approach to assessing flow to full treatment seeks to identify risks of non-compliance at our treatment works and then to undertake investigations and actions to remove or reduce this risk of non-compliance. Of the six sites at risk of non-compliance at the end of the year; five sites have an action plan in place to address the risk of non-compliance by December 2022; and an action plan for the remaining one site is also in place but may take until December 2024 to resolve. This element of compliance is not currently included within the Environmental Agency's Environmental Performance Assessment (EPA) % discharge compliance. However, we estimate that this performance is the equivalent of 98% permit compliance.

Risk and compliance statement

Description of duty/obligation	Purpose of duty/obligation	Reason for departure	Disclosure
			As new monitors are installed, we will progressively adapt the way in which we monitor compliance, in line with the new standards defined by the Environment Agency. In the meantime, we continue to take an active approach to managing the risk of non-compliance with FFT requirements at our treatment works. In parallel to the installation and data reporting from these new meters, we have been implementing a new analytics platform to enable us to better monitor trends in performance and predict potential compliance risks on FFT. We are on track for full deployment across the company of this analytics platform by mid-2022.
UUW Instrument of Appointment (licence) Condition J	Condition J (Levels of service information and service targets) creates obligations regarding the setting, monitoring and reporting of service targets.	Technical breach of legacy licence condition	Changes to the regulatory approach mean that these legacy licence requirements are no longer active.
UUW Instrument of Appointment (licence) Condition L	Condition L (Underground asset management plans) creates obligations regarding the preparation, review and revision of underground asset management plans.	Technical breach of legacy licence condition	Changes to the regulatory approach mean that these legacy licence requirements are no longer active.
Water Industry Act 1991 Information provisions	Water Industry Act Section 199 places an obligation on wastewater companies to maintain maps of its sewers.	Breach of obligation	In common with all other wastewater companies in England and Wales, not all our sewers are mapped because the cost of doing so is generally agreed to be uneconomic. Map records are updated regularly to reflect any changes found in sewer location or attributes.

1.0 Year two performance

Introduction and coverage

This section of the Annual Performance Report sets out how we have performed in year two of AMP7 against the service, expenditure and revenue expectations set in the 2019 price review. This year we present this as six sections:

- 1.1 Outcome delivery – how we have performed against the performance commitments set in our AMP7 final determination.
- 1.2 Greenhouse gas emissions – our 2021/22 greenhouse gas (GHG) performance.
- 1.3 COVID-19 – overview of the on-going impacts of COVID-19.
- 1.4 Wholesale totex – how our actual spend compares to the totex allowances set out in our AMP7 final determination.
- 1.5 Wholesale revenue and current cost financial performance – how our actual revenues compare to the level of wholesale revenue assumed in our AMP7 final determination.
- 1.6 Retail expenditure and revenues – how our actual retail revenues compare to the allowances set out in our AMP7 final determination.

Section 2 of this document comprises the UUW Regulatory accounts for 2021/22. This contains financial and operating information required by Ofwat through both the accounting document and a series of pro forma tables.

Together with Appendix 1 and 3, this provides the information required to support the application of an in-period determination whereby Ofwat reviews the performance information provided and then considers what – if any – changes are required to future revenue recovery in AMP7 in order to reflect the impact of our performance.

A document which sets out our Green Recovery programme is available on our website and can be found at **www.unitedutilities.com/globalassets/documents/pdf/green-recovery-2022**

1.1 Outcome delivery – Introduction to performance commitments and ODIs

The outcome of a price review is a defined price and service package that companies are tasked to deliver for customers, the environment and other stakeholders. Delivery of service is described through a series of customer focused outcomes which in turn are supported by more granular performance commitments.

We routinely report performance against these outcomes and performance commitments to customers, stakeholders and regulators, including to the YourVoice customer and stakeholder panel.

Having performance information that is easy to understand and navigate allows customers and other stakeholders to challenge water and sewerage companies on their performance and encourages them to deliver better levels of service. This helps everyone build trust and confidence.

We have committed to seven outcomes for the AMP7 period (2020–2025):

- Your drinking water is safe and clean;
- You have a reliable supply of water now and in the future;
- The natural environment is protected and improved in the way we deliver our services;
- You're highly satisfied with our service and find it easy to do business with us;
- We will improve the way we work to keep bills down and improve services for you and future customers;
- We collect and recycle your wastewater; and
- The risk of sewer flooding for homes and businesses is reduced.

The outcomes section of this document sets out our performance in each of the seven outcomes and provides a summary about each of the individual component performance commitments detailing the definition, targets, commentary on the performance for year two of the AMP and the financial implications of the performance that we have achieved.

Performance commitments

Underpinning each outcome is a set of performance commitments. These are service targets for specific types of activities that we undertake to deliver. If we achieve or outperform against these targets, then this supports the delivery of outcomes for customers, the environment and other stakeholders. Performance commitments are designed to be stretching and deliver an improved level of performance for customers and stakeholders compared to the levels achieved in the past.

There are 15 performance commitments that are being applied to all water and sewerage companies during AMP7. These are 'common measures' and each has a standard definition set by Ofwat. These common measures are then supplemented by 'bespoke' performance commitments which reflect additional levels of service or focus for investment which are specific to each company's customers.

We need to deliver against 46 performance commitments in the AMP7 final determination, comprising the 15 common measures and 31 bespoke measures which are specific to United Utilities.

We have published a suite of definition documents.

Further details can be found on our website at **www.unitedutilities.com/globalassets/z_corporate-site/about-us-pdfs/business-plan/amp7-performance-commitments-and-outcome-delivery-incentives---definition-document.pdf**

These technical documents outline each of our performance commitments explaining our method, detailing targets and explaining any assumptions and calculations.

Further details on our performance commitments can be found in section 1.1. We have also published a high level summary of our performance which can be found on our website at **www.unitedutilities.com/globalassets/documents/pdf/apr-2021-22-customer-summary**

Customers can also quickly and easily see how this performance compares to other water companies using the industry's comparison dashboard called 'Discover Water' at the following website www.discoverwater.co.uk

Outcome delivery incentives (ODIs)

Outcome delivery incentives or 'ODIs', are incentives which apply to performance commitments.

There are four types of outcome delivery incentive which can apply to performance commitments. These are:

Underperformance only – This is a financially driven incentive. When performance is worse than the target or deadband level, this results in an underperformance payment.

Outperformance only – This is a financially driven incentive. When performance is better than the target or deadband level, this results in an outperformance payment.

Underperformance and outperformance – This is a financially driven set of incentives. Underperformance payments are incurred when performance is worse than the target or deadband level, outperformance payments apply when performance is better.

1.0 Year two performance

Non-financial – This is an incentive driven by reputation only. Poor performance could cause reputational damage but good performance could enhance our reputation, but no direct financial incentives are applied.

Of our 46 performance commitments 39 of them have a financial incentive. The other seven performance commitments do not have a financial incentive and are therefore driven by reputation only.

Some ODIs have an outperformance cap or underperformance collar, beyond this point no further incentive is applied.

Some performance commitments include a deadband. This is a narrow range of performance above and/or below the target level within which the company can operate without being subject to financial incentives. For measures without a deadband, any incentive applies as soon as our performance is above or below the target level for the performance commitment.

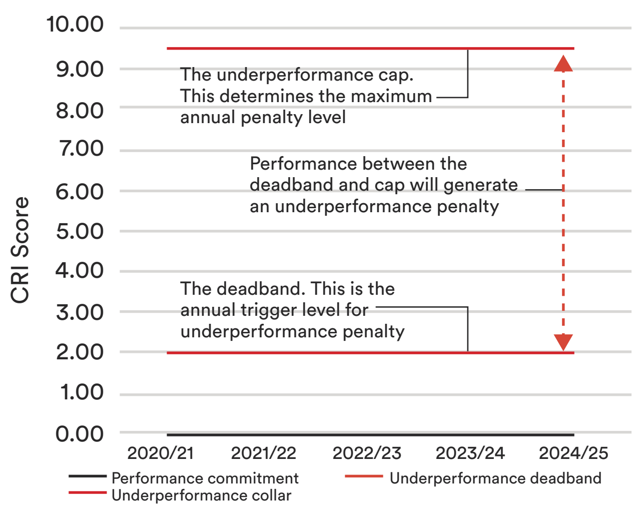
Most ODIs are applied on an annual basis during the AMP. These are referred to as 'in-period'. Some ODIs, however, are applied only at the end of the AMP. These are known as 'end of period' incentives.

Examples of how performance commitments and ODIs work

Example one – water quality compliance (CRI)

Water quality compliance is a common industry measure, which supports our 'your drinking water is safe and clean' outcome. This measure is subject to a financial incentive which means we incur a financial penalty if we underperform against the target beyond a deadband. There is no outperformance incentive so it is not possible for us to earn an outperformance payment for meeting or beating the target. The lower our score is on CRI, the better our performance is against this measure and we are incentivised to deliver a CRI score as low as possible.

As you can see in the diagram below, this measure has a performance commitment, a deadband and an underperformance collar. If the annual company performance is between the performance commitment and deadband level, no financial incentive is applied. However, for any annual performance in between the deadband and the collar the financial incentive rate will be applied.

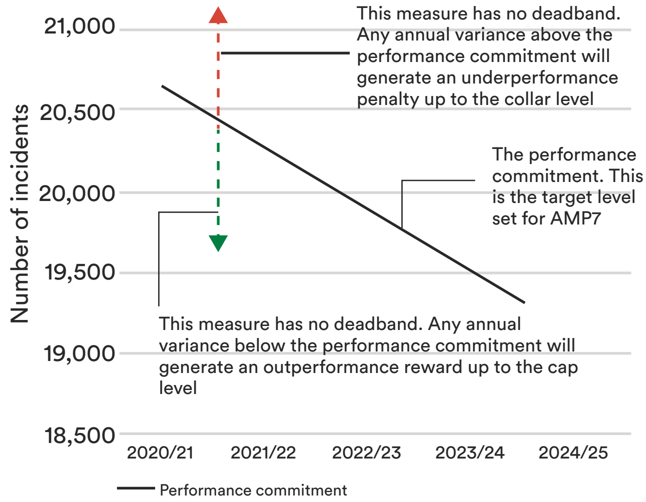


Example two – sewer blockages

Sewer blockages is a bespoke measure which supports our 'we collect and recycle your wastewater' outcome. This measure is subject to financial incentives for either underperformance or outperformance of the target. The lower the number of blockages recorded, the better our performance is against this measure and we are incentivised to deliver as low a number as possible.

As you can see in the following diagram, this measure has a performance commitment, outperformance cap, underperformance collar but no deadband.

If the annual company performance is better than the performance commitment level a set financial incentive rate would be applied and the company would earn a financial incentive for outperforming the target. If the annual company performance is worse than the performance commitment level then a set financial incentive rate would be applied and the company would be subject to an underperformance payment.



Models

We have calculated our outperformance and underperformance incentive payments using Ofwat's ODI model and input these values in to the in-period adjustments model. We have submitted a copy of both the ODI and in-period adjustment models to Ofwat. A summary of the model outputs can be found on page 92 along with a description of the impact that this will have on customer bills. We have four non standard calculations for Thirlmere transfer to West Cumbria (B11), abstraction incentive mechanism (C03), enhancing natural capital value for customers (C08) and better air quality (C10). The calculations to derive any outperformance or underperformance payments for these four non standard performance commitments are outlined in Appendix 3.

Assurance

We have a well established assurance framework that we apply to our regulatory reporting submissions. We have followed this framework in assuring the data and information which supports the Annual Performance Report, supporting information and out submission for an in-period adjustment reflecting our ODI performance.

Any specific assurance requirements identified in the PR19 final determination outcomes performance index are outlined in Appendix 1 in this document. This section also identifies any areas of deviation from the common methodologies.

Further details of our AMP7 assurance framework are can be found on our corporate website at: www.unitedutilities.com/corporate/about-us/performance/Assuring-our-performance-2020–25/ and in Appendix 1 of our 2020/21 APR.

Performance summary

A summary of our net performance for year two can be found on pages 90 to 91 of the outcomes section.

Bill impacts

The overall bill impact of this performance can be found on page 93 of the outcomes section.

Year two performance

1.1 Outcome delivery

Your drinking water is safe and clean

Customers want a reliable supply of high quality water that they trust. To deliver this outcome we will continue to ensure water quality is at the heart of our decision making, achieving a significant reduction in water quality events and an improvement in the aesthetic parameters that impact customers' perceptions of water quality. Our water quality vision is 100 per cent compliance with current and future drinking water quality standards, providing a reliable supply of safe, clean drinking water for future generations.

How have we done?

We have passed or are on track to deliver three out of five performance commitments which support this outcome. In year two we have incurred a net underperformance payment of £1.048 million.

Based on the provisional score calculated by the Drinking Water Inspectorate (DWI), we have not met our performance commitment for water quality compliance (CRI) achieving 3.02 against a target of 0.00. Whilst infringements have increased at water treatment works we have seen a reduction in the number of infringements at service reservoirs. Our Water Quality First programme which launched this year will be delivered throughout AMP7, with the aim of delivering improvements that will provide our customers with industry leading water quality.

We also did not meet our performance commitment for reducing water quality contacts due to taste, smell and appearance this year. Although there has been an improvement in the number of contacts associated with taste and odour, we have seen an increased number of customer contacts associated with the appearance of drinking water. We have a comprehensive programme of activity to improve future performance.

We have been successful in increasing customer awareness of how they can look after water in the home. We are using a multi-channel approach with a particular emphasis on radio advertising, sponsorship and direct communications (email and text) underpinned by the consistent use of local TV weather sponsorship.

We also have two further performance commitments that will also help improve water quality.

We commenced our programme of lead service pipe replacements and reduced lead risk at 3,525 properties during the year. This exceeded our performance commitment of 500 properties.

The second programme of work aims to reduce the risk of discolouration of water from the Vyrnwy treated water aqueduct and will require mains to be cleaned or relined. Work on this is currently being planned which will further improve water quality later in AMP7. We are currently on track against our delivery plan.

	Actual Performance		
Performance commitment	Year two	Impact	Value (£m)
A01 – Water quality compliance (CRI)	3.02	Underperformance payment	-1.148
A02 – Contacts for taste, smell and appearance	17.9	Underperformance payment	-4.733
A03 – Number of properties with lead risk reduced	3,525	Outperformance payment	3.388
A04 – Helping customers look after water in their home	23.8	Outperformance payment	1.445
A05 – Discolouration from the Vyrnwy aqueduct[(1)]	0	–	0.000
Your drinking water is safe and clean net position	3/5 achieved		-1.048

(1) Performance commitments with no outputs to be delivered in year two.

A01

Water Quality Compliance (CRI)

Performance commitment description

The compliance risk index (CRI) is an industry common measure of drinking water quality that has been defined by the water quality regulator, the Drinking Water Inspectorate (DWI). Performance against this measure is calculated by the DWI and reported on a calendar year basis. The performance reported below therefore relates to the calendar year 2021 and is based on the provisional score calculated by the DWI. A score is calculated for every water quality compliance failure at water supply zones, supply points, treatment works and service reservoirs. When scoring the compliance failure the DWI considers the standard failed, the impact on customers and the response of the company to the failure. The annual CRI score is the sum of the individual CRI scores for every compliance failure reported during the calendar year.

Performance commentary

We have not met the performance commitment this year. In 2021 there have been fewer infringements at service reservoirs but infringements at water treatment works increased in comparison to 2020. The COVID-19 pandemic continued to impact our sampling programmes during 2021, with more samples being taken from commercial premises rather than customer properties. A number of the highest scoring infringements in 2021 were from samples taken in water supply zones (WSZ) with existing Notices or Undertakings. If an infringement occurs in a WSZ or any asset which has an associated Notice, the CRI score is increased.

Our Water Quality First programme which launched this year will be delivered throughout AMP7, with the aim of delivering improvements that will provide our customers with industry leading water quality.

This new programme is delivering improvement programmes focussed on a number of key areas, such as our innovative hazard risk assessment reviews for treatment (HAZREV), for network (NETREV) and for catchment (CATCHREV) which provide a consistent, structured, multi-disciplinary, end-to-end process review of risks and issues. We continue a robust inspection and cleaning programme at service reservoirs, an increased focus on the source to tap strategy to reduce the risk of discolouration and a comprehensive 'people' plan to ensure everyone understands their role with regards to water quality and are adequately trained and competent.

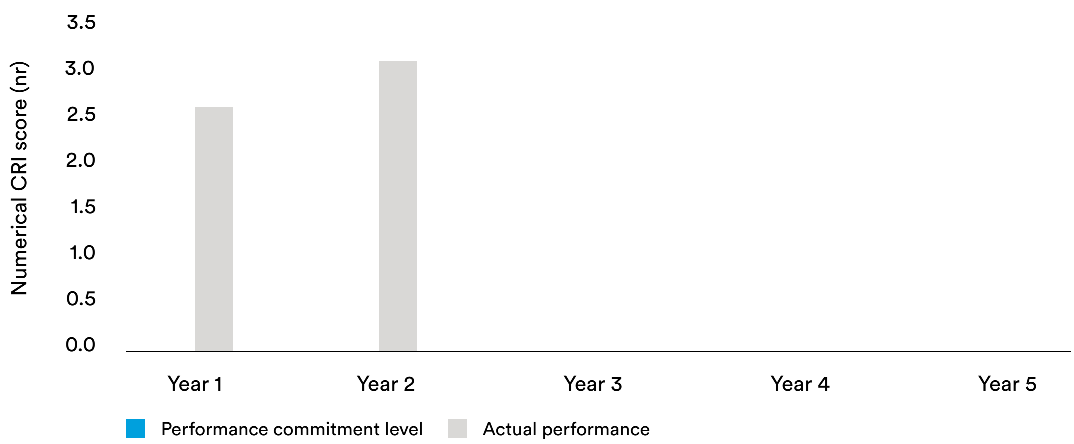
We have accelerated our mains flushing activities and carried out work in over 1,000 District Meter Areas (DMAs), touching 91 per cent of our water supply zones. We have also completed a range of water quality foundation talks involving our network field teams to raise water quality awareness.

The DWI will confirm the final CRI score in July 2022. The performance published in this report is based on the provisional figure provided by the DWI.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we have failed our target and incur an underperformance payment of £1.148 million.

Actual performance for the 'water quality compliance' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Performance	Pass/Fail
One	2020	0.00	2.58	Fail
Two	2021	0.00	3.02 [1]	Fail

(1) The DWI will confirm the final CRI score in July.

A02

Reducing water quality contacts due to taste, smell and appearance

Performance commitment description

The definition for this measure is set by the Drinking Water Inspectorate (DWI) and reported on a calendar year basis. The performance reported below therefore relates to the calendar year 2021. This measure counts the number of times customers contact us due to the taste, smell or appearance of their drinking water. Customer contacts include those made by phone, letter, email, in person, completion of web forms or messages left on a helpline. The number is reported as the number of contacts per 10,000 population.

Performance commentary

We have missed our performance commitment target for year two. The target this year was 16.0 contacts per 10,000 population and we achieved 17.9. Compared with performance in the previous year we have seen a slight increase in taste, smell and appearance contacts of 1.65 per cent. There has been an improvement in the number of contacts associated with the taste and odour of drinking water, but we have seen an increase in customer contacts associated with the appearance of drinking water – specifically black, orange and brown discolouration.

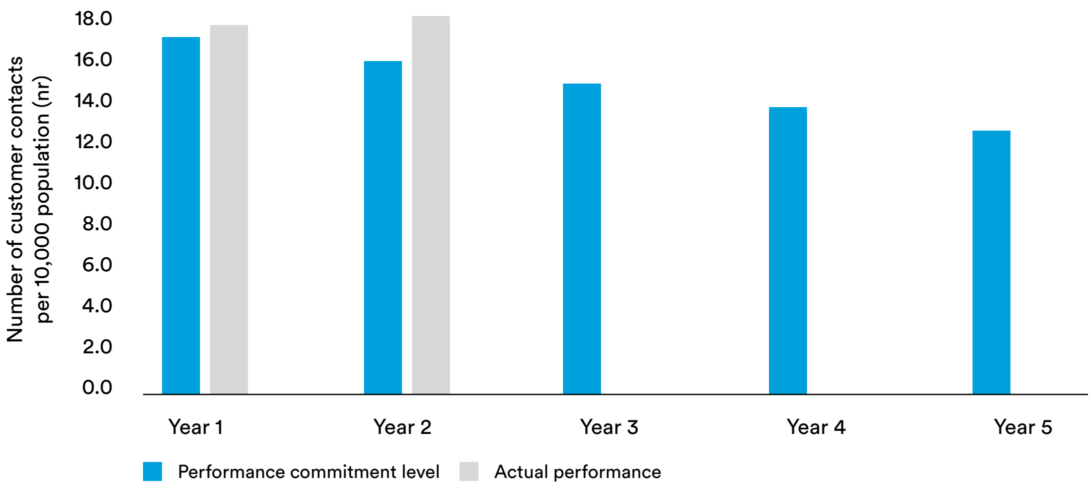
We have developed a comprehensive programme of activity to improve performance that also encompasses our Water Quality First Programme and all this is monitored through the Taste, Smell and Appearance Board. The programme includes a number of short, medium and long-term actions to help us improve the way we run our water treatment works and network to provide better service to customers. We have expanded and accelerated our mains flushing activities and carried out work in over 1,000 District Meter Areas (DMAs), touching 91 per cent of our water supply zones. We have also completed a range of water quality foundation talks involving our network field teams to raise water quality awareness. We expect to see the full benefits of this in 2022. We have developed an enhanced root cause methodology to understand the causes of discolouration and identified appropriate remedial work in specific water supply zones.

We are driving improved taste and odour performance by driving greater consistency of chlorine dosing to reduce variations in the network. Risk assessments have been revised to provide an increased focus on the impact of water quality following changes in sources and enhanced communications with customers to reduce the risk of customer contacts during source water changes. We have also increased the focus on geosmin contacts. This has enabled better optimisation of treatment, reducing the likelihood of future customer contacts.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we failed our target. Our performance means that we incur an underperformance payment of £4.733 million.

Actual performance for the 'reducing water quality contacts due to taste, smell and appearance' performance – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	17.2	17.7	Fail
Two	2021	16.0	17.9	Fail

A03

Number of properties with lead risk reduced

Performance commitment description

This measure incentivises complete lead service pipe replacements in order to reduce the level of customer exposure to lead. The measure is defined as the number of complete lead service pipe replacements delivered in the year. To qualify the replacement must fall into one of three categories:

- Any property that has a full service pipe replacement from the water main to the first incoming tap;
- Any property that has either its communication pipe or supply pipe replaced where the remainder of the service pipe is confirmed to already not be lead (excluding those funded through the lead and/or common supply pipe replacement scheme[1]); or
- Pipes whose long-term lead health risk is removed through the use of innovative techniques developed in the future and approved by the DWI.

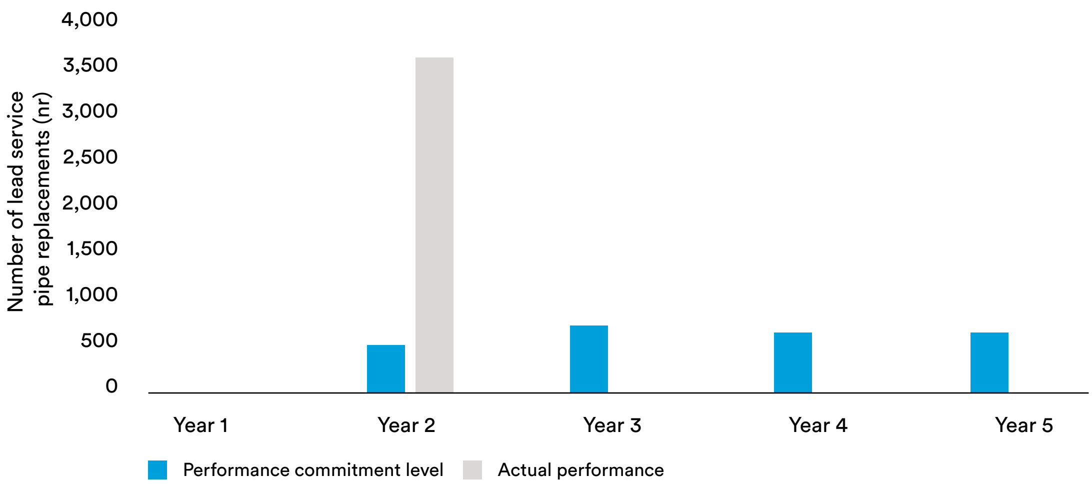
Performance commentary

Delivery for this measure started this year, in year two. We reduced lead risk at 3,525 properties which was better than our target of 500.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £3.388 million.

Actual performance for the 'number of properties with lead risk reduced' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass
Two	2021/22	500	3,525	Pass

(1) In April 2021 the LCSP scheme was replaced by the Lead Replacement Scheme. The new scheme provides a grant to the customer which helps towards the cost of replacing the lead pipe in their ownership. We include these replacements towards our target.

A04

Helping customers look after water in their home

Performance commitment description

This measure incentivises us to raise customer awareness of the actions that they can take to be more water efficient and prevent water quality deterioration in their home. We measure performance against a baseline level awareness of 19.5 per cent based on a survey of customers in 2018. Targeted communication on water quality and water efficiency within homes is used in order to improve awareness on these issues. Repeat surveys, using a consistent question set, will measure performance through to 2025.

Performance summary

We have exceeded our performance commitment this year, achieving an overall level of awareness of 43.3 per cent which is 23.8 per cent above the baseline position. Our target was to be 4.0 per cent above the baseline.

We are using a multi-channel approach with a particular emphasis on radio advertising, sponsorship and direct communications (email and text.) Through the use of sponsorship for local TV weather we reach the majority of the adult population in the North West with messaging relating to water efficiency and 'Stop the Block'.

For water efficiency, our activities complement those for per capita consumption. For example, we continue to promote water efficiency across our website and digital media, as well as promoting key messages as part of our local weather sponsorship. We promote the availability of water saving devices from our website.

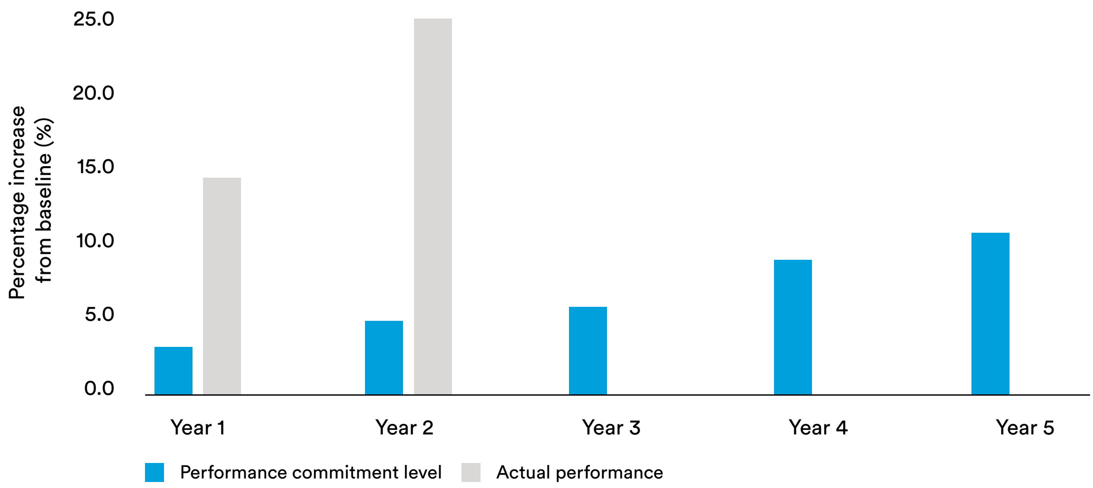
To provide a focal point for communications – and as a means of ensuring the more efficient distribution of water saving devices – we tested and introduced the Get Water Fit platform in summer 2021. To date over 100,000 customers have signed up to the campaign, providing us with information about their water usage and have gone on to order free water saving devices such as leaky loo strips, tap inserts and shower regulators. A total of 250,000 devices have been provided to customers free of charge. We plan to utilise the information provided to further offer knowledge, tools and motivation to save water. For example, customers who have advised that they have a leak or a leaking loo could be eligible for a home audit to detect the nature of the leak and a leak fix service.

For water quality in the home, our focus remains on increasing customer awareness of potential discolouration events (e.g. due to planned maintenance) and how these can be managed in the home. We use a number of channels to raise awareness including carding properties, emails, text alerts and voice blasts. We continue to provide water in the home hygiene advice and guidance associated with tap cleanliness and the type of taps installed around the home. Water Quality Officers and Water Network teams are equipped with leaflets to provide to customers covering water quality, discoloured water, tap hygiene and water efficiency.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £1.445 million.

Actual performance for the 'helping customers look after water in their home' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	2.0%	13.8%	Pass
Two	2021/22	4.0%	23.8%	Pass

A05

Reducing discolouration from the Vyrnwy treated water aqueduct

Performance commitment description

This measure records the length of the Vyrnwy treated water aqueduct cleaned or relined, if required by the DWI to meet the target for reduction in water discolouration. It is measured by the number of kilometres (km) where work is delivered.

The performance commitment is set at zero on the basis that there was no requirement at the outset of AMP7 to undertake cleaning/relining of the aqueduct. The performance commitment was put in place to facilitate the cleaning/relining work if it became a DWI requirement.

Performance summary

In September 2020 the DWI confirmed that work on cleaning/relining would need to occur by 31 March 2028. We currently expect that this will extend to 58.99km during AMP7 and we are in the process of planning delivery of this work.

Financial implications

This performance commitment is subject to an outcome delivery incentive for outperformance only. Work has not commenced on cleaning/relining the aqueduct in year two and therefore no financial incentives apply this year.

Actual performance for the 'reducing discolouration from the Vyrnwy treated water aqueduct' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.00	0.00	Pass
Two	2021/22	0.00	0.00	Pass

Year two performance

1.1 Outcome delivery

You have a reliable supply of water now and in the future

Customers want to rely on us to provide enough water resources to meet our current and future needs. We want to improve supply reliability, reducing both short-term interruptions and the risk of longer-term interruptions. We are targeting a reduction in leakage and encouraging water efficiency, which research has shown to be key priorities for customers.

How have we done?

We have passed or are on track to deliver eight out of eleven performance commitments which support this outcome. In year two we have generated a net outperformance payment of £2.703 million.

We achieved our best ever leakage performance and are on track to reduce leakage by 15 per cent between 2020 and 2025. We have also outperformed our mains repair performance commitment. We continue to optimise pressure across the water network this will continue to support leakage reduction and an associated reduction in mains repairs.

We met or exceeded the performance commitment for our four resilience measures – drought risk resilience, water service resilience, keeping our reservoirs resilient and Manchester and Pennine resilience.

We have outperformed our year two target on reducing the number of properties experiencing poor pressure. We have reduced the number of properties on the low pressure register to deliver performance of 0.513 against a target of 0.720.

We have not met our performance commitment to reduce the time that customers' water supplies are interrupted. This years performance has been impacted by a number of larger events, notably a large mains burst in Liverpool and events relating to Storm Arwen, where a major incident was declared in Cumbria.

We have not met our performance commitment for per capita consumption, with an increase in consumption of 1.5 per cent compared to a target reduction of 2.6 per cent. In year one household demand increased across the industry as a result of the COVID-19 pandemic. Whilst we have seen some reductions in consumption in year two the continuation of trends towards working from home supported the level of demand. We have continued to focus efforts on a strategy aimed at increasing meter penetration, supported by a communications campaign to encourage customers to moderate their usage around the home and in the garden.

We have outperformed our target on unplanned outages. We have sought to prioritise interventions before assets fail, minimise outage duration, and reinstate assets in shorter timeframes.

We have not met our performance commitment on the Thirlmere transfer into West Cumbria. Final completion of the project has been delayed by COVID-19 restrictions impacting on resource availability and working practices.

	Actual Performance		
Performance commitment	Year two	Impact	Value (£m)
B01 – Leakage	4.7	Outperformance payment	1.825
B02 – Mains repair	96.0	Outperformance payment	2.930
B03 – Reducing interruptions to water supply	00:07:58	Underperformance payment	-1.711
B04 – Unplanned outage	2.07	–	0.000
B05 – Per capita consumption [1]	1.5	–	–
B06 – Drought risk resilience	0.0	Reputational	–
B07 – Reducing areas of low water pressure	0.513	Outperformance payment	0.071
B08 – Water service resilience	915	Outperformance payment	1.928
B09 – Manchester and Pennine resilience	Achieved	–	–
B10 – Keeping reservoirs resilient	0.00000	–	–
B11 – Thirlmere transfer into West Cumbria (AMP7)	99	Underperformace payment	-2.340
You have a reliable water supply now and in the future net position	8/11 achieved		2.703

(1) PCC is now an 'end of period' incentive arrangement.

B01

Leakage

Performance commitment description

This is an industry common measure based on the percentage reduction in water lost to leakage compared to our 447.1 Ml/d baseline. The measure is calculated based on three year averages and the baseline is the three year average of the leakage performance reported in 2017/18, 2018/19 and 2019/20. This year's leakage performance has been calculated using the average performance from 2019/20, 2020/21 and 2021/22. This is in line with Ofwat's AMP7 methodology.

Performance summary

We have achieved our leakage target for the 16th year running. With annual leakage at 413.9 Ml/d and a three year average leakage of 426.1 Ml/d the amount of water lost from our network is at the lowest ever level reported in the North West.

Delivery of leakage reductions is supported by a network of approximately 70,000 acoustic sensors that have been installed over the last two years. These sensors combined with advanced analytics enable us to better target leaks.

The dry weather earlier in the year posed a potential risk of increased leakage due to ground movement caused by increased soil moisture deficit. We mitigated this risk with a substantial programme of pressure management, as well as optimising response times for customer reported leaks during these drier periods.

Whilst we have experienced a relatively mild winter the changing COVID-19 restrictions had the potential to impact leakage performance. Resourcing became a particular challenge through December due to the Omicron variant and the consequential increase in the number of isolation periods. We mitigated this by increasing contractor resources to undertake leakage detection and repair activity.

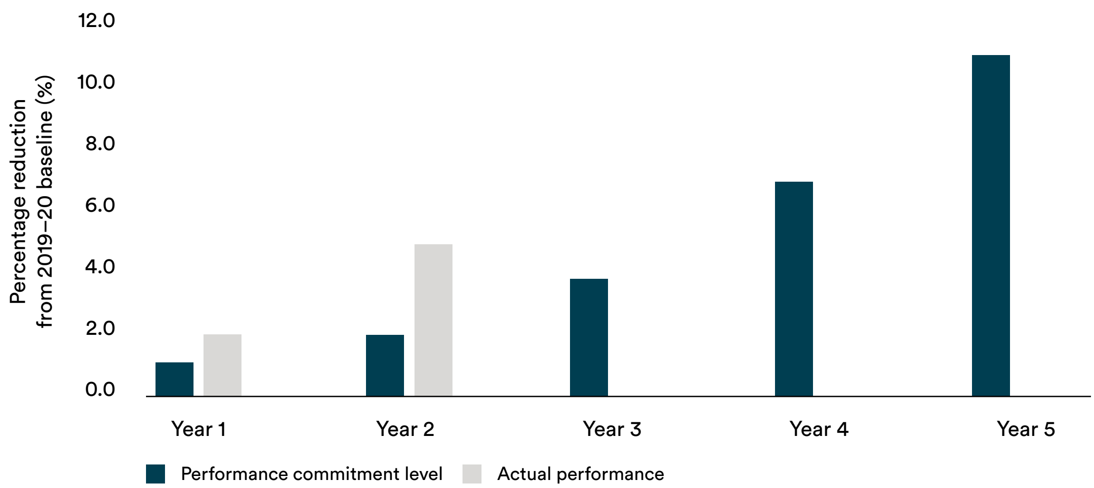
Over AMP7 we plan to reduce total leakage by at least 15 per cent, with a delivery plan that continues to make best use of available technologies and is flexible to ensure that we can embrace the heightened level of innovation in this area. We actively look to trial new techniques to understand how these can be scaled and embedded in the most effective way. This gives us opportunities to accelerate and target those interventions which are demonstrated to be the most effective. One such example is our smart water network trial in the Macclesfield area where we linked together hundreds of monitors and sensors on local water mains. This created a machine-learning Artificial Intelligence 'brain' that supported enhanced leakage targeting, as well as being able to detect and prevent other non-leakage problems. We continue to use the learning from these pilots and trials to refine our approach to reducing leakage and deliver our Dynamic Network Management ambition.

We have also completed a leakage hackathon that has delivered two bespoke tactical and strategic risk models to improve leak detection efficiency by our operational teams. The models highlight the most likely location of a leak by ground type and pipe material enabling more efficient targeting.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £1.825 million.

Actual performance for the 'leakage' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.8%	1.9%	Pass
Two	2021/22	1.9%	4.7%	Pass

B02

Mains repair

Performance commitment description

This is an industry common measure reported as the number of physical mains repairs completed per 1,000km of total length of mains. The total length of mains includes all pipes conveying treated water except communication pipes and supply pipes. We have revised our reporting rules regarding repairs on repairs in line with the clarification provided by Ofwat in the 2020/21 in-period determination.

Performance summary

We continue to improve performance in this measure and have outperformed our performance commitment for the second year running. Our performance of 96.0 represents a 9.9 per cent improvement in performance from the previous reporting year.

During June to August 2021 we carried out more mains repairs than for the same period of the previous year due to a prolonged spell of dry weather.

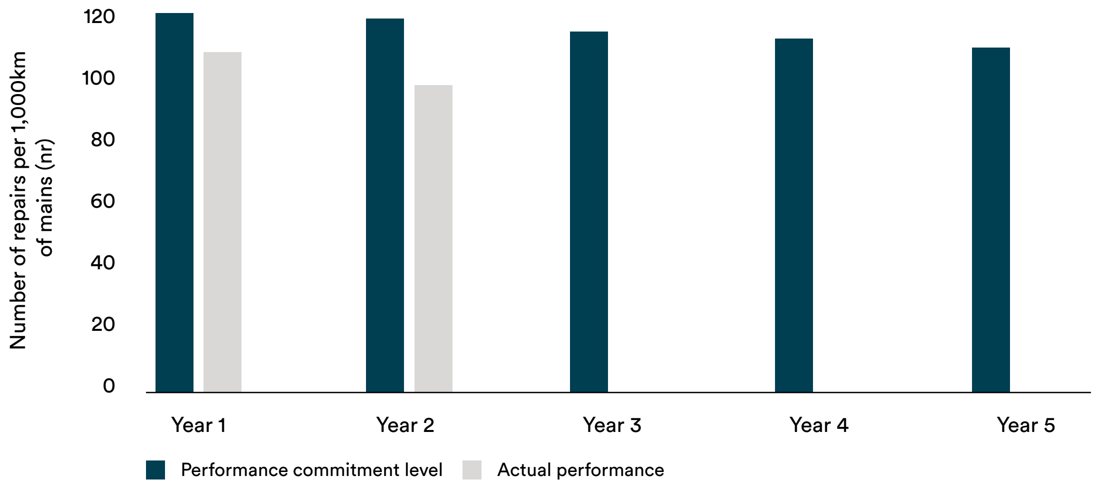
This led to an increase in reported leakage and a corresponding increase in mains repairs. We continue to optimise pressure across the water network. This will continue to support leakage reduction and an associated reduction in mains repairs.

We also experienced a mild winter with no significant freeze/thaw events and again this resulted in a reduction in mains repairs compared to the previous year.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £2.930 million.

Actual performance for the 'mains repair' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	119.9	106.6 (1)	Pass
Two	2021/22	118.2	96.0	Pass

(1) Number updated following 2020/21 in-period determination.

B03

Reducing interruptions to your water supply

Performance commitment description

This is an industry common measure and an evolution of our AMP6 measure for 'average minutes lost'. An interruption is classed as a water supply with pressure that is lower than three meters in the adjacent water main lasting for more than three hours. This measure incentivises companies to minimise interruptions to customers' water supply.

Performance summary

Our performance was that on average, properties lost supply for 7 minutes and 58 seconds in year two. This is our second best ever performance under this measure. However, this year we did not meet our supply interruption target of 6 minutes and 8 seconds for the average time that customers were without a water supply.

This year's performance has been impacted by a number of larger events, notably a large mains burst in Liverpool and in November a series of events relating to Storm Arwen, where a major incident was declared in Cumbria.

Despite the scale of the storm we sought to minimise the customer impact resulting from the loss of power to our network. We also faced issues in restoring supplies due to vehicle access restrictions caused by fallen trees and debris on the highways. Notwithstanding these efforts the impacts of this storm accounted for 1 minute and 22 seconds of supply interruption per property on average across the UUW region.

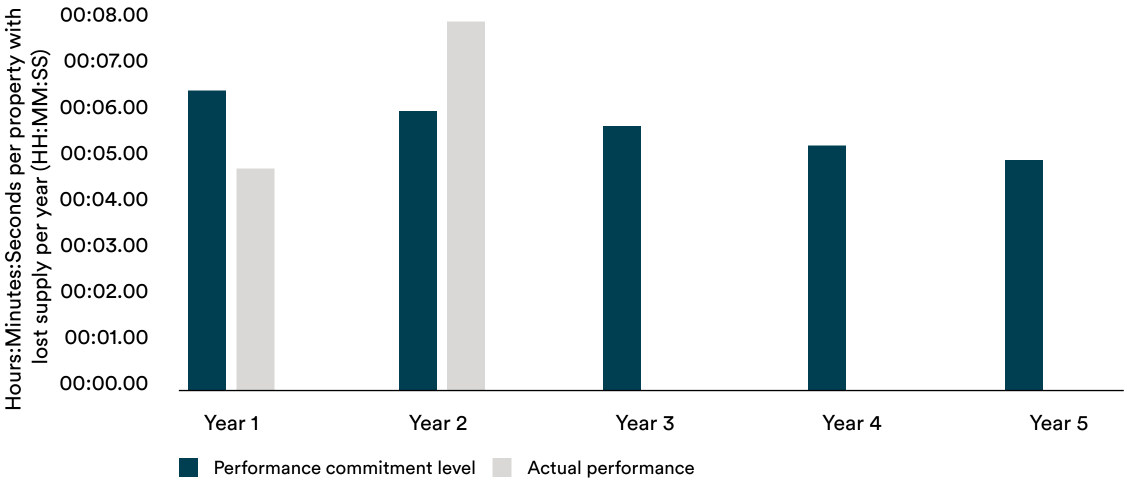
We saw strong performance in the last four months of the year, a mild winter lead to fewer freeze/thaw events, which resulted in fewer interruptions compared to the previous year. We continue to minimise disruption to water supplies through our focus on 3Rs – respond, restore and repair, reducing the duration of the average water supply interruption.

Improvements are also being driven by our operational systems thinking approach, with the operational, customer and Integrated Control Centre (ICC) teams operating as an integral team. This approach is based on high quality situational awareness – ensuring that live granular data is marshalled within the ICC and available to the centre and field teams so that issues are quickly identified. Additional managerial and technical support is available in the ICC responding in real time to mitigate the impacts of events. As a result of the improvement in how we manage incidents we have seen no single events greater than 30 seconds for the second year running.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we failed our target. Our performance means that we incur an underperformance payment of £1.711 million.

Actual performance for the 'reducing interruptions to your water supply' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	00:06:30	00:04:46[1]	Pass
Two	2021/22	00:06:08	00:07:58	Fail

(1) Number updated following query (APR-IP-010)

B04

Unplanned outage

Performance commitment description

This is an industry common measure reflecting the asset health of water abstraction and water treatment activities. Activity is calculated at a site level and summed over the reporting year to give a total unplanned outage figure. This measure records the total unplanned outage in megalitres per day, normalised based on the overall company peak week production capacity and reported as a percentage. The outage duration is recorded to the nearest whole working day. Planned outages are not included in this measure.

Performance summary

We have outperformed the year two target with performance of 2.07 per cent of production capacity subject to an unplanned outage. This compares to a target of 3.26 per cent. This is due to positive effort and engagement from operational teams and continued success in using our outage systems and processes. We have sought to prioritise interventions before assets fail, minimise outage duration and reinstate assets in shorter timeframes.

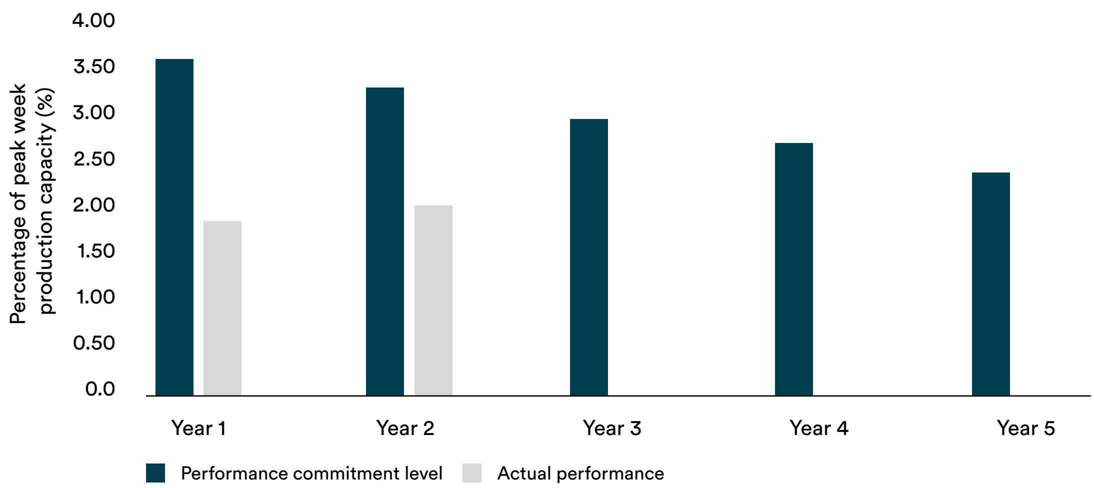
We also undertake root cause failure analysis of outages and further develop operational best practice.

We have successfully established the Unplanned Outage Steering Group to focus on managing performance, engage with key stakeholders and provide internal and external performance reporting. For the remainder of the AMP targets become tougher and we will continue to further support specific activities to evaluate, engage and take action on outages and communicate with key stakeholders to sustain a strong performance.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we exceeded our performance commitment and therefore we incur no underperformance payments.

Actual performance for the 'unplanned outage' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	3.56%	1.88%	Pass
Two	2021/22	3.26%	2.07%	Pass

B05

Per capita consumption

Performance commitment description

This is an industry common measure recording the average volume of water used per person per day. This performance commitment is intended to incentivise us to help customers reduce their water consumption. The benefit of reduced per capita consumption (PCC) is to reduce the need for water abstraction from the environment and to improve the long-term water resources supply/demand balance. Performance is measured as a reduction from the baseline position set in 2019/20 and is based on three year averages.

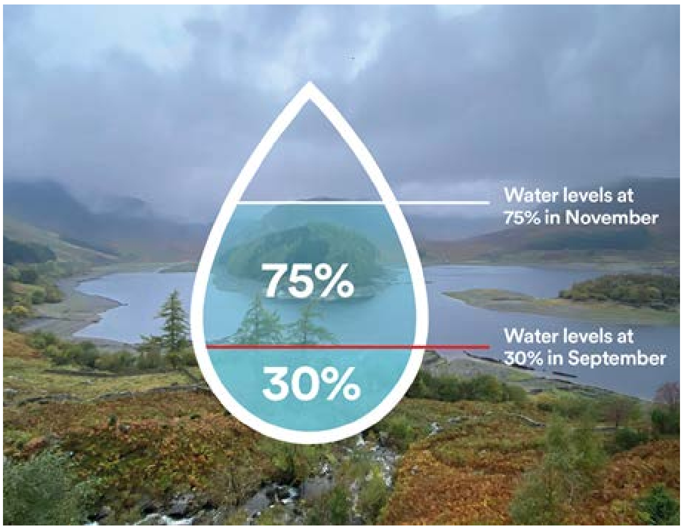
Performance summary

In year one performance across the sector was impacted by COVID-19 lockdown measures which had driven up household consumption, with more customers working at home and holidaying in the UK. There were also impacts from increased hygiene and cleaning requirements. In year two we have seen a small improvement in the level of household consumption but usage continues to be impacted by changes in behaviour and continued homeworking.

We have continued with the markedly increased efforts promoting water efficiency introduced in year one using a multi-channel approach and region wide broadcast channels such as local TV weather sponsorship and radio advertising to drive awareness across the North West. This delivers reach of just under 90 per cent of adults in our region.

In April 2021 we launched our 'Leaky Loos' campaign as we understood from Waterwise that between five per cent and eight per cent of toilets are likely to be leaking and this is unnoticed by the householder. This six-week integrated campaign using radio, door drops, digital channels, face-to-face activity and social media aimed to raise awareness of the issue, giving customers the tools to spot the problem by providing 'Leaky Loo' detection strips. This included providing hints and tips on how to fix it through YouTube videos with Craig Philips and Andrew Styles.

As 2021 became drier we introduced a four month communications campaign across all channels that raised awareness and asked customers more directly to save water. As part of this we introduced a 'resometer' into print, social media and email communications. This icon graphically depicted how much water was remaining in Haweswater reservoir compared to where we would expect to be at that time of year.



In summer 2021 we introduced the Get Water Fit platform to provide a focal point for communications and as a means of ensuring efficient distribution of water saving devices. Over 100,000 customers have signed up to Get Water Fit, providing us with information about their water usage and ordered free water savings devices. A total of 250,000 devices such as tap inserts and shower regulators have been provided to customers free of charge.

We have continued to adopt a regional prioritisation model to target geographical areas for intervention. The model uses information about each area, including:

- The number of household and non-household customers and the number of vacant/void properties;
- The metering status and demographic of the customer base;
- The demand for water and likely per capita consumption; and
- Water resources resilience metrics.

B05

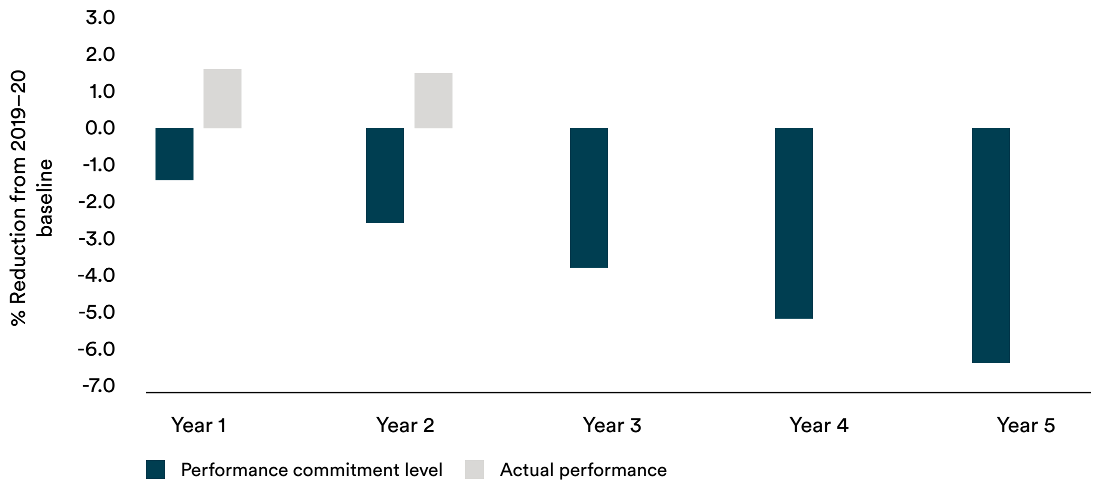
In year two we focussed on engaging residents in Lancashire and Greater Manchester, promoting messages on the source of their water, campaigns such as leaky loo or general water saving tips for water zones where demand levels have historically seen increases during periods of dry, warm weather. Working in partnership with ten Greater Manchester Combined Authorities (GMCA) and using metered consumption data, we determined that five out of ten GMCA areas were the highest consuming within our region. As a consequence, we introduced a rolling programme of in person water audits targeting those customers who appear to have some form of leak within their property. Post audit analysis has shown that targeting these audits at high consuming metered customers or those with leaks provides a sustained water saving benefit of 60–85 litres per property per day. As we move through our plans, we are looking at options to scale this offer either through more physical support, digital options and improved self-help customer journeys.

Whilst the COVID-19 pandemic continued to hamper our face-to-face primary school classroom sessions earlier in the year we switched to an online provision through our two partners, Lake District National Park and Kingfisher Education Services, to provide engaging sessions to bring water to life for children across the North West. Once restrictions were lifted we were able to get back into schools and delivered 243 sessions to 6,396 pupils from November 2021 to April 2022.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance, but will only be reconciled at the end of the AMP when our final performance level for the five-year period will be known. In year two we have failed our target.

Actual performance for the ‘per capita consumption’ performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.3% (reduction)	1.7% (increase)	Fail
Two	2021/22	2.6% (reduction)	1.5% (increase)	Fall

B06

Drought risk resilience

Performance commitment description

This is an industry common measure of the percentage of customers at risk of experiencing severe supply restrictions in a 1 in 200 year drought. The population is considered to be at risk if the supply-demand balance calculation in each water resource zone for the 1 in 200 year drought event results in a shortfall. This will occur when the modelled deployable output minus outage allowance (available supply) is less than the dry year demand plus base year target headroom (demand plus uncertainty). This measure does not carry a financial incentive.

Performance summary

We have met our performance commitment for year two. The percentage of customers at risk of experiencing a severe supply restriction in a 1 in 200 year drought is zero.

This performance commitment is linked to the schemes planned in the 2019 Water Resource Management Plan (WRMP19), and the risk of severe restrictions during the period 2020–45. For year two the reported risk of 0 per cent is based on our estimate that the risk of severe restrictions faced by customers is much less than 1 in 200 years (i.e. much less than a 0.5 per cent annual chance). This estimate is based on sophisticated in-depth analysis outlined in our WRMP19 submission.

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We have met our target for year two.

Actual performance for the 'drought risk resilience' performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.0%	0.0%	Pass
Two	2021/22	0.0%	0.0%	Pass

B07

Reducing areas of low water pressure

Performance commitment description

This performance commitment is an asset health measure tracking the number of properties receiving water pressure below the guaranteed standard. This level of service is defined as a flow of nine litres per minute at a pressure of ten metres head on the customer's side of the main stop tap. Performance is measured on 31 March in the reporting year.

Performance summary

The number of properties on the low pressure register below reference level at the start of the year was 379. At year-end the number of properties below the reference level was 176. This was better than the 243 properties that would have been required to meet our target. This resulted in reported performance of 0.513 outperforming the year two target of 0.720.

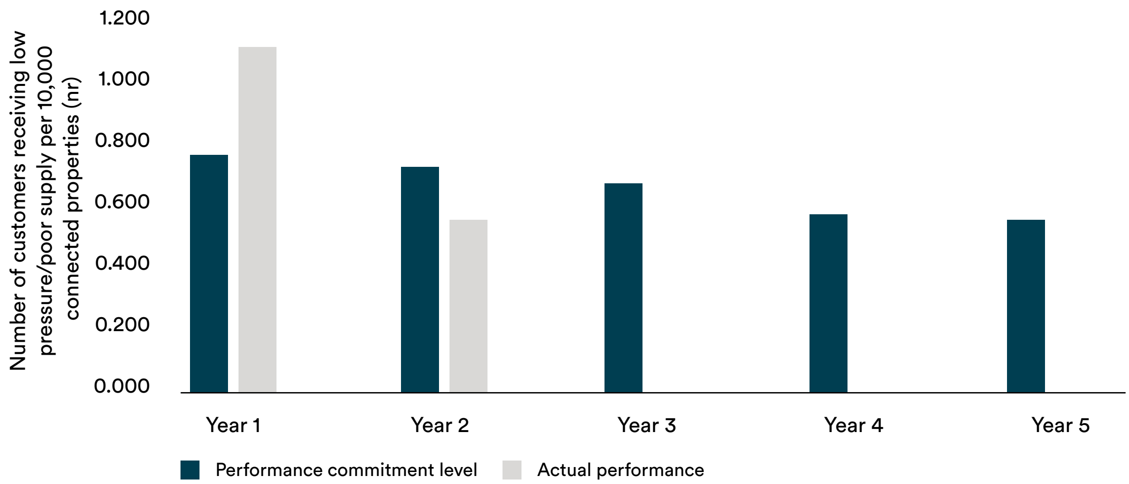
The improved performance this year reflects the completion of two large schemes, one in Liverpool DMZ, and one in Wirral DMZ.

The performance commitments for AMP7 are challenging. However we will continue to evaluate all properties that are on our low pressure register, to identify solutions and prioritise accordingly, to ensure we can remove as many properties as viable from the low pressure register.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £0.071 million.

Actual performance for the 'reducing areas of low water pressure' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.760	1.113	Fail
Two	2021/22	0.720	0.513	Pass

B08

Water service resilience

Performance commitment description

This is a measure defined by us to track the reduction in the risk to customers of major water supply interruptions or water quality issues caused by failures of trunk mains or water treatment works. This is measured as the reduction in annual risk of customer service days (csd) lost. To set our target we assessed the probability of failure at key water treatment works (WTWs) and trunk mains, the potential duration before service is restored and the number of customers at risk of service failure. Our targeted reduction in risk takes into account work planned until 2025. An assessment of risk is carried out annually and subject to independent audit.

Performance summary

The water service resilience baseline risk assessment is based upon the 28 WTWs that serve demand that cannot be met from alternative supplies on a sustainable basis. For water mains the risk assessment is based on:

- The number of customers who could not be supplied by alternative routes if a trunk mains fails;
- The likely duration of repair; and
- The probability of the trunk main failing.

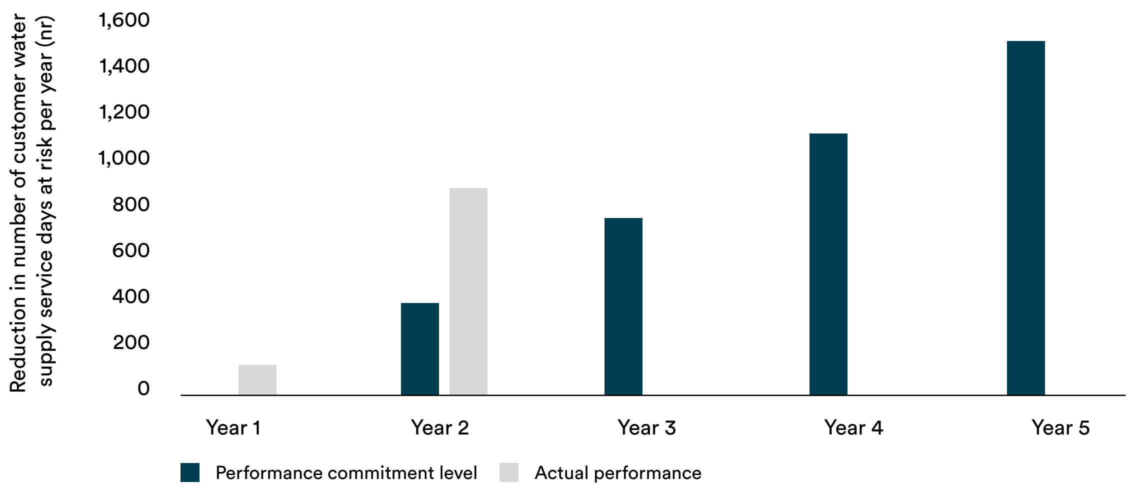
The water service resilience baseline risk assessment includes 361 critical trunk mains identified as being at risk of losing more than two customer service days per year. The performance commitment was to deliver reductions in risk from year two of AMP7.

We have outperformed this year reducing the number of customer water supply service days at risk per year by 915. This was better than our target of 382, and was achieved through a combination of work completed at water treatment works and conditioning activities undertaken on critical trunk mains. The change in risk position has been subject to independent audit and this is set out in the audit report published in Appendix 1.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £1.928 million.

Actual performance for the 'water service resilience' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	106	Pass
Two	2021/22	382	915	Pass

B09

Manchester and Pennine resilience

Performance commitment description

This is a measure defined by us which tracks our progress in implementing the Direct Procurement for Customers (DPC) process to appoint a competitively appointed provider (CAP) to design, build, finance and maintain the solution identified for the Haweswater Aqueduct Resilience Programme (HARP) previously known as the Manchester and Pennines resilience scheme. Progress is measured against the satisfactory delivery of three key DPC control points. These are the Strategic Outline Case, the Outline Business Case (OBC) and the Full Business Case. These need to be successfully delivered to allow the scheme to progress to the point where a CAP can be appointed. The underperformance payment is capped at £5.740 million.

Performance summary

The Haweswater Aqueduct Resilience Programme will be a pathfinder scheme for the DPC process. This process is both novel and untested in the water sector, and the HARP scheme itself is complex and sizeable. Whilst the COVID-19 pandemic has caused delays in a number of activities leading us to adjust our plan for the development activity required in advance of procurement, the lifting of government restrictions enabled us to plan ahead according to the new guidelines. No underperformance payment was due in year two of the AMP. However, the OBC was submitted to Ofwat in year two (on 20 December) and the approval to commence with procurement has been received ahead of the 01/05/22 target date.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. There were no outputs specified under this performance commitment for year two.

Actual performance for the 'Manchester and Pennine resilience' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1 (Strategic Outline Case)	Achieved	Pass
Two	2021/22	0	Achieved	Pass

B10

Keeping reservoirs resilient

Performance commitment description

This measure assesses the reduction in risk delivered by our planned risk reduction activities at dams, reducing the risk of individual dam failure to a tolerable level as defined by the Health and Safety Executive. A tolerable risk will have an annual probability below 1 in 10,000 or 1 in 1,000,000 depending upon the population at risk; the probability should be as low as reasonably practicable. Proactive risk reduction is achieved through our portfolio risk assessment methodology, which assesses the probability of failure at dams on an ongoing basis.

We prioritise and deliver work to lower the risk of failure at dams, lowering the probability of their failure until the dam is no longer in either the Health and Safety Executive's 'unacceptable individual risk' or 'unacceptable societal risk' category. Beyond this we seek to reduce the probability of risk to a level as low as reasonably practicable.

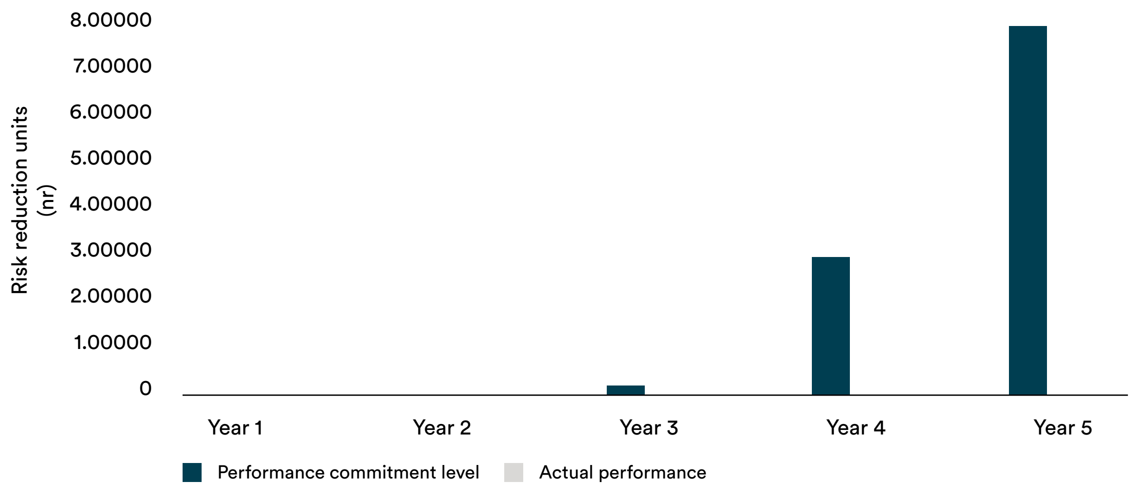
Performance summary

The performance commitment assesses the risk reduction of dam failures to tolerable levels. The first projects are due to be delivered in year three of the AMP. We are in the process of planning delivery of this work.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance, but will only be reconciled at the end of the AMP when our final performance level for the five-year period will be known. There were no outputs specified under this performance commitment for year two.

Actual performance for the 'keeping reservoirs resilient' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.00000	0.00000	Pass
Two	2021/22	0.00000	0.00000	Pass

B11

Thirlmere transfer into West Cumbria (AMP7)

Performance commitment description

This measure is a continuation of our AMP6 performance commitment tracking the completion of the Thirlmere transfer project in West Cumbria. The aim of the project is to secure a long-term water supply for the West Cumbria area, whilst continuing to meet our environmental obligations. Our target was to deliver this demanding project by 31 March 2022. The performance commitment would see us gain a financial reward if we manage to outperform the already stretching delivery targets for the project, or incur penalties if we fail to hit our deadlines. Progress is measured as a percentage of the earned value of the project, with a value of 100 indicating that the project has been completed. This measure also has an underperformance collar, set at 99 per cent.

Performance summary

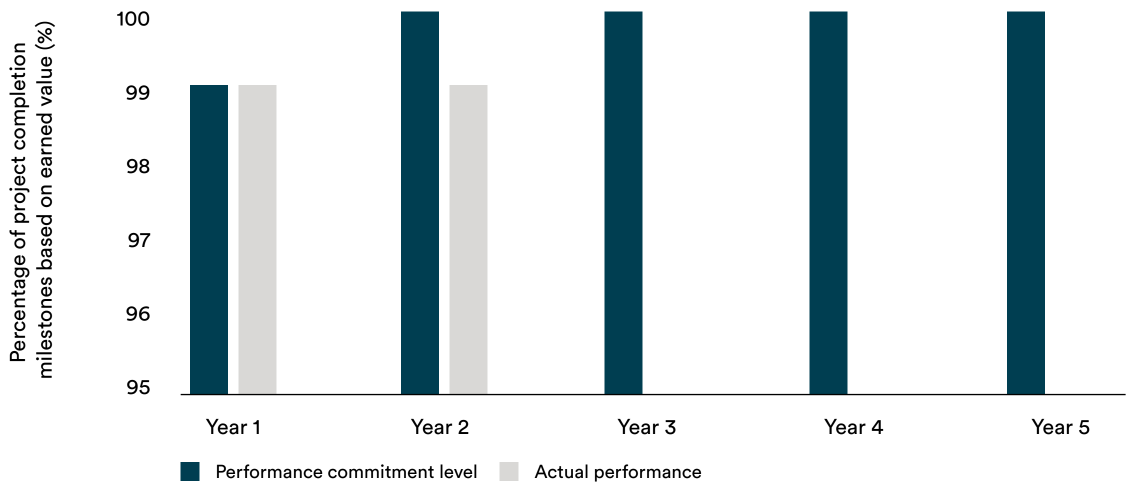
The project finished AMP6 ahead of schedule with the target for year one achieved in year five of AMP6. Progress in AMP7 has been impacted by COVID-19 restrictions, with availability of contractors and restricted working practices causing delays. In year two we achieved one of the remaining two milestones and are continuing final commissioning of the new Williamsgate WTW which is forecast to deliver water into supply this summer ahead of the revocation date of the abstraction permit at Ennerdale.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two COVID-19 restrictions meant our target was missed. This leads to an underperformance payment of £2.340 million*.

*See Appendix 3 for further details of the incentive calculation.

Actual performance for the 'Thirlmere transfer into West Cumbria (AMP7)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	99%	99%	Pass
Two	2021/22	100%	99%	Fail

The natural environment is protected and improved in the way we deliver our services

Our customers, stakeholders and regulators expect us to improve the quality of the environment. We will deliver a programme of environmental improvements and, where possible, achieving this in a more sustainable way which can be maintained over the long term and protects resources for future generations. We will effectively operate and maintain our assets so that we can mitigate the impact of external factors such as climate change, population growth and changing customer behaviours and will reduce our abstraction from sensitive sites during periods of low flow.

How have we done?

We have successfully passed seven out of the nine performance commitments which support this outcome, and generated a net outperformance payment of £5.568 million.

In year two, our pollution performance was 137 category 1–3 incidents (17.71 incidents per 10,000km of sewer). This is our best ever performance and represents a continued reduction in incidents from the 2020 level, which was our previous best year. This performance includes zero category 1–2 events which are regarded as the most serious in terms of environmental impact.

Under our better air quality measure, we completed a project started in year one to convert the Combined Heat and Power (CHP) engines at our two largest CHP facilities to low Nitrogen Oxide (NOx) emission operation. These engine modifications, along with the continued proactive maintenance of our CHP fleet, has resulted in a reduction in the total amount of NOx emitted per GWh of generation and an improvement in performance.

Our abstraction incentive mechanism (AIM) measures how well we manage water extraction at two of our environmentally sensitive sites. In year two we did not extract from the Old Water site and extracted less water from the Ennerdale site compared to the historic baseline period. This was due to an increase in compensation extraction from the South Egremont boreholes and resulted in an overall outperformance position.

We achieved 98.98 per cent treatment works compliance, which equates to four treatment works in breach of their discharge consent out of a total of 391. We continue to use operational best practice, implement our overall improvement plan for discharge compliance in AMP7 and deliver intensive care plans for those works at high risk.

This year we produced 202,565 tonnes dry solids (tds) of biosolids. This volume of biosolids was then treated and successfully recycled to either agriculture or restoration outlets, delivering a 100% compliance score for the year. In 2021 we also implemented several measures to improve our processes and procedures to further reduce the potential risk of single point failures occurring. These included enhanced site training and a focus on sampling practices. As a result we forecast to retain 100 per cent compliance over the remainder of the AMP.

Two of the nine performance commitments are based on the delivery of named Water Industry National Environment Programme (WINEP) schemes. Under our improving the water environment measure, there were 17 of the 61 water schemes scheduled for delivery in year two. Two of these schemes were delivered on time and 15 were delivered early, resulting in a net early delivery equivalent to 62 days. Under our improving river water quality measure 11 of the 99 wastewater schemes were successfully delivered in year two against their agreed delivery date, giving a total of 12 schemes completed and claimed so far in AMP7. One catchment, the Wyre, has now been completed on time therefore net days early and late is currently zero.

Performance commitment	Actual Performance Year two	Impact	Value (£m)
C01 – Pollution incidents	17.71	Outperformance payment	4.552
C02 – Treatment works compliance	98.98	Underperformance payment	-0.030
C03 – Abstraction incentive mechanism	-134.4	Outperformance payment	0.048
C04 – Improving the water environment	62	–	–
C05 – Improving river water quality	0	–	–
C06 – Protecting the environment from growth and new development	94	–	–
C08 – Enhancing natural capital value for customers	2.508	Outperformance payment	0.379
C09 – Recycling biosolids	100.00	–	–
C10 – Better air quality	1.19	Outperformance payment	0.619
The natural environment is protected and improved in the way we deliver our service net position	7/9 achieved		5.568

C01

Pollution incidents

Performance commitment description

This is an industry common measure which tracks the number of category 1, 2 and 3 pollution incidents recorded in a calendar year per 10,000km of sewer network. The methodology is consistent with the Environment Agency's (EA) Environmental Performance Assessment (EPA) methodology, and as such has seen an update to the sewer length used to normalise the measure this year.

This measure is also an evolution of our historic AMP6 performance metrics. It includes incidents from transferred assets, those recorded through the installation of event duration monitors (EDM) and consented discharges.

Performance summary

This measure utilises a calendar year assessment. In 2021 our performance was 137 category 1–3 incidents. When this performance is normalised by sewer length this equates to an outturn of 17.71 incidents per 10,000km. This is our best ever performance and represents a continued reduction in incidents from the 2020 level, which was our previous best year. This performance includes one event which the EA is treating as a category 1 event. This is regarded as the most serious in terms of environmental impact. We believe there is evidence for a lower classification and this incident is still under discussion with the EA.

Following the conclusion of their legal investigation, if the EA agree this incident requires a lower category 3 classification, this will not affect our performance under this metric.

On the equivalent EPA assessment we also achieved a 'green' classification, which is a status we have achieved in seven of the last eight years.

Our positive performance in this metric is attributed to the continued implementation of a number of strategic initiatives and targeted approaches, covering topics such as culture, systems thinking, training and maintenance, which are all brought together under our overarching pollution incident reduction plan (PIRP). A copy of this plan can be found on our website:

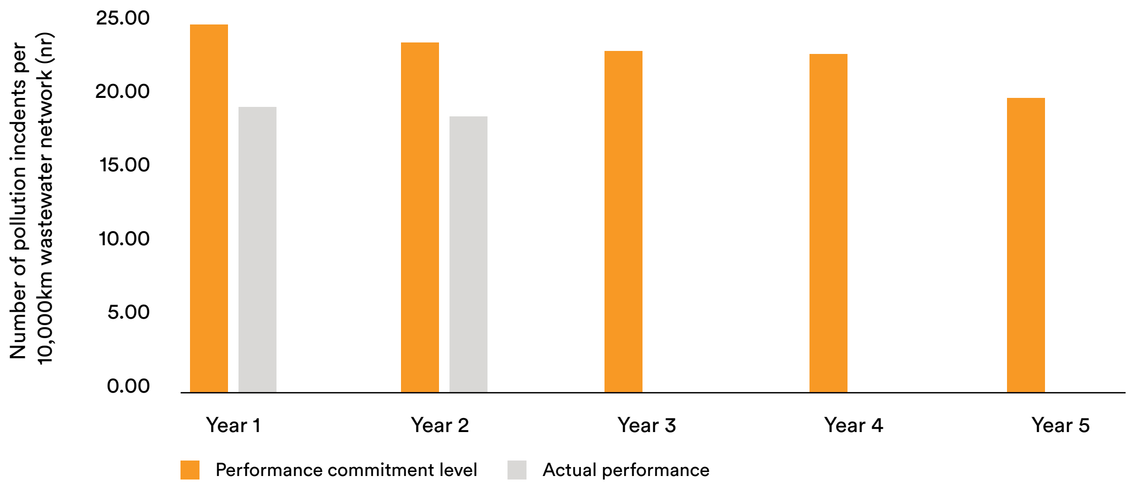
www.unitedutilities.com/corporate/responsibility/environment/Reducing-pollution/

Published in September 2020, this plan is sub-categorised into several key focus areas and is tracked against anticipated completion dates in order to help us to continue to reduce overall pollution incidents in future years. We also continue to have a dedicated regulatory improvement manager to manage the progression and success of each element of the plan.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we have exceeded our target, meaning we have earned an outperformance payment of £4.552 million.

Actual performance for the 'pollution' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	24.50	18.10	Pass
Two	2021	23.70	17.71	Pass

C02

Treatment works compliance

Performance commitment description

This is an industry common measure which assesses the percentage of water and wastewater treatment works that are compliant with their discharge permits on a calendar year basis. The measure definition is the same as that used by the Environment Agency (EA) in its annual Environmental Performance Assessment (EPA). We have set the performance commitment at 100 per cent compliance, which is equivalent to zero failing works. The deadband level is set at 99 per cent compliance and is the level required for 'green' status when assessed against the EPA.

Performance summary

This measure utilises a calendar year assessment. In 2021 our performance was 98.98 per cent compliance, which equates to four treatment works in breach of their discharge consent out of a total of 391. The non-compliant treatment works are comprised of three wastewater treatment works and one water treatment asset.

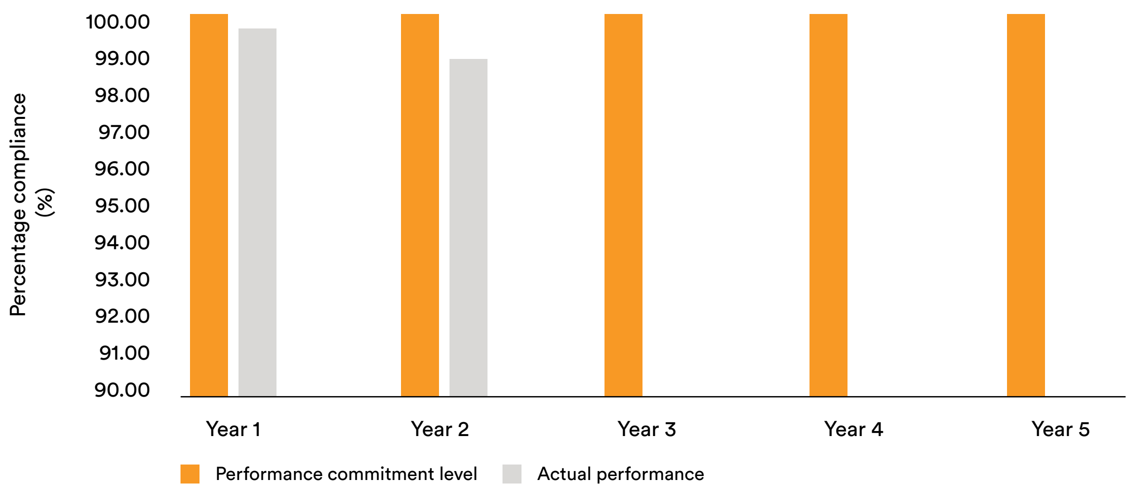
We continue to use operational best practice, implement our overall improvement plan for discharge compliance in AMP7 and deliver intensive care plans for those works at high risk.

Details of the failures experienced this year are an upper tier iron breach at Crewe WwTW, a UV plant re-start failure at Millom WwTW, a pH absolute limit failure at Hawkshead WwTW and a Chlorine absolute limit failure at Huntington WTW. For each of these, a detailed investigation has been undertaken to ensure we understand the root cause of the failure. We have also implemented action plans to ensure any outstanding issues are resolved and the correct processes are in place to minimise the risk of any similar failures occurring again in the future.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we have failed our target and incur an underperformance payment of £0.030 million.

Actual performance for the 'treatment works compliance' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	100.00%	99.75%	Fail
Two	2021	100.00%	98.98%	Fail

C03

Abstraction incentive mechanism

Performance commitment description

This is an industry common measure which assesses how well we manage abstraction at environmentally sensitive sites. For each abstraction site covered by the abstraction incentive mechanism (AIM) there is a trigger which identifies when the downstream river flows are running low. Once the trigger is reached, we seek to reduce the level of abstraction at the site and therefore minimise our environmental impact. The AIM flow trigger is site-specific and is set based on the historic river flow record. For AMP7 we have two AIM sites: Old Water on the River Gelt and Ennerdale. Ennerdale will be removed from AIM when its abstraction licence is revoked (expected in 2022) and an alternative supply of water from Thirlmere reservoir is in place to supply West Cumbria. A decrease in the volume abstracted – as measured in Megalitres (Ml) – signifies an improvement in performance.

Performance summary

We have two sites covered by AIM in year two, they are Old Water and Ennerdale. The target for both AIM sites for each year of AMP7 is zero Ml AIM performance. The summer of 2021/22 was dry with below average rainfall during July and early August 2021 resulting in low river flows. River flows at Old Water did not hit the AIM river flow trigger resulting in a 0 Ml AIM performance for that site. At Ennerdale, river flows dropped and hit the AIM river flow trigger but during this period we increased abstraction from the South Egremont boreholes enabling us to abstract less water from Ennerdale compared to the historic baseline period. A negative AIM performance of -134.4 Ml means we abstracted less water from Ennerdale compared to the baseline period, resulting in an outperformance against target.

We proactively monitor river flows at the AIM sites and seek to reduce abstraction at times of low river flow. However, alternative abstraction options are very limited. The alternative supply for Old Water is New Water, however, New Water has a prescribed flow requirement and so at times of low river flow, abstraction is limited at this site as well. The alternative source for Ennerdale is the South Egremont boreholes, however these must be operated in accordance with a Section 20 conjunctive use agreement with the EA.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £0.048 million*.

*See Appendix 3 for further details of the incentive calculation.

Actual performance for the 'abstraction incentive mechanism' performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.0 Ml	-695.9 Ml	Pass
Two	2021/22	0.0 Ml	-134.4 Ml	Pass

C04

Improving the water environment

Performance commitment description

This measure aims to protect customers from late delivery of our environmental improvement programme. Prior to the start of the AMP we agreed the programme of work with the Environment Agency and this was published through its Water Industry National Environment Programme (WINEP). The scope of this performance commitment is limited to schemes under the FBG (fisheries, biodiversity and groundwater), WR (water resources) and WQ (water quality) functions on the WINEP. We assess the number of days each scheme is delivered early or late and the cumulative view of this is reported annually.

There are currently 61 schemes covered by this performance commitment. This has decreased from the 69 schemes in the original programme, as nine schemes have been removed from the WINEP following agreement and approval by the Environment Agency and one has been added. Within the 61 schemes there are 15 catchment schemes. It is possible for these schemes to be partially delivered with certain elements being completed and other elements incomplete. In the case of partial delivery of a catchment scheme the number of days late is calculated as the number of days that the incomplete elements are late by the proportion of overall scheme benefits.

There may be instances where it is necessary to follow the change process with the Environment Agency during the five-year period and adjust the programme of work. Agreed changes with the Environment Agency as defined by the sign off of an amendment form update and re-baseline the schemes to be delivered in the programme.

Performance summary

Each scheme specified under this performance commitment has a specific regulatory delivery date, as outlined in the WINEP. There were 17 schemes scheduled for delivery in year two of the AMP. Two of these schemes were delivered on time and 15 were delivered early. The net early delivery of these 15 schemes is equivalent to 62 days.

All schemes expected to be completed later in the AMP are currently forecast to be on track against our delivery plan.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we exceeded our performance commitment and therefore incur no underperformance payments.

Actual performance for the 'improving the water environment' performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass
Two	2021/22	0	62	Pass

C05

Improving river water quality

Performance commitment description

This measure focuses on the timely delivery of wastewater network plus schemes that have an Environment Agency (EA) primary or secondary water quality improvement driver. We have focused this measure on Water Framework Directive (WFD) as this work should deliver measurable environmental improvements whereas the statutory programme is more likely to just maintain a stable level of river or bathing water quality.

This measure will be reported as the net position in number of days early or late across the region versus the target. In order to obtain the aggregate performance position we calculate the net position in number of days early or late that schemes have been delivered by catchment. This will be assessed annually. There may be instances where it is necessary to follow the change process with the EA during the five-year period and adjust the programme of work. Agreed changes with the EA as defined by the sign off of an amendment form will update and re-baseline the schemes to be delivered in the programme.

Performance summary

There are currently 99 WFD schemes covered by this performance commitment. This has increased from the 96 schemes in the original programme, via the application of the EA's change control process. Each of these schemes has a specific regulatory delivery date, as outlined in the water industry national environment programme (WINEP). These 99 schemes are then grouped into 15 catchments. The performance assessment to determine the number of days early or late for each catchment is only undertaken when the last scheme in a catchment is delivered.

In year two 11 of the 99 schemes were successfully delivered against their agreed delivery date, giving a total of 12 schemes completed and claimed so far in AMP7. As described above, this performance commitment is assessed when schemes within a catchment are complete. So far only one catchment – the Wyre – has had all its schemes completed on time, therefore the overall net days early and late is currently zero.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we met our performance commitment and therefore we incur no underperformance payments.

Actual performance for the 'improving river water quality' performance commitment – lower is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass
Two	2021/22	0	0	Pass

C06

Protecting the environment from growth and development

Performance commitment description

This is a bespoke measure that reports the total additional population equivalent that will be served as a result of investment to increase wastewater treatment works capacity or remove/redirect flows away from areas with a shortfall in wastewater treatment capacity thus protecting the environment from decline. The measure reflects the level of protection we are providing at wastewater treatment works and will be measured as a cumulative total for each year, commencing with the first completed project in 2021/22. The scope and location for individual projects is flexible to enable us to accommodate changes in forecast development and to manage risk. The performance commitment is defined by the additional population equivalent accommodated at wastewater treatment works that are at risk from new development or growth. The baseline population equivalent is that from which the design is developed for each works.

Performance summary

The performance commitment for this metric was defined through a proposal of delivering 21 projects over the AMP and the agreed delivery dates for these projects were outlined to be in either year two or year five of the AMP.

This year we have delivered a single project at Greystoke WwTW. The other projects originally planned for delivery in year two were associated with water quality enhancement projects. These have now either been delayed (for example, due to pandemic restrictions leading to delays in planning permission being granted) and will now be delivered later in the AMP or they have been removed from the programme. Both of these scenarios are with the full agreement of the Environment Agency and where projects have been delayed, other projects are being accelerated to compensate. Further options are also being considered to ensure the targeted additional capacity is still delivered within the AMP.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance, and will be reconciled at the end of the AMP when our final performance level for the five-year period will be known. In year two we have failed our target.

Actual performance for the 'protecting the environment from growth and development' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	0	Pass
Two	2021/22	8,848	94	Fail

C08

Enhancing natural capital for customers

Performance commitment description

This performance commitment incentivises us to use catchment systems thinking to deliver water quality improvements through the delivery of catchment and nature based solutions. This will measure the added natural capital value delivered through a scheme focusing on the six Ecosystem Services (ESS) valued by customers: water quality, climate regulation, flooding, biodiversity, amenity and recreation and health and wellbeing. The added natural capital value is defined as the increase in natural capital value delivered beyond that which would have been achieved by a conventional engineering led approach. We calculate the added value of these benefits using the B£ST Natural Capital Accounting tool in line with a methodology developed by United Utilities in conjunction with Vivid Economics which quantifies a monetary value for the services enhanced. This is assured independently by Vivid Economics.

Our target profile is based on the opportunity we identified to deliver added natural capital value at PR19 and we have an outperformance cap to incentivise the identification and delivery of further opportunities.

Performance summary

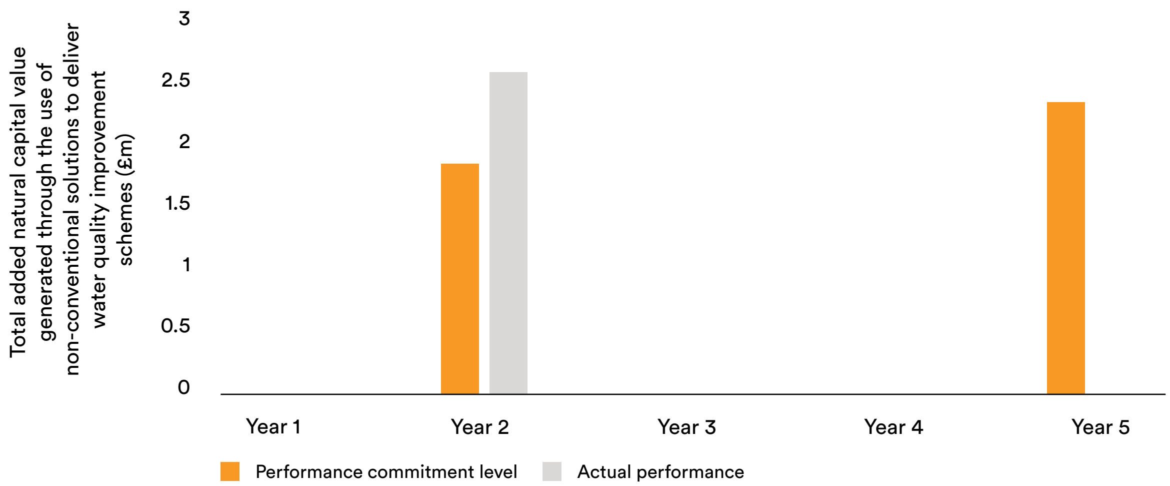
This performance commitment was a new metric for AMP7 and is based on the proposed delivery of projects over the duration of the AMP. There were no schemes planned or accelerated for delivery in year one, however this year, two schemes have been successfully delivered. The two schemes were Southwaite treatment wetland with public access and High Sparrowmire Sustainable Drainage System (SuDS) scheme. As a result of these two schemes we have added to our natural capital value and have outperformed our target.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £0.379 million*.

*See Appendix 3 for further details of the incentive calculation.

Actual performance for the 'enhancing natural capital value for customers' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0.000	0.000	Pass
Two	2021/22	1.750	2.508	Pass

C09

Recycling biosolids

Performance commitment description

This is a bespoke measure that assesses the successful use and disposal of treated material containing sewage sludge, known as biosolids. All biosolids need to be compliant with regulatory requirements that apply to each end use in line with the water industry and Environment Agency agreed definition of satisfactory sludge use and disposal. As a further requirement, biosolids that are recycled to agriculture must also conform to the Biosolids Assurance Scheme (a voluntary scheme under the governance of Assured Biosolids Ltd). The scheme incorporates best practice guidance and is independently audited. The total quantity of non-compliant biosolids is divided by the total quantity of sludge which required treatment and disposal and subtracted from 100 per cent to calculate the score.

Performance summary

This measure utilises a calendar year assessment. In 2021, we produced 202,565 tonnes dry solids (tds) of biosolids. This volume of biosolids was then treated and successfully recycled to either agriculture or restoration outlets, delivering a 100 per cent compliance score for the year.

In 2021 we implemented several measures to improve our processes and procedures to reduce the risk of single point failures occurring.

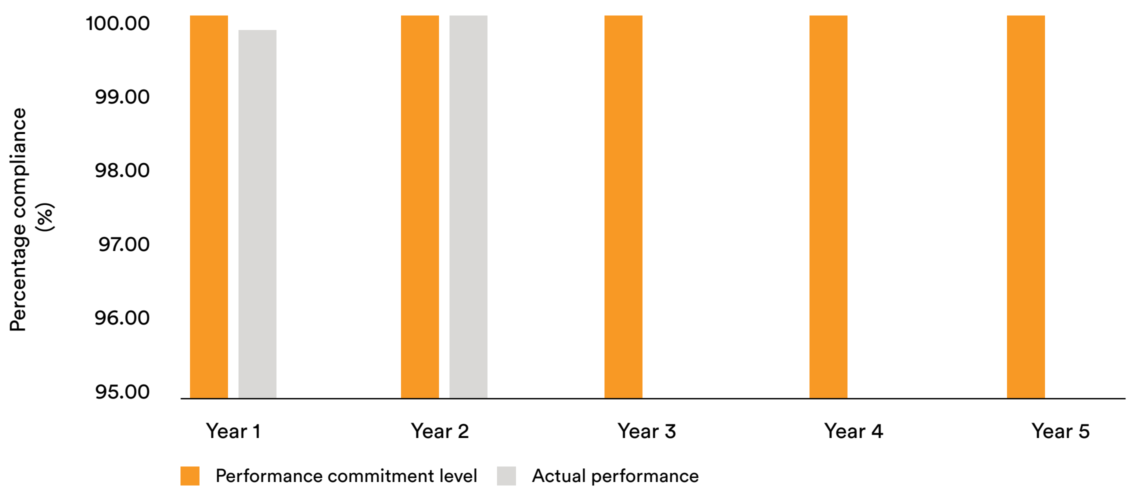
These included:

- All colleagues that are involved with recyclingbiosolids to land have been through a new training course that covers the whole process of the biosolids assurance scheme (BAS), with a focus on the treatment process element.
- Staff have also undergone site specific training to ensure all compliance aspects are covered and understood at each of the sludge treatment centres.
- Each site hazard analysis critical control point (HACCP) plan has been reviewed, including an assessment of the process critical control points (CCP) and contingency procedures.
- An increased focus has been put on to sampling practices, in order to reduce any unnecessary failures caused by human error.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we have met our target. However, outperformance payments under this measure are not earned until there are three consecutive years of 100 per cent compliance.

Actual performance for the ‘recycling biosolids’ performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020	100.00%	99.87%	Fail
Two	2021	100.00%	100.00%	Pass

C10

Better air quality

Performance commitment description

This is a bespoke measure that aligns to customers' ambition for us to improve air quality. It is focused on reducing the Nitrogen Oxide (NOx) emissions per unit of renewable electricity generated from bioresources. Sewage sludge from wastewater treatment is treated through digestion processes to a standard suitable for use in agriculture. This process also produces biogas which is burned to generate renewable energy in combined heat and power engines. When the fuel is burned, waste gases including NOx are emitted. The measure includes emissions from combined heat and power engines and sewage sludge incineration. If biogas is supplied to the national gas grid, the electricity that could have been generated by burning it is included in the measure.

Performance summary

Our two largest Combined Heat and Power (CHP) facilities at Manchester and Liverpool have been at the forefront of an improvement programme this year to roll out cleaner engine technology. This technology reduces the amount of NOx in the combustion gas being emitted from our engines by 50 per cent per cubic metre of gas produced (from 500mg down to 250mg NOx per m^3), thereby reducing the tonnes of NOx emissions per GWh of electricity generation. In year one, we installed this cleaner technology on both the engines at Liverpool and one of the five engines at Manchester. Continuing the programme of work into year two, we have converted the remaining four engines at Manchester to low NOx emission operation.

These engine modifications along with the continued proactive maintenance of our CHP fleet has resulted in a reduction in the total amount of NOx emitted per GWh of generation and therefore an improvement in performance.

We continue to maximise the quantity of biogas injected into the national gas grid from our facility in Manchester and we have also not incinerated any sludge. All of these activities enabled us to increase our renewable energy generation whilst minimising the impact of emissions on air quality.

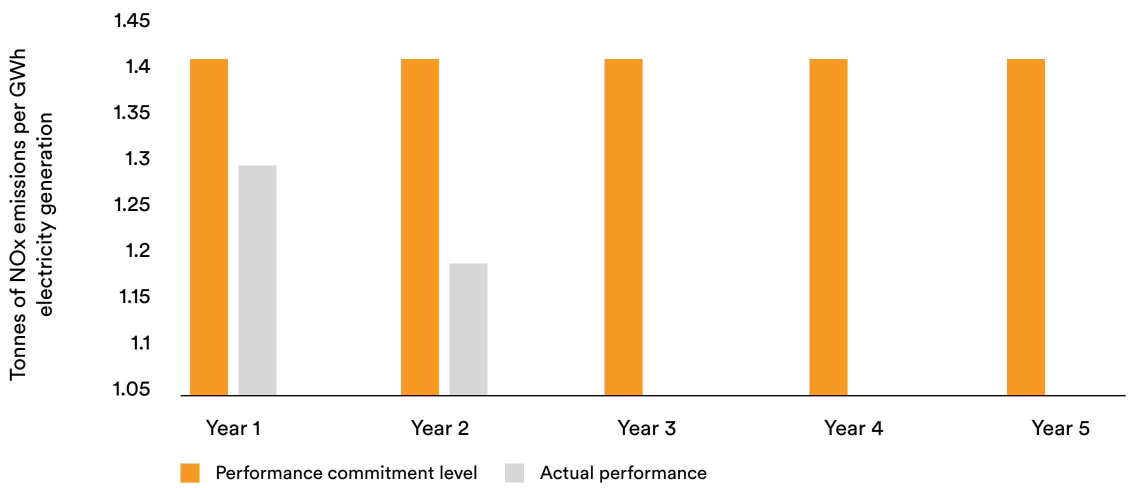
The measure uses a three year rolling average and the trend shows an increase in renewable energy generation whilst total NOx emissions remain constant. This represents an improvement in performance in the NOx emitted per GWh of renewable electricity generated performance commitment unit. We calculate that as a result of our actions, we have avoided over 22 tonnes of NOx emissions this year compared to how we operated in 2019–2020 (the end of AMP6).

Financial implications

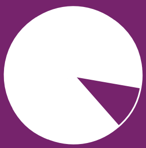
This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £0.619 million*.

*See Appendix 3 for further details of the incentive calculation.

Actual performance for the 'better air quality' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.42	1.30	Pass
Two	2021/22	1.42	1.19	Pass



You're highly satisfied with our service and find it easy to do business with us

We are committed to delivering the best possible service for customers. We seek to offer customers the services that they want and value. We actively promote support for customers in vulnerable circumstances. We provide assurance that the quality of support for customers in vulnerable circumstances is of a leading standard by achieving and maintaining certification under a British Standards Institution (BSI) accreditation for inclusive service provision.

How have we done?

We have made five commitments about customer satisfaction and being easy to do business with. We have achieved four in year two and generated a net outperformance payment of £3.209 million.

We have performed well in C-MeX which is the measure used across the water industry to assess customer service and experience. We now have ten ways that customers can make contact with us including traditional contact methods such as phone or post as well as email, social media and live chat. In year two we have seen our lowest ever volume of complaints. We have achieved seventh place out of 17 water companies.

D-MeX is the measure of service and experience that we provide to developers (e.g. housebuilders). We have achieved sixth place out of 17 water companies.

We are really pleased to have maintained our accreditation from the British Standards Institution (BSI) following their assessment of the quality of our Priority Services. We continued to increase the number of customers registered for our Priority Services. Over 186,000 customers are now registered with us.

We did not achieve our target for street works performance which measures the quality and standard of our roadworks and reinstatements. We are working with our partners to try and improve this position.

Performance commitment	Actual Performance Year two	Impact	Value (£m)
D01 – Customer experience (C-MeX)	82.01	Outperformance payment	2.333
D02 – Developer experience (D-MeX)	88.40	Outperformance payment	0.876
D03 – Priority Services for customers in vulnerable circumstances	5.9	Reputational	–
D04 – Improving street works performance	12.67	Reputational	–
D05 – Priority Services – BSI accreditation	Maintained	Reputational	–
You're highly satisfied with our service and find it easy to do business with us net position	4/5 achieved		3.209

D01

Customer experience (C-MeX)

Performance commitment description

This industry common measure is a measure of residential customer satisfaction. It is designed to incentivise companies to improve customer satisfaction by delivering a better overall customer experience and improving companies' handling of customer contacts. Each company receives a C-MeX score based on the results from two surveys:

- A customer service survey which samples residential customers who have contacted their company which asks them how satisfied they are with how the company has handled their issue
- A customer experience survey which samples randomly selected customers and asks them how satisfied they are with their company.

Incentive payments are calculated on the points of variance of UUW's score from the industry leader and industry median.

Performance summary

Performance continues to be positive in the second year of the AMP. At the end of year two we are expected to be seventh out of 17 companies. Our written customer complaints performance for the year is our lowest ever volume of complaints and represents a 14% improvement on the previous year.

Complaints from customers have reduced across a range of service issues including water pressure, loss of supply and wastewater blockage and flooding issues.

Customers also provided positive feedback when they felt our service had been good. We received over 21,000 complimentary feedback messages from customers through the WOW awards scheme which solicits customer feedback following a contact.

Customers can contact us using ten different channels. As well as more traditional contact channels such as phone, post, automated telephony and in person visit to one of our main contact centre sites, we also offer five online channels for customers to contact us. These include:

- email – incoming contact via email;
- social media such as Facebook and Twitter;
- webform via our website;
- live chat; and
- the UUW app; which provides a direct channel for contacting the company, rather than only signposting other contact channels.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. Our performance this year generates an expected outperformance payment of £2.333 million.

Actual performance for the 'customer experience (C-MeX)' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	n/a	83.59	Pass
Two	2021/22	n/a	82.01	Pass

D02

Developer experience (D-MeX)

Performance commitment description

D-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for developer services customers. These customers include small and large property developers, self-lay providers, new appointees and some residential customers that have new mains connections installed. Each company receives a D-MeX score based on two components:

- a qualitative component – a score summarising the performance of the company in a satisfaction survey of developer services customers; and
- a quantitative component – a score summarising the performance of the company across selected Water UK Developer Services performance data metrics.

Incentive payments are calculated based on the points of variance of UUW's score from the industry leader and the industry median.

Performance summary

We have performed well in year two of the AMP. Quantitative performance measures how well we perform against the common industry metrics. We expect to be sixth out of 17 companies achieving an average over the year of 99.43 per cent. The qualitative component involves a satisfaction survey of developer services customers. We expect to be sixth out of 17 companies achieving a score of 77.38. When averaged, our resulting performance is expected to be sixth out of 17 companies with an overall score of 88.40.

This year we have successfully delivered our transformation programme which is delivering tangible improvements in service to developers who are building in the North West. This includes implementing a new operating model and business processes, introducing dedicated case managers and field support teams. We have invested in our systems to ensure full visibility and control of the customer journey from application through to connection and have further developments coming next year to increase self-serve options for our customers. We have also made a number of improvements to our supply partner contracts who make the physical connections for our customers, bringing more focus to customer service through new Key Performance Indicators (KPIs). We also continue to offer significant sustainability discounts to developer customers who build water efficient homes.

This work will continue through year three of AMP7 as we make improvements and embed changes. We will also continue to invest in greater training and development of our team.

We have continued with technical forums (for both water and wastewater disciplines) and will be reintroducing our in person 'Developer Day' in 2022/23 following a temporary pause during the COVID-19 pandemic. These give us an opportunity to engage with and demonstrate our services to developers.

Financial implications

This performance commitment has both underperformance and outperformance outcome delivery incentives. Our performance this year generates an expected reward of 3.14 per cent of our 2021/22 developer services revenue resulting in an expected outperformance payment of £0.876 million.

Actual performance for the 'developer experience (D-MeX)' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	n/a	88.44	Pass
Two	2021/22	n/a	88.40	Pass

D03

Priority services for customers in vulnerable circumstances

Performance commitment description

This industry common measure is designed to ensure a minimum standard across all companies for the number of households registered on the Priority Service Register (PSR) and for PSR data checking.

This performance commitment helps to increase the number of customers in vulnerable circumstances that receive the most appropriate service to their needs. It also helps ensure that we are incentivised to keep the register up to date.

This performance commitment consists of the following criteria with targets for each area:

- PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's register;
- Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period; and
- Actual contact: percentage of distinct households on the PSR that the company has actually contacted over a two year period.

To achieve compliance with this performance commitment targets for reach, attempted contacts and actual contacts all need to be achieved.

Performance summary

We have performed well across all three criteria, achieving the year two targets and therefore passing this performance commitment. We have continued to promote our PSR services despite the impacts of COVID-19. This means our usual promotional face to face meetings and events have taken place via different channels (over the telephone, via webinars, conference calls and online virtual events). The services continue to be offered to customers through our telephony teams. We have continued to share PSR data with Electricity North West (ENW). At the end of year two we have 186,224 households registered on our PSR.

We've made a number of changes to our systems to prompt our agents and call handlers to undertake the verification process and drive this activity proactively. Further changes have allowed us to handle increased contacts following proactive campaigns as well as allowing us to capture reactive verifications following contact by customers.

Below is a table of customers registered for the various activities. As a household can register for more than one service the numbers of services provided is greater than the number of PSR customer registered. All PSR customers are routinely provided with support during supply interruptions.

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We have met our target for year two.

Service	Number of customers
PSR households receiving support with Communication	10,106
PSR households receiving support with Mobility and Access restrictions	50,231
PSR households receiving support with Supply Interruptions	186,224
PSR households receiving support with Security	26,156
PSR households receiving support with Other Needs	134

Actual performance for the 'Priority Services for customers in vulnerable circumstances' performance commitment – higher is better

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	4.0	4.1	Pass
Two	2021/22	4.8	5.9	Pass

D04

Improving street works performance

Performance commitment description

This performance commitment measures the safety, quality and compliance of our street works activities in the public highway against the standard set out in the New Roads and Street Works Act (NRSWA) 1991. It seeks to drive improvements in the quality of our company's activities in the public highway from roadworks and traffic management setup through to the quality of our reinstatements. Compliance with the Act is made by our ISO accredited street works compliance team performing assessments on in-progress roadworks as well as reviewing the quality of reinstatements. The performance commitment definition is based on the number of instances of non-compliance.

Performance summary

Our year two target was to have less than 10.5 per cent non-compliance in our assessments. Having made almost 16,000 assessments we ended the year with 12.67 per cent non-compliance. Assessments are made by the compliance team covering our contractor street works activity across the entire region.

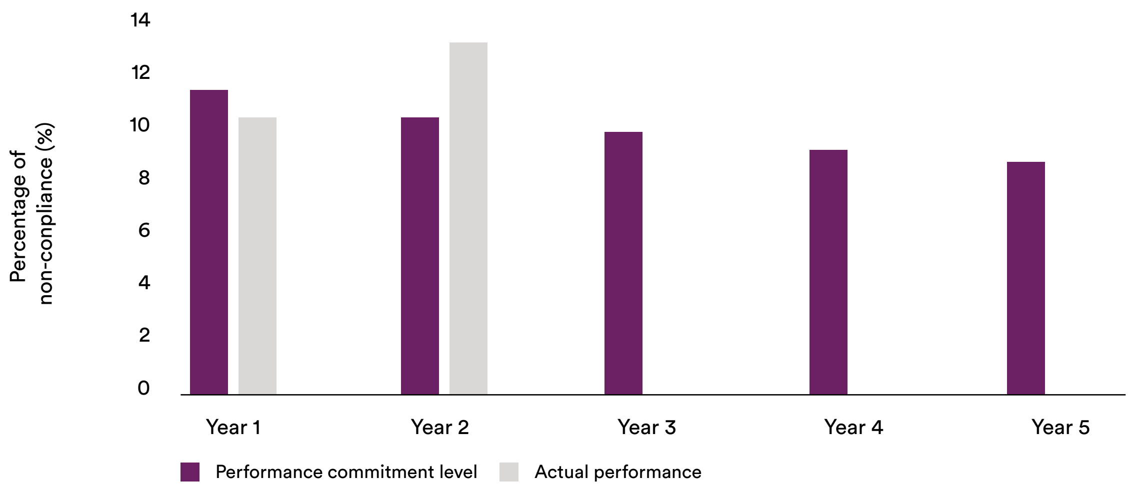
Performance is measured on a monthly basis helping us to identify trends and problematic areas quickly and put in place improvement measures with our contract partners. We aim to deliver a high standard of performance in this area to help avoid additional costs such as having to complete rework on unsatisfactory reinstatements. Completing street works quickly and to a high standard also reduces the impact on our customers in the North West.

In year two, performance on signing, lighting and guarding did not meet the required levels. Due to this being the most numerous audit undertaken, it meant that the impact on the performance commitment was significant. Air void performance is also below the targeted level, although the impact on the overall score was less significant. We are working with our partners to improve performance across both areas and have introduced our air void app 'Reinstate' to aid reinstatement construction to the correct standards.

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We failed our target for year two.

Actual performance for the 'improving street works performance' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	11.00%	10.56%	Pass
Two	2021/22	10.50%	12.67%	Fail

D05

Priority Services – BSI accreditation

Performance commitment description

This performance commitment measures whether United Utilities support for customers in vulnerable circumstances is meeting British Standards Institution (BSI) standards for inclusive service provision. We meet this level of performance by achieving and maintaining BSI accreditation. This ensures that we are providing an independently assured fair, flexible and transparent service that can be used by all customers equally, regardless of their health, age or personal circumstances.

Performance summary

We achieved accreditation to the standard in March 2020 and maintained the accreditation during year one of the AMP. In year two we maintained accreditation following a successful review. For all of the audits that have been completed we have received no non conformities or any recommendations for improvement. The standard reaches across the organisation and the assessment process looks at how we demonstrate our commitment to customer inclusion across

- Senior leadership
- Priority services
- Billing
- Income
- Service delivery
- Network enquiries
- Network field teams
- Training
- Communications
- Sustainability
- Legal
- External partners

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We have met our target for year two.

Actual performance for the 'Priority Services – BSI accreditation' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	Achieved	Achieved	Pass
Two	2021/22	Maintained	Maintained	Pass

Year two performance

1.1 Outcome delivery

We will improve the way we work to keep bills down and improve services

We aim to keep future bills down for customers by helping more people to pay, and seeking to ensure that all those receiving our services are being billed. We will continue to support customers who have affordability issues by ensuring that they are on the most suitable tariff and payment plan for their circumstances and employing other non-financial assistance schemes.

How have we done?

We have successfully passed all eight performance commitments that support this outcome and generated a net outperformance payment of £11.324 million. In year two, we continue to lead the water industry in affordability and vulnerability assistance with a wide range of support schemes for customers. The continued use of data and analytics allows us to target campaigns towards those customer segments most at financial risk, promoting the support available and encouraging customers to contact us if they were struggling to pay their bill. There are currently around 200,000 customers benefitting from affordability support, representing around six per cent of our household customer base.

We strive to improve our customer data in order to ensure that all those who use our services are correctly billed, which in turn ensures fairer bills for everyone. We have a number of performance commitments that support this. Our performance on voids has achieved its target this year, whilst we have outperformed our internal targets on gap sites for both households and non-households. We have also utilised our non-household vacancy incentives scheme, which incentivises retailers to identify occupied non-household premises that are showing as vacant and therefore should be billed.

We have achieved our year two target for our systems thinking reputational performance commitment. This capability will deliver significant future benefits for customers across many areas of service. For example, the advancements in both proactive and reactive customer responses, with machine analytics, machine learning and robotics will deliver quicker, better and cheaper responses to customer service disruption. This will allow us to be more resilient and minimise service disruption and will also improve our capability in response and recovery. Systems thinking recognises that our business is not a collection of independent components which deliver discrete services to customers. Instead, the business is managed and operated as a single end-to-end system. The dependencies and interactions between these sub-components, both internal and external, are better understood and used to unlock the long-term opportunities for step change in benefits for customers, both in terms of better service and lower cost. Systems thinking is a long-term strategy, requiring substantial investment in business change.

Our performance on the direct procurement measure for Manchester and Pennine resilience is in line with targets in year two but faces complex challenges over the remainder of the period in order to meet the regulatory date for contract award. We remain in dialogue with Ofwat over this.

Performance commitment	Actual Performance Year two	Impact	Value (£m)
E01 – Number of customers lifted out of water poverty	77,312	Outperformance payment	2.643
E03 – Non household vacancy incentive scheme	14,519	Outperformance payment	1.975
E04 – Gap sites (wholesale)	1,912	Outperformance payment	0.585
E05 – Gap sites (retail)	7,455	Outperformance payment	0.097
E06 – Systems Thinking capability	2	Reputational	–
E07 – Successful delivery of direct procurement of Manchester and Pennine resilience	On track	–	–
E09 – Customers say that we offer value for money	79	Reputational	–
E10 – Retail voids	4.51	Outperformance payment	6.024
We will improve the way we work to keep bills down and improve services net position	8/8 achieved		11.324

E01

Number of customers lifted out of water poverty

Performance commitment description

This measure commits us to providing additional support to customers in water poverty, primarily through the effective promotion of discounted social and support tariffs. In addition, it ensures support is effectively targeted at those most in need by only recognising this support where it acts to lift a customer out of water poverty which we define as spending more than 3 per cent of income on their water bill. We are targeting 66,500 customers being lifted out of water poverty by 2024/25 which represents a 45 per cent increase compared to supports levels in 2017/18.

Performance summary

Actual performance for this commitment in 2021/22 was 77,312 customers lifted out of water poverty. This consisted of customers benefiting from our Help to Pay (30,395), Back on Track tariff (45,979) and for the first time our WaterSure Scheme (938).

We are a leader in the water industry in affordability and vulnerability assistance, with a wide range of support schemes for customers, many of which are firsts for the industry. Using advanced data and analytic capabilities we have been able to focus our efforts on supporting the customer segments at greatest financial risk, promoting the support available and encouraging customers to contact us if they are struggling to pay their bill. There are currently c.200,000 customers benefiting from United Utilities' affordability support, representing around six per cent of our household customer base. We have directly engaged with customers using a variety of digital media channels, postcards, doorstep visits and indirectly promoting our schemes on our website and in various social media campaigns. We have also worked alongside strategic trusted partners and money advice agencies who promote the support available to their clients.

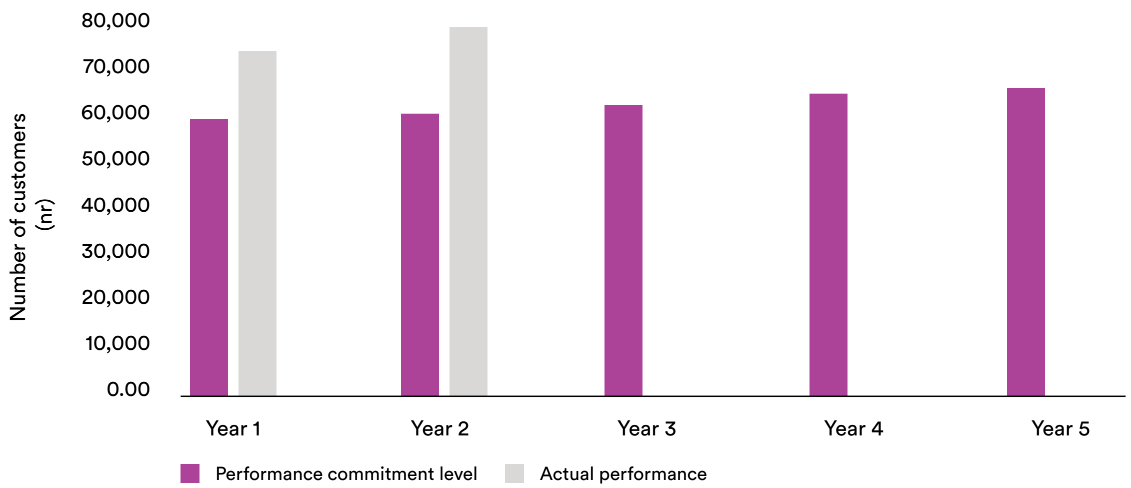
We continually innovate to improve our ways of working. In March 2021 we were the first water company to begin data sharing with the Department of Work and Pensions (DWP) leveraging the new provisions under the Digital Economy Act to assist people living in water poverty. The new data share arrangement allows us to identify customers in receipt of benefits enabling us to offer support to those customers who need our help the most. This data is particularly beneficial for identifying customers who are struggling to pay who are also often harder to reach and engage with. It also gives us the ability to undertake a benefit check at point of re-application, meaning eligible customers can automatically continue to benefit from lower bill support. We've continued to explore ways to drive value from the data share arrangement working with DWP to extend the data provision to include Universal Credit claimant data enabling us to extend the reach of the arrangement and support more customers

Working with our Credit Reference Agency partner Equifax, we are proud to be the first water company in the UK to roll out an Open Banking solution for social tariff applications. Introducing Open Banking into our affordability assessment process has simplified the application process for customers, improved the accuracy of the data captured ensuring customers benefit from the lowest tariff and has improved first time completion rate meaning customers are given a decision on tariff eligibility there and then rather than after a longer application process.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £2.643 million.

Actual performance for the 'number of customers lifted out of water poverty' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	57,600	71,057	Pass
Two	2021/22	59,800	77,312	Pass

E03

Non household vacancy incentive scheme

Performance commitment description

This measure incentivises business retailers who work in our region to identify occupied properties that are showing as 'vacant' within the Central Market Operator System and register them as 'occupied'. For charges to be correct it is essential that the occupancy status of each property is marked correctly within the market i.e. whether the property is 'occupied' or 'vacant'. We recognise the importance of ensuring that all customers are billed appropriately and therefore we have introduced a financial incentive. The incentive payments will provide for costs of administering the incentive and payments to retailers, while still providing a net benefit to customers from the additional revenue gained from billing previously unbilled properties.

Performance summary

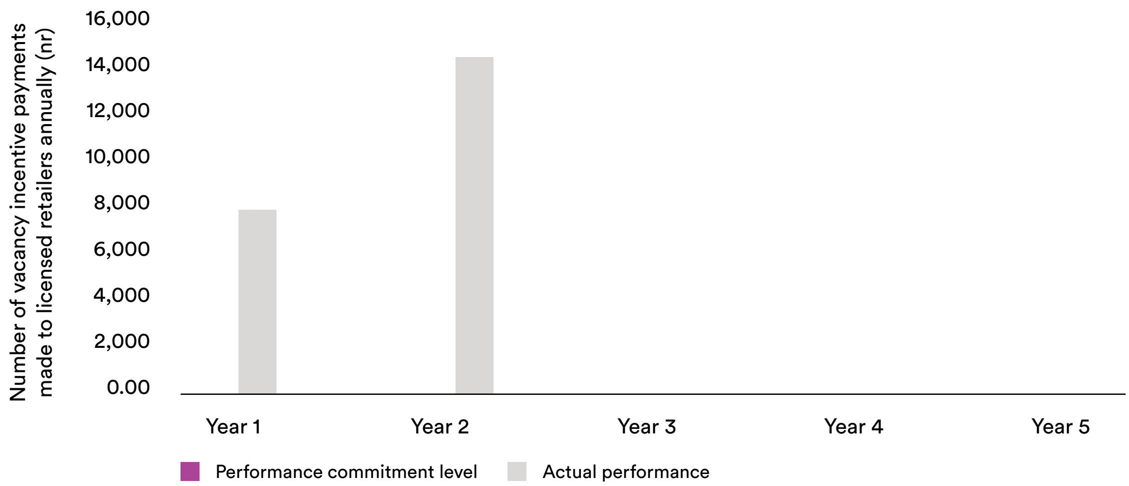
This is our second year of reporting the non-household vacancy incentive scheme. During the year we recognised 14,519 vacancy resolutions by retailers. This is an improvement on performance in the previous year, however our performance level across the remainder of the AMP is expected to reduce as the number of vacant non-household properties in the North West reduces.

The incentive scheme process has matured and retailers have established their processes to accurately identify occupiers. The previous year's impact of COVID-19 meant that vacancy incentive applications were delayed as the scheme was suspended as a result of site visit restrictions. This year is reflective of the scheme developing in maturity and also running for the full year.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance only. In year two we achieved 14,519 resulting in a total outperformance payment of £1.975 million.

Actual performance for the 'non household vacancy inventive scheme performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	7,940	Pass
Two	2021/22	0	14,519	Pass

E04

Gap sites (wholesale)

Performance commitment description

This measure is designed to encourage retailers to identify non-household properties where water and/or wastewater services are being used, but where the property is not being billed ('gap sites'). Identifying these sites will bring in more revenue from those customers, so keeping bills down for customers overall. The measure will facilitate incentive payments to retailers who identify customers who are not being billed or are only being partially billed. The performance commitment records the number of incentive payments made by UUW to business retailers who identify non-household premises using water or wastewater services which are not registered within the Central Market Operator System 'CMOS'. The CMOS system records all business customers and connects wholesalers and retailers in the market.

Performance summary

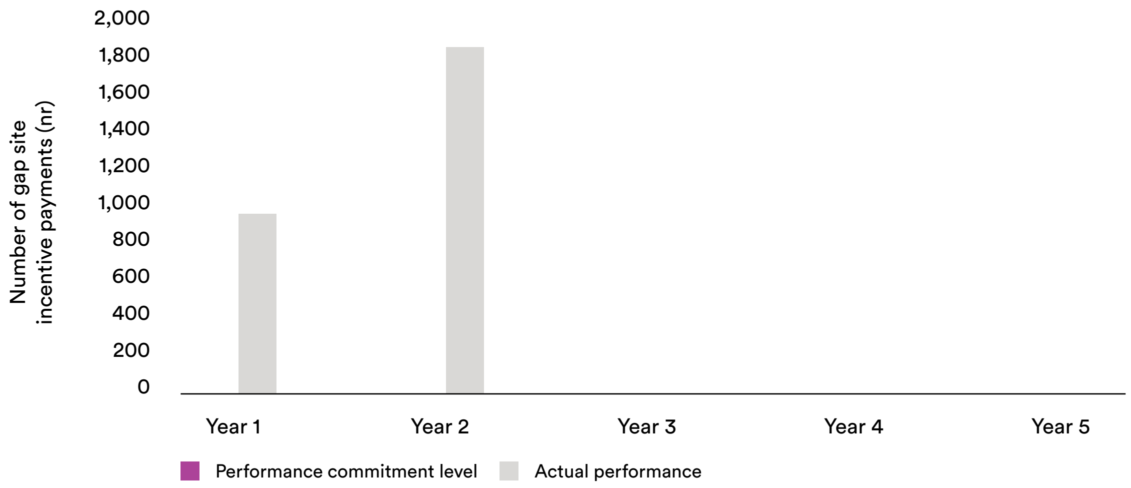
This is the second year we have reported on the gap sites (wholesale) scheme. Last year, gap site applications were delayed due to COVID-19 site visit restrictions. This year, however, we were able to improve our performance and registered 1,912 gap sites following successful retailer applications. Our performance level across the remainder of the AMP is expected to remain stable year-on-year. Formal targets are not set in advance for this performance commitment; performance reflects the number of sites identified in any period.

As retailers identify potential gap sites to us we check and verify this information to make sure each is a valid gap site. Once confirmed we register the premises in the CMOS. Our reported performance therefore reflects the number of additional sites registered in the market. Incentive payments to business retailers are made following receipt of their invoice.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance. In year two we achieved 1,912 gap site resolutions, resulting in a total outperformance payment of £0.585 million.

Actual performance for the 'gap sites (wholesale)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	949	Pass
Two	2021/22	0	1,912	Pass

E05

Gap sites (retail)

Performance commitment description

This performance commitment measures the number of household properties in our area which we identify where water and/or wastewater services are being used, but the property is not known to the company ('gap sites'). Identifying and billing all properties will result in a fairer distribution of water charges across all customers. This measure has been designed to provide a cost recovery mechanism so that we carry out activities to maintain and enhance data quality for all the properties we serve.

Performance summary

This is the second year we have reported on the gap sites (retail) scheme. During the year we recognised the identification of 7,455 gap sites in total. Our performance level across the remainder of the AMP is expected to remain stable year-on-year.

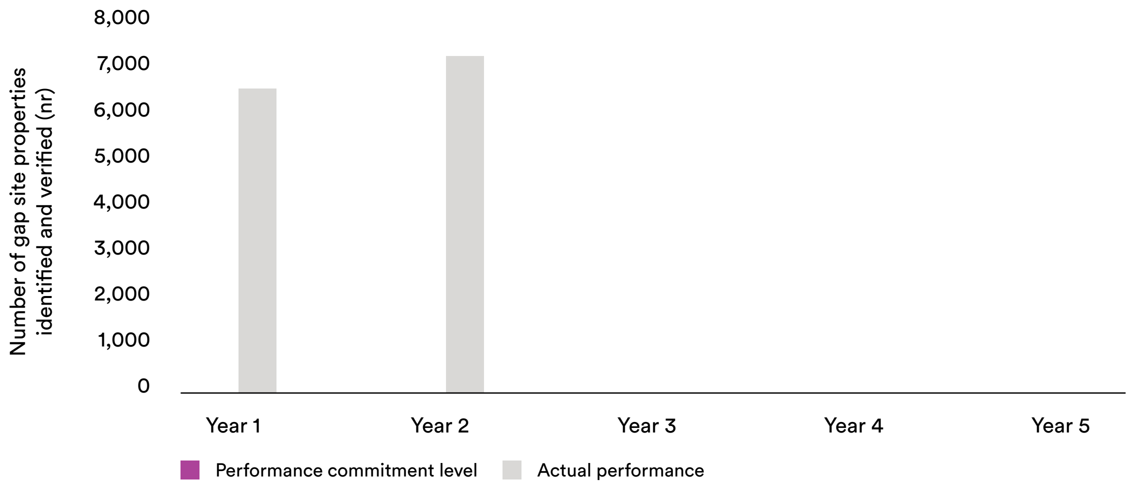
Formal targets are not set in advance for this performance commitment; performance reflects the number of sites identified in any given year.

We have continued to perform well in year two of AMP7, driving performance through an increased focus on the performance commitment alongside maintaining robust internal processes and working closely alongside our developer services team.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance. In year two we achieved 7,455 in total resulting in an outperformance payment of £0.097 million.

Actual performance for the 'gap sites (retail)' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	0	6,349	Pass
Two	2021/22	0	7,455	Pass

E06

Systems Thinking capability

Performance commitment description

Systems thinking involves learning about the interaction of the individual components of a system, understanding the system as a whole and using this to identify patterns and predict performance. For a water and wastewater company, this means rather than operating an asset or treatment works in isolation, we use telemetry data from our assets, along with knowledge about the wider environment in which we work and digital advances such as artificial intelligence to understand the broader systems perspective, predict where issues may arise and make decisions. Techniques such as machine learning are enabling us to automate some of these decision making processes.

This performance commitment measures delivery of our corporate strategy to embed a systems thinking approach through innovations and improvements in capabilities such as production planning, operational monitoring and control and asset lifecycle management.

The methodology for assessing capability maturity has been developed with external leaders in systems thinking and has been assured and benchmarked against companies outside the water sector.

Performance summary

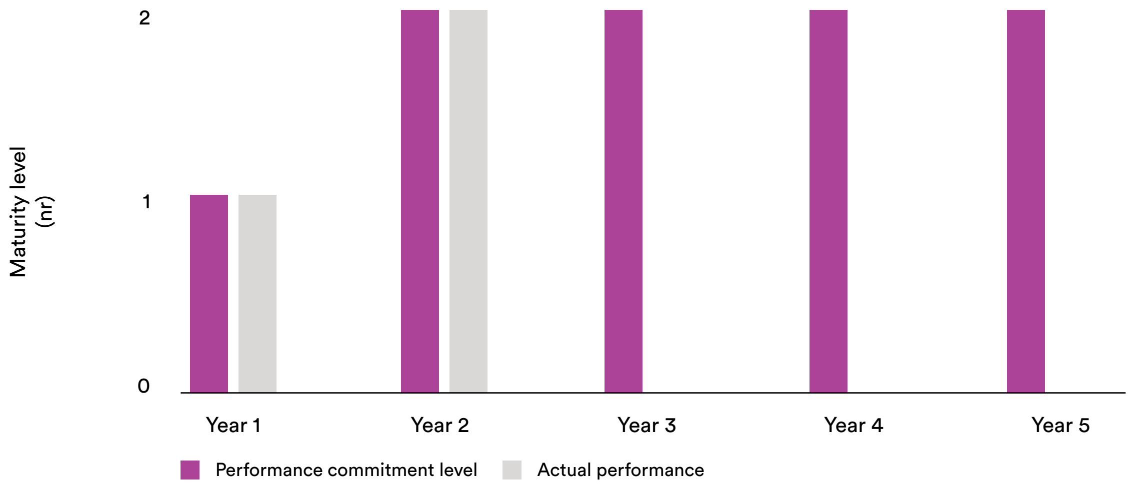
This measure is based upon an assessment of a suite of capabilities, undertaken by external experts Accenture. In February 2020, prior to year one, we were baselined at maturity level one and aim to reach level two by the end of the AMP7 period. Following the latest assurance review completed in February 2022, there have been further advances made by each capability across the 44 capability assessment questions. Previously each capability had a documented level two roadmap which detailed activities, projects of work, pilots and other initiatives that support maturity development through to level two in line with the year two targets. These milestone plans are reviewed on a weekly basis to ensure adherence to the timescales. Internal tracking of the maturity levels is in place for each capability and reported through a monthly Transformation Board.

We have delivered our plan to achieve level 2 maturity. This has been formally assessed by Accenture and they have confirmed and reported that we have achieved level 2 across all eight capabilities.

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We have met our target for year two.

Actual performance for the ‘Systems Thinking capability’ performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1	1	Pass
Two	2021/22	2	2	Pass

E07

Successful delivery of direct procurement of Manchester and Pennine resilience

Performance commitment description

The Haweswater Aqueduct Resilience Programme (HARP) scheme will represent one of the largest infrastructure projects in the UK, improving resilience of water supplies to customers in Manchester, Cumbria and Lancashire. This measure focuses on advancement of the HARP scheme via the Direct Procurement for Customers (DPC) process in a way which demonstrates value for money to customers whilst also providing an example for the industry and building capability for DPC activities across the sector. Achievement will be assessed following the appointment of a competitively appointed provider (CAP) to design, build, finance and maintain the scheme at such time the contract between United Utilities and the CAP has been signed and its terms are fully effective. The performance commitment is set so that if a contract is awarded before 1 May 2023 meeting Ofwat's qualifying criteria we will receive an outperformance payment of £5.740 million.

Performance summary

The Haweswater Aqueduct Resilience Programme will be a pathfinder scheme for the DPC process. This process is both novel and untested in the water sector, and the HARP scheme itself is complex and sizeable. The scheme has been impacted by the ongoing COVID-19 pandemic in addition to the challenge of developing the detailed framework to support this procurement model. Despite these challenges, we have successfully passed through the required number of control points to date.

No deliverables were due in year two of the AMP and therefore no outperformance payments apply.

Financial implications

This performance commitment is subject to an outcome delivery incentive for outperformance only and is in line with targets in year two but faces complex challenges over the remainder of the period in order to meet the regulatory date for contract award.

Actual performance for the 'successful delivery of direct procurement of Manchester and Pennine resilience' performance commitment

AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	In progress	On track	Pass
Two	2021/22	In progress	On track	Pass

E09

Customers say that we offer value for money

Performance commitment description

Assessing customers' views on the overall value for money provided by UUW for provision of water and wastewater services is an important factor in understanding drivers of legitimacy with customers. Alongside other measures of household customer service, such as C-MeX, a value for money measure can give insight into customers' perception of UU service levels and corresponding bills. Value for money performance is assessed based on the results of customer surveys asking United Utilities household customers; "How satisfied are you with value for money of water and sewerage services in your area?"

Performance summary

We have achieved a score of 79 per cent against a target of 72 per cent in year two, having implemented a coordinated and visible engagement plan. This score is taken from the annual Consumer Council for Water (CCW) report 'Water Matters'. The CCW research is undertaken in the form of an annual telephone survey conducted across a representative sample of household water bill-payers in England and Wales. The purpose of this is to measure and track customers' views in respect of a range of services supplied to them by their water and sewerage service provider(s).

Communication is critical if we are to maintain a high value for money rating as this helps to improve customer understanding of what we do.

The pandemic has continued to financially impact many people throughout the North West. We have therefore continued to promote our support schemes both on social media and direct to customers, encouraging them to contact us if they have payment difficulties. This has included our Payment Break scheme, Trust Fund and our Back on Track scheme. We also continue to promote our Help to Pay scheme to those customers who receive Pension Support.

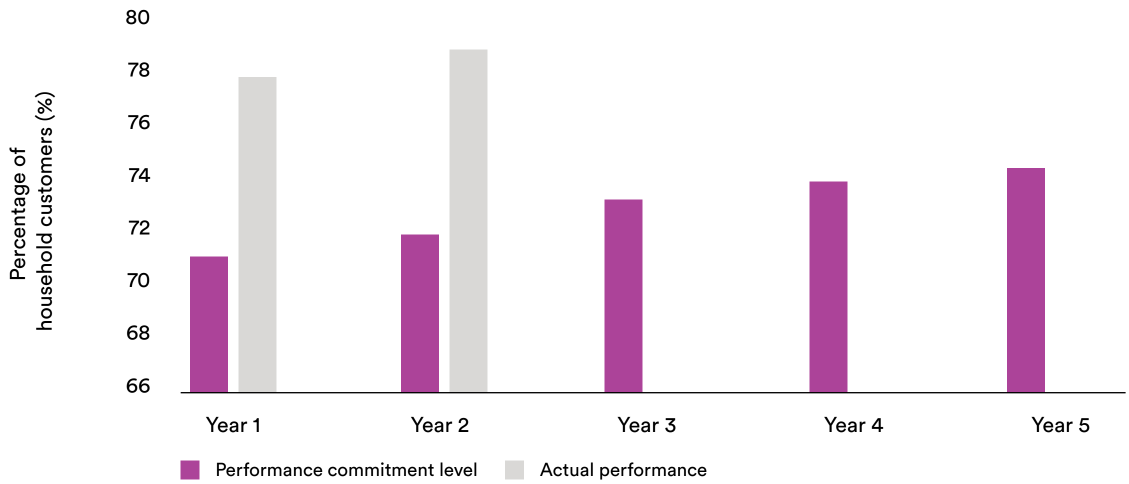
Alongside this, we also undertake a series of campaigns throughout the year to raise awareness of a range of initiatives including messages on "stop the block," water efficiency, "Winterwise" and leakage. We also work to promote our app and online account services alongside other activities. These campaigns help to engage customers in the services that we provide, illustrating a wide range of initiatives of interest to our customers.

We continue to engage with and utilise best practice in customer insight using all aspects of research from business as usual activities and input from our online customer panels. We know that the best approach to engaging customers is through the use of specific, targeted messages with timely and relevant information. All our communication campaigns aim to engage customers in the North West, enhancing their awareness of what we do as a service provided so they have a better understanding of what their bill pays for.

Financial implications

This is a reputational performance commitment with no associated financial incentives for underperformance or outperformance. We have exceeded our target for year two.

Actual performance for the 'customers say that we offer value for money' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	71%	78%	Pass
Two	2021/22	72%	79%	Pass

E10

Retail voids

Performance commitment description

This measures the number of household properties classified as void as a percentage of the total number of household properties served by the company. Void properties are defined as properties which are connected for either a water service only, a wastewater service only or both services but do not receive a charge, as there are no occupants. The proportion of void properties is measured as an average over the year.

This performance commitment is designed to incentivise the company to reduce the number of household void properties. The reduction in void properties, which are occupied but not billed, will lead to fairer charges between customers and lower bills for customers already being billed.

Performance summary

In year two we have reduced the number of voids by approximately 7,000 properties which means that 4.51 per cent of household properties were recorded as void, outperforming our target of 6.31 by the end of year two.

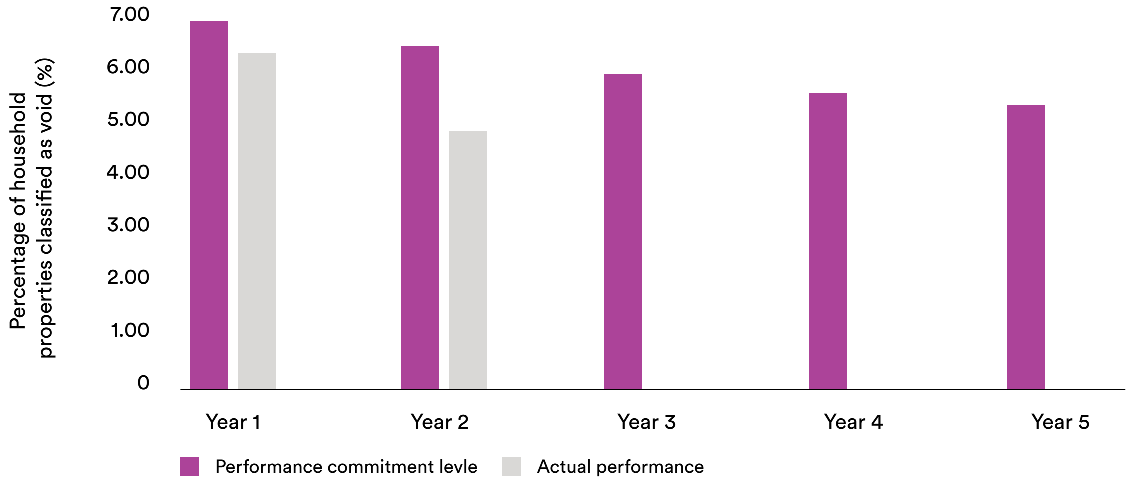
We continued to drive performance through established systems and processes, developed to manage our void process, part of a robust void management strategy in place including:

- a portal that allows information on our full void property base to be refreshed on a monthly basis, allowing updated information to be reviewed and scored for confidence, enabling us to engage with a wide number of households;
- our process that provides sale alerts on void properties. This enables earlier identification of new occupants and ensures that communications can be sent to named occupiers, ensuring a better engagement rate, and ultimately leading to more occupants being moved in quicker; and
- our void app which for the first time has been available for the full year. This enables field and office based employees to identify and submit feedback on void properties that they come across as part of their normal duties to the Property Management team, who are then able to contact and successfully move in occupants of properties where indications of occupancy were observed. The combination of these initiatives enables the continued reduction in void properties and will support further significant reductions across AMP7.

Financial implications

This performance commitment is subject to outcome delivery incentives for outperformance. In year two we exceeded our target resulting in an outperformance payment of £6.024 million.

Actual performance for the 'retail voids' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	6.70%	6.01%	Pass
Two	2021/22	6.31%	4.51%	Pass

Collect and recycle wastewater

Customers rightly prioritise the removal of wastewater as a discreet service which should not interfere with their day-to-day lives. Operational issues such as blockages are the principal cause of incidents of surcharging drainage systems, which can lead to flooding and pollution incidents. There is strong customer and stakeholder support for reducing both flooding and pollution incidents which we will achieve through innovative technologies and planned programmes to proactively manage our risks.

How have we done?

We passed one of the two performance commitments which support this outcome, but failed to meet the other. This resulted in a net underperformance payment of -£0.056 million.

We recorded a total of 1,080 sewer collapses, which when normalised by 1,000km of sewer length, equates to a performance level of 13.70. This is better than our performance commitment of 14.90 per 1,000km of sewer. This positive performance is a result of our 'flying start' investment, the proactive approach we have embedded through our operating model and increased technical verification of each individual incident.

For sewer blockages, we recorded 20,368 incidents. This performance is a circa nine per cent improvement on our year one performance, but just above our performance commitment of 20,328 incidents. Whilst blockages from our existing assets have reduced over the long term, since 2013, the proportion of blockages from transferred assets has continued to remain stable.

For both measures, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance.

Performance commitment	Actual Performance Year two	Impact	Value (£m)
F01 – Sewer collapses	13.70	–	–
F02 – Sewer blockages	20,368	Underperformance payment	-0.056
Collect and recycle wastewater net position	1/2 achieved		-0.056

F01

Sewer collapses

Performance commitment description

This common performance commitment measures the number of sewer collapses per 1,000km of sewer. This measure seeks to reflect failure due to structural weakness in our assets which cause an impact on service to customers or the environment. The measure discounts proactively identified collapses, collapses caused by third party damage, manhole damage and internal backdrops. Displaced joints, cracked or fractured pipes, open joints, intruding connections, minor pipe breaks and hard blockages do not reflect significant structural failure hence are also excluded from the measure.

Performance summary

In year two, we recorded a total of 1,080 sewer collapses, which when normalised by 1,000km of sewer length, equates to a performance level of 13.70. This is below our performance commitment of 14.90 per 1,000km of sewer.

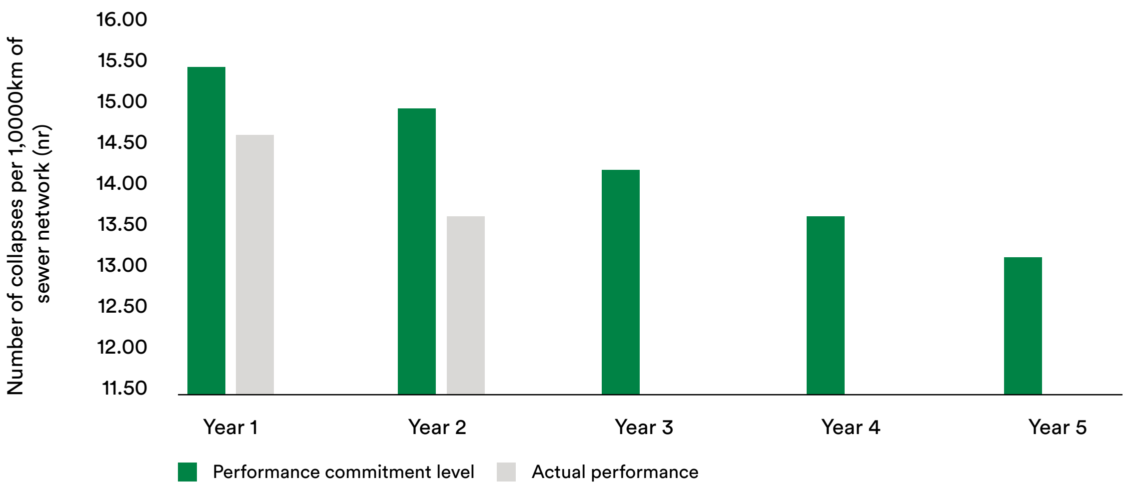
At the end of AMP6 we focussed additional investment into the wastewater network, under an initiative known as 'flying start'. This investment, coupled with our improved operating model, has helped us to proactively prevent some collapse events from occurring and limited the number of repeat collapse incidents. Both of which have assisted with the performance improvements we have seen in years one and two of AMP7. We have also enhanced our incident guidance for our operational teams and have put robust processes in place to ensure each incident is separately verified by our drainage engineers so as to better record and understand asset performance.

Over the longer term, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance in this area. These include the promotion of less disruptive 'no-dig' techniques for repairing sewers. This is currently a significant area of innovation for United Utilities and will reduce the number of reportable collapses in future years. We also continue to invest in our Dynamic Network Management (DNM) model, which through an innovative use of monitors will allow us to understand where there is deviation from the standard operation of the network. This means we are able to identify potential collapses before they become too serious. This proactive resolution means that issues can be resolved before customers experience service disruption.

Financial implications

This performance commitment is subject to an outcome delivery incentive for underperformance only. In year two we exceeded our performance commitment and therefore we incur no underperformance payments.

Actual performance for the 'sewer collapses' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	15.51	14.61	Pass
Two	2021/22	14.90	13.70	Pass

F02

Sewer blockages

Performance commitment description

This is a bespoke measure adopted from Ofwat's asset health list. Sewer blockages in AMP6 were a sub-measure of our network performance index but are now a standalone measure in AMP7. A blockage is defined as an obstruction in the sewer that has been reported and cleared. Blockages resulting from third party interference are included. This measure does not include proactively cleaned silt or other blockages that are removed which are not reported to us by customers or stakeholders and have no customer impact. We also do not include recorded incidents conforming to section 111 of the Water Industry Act 1991 related to repeated and deliberate abuse of the sewer which causes restrictions on its use.

Performance summary

Our blockages performance of 20,368 incidents is a circa nine per cent improvement on our year one performance, but just above our performance commitment of 20,328 incidents. Albeit our experience is that when our performance is normalised, we are consistently near the industry frontier position.

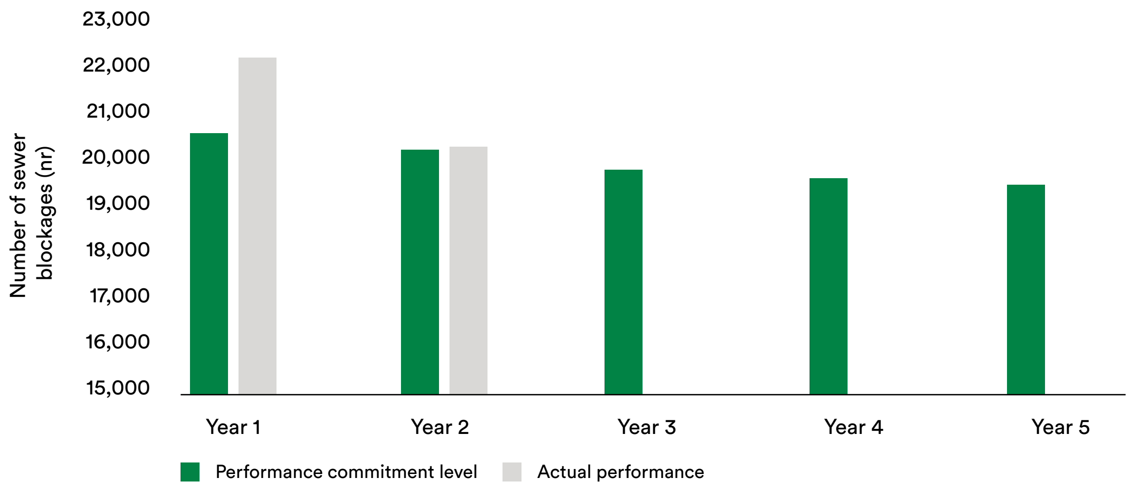
Whilst blockages from our existing assets have reduced over the long term, the proportion of blockages from transferred assets has continued to remain stable. Historically United Utilities pre-existing assets benefited from a programme of maintenance that has kept them in better condition, whilst transferred assets were in varying degrees of asset condition when transferred to us from private ownership in 2011. Transferred assets are typically smaller in diameter than existing assets, meaning that they tend to be more prone to blockages, particularly during times of stress due to increased load or demand. They are also typically subject to a higher percentage of blockage incidents due to customer misuse.

We continue to develop and implement a wide variety of schemes and initiatives to improve our performance. These include increased customer engagement, dedicated blockage teams, the development of a regional blockage plan, an accelerated investment programme (known as 'flying start') and direct targeting of fats, oils and grease discharges. We are also seeing benefits of investment in our Dynamic Network Management (DNM) model, with our in-sewer monitors telling us when blockages are forming, allowing our teams to proactively attend site to resolve the issue before a customer experiences a service interruption and needs to contact us.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we failed our target. Our performance means that we incur an underperformance payment of £0.056 million.

Actual performance for the 'sewer blockages' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	20,664	22,352	Fail
Two	2021/22	20,328	20,368	Fail

The risk of sewer flooding for homes and businesses is reduced

Sewer flooding is one of the worst service failures that customers can experience and we understand the significant long term impact flooding can have on customers in the North West. Customers want us to reduce flooding incidents that occur and our long term aspiration is to eliminate internal flooding incidents.

How have we done?

We have successfully achieved five out of the six performance commitments which support this outcome, and generated a net outperformance payment of £3.733 million.

For both internal and external flooding, our underlying flooding other causes (FOC) performance has improved this year and we have recorded our lowest ever figures since the adoption of transferred assets, whilst incidents due to hydraulic and severe weather flooding in April, June, August, November and December 2021 were lower than we typically expect to see in those periods. For internal flooding, we recorded a total of 1,023 internal flooding incidents (2.98 per 10,000 connections). This is above our performance commitment of 559 incidents (1.63 per 10,000 connections). Whilst it is disappointing not to achieve the performance commitment, this level of performance is ahead of the two AMP strategy we described in our 2019 Price Review submission. For external flooding, we recorded a total of 6,223 incidents which was better than our performance commitment of 6,599. Under both metrics, we continue to develop and implement a wide variety of schemes and initiatives to improve our performance.

With regard to raising customer awareness to reduce the risk of sewer flooding, we have experienced really positive performance this year due to our continued promotion of impactful messaging to customers, such as our ‘Stop the Block’ campaign. We ended the year with a 42.6 per cent customer awareness score, which is 17.4 per cent over our baseline and 13.4 per cent above the level required by the performance commitment.

For our risk of sewer flooding in a storm performance commitment, we have seen the percentage of population at risk of hydraulic internal sewer flooding in a 1-in-50 year storm decrease to 13.35 per cent. This performance is 1.98 per cent better than our performance commitment level of 15.33 per cent. We have invested in modelling capacity to ensure there is better assessment of local risks.

Under our two hydraulic flood risk resilience measures we have completed a range of projects this year. These include major capital schemes, smaller hydraulic projects and cellar disconnections. These projects contribute to a reduction in the overall hydraulic risk score, which means that in real terms fewer customers will experience flooding at their properties as a result of hydraulic inadequacy. In both instances this has led to the generation of an outperformance payment.

Performance commitment	Actual Performance Year two	Impact	Value (£m)
G01 – Risk of sewer flooding in a storm	13.35	Reputational	–
G02 – Internal flooding incidents	2.98	Underperformance payment	-9.114
G03 – External flooding incidents	6,223	Outperformance payment	2.019
G04 – Customer awareness of the risk of flooding	17.4	Outperformance payment	1.152
G05 – Hydraulic internal flood risk resilience	40.61	Outperformance payment	7.648
G06 – Hydraulic external flood risk resilience	184.04	Outperformance payment	2.028
The risk of sewer flooding for homes and businesses is reduced net position	5/6 achieved		3.733

G01

Risk of sewer flooding in a storm

Performance commitment summary

This is an industry common measure to understand the percentage of the population at risk of internal flooding resulting from hydraulic sewer flooding in a 1-in-50 year storm, based on modelled predictions. We use 2D models to calculate performance. A property is considered affected if modelled flooding from a manhole or gully reaches the actual property building. An occupancy rate is then applied to the affected property to determine the population equivalent. This measure is not incentivised through outperformance or underperformance payments and so is a reputational only measure. A reduction in the percentage of population at risk signifies an improvement in performance.

Performance summary

This year we have seen the percentage of population at risk of hydraulic internal sewer flooding in a 1-in-50 year storm decrease to 13.35 per cent. This performance is 1.98 per cent better than our performance commitment level of 15.33 per cent.

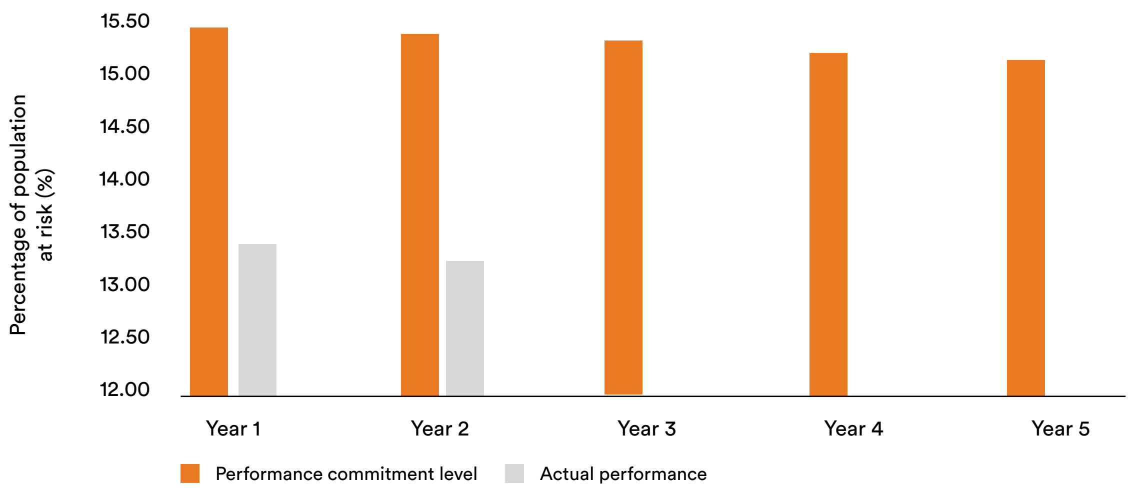
We also continue to invest in our modelling capability to improve our understanding of the population at risk. This allows us to assess the risks more accurately in several regional areas. Benefits from our hydraulic flood risk resilience programme will be realised under this measure as these models are updated and refreshed. Additionally, our ongoing supply and demand programme seeks to install additional capacity in the sewer network, helping to mitigate potential flood risk increases where there is growth or new developments in the region.

There has also been some notable population changes in some parts of the region, which has also had a beneficial impact on our reported performance.

Financial implications

This performance commitment is only subject to a reputational based incentive and there are no financial implications associated with either underperformance or outperformance.

Actual performance for the 'risk of sewer flooding in a storm' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	15.44%	13.42%	Pass
Two	2021/22	15.33%	13.35%	Pass

G02

Internal flooding incidents

Performance commitment description

This is an industry common measure which measures the number of internal flooding incidents per 10,000 connections per year. Internal flooding is defined as flooding which enters a building or passes below a suspended floor. In this context, buildings are defined as those normally used for residential, public, community, commercial, business or industrial purposes. Severe weather incidents are included in this measure. Performance improvements are shown by reductions in the number of incidents. As a common measure the reporting methodology is consistent with the industry definition at the time of reporting. Damp patches caused by seepage through walls or floors, or those due to surface water run off which has not originated from a public sewer but which inundates the wastewater network, are excluded from the measure.

Performance summary

In year two, we recorded a total of 1,023 internal flooding incidents, which when normalised by 10,000 connections, equates to a performance level of 2.98. This is above our performance commitment of 1.63 per 10,000 connections (or 559 incidents).

Whilst it is disappointing not to achieve the performance commitment, there has been a notable improvement in performance from year one. Our performance is also ahead of the two AMP strategy we described in our 2019 Price Review submission. The aim of this strategy is to be industry upper quartile by the end of AMP8, with a projected year two performance level of 1,460 incidents. The rationale behind this approach was that, given our poor relative position at the end of AMP6, an upper quartile performance level might be too challenging to achieve in a single AMP.

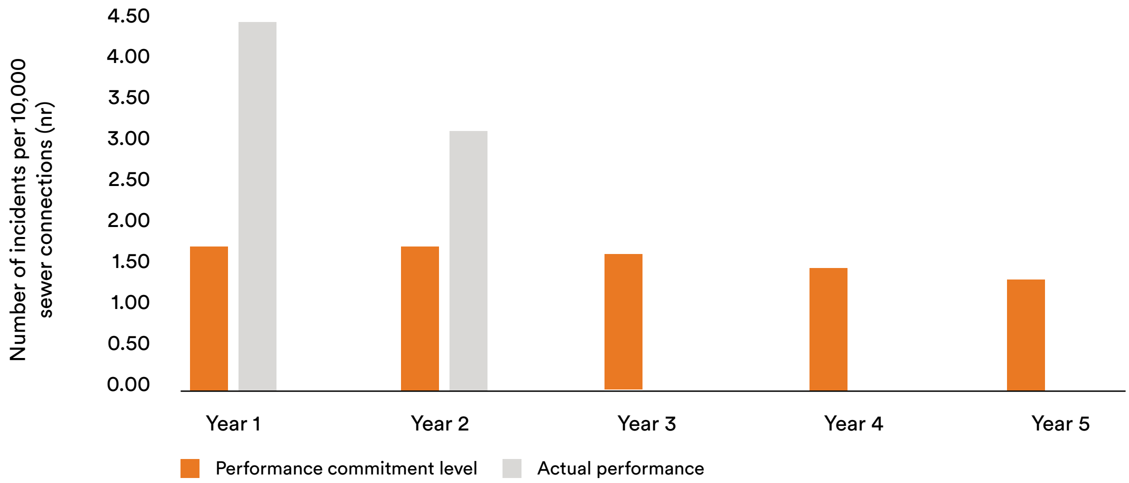
Flooding can be caused by hydraulic issues, which is when the sewer network can't cope with the volume of water during heavy rainfall, or 'other causes' such as blockages or collapses. Our flooding other causes (FOC) performance was our best ever since FY11 and the adoption of transferred assets. Likewise, severe weather incidents were at their lowest level since 2018/19.

We continue to develop and implement a wide variety of schemes and initiatives to improve our internal flooding performance. These include increased customer engagement, enhanced incident targeting, increased mitigation and protection of properties, management of surface water and development, increased monitoring of the sewer network and dedicated blockage teams to respond to incidents faster. We are also seeing the benefit of investment in our Dynamic Network Management (DNM) model, with our in-sewer monitors telling us when issues are forming, allowing our teams to proactively attend site to resolve the issue before a customer experiences a service interruption and needs to contact us.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we failed our target. Our performance means that we incur an underperformance payment of £9.114 million.

Actual performance for the 'internal flooding incidents' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	1.68	4.47	Fail
Two	2021/22	1.63	2.98	Fail

G03

External flooding incidents

Performance commitment description

This bespoke performance commitment was selected from Ofwat's list of asset health metrics and measures the number of external flooding incidents. An external flooding incident is defined as flooding within the curtilage of a building normally used for residential, public, community or business purposes. It includes any buildings in those curtilages which do not comply with the definition used for internal flooding. Performance improvements are shown by reductions in the number of incidents. The measure discounts flooding that does not affect the curtilage of a property (e.g. roads and fields). Damp patches caused by seepage through walls or floors or those due to surface water run off which has not originated from a public sewer but which inundates the wastewater network are also excluded from the measure.

Performance summary

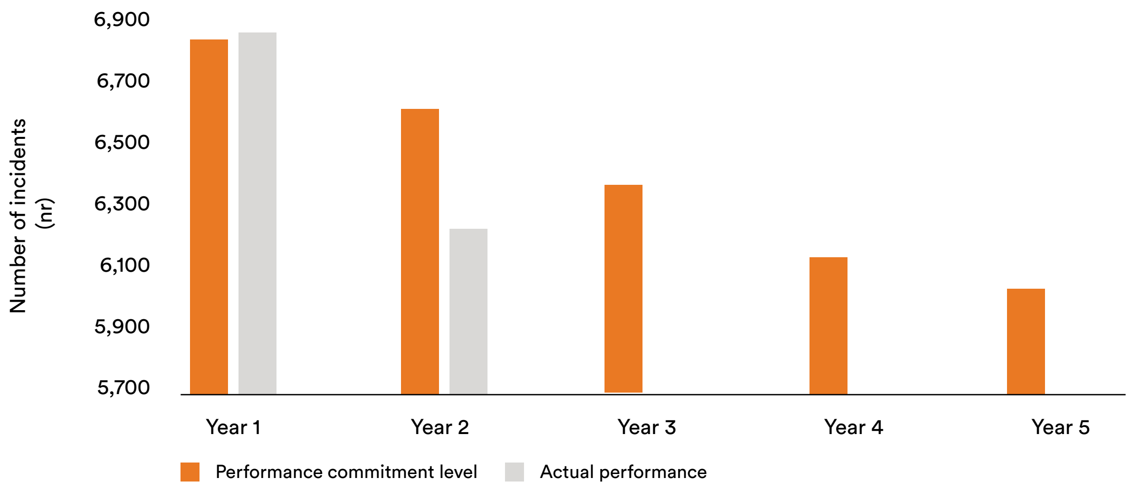
In year two, we recorded a total of 6,223 external flooding incidents against our performance commitment of 6,599.Our performance for external flooding incidents has improved this year. This is underpinned through our best ever performance on incidents due to flooding other causes (FOC), whilst incidents due to hydraulic and severe weather flooding in April, June, August, November and December 2021 were lower than we typically expect to see in those periods. Conversely, May 2021 was very wet and cold, and we experienced a much higher than average rainfall for the month based on Environment Agency data. This lead to an abnormal amount of call-outs to customer properties and a slightly worse number of reportable incidents than forecast in that month.

We continue to develop and implement a wide variety of schemes and initiatives to improve our external flooding performance. These include increased customer engagement, enhanced incident targeting, increased mitigation and protection of properties, management of surface water and development, increased monitoring of the sewer network and dedicated blockage teams to respond to incidents faster. We are also starting to see the benefit of investment in our Dynamic Network Management (DNM) model, which through an innovative use of monitors will allow us to understand where there is deviation from the standard operation of the network.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £2.019 million.

Actual performance for the 'external flooding incidents' performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	6,845	6,849	Fail
Two	2021/22	6,599	6,223	Pass

G04

Customer awareness of the risk of flooding

Performance commitment description

This bespoke measure assesses delivery of a change in customer awareness and aims to change behaviour with regard to items that should not be flushed down the toilet or poured down the drain. We measure performance against a baseline of 25.2 per cent set in 2019/20.

Awareness is scored using three questions.

- Have you seen or heard any information about what you should not flush?
- Have you seen or heard any information about what you should not pour?
- Do you recall seeing the following advertising . . . (examples provided at time of survey)?

Performance through the period 2020 to 2025 is tracked by engaging with an independent customer research organisation to conduct the survey three times throughout the year in order to track changes in customer awareness. Performance improvements are shown by an increase in the awareness measured from the baseline.

Performance summary

We ended the year with 42.6 per cent awareness, which is 17.4 per cent over our baseline and 13.4 per cent over the performance commitment. We have continued to promote the key messages to increase awareness for this measure.

In 2020, we created a new impactful, direct style of communications for our customer awareness campaigns, using the 'Stop the Block' badge to replace the less recognisable messaging of 'Think Before You Flush' and 'Think Before You Pour'.

We also delivered three four week campaigns over the course of the year comprising:

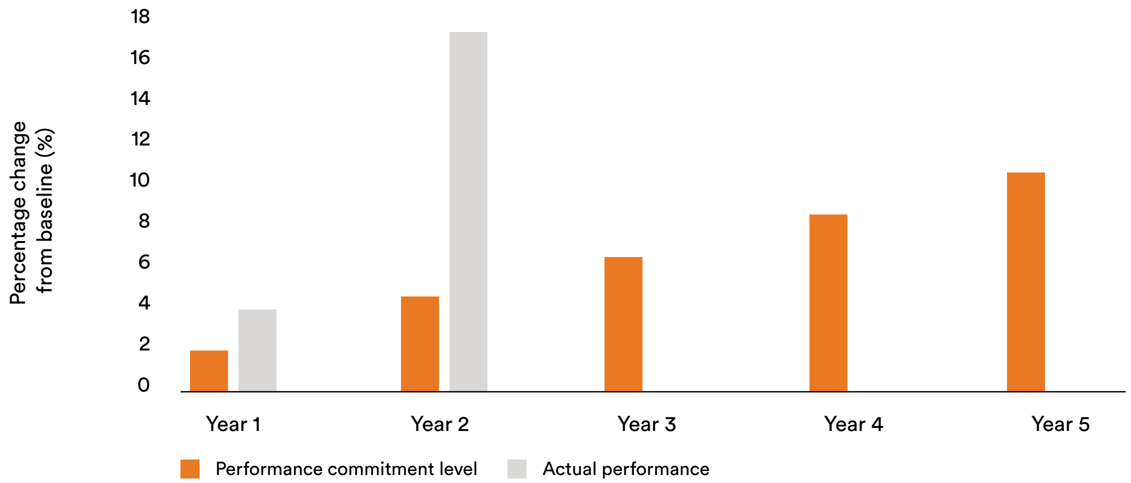
- radio advertisements – focusing on wet wipes and fats, oils and greases. These have been aired across ten key radio stations in the North West supported with press adverts in 30 newspapers;
- social media campaigns highlighting the issues of wipes and fats, oils and grease; and
- digital advertising on YouTube, Google Display Network and electronic screens on UU vehicles.

Towards the end of the year, as COVID-19 restrictions were lifted, we were able to deliver a customer-facing event in Manchester city centre to engage with a wide customer audience. We plan to deliver more customer events in the next financial year to support our communications campaigns.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £1.152 million.

Actual performance for the 'customer awareness of the risk of flooding' performance commitment – higher is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	2.0%	4.1%	Pass
Two	2021/22	4.0%	17.4%	Pass

G05

Hydraulic internal flood risk resilience

Performance commitment description

The aim of this bespoke measure is to reduce the flood risk to customers from internal hydraulic flooding and particularly those who are impacted by repeat incidents. It will measure the modelled flooding incident reduction at known flooding properties following the construction of permanent solutions that will improve the resilience of the drainage system serving the customers in the North West. Performance improvements are shown by reductions in the number of modelled incidents.

Interventions to provide or free up additional hydraulic capacity include: sewer upsizing, online or offline storage, flow transfer, surface water removal including green infrastructure solutions and physical disconnection from a surcharging sewer.

Performance summary

The original baseline level of modelled risk at the end of AMP6 was calculated as 61.04. Since then, additional risk has been added to the underlying position, as further properties that are subject to repeat hydraulic flooding are verified following an incident. These additional properties are known as ‘arisals’. These arisals increased the risk by a score of 7.59 to an overall position of 68.63.

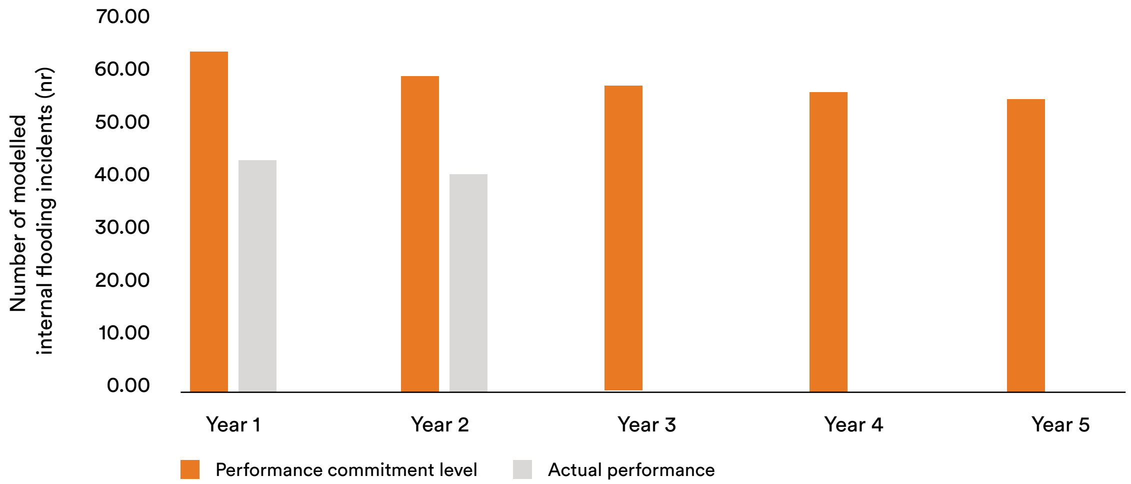
However, to combat that increased risk, a range of projects that positively impacted 83 customer properties have been completed. These include major capital schemes, smaller hydraulic projects and cellar disconnections. These projects reduce the risk score by a total of 28.02, taking it down from 68.63 to 40.61. When compared against our performance commitment, this level of risk reduction means that in real terms fewer customers will experience internal flooding at their properties as a result of hydraulic inadequacy.

We are now actively developing further projects for delivery in year three to provide further benefit to customers under this measure.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £7.648 million.

Actual performance for the ‘hydraulic internal flood risk resilience’ performance commitment – lower is better



AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	60.04	41.84	Pass
Two	2021/22	59.04	40.61	Pass

G06

Hydraulic external flood risk resilience

Performance commitment description

The aim of this bespoke measure is to reduce the flood risk to customers from external hydraulic flooding, particularly those who are impacted by repeat incidents. It measures modelled flooding incident reduction at known flooding properties following the construction of permanent solutions that will improve the resilience of the drainage system serving customers in the North West. Performance improvements are shown by reductions in the number of modelled incidents.

Interventions to provide or free up additional hydraulic capacity include: sewer upsizing, online or offline storage, flow transfer, surface water removal including green infrastructure solutions and physical disconnection from a surcharging sewer.

Performance summary

The original baseline level of modelled risk at the end of AMP6 was calculated as 276.06. Since then, additional risk has been added to the underlying position, as further properties that are subject to repeat hydraulic flooding are verified following an incident. These additional properties are known as 'arisals'. These arisals increased the risk by a score of 20.10 to an overall position of 296.16.

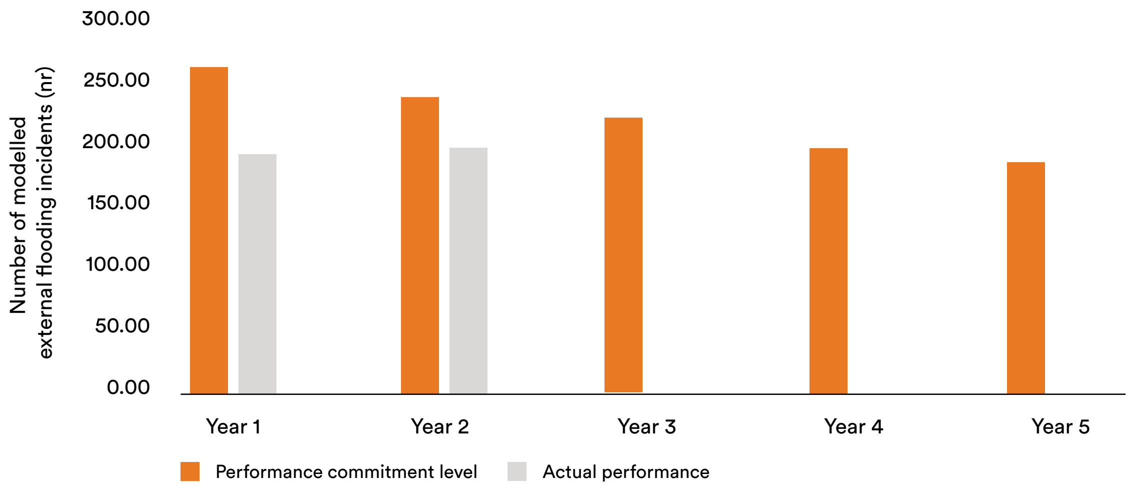
However, to combat that increased risk, a range of projects that positively impacted 29 customer properties have been completed. These include major capital schemes and smaller hydraulic projects. These projects reduce the risk score by a total of 112.11, taking it down from 296.16 to 184.04. When compared against our performance commitment, this level of risk reduction means that in real terms fewer customers will experience external flooding at their properties as a result of hydraulic inadequacy.

We are now actively developing further projects for delivery in year three to provide further benefit to customers under this measure.

Financial implications

This performance commitment is subject to outcome delivery incentives for both outperformance and underperformance. In year two we exceeded our target. Our performance means that we earn an outperformance payment of £2.028 million.

Actual performance for the 'hydraulic external flood' performance commitment – lower is better

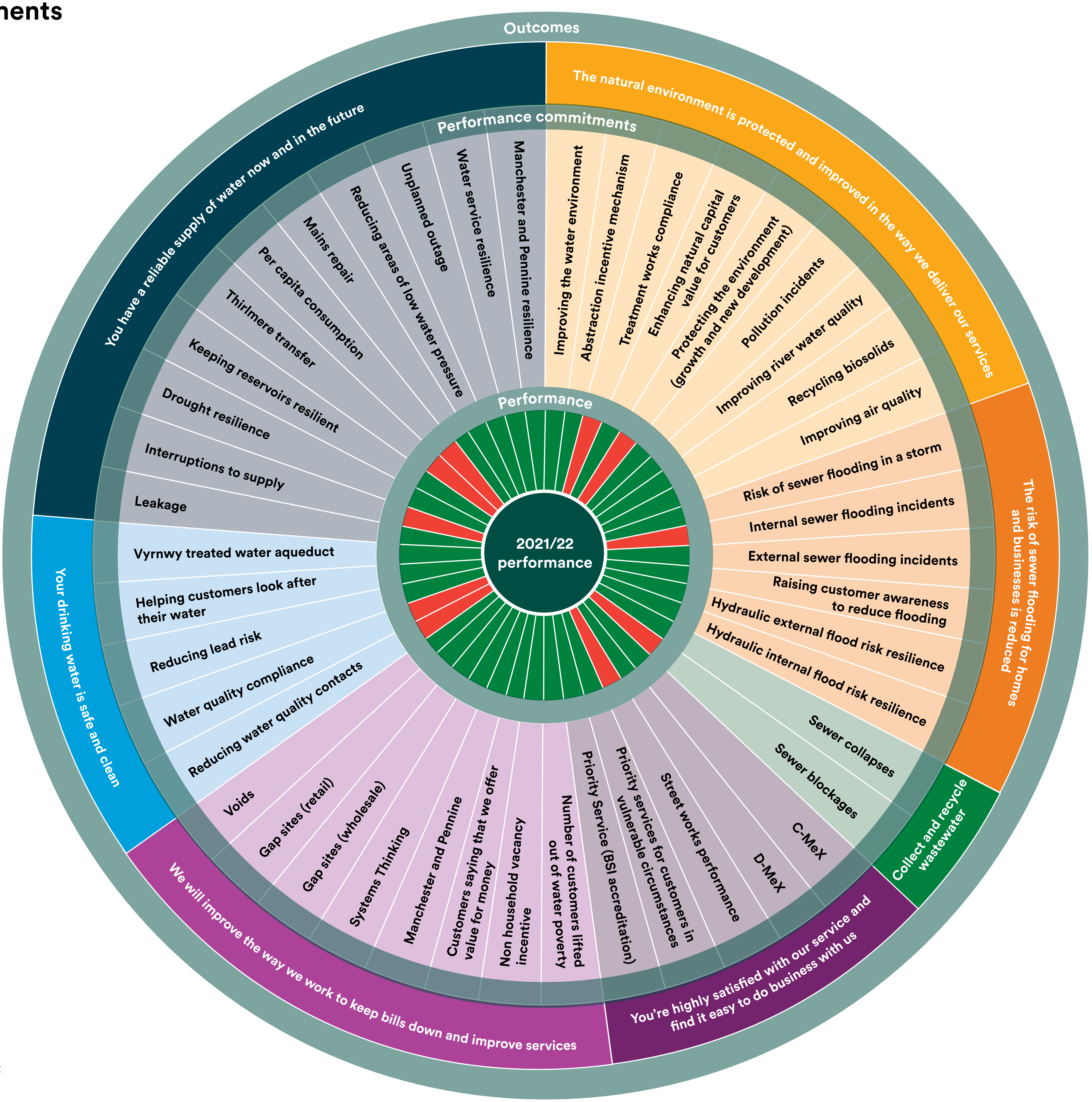


AMP7 Year	Performance period	Performance commitment	Actual performance	Pass/Fail
One	2020/21	254.53	179.84	Pass
Two	2021/22	232.33	184.04	Pass

Delivering our commitments

Year two performance

This diagram shows our seven outcomes and the 46 performance commitments that underpin them. We have met or outperformed 36 of these performance commitments in year two (over 78 per cent). This earns an overall net outperformance payment of £25.433 million. This strong performance demonstrates our commitment to delivering what matters to customers and communities, both now and into the future.



Key:

- Performance commitment not met
- Met or exceeded performance commitment

Reconciliation models

For each price control period, Ofwat provides a series of reconciliation models. The outputs from these models are used to inform adjustments required to allowed revenue for each price control across the 2020–2025 period. These adjustments reflect company performance, costs and revenue over the period and the differences compared to the price control assumptions made prior to the period.

The PR19 reconciliation mechanisms for AMP7 are used to cover the following:

- In-period revenue adjustments;
- End-of-period revenue adjustments and;
- RCV adjustments applied prior to the start of the next control period.

In year two of AMP7, as seen in the above graphic, we have met or outperformed over 78 per cent of our performance commitments. Many of these performance commitments have a financial incentive attached. These are reconciled either at the end of each year (in-period) or at the end of the AMP (end-of-period). This reconciliation then informs whether an in-period or end-of-period adjustment is required:

In-period adjustment – For most of our performance commitments the outperformance and underperformance payments generated as a result of our performance will be added up at the end of each financial year. If we are in an overall outperformance position there will be a corresponding increase to customer bills in the following financial year. If we are in an overall underperformance position, customer bills will be reduced in the following financial year. The level of these adjustments are reviewed and the company can propose to amend the profile if this would provide a more acceptable bill trajectory for customers.

End-of-period adjustment – For a small number of our performance commitments, we will measure and report our performance across the full five years of AMP7 and calculate if we have beat or failed our targets at the end of the AMP. Any underperformance and outperformance payments generated from these performance commitments will be adjusted in customer bills in the last year of AMP7 and the first year of AMP8. In order to calculate the net incentive and the impact this would have upon United Utilities' allowed revenue per price control, the in-period revenue adjustment models are used. These models require inputs from other sources such as the APR tables or from other revenue adjustment models.

For year two of the AMP, we are making a submission for an in-period determination. In support of this, we have submitted the following models to Ofwat: the ODI performance reconciliation model, the C-MeX reconciliation model, the D-MeX reconciliation model and the in-period adjustment reconciliation model.

ODI Performance Reconciliation Model

We input our actual performance for each performance commitment for year two into the ODI performance reconciliation model. This model then assesses whether our performance is above or below the performance commitment level (and/or deadband where applicable) and applies the relevant outperformance or underperformance incentive rate attached to that performance commitment.

The ODI calculation for the majority of these performance commitments follows the standard format (as seen below)

(A – B) * C

where A represents actual performance, B is the performance commitment level and C is the incentive rate.

The outperformance or underperformance payment calculated for each performance commitment is then allocated to the relevant price control (as per the Outcomes Performance Commitment Appendix from the final determination, which can be found at: www.ofwat.gov.uk/publication/pr19-final-determinations-united-utilities-outcomes-performance-commitment-appendix/). Some outperformance and underperformance payments are calculated by a non-standard approach to the ODI calculation. Please see Appendix 3 for more information

A copy of this model has been submitted to Ofwat for review for an in-period adjustment. Based on our calculations, the outperformance payment for ODIs for the 2021/22 reporting period is £22.224 million in 2017/18 prices.

C-MeX Reconciliation Model

We scored seventh in the C-MeX table for water companies so is therefore eligible for a standard outperformance payment. The incentive rate is calculated as:

(UU's C-MeX score – median)* (6 per cent/(top C-MeX score of all companies in the reporting year – median)

This is then multiplied by our allowed revenue for the Residential Retail price control in the 2021/22 period to calculate the overall ODI.

The outperformance payment for our C-MeX performance for the 2021/22 reporting period is £2.333 million in 2017/18 prices.

D-MeX Reconciliation Model

We scored sixth in the D-MeX table for water companies so is therefore eligible for a standard outperformance payment. The incentive rate is calculated as:

(UU's D-MeX score – median)* (6 per cent/(top D-MeX score of all companies in the reporting year – median)

This is then multiplied by our actual Developer Services revenue for both Water Network Plus and Wastewater Network Plus price controls in the 2021/221 period to calculate the overall ODI.

The outperformance payment for our D-MeX performance for the 2021/22 reporting period is £0.876 million in 2017/18 prices.

Net Incentives

After these reconciliation models are completed, the net incentive for 2021/22 is a £25.433 million outperformance payment in 2017/18 prices.

In-period Adjustments Reconciliation Model

This model adjusts the allowed revenue which we can recover over the remainder of the AMP in order to reflect the net ODI outperformance awarded to us for the 2021/22 period. This is done by a series of calculations for each price control that will adjust revenue for the 2023/24 reporting period. The net ODI for each price control undergoes inflation and tax adjustments and is added to total allowed revenue (in outturn prices). The output of this model is that each price control has a revised allowed revenue in the form of 1) adjusted K factors* for Water Resources, Water Network Plus and Wastewater Network Plus and 2) revised unadjusted revenue for the Residential Retail and Bioresources price controls that takes into account the net ODI outperformance in 2021/22. A copy of this model has been submitted to Ofwat.

* K Factors represent the change in allowed revenue from the previous charging year. For more information, please see our FD which can be found at www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-United-Utilities-Water-final-determination-.pdf

Revenue Forecasting Incentive Model

In year two the model applies an additional revenue adjustment to take into account any revenue under or over-recovery within the 2021/22 period for the Water Resources, Water Network Plus and Wastewater Network Plus price controls. The model also applies a financial penalty if the difference between actual and allowed revenues is greater than 2 per cent.

The model calculates an adjusted allowed revenue to recover in the following charging year (2023/24) by combining the allowed revenue set at the start of the AMP with the revised K factors (from the in-period adjustment model). The model then subsequently adjusts allowed revenue, accounting for the over- or under-recovery of revenue in 2021-22, which includes a financing adjustment and inflation adjustment. This will then result in an adjusted allowed revenue to recover in 2023/24.

Bioresources Revenue Reconciliation Model

The model uses the revised unadjusted revenue from the in-period adjustment model and then undergoes two further reconciliations and adjustments: 1) To modify the revenue control for the year based upon the difference between actual and forecast sludge production and; 2) To adjust for any under or over-recovery of revenue in the period, which includes an inflation adjustment. This results in an adjusted allowed revenue for recovery in 2022/23.

Additionally, there is a forecasting incentive penalty calculated and applied at the end of AMP7 if the difference between actual and forecasted sludge production across the AMP is greater than 6 per cent.

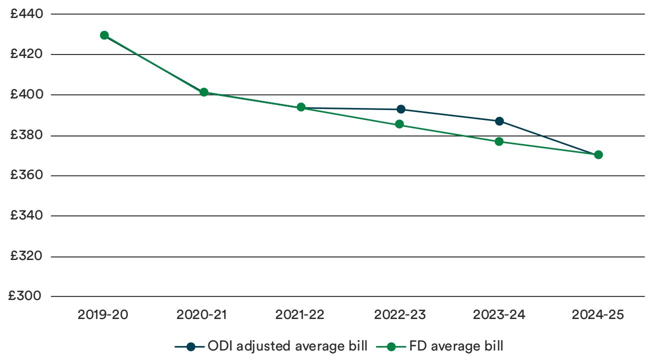
Bill impact

In year two of AMP7 our performance has generated underperformance payments of £19.132 million and outperformance payments of £44.565 million. A net outperformance payment of £25.433 million is due in respect of the 2021/22 reporting year. This adjustment is expected to impact household customer bills in 2023/24.

Based on 2022/23 customer characteristics, we anticipate that this net ODI outperformance payment will comprise approximately £10.80 of the average household bill (in nominal prices.) This compares to £7.67 in 2021/22, so an increase of approximately £3.13 in nominal terms and less than 1% of the 2021/22 average customer bill of £424.

We have considered this increase in the context of the general profile of bills during AMP7. As per the final determination, average household bills were set to gradually fall in real terms (i.e. excluding inflation) over 2020–25, aiming to provide customers with as much stability as possible in what they actually pay in nominal terms (i.e. including inflation). The chart below shows the bill profile as per the final determination (FD) with an additional line showing the impact of the ODI outperformance payment on the bill for 2022/23 and 2023/24.

AMP7 FD average bills including 2021/22 net ODI outperformance payment (2017–18 CPIH deflated)



Because bills were already set to fall in real terms, the impact of ODI outperformance payments on the net bill is relatively small. As set out above, the increase in net ODI outperformance payments equates to less than 1 per cent of the 2021/22 bill. Therefore, on its own, the increase in net ODI outperformance payments would not trigger the need for any handling strategies as regards the 5 per cent bill increase figure set out in Ofwat's charges scheme rules. As shown in Table 2M bills will also be lowered in 2023/24 due to over-recovery of revenues in 2021/22 (as calculated by the Revenue Forecasting Incentive model). This downward adjustment will more than offset the in-period ODI bill impact.

When considering the customer bill impact of these ODI outperformance payments we are also mindful of future, AMP8 (relative) bill increases due to Green Recovery investment and customer sharing of any AMP7 totex overspend. These items would be expected to impact bills in AMP8, rather than in AMP7, and the profile of bills for AMP8 will be subject to further consideration as part of the PR24 process. We consider that there is no compelling reason to believe that it would be preferable to defer bill adjustments in relation to 2021/22 ODI net outperformance payments.

We offer customers who are struggling to pay their bill a comprehensive range of support. More information on the support we offer can be found within the Executive Summary section on page 15 and within the Performance section, page 72. Extensive information on the support schemes available can also be found on our website:

www.unitedutilities.com/my-account/your-bill/difficulty-paying-your-bill/how-we-can-help/

We are therefore proposing that the net ODI outperformance payment in relation to 2021/22 performance should be applied to customer bills in 2023/24, in line with the standard approach to recovery of outperformance payments. This is subject to Ofwat's confirmation of the adjustment in November 2022. The board will approve publication of indicative and final charges in September and December 2022. Although no specific handling strategies are anticipated to be required in relation to the recovery of net ODI outperformance payments, as part of the charges approval process, the impact and incidence effects of forecast charges and bills across different customer groups will be considered.

1.2 Greenhouse gas emissions

Introduction and performance summary

This section provides information about our greenhouse gas (GHG) emissions and our performance in managing them. In 2021/22 we again reduced our operational emissions and strengthened our long term trend that shows a reduction of over 70% since our first carbon baseline in 2005/06. We also continued to grow our focus on the emissions associated with our infrastructure and supply chain, for example by independently validating new emissions reduction targets and exploring how to further integrate carbon in our reporting and decision making systems.

We outline over the following pages our strengths in achieving a leading approach to GHG emissions and our areas of focus in continuing towards our bold emissions reduction targets.

Transparent and robust reporting

We have, for many years, measured and openly reported GHG accounts and performance disclosures that follow global best practice to ensure rigour and integrity. Since 2006, we have annually disclosed our GHG emissions in the United Utilities Group PLC Annual Report and Financial Statements.

Climate related disclosures

We were an early adopter of the guidance published by the Task Force on Climate-related Financial Disclosures (TCFD). A comprehensive TCFD section can be found in our United Utilities Group PLC Annual Report and Financial Statements each year, available here:

https://unitedutilities.annualreport2022.com/media/mirnxszx/30900-united-utilities-ar2022-full-linked-singles.pdf

Our TCFD report explores our risks, performance and plans on both reducing emissions (known as climate mitigation) and preparing for climate change (known as adaptation). Specialists at the sustainability consultancy Corporate Citizenship assured our disclosure in 2021/22, confirming it follows the TCFD recommendations.

A 'science based' approach

We are committed to the science based approach, in which an organisation independently validates that it is effectively working towards the global goals to limit climate change to bearable levels of no more than 1.5oC and "well below" 2oC. We apply the best practice Science Based Target initiative (SBTi) 'criteria and recommendations' guidance to our policies and GHG accounting methods.

Best practice standards and frameworks

We align to the 2015 GHG Protocol Corporate Accounting and Reporting Standard and the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting (SECR). We also comply with the international carbon reporting standard ISO 14064, Part 1:2018.

Third party verification

A range of independent organisations verify our reporting approach. For example, we have emissions reduction targets validated by the SBTi across all parts of our carbon footprint; covering scopes 1, 2 and 3 of the GHG Protocol (explained below). In addition, we are assured by the Carbon Reduce programme and we achieved Platinum status for demonstrating emissions reductions over ten years.

Independent comparison

We consistently perform strongly in a range of sustainability-related benchmarks. For example, CDP (previously called the Carbon Disclosure Project) is well known for setting a robust environmental leadership standard. In 2021 we achieved a B rating and were recognised as a Supplier Engagement Leader. We are working to further improve our performance, aiming for an A rating. We also perform strongly in the Dow Jones Sustainability Index and EcoAct Sustainability Reporting research. Results are reported in the United Utilities Group PLC Annual Report and Financial statements and on our website.

Understanding our GHG emissions

Our emissions footprint is calculated by converting the main GHGs into a carbon dioxide equivalent (tCO_2e). Emissions are categorised as direct, indirect or avoided emissions:

- Direct emissions, known as scope 1 emissions, are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.
- Indirect emissions, known as scope 2 and 3 emissions, result from operational activities we do not own or control, but which we can influence to varying degrees. These include emissions produced as a consequence of electricity we purchase to power our activities (scope 2) and other indirect emissions such as those from the products and services we buy (scope 3).
- We also avoid emissions by purchasing and exporting renewable energy.

Caution is advised when comparing the emissions figures published by different companies because there is use of different and evolving methodologies, scope boundaries and emission factors.

1.2 Greenhouse gas emissions

Operational GHG emissions

The scope 1 and 2 GHG emissions resulting from our operations for the financial year 2021/22 are shown in the table below.

Scope 1 emissions	**Water (tCO_2e)**	**Wastewater (tCO_2e)**	**Total (tCO_2e)**
Burning of fossil fuels	3,108	14,739	17,847
Process and fugitive emissions	14	96,006	96,020
Vehicle transport	5,814	10,693	16,507
Breakdown of scope 1 emissions by GHG			
Carbon Dioxide CO_2	16,935	16,935	33,869
Methane CH_4	26,814	26,814	53,628
Nitrous Oxide N_2O	21,370	21,370	42,740
HFC 134a	0	122	122
R407c	14	0	14
Purchased electricity – location based	63,413	69,899	133,312
Purchased electricity – market based	1,268	2,901	4,169
Breakdown of scope 2 emissions by GHG			
Scope two emissions; GHG type CO2	62,765	69,185	131,949
Scope two emissions; GHG type CH4	239	263	502
Scope two emissions; GHG type N_2O	409	451	860
Exported electricity – market or location based	-870	-3,447	-4,317
Exported biomethane – location based	0	-10,283	-10,283
Green tariff electricity purchased – location based	-66,981	-66,623	-128,604

We are experienced at estimating these emissions, having completed a broadly similar approach for many years but with continual improvement year on year. Emissions have been estimated using the water industry Carbon Accounting Workbook (CAW). This is a bespoke spreadsheet tool used by water companies in the UK. The CAW is regularly updated to retain accuracy by incorporating latest available emissions factors from the UK Government. The latest version of the CAW for use in 2022 is version 16.

Please note these figures differ from those published in the United Utilities Group PLC Annual Report and Financial Statements. The figures in this document include only the emissions from the regulated business within United Utilities Water Limited, whereas the figures in the Annual Report and Financial Statements are for the whole United Utilities Group.

1.2 Greenhouse gas emissions

Analysis of operational GHG emissions and governance

Below we highlight good practice, challenges and areas for innovation through an analysis of the strengths, weakness, opportunities and threats (SWOT) relating to our operational GHG emissions.

Strengths

Accounting and reporting

- 20 years of experience in carbon accounting, using global best practice, independently verified, and openly reported.
- Early adopter of the guidance from the TCFD, published in our integrated Annual Report and Financial Statements.
- Using the science based approach to independently verify that our carbon trajectory aligns with the global climate goal.

Performance and plans

- Operational emissions have reduced by over 70 per cent since our first baseline in 2005/06.
- Independently verified science based commitments are in place across all emission scopes (1, 2 and 3).
- We have invested cost-effectively in a substantial and technologically mixed portfolio of renewable energy generation assets, providing around 25% of our large electricity needs. In addition, all the electricity we buy is certified from renewable sources.
- Various projects and programmes are different stages of maturity in delivering carbon reduction and wider benefits. For example: investment in renewable energy, green fleet, peatland restoration and woodland creation.

Weaknesses

Accounting and reporting

- Global understanding of some important sources of emissions is immature, for example treatment processes, land and chemicals. In these areas, this means lower confidence estimates of GHG emissions and reduced ability to reflect the impact of management changes in reportable GHG figures. We are working and collaborating to help improve this.

Performance and plans

- Traditional approaches are often carbon intensive and sector policies and processes do yet align in fully valuing climate change and supporting the required pace and scale of change. Concerted and aligned effort is needed by all actors in the sector to secure the overall best value approaches for the long term.
- Having delivered many financially and technically viable options, identifying further emission reduction actions becomes harder over time. An agile and forward thinking approach is needed in response to the fast moving financial, technological and policy landscape which is generally moving in the direction of supporting further action over time.
- While we have plans and momentum towards our commitments, we don't yet know all the answers and many factors continue to change requiring an agile approach.

Opportunities

Accounting and reporting

- SECR supports a richer understanding of how electricity is sourced and incorporates use of other fuels.
- As research projects improve weaker areas of understanding, the CAW methodology can be updated to more accurately reflect the carbon impact of operational practices.
- Multi-capital approaches incorporating GHG in natural capital inform decision making to mitigate risk and maximise value, for example helping demonstrate the case for behavioural and nature based solutions that address issues at source.

Performance and plans

- External evidence shows a focus on carbon supports innovation for efficiency and wider environmental and social benefits.
- Climate change offers a new opportunity to collaborate with customers, suppliers and others to deliver multiple benefits, including more focus on the use of water and sewers.
- As a large land owner, there is potential to deliver high quality carbon storage along with multiple other benefits. For example, we are committed to planting another million trees and have established two tree nurseries to address national shortages following the surge in tree planting activity.

Threats

Accounting and reporting

- Immature areas of understanding are likely to mean some emissions are currently under or over-estimated. Careful explanation and management is needed as methodology changes are implemented to improve this.
- Poor scientific understanding of emission sources can also make it difficult to take improvement action with confidence.

Performance and plans

- There are many upward pressures on GHG emissions, including new tighter requirements to better protect the water environment, population growth, and the need to adapt to climate change. Careful consideration is needed to ensure holistic, sustainable approaches and maximum overall cost-benefit.
- It can be challenging to secure the upfront funding required to deliver long-term efficiencies and improvements.
- Future carbon taxes could be substantial.
- The stability of peatlands is threatened by the changing climate and these huge stores of emissions could be released, also threatening water quality. Healthy peatlands are best able to resist these pressures.

1.2 Greenhouse gas emissions

Scope 3 GHG emissions

We are expanding our understanding and action across our whole carbon footprint, looking beyond the traditional focus on core operational emissions that are most in our control, to also consider how we can best play our part in the emissions in our supply chains and value chains. These are known as scope 3 emissions. We annually assess our scope 3 emissions and since 2019/20 all our relevant scope 3 emissions have been reported in our ARFS. The scope 3 GHG emissions resulting from our activities for the financial year 2021/22 are shown in the table below.

Scope 3 emissions

Category 1: Purchased goods and services	292,946
Category 2: Capital goods	112,498
Category 3: Fuel and energy-related emissions	58,949
Category 4: Upstream transportation and distribution (sludge transport)	103
Category 5: Waste generated in operations (including sludge disposal to land)	25,458
Category 6: Business travel (public transport, private vehicles and hotel accommodation)	1,128
Category 7: Employee commuting and home working	4,066

Our approach to scope 3 GHG emissions is two-fold, with varying degrees of control and influence in different areas of these emissions:

Infrastructure – The emissions associated with maintaining and enhancing water and wastewater infrastructure are the largest aspect of our scope 3 footprint. We are engaging and collaborating with our asset delivery and maintenance framework partners to jointly improve reporting and identify emissions reduction opportunities. We are also maturing the systems and processes we use to assess whole life GHG emissions in our asset and investment planning.

Wider supply chain – We also recognise the need and opportunity to seek reductions across all sources of our scope 3 emissions throughout our supply chain. Through our United Supply Chain initiative, we are also collaborating to pursue absolute emissions reduction.

Analysis of infrastructure and supply chain GHG emissions and governance

Below we highlight good practice, challenges and areas for innovation through an analysis of the strengths, weakness, opportunities and threats (SWOT) relating to our infrastructure and supply chain GHG emissions.

Strengths

- Comprehensive inventory of Scope 3 emissions completed, and two science based targets validated by SBTi.
- We annually report scope 3 emissions in the Annual Report and Financial Statements, with independent assurance. We use established frameworks and best practice, including the GHG Protocol and SBTi.
- Developing and integrating tools and processes to fully consider carbon throughout our asset planning and decision making.
- We are innovating and collaborating towards the necessary transformation.

Weakness

- Approximately 80 per cent of our scope 3 emissions are estimated using a spend-based methodology. This means reportable emissions do not effectively reflect our management interventions and instead fluctuate with the scale and costs of our investment programme which traditionally follows a five year cycle of increase and decrease. This will be improved over time by working with our supply chain to use more product and supplier specific emissions information.

Opportunities

- Best practice frameworks support organisations with the effective management and optimisation of GHG emissions over the whole life of an asset, for example PAS2080 and the Royal Institute for Chartered Surveyors (RICS) Whole Life Carbon assessment for the built environment.
- In asset planning, early consideration of capital and operational carbon through the whole life of an asset can help identify opportunities for emissions reduction and financial efficiency. A multi capitals approach can help secure the best overall cost-benefit by assessing the carbon and wider dependencies and impacts.
- Consideration for whole life carbon in decision making supports the transition from traditional capital intensive approaches to behavioural and nature based solutions, which in turn deliver multiple benefits.
- Testing and delivering innovative lower carbon approaches will help forward the transition to a low carbon industry.

Threats

- Pressures outside our control are driving growth in scope 3 emissions. For example, new legal and regulatory requirements are currently focused on protecting the water environment without fully recognising GHG emissions and whole life value. Effectively valuing carbon in water sector planning processes will support decision making that delivers best overall outcomes for customers and society.
- Reporting and management of scope 3 emissions is much more complex than for scope 1 and 2 emissions. Collaboration is required across multiple actors in the value chain to secure data and implement solutions.
- Globally, accounting approaches are evolving as organisations expand their attention to scope 3. Currently, this can lead to inconsistency in approaches across organisations and sectors. We use latest global best practice to support alignment and rigour, including the GHG Protocol.

1.3 COVID-19

Following the unprecedented disruption as a result of the COVID-19 pandemic, we remain committed to the safety and wellbeing of our employees to enable them to continue to provide water and wastewater services for our customers. Throughout the COVID-19 pandemic we have maintained services to customers. This has been done through managing a number of changing parameters as well as planning for future scenarios to mitigate the risk to service failure. These scenarios have included planning for reduced staff availability, staff redeployment, increased customer demand and other external resilience issues. Our response to the pandemic so far has provided valuable lessons in our approach to incident management. We will continue to review and adapt our approach so that we are in the best possible position for managing future incidents.

As England moved out of restrictions in summer 2021, we transitioned our ways of working. More staff returned to the offices whilst we also implemented a hybrid way of working for some suitable roles. The experience we gained from the lockdown periods and the time since has provided us with the insight needed to continue to operate in a safe manner. We still remain alert to the possibility of further changes, and continue to review the activities we may need to deprioritise and those we may need to temporarily halt to ensure we can safely provide services to our customers. This was shown in December 2021 and January 2022 as the omicron variant hit, when we suffered a spike in sickness levels but were able to maintain service levels to customers.

Unfortunately, the swift transmission of the omicron variant did have an impact on one of our major capital projects. Travel restrictions introduced to prevent the transmission of the virus meant that specialist teams and equipment, essential to complete the project, were subject to significant delays in entering the country. Despite careful planning and our best efforts to mitigate against the travel restrictions, delivery of the final stage of the West Cumbria project was delayed.

Our underlying cash collection performance remains robust as a result of our continued focus on improved data quality, business processes and systems to ensure we are able to accurately pursue payment in an efficient and timely manner. The last year has been very challenging for many in our region and we continue to help those customers with clear affordability issues with the sector's widest range of support schemes which will offer £280 million financial assistance across AMP7. Around 200,000 customers currently benefit from affordability support representing around 6 per cent of our household customer base. We promote our schemes directly to customers and also through partner organisations to increase overall awareness and take-up.

1.4 Wholesale totex

Background: totex allowances and incentive mechanism

The PR19 FD set total expenditure (totex) assumptions for the 2020–25 period across UUW's four wholesale price controls. If the company overspends or underspends compared to the FD assumptions then incentives are applied which determine the sharing of the additional spending or additional saving between customers and the company. Overspend and underspend allocated to customers are reflected in future bills. Overspend and underspend allocated to the company must be borne by investors. The incentives are different for four different categories of spend.

- **Totex subject to standard sharing rates** – This comprises the majority of totex. UUW's sharing rate was set at an equal 50/50 share between customers and the company for both overspend and underspend. This is with the exception of the bioresources price control, which has no standard customer sharing (i.e. 0 per cent customer share, 100 per cent company share for both overspend and underspend).
- **Business rates and abstraction licence fees** – Companies can only exercise limited control over these costs and so the cost variance to the company's PR19 cost allowance will be subject to a 75 (customer share):25 (company share) sharing rate.
- **Totex not subject to cost sharing** – Some spend is set to have zero customer sharing through the cost reconciliation model. This includes spend:
  - where it would not be appropriate to share costs with customers e.g. disallowable costs such as fines or customer compensation payments;
  - that is subject to different funding/sharing mechanisms e.g. strategic water resources development schemes, innovation fund; or
  - that has been set outside of price control e.g. non-s185 diversion costs and income
- **Green recovery** – Additional funding has been granted, on top of our 5-year FD totex allowance to invest in schemes that will help the green economic recovery, as well as benefiting the environment. Given the uncertainty over the true costs of the innovative schemes, underspend will be subject to a 90 (customer share):10 (company share) sharing rate, to ensure underspend variances are weighted heavily in customers' favour, while still providing companies with an incentive to act efficiently. Overspend is subject to an equal 50/50 share between customers and the company.

FD allowed totex by price control April 2020 to March 2025 (2017/18 prices)

Customer share category	Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Totex subject to standard sharing	220	1,734	2,341	328	4,623
Rates and abstraction licence fees	166	225	99	29	519
Totex not subject to cost sharing	44	134	3	–	181
Green recovery	3	–	61	–	64
Total totex	**433**	**2,093**	**2,504**	**357**	**5,387**

As part of the next price review process in 2024 (PR24) we will reconcile how our actual expenditure compared against these allowances for each category of spend for AMP7. With the exception of totex not subject to cost sharing – which is out of scope for customer sharing – variances against the initial assumptions will be accounted for through a cost reconciliation mechanism. This mechanism will split out the reported totex over/underspend per category, with the resulting customer share element being recovered through a mixture of opening adjustment to AMP8 RCV and through AMP8 revenues (with the RCV/revenue split consistent PR19 assumptions on PAYG).

Comparison of 2021/22 actual totex to FD assumed totex

APR Pro forma tables 4D and 4E (see Section 3) are the key tables which set out the build-up of our 2021/22 totex expenditure within the four wholesale price controls. Variance analysis of 2021/22 costs compared to prior year can be found within UUW's accounting methodology statement available at:

unitedutilities.com/globalassets/documents/pdf/rr22-accounting-methodology-statement

The expenditure within these tables is then summarised within Pro forma table 2B (see Section 2.3)

APR Pro forma table 4C (see Section3) consolidates the total totex expenditure from table 2B per price control and then breaks this out into the different customer sharing categories of spend described above. These amounts are then compared to the allowed totex in the PR19 final determination (inflated to out-turn prices).

APR Pro forma table 4U (see Section 3) compares green recovery expenditure, as reported in tables 4S and 4T which provide the breakdown of expenditure by each green recovery scheme, against the allowance as per the green recovery final decision document (inflated to out-turn prices).

Variance between allowed totex and actual totex from Table 4C (out-turn)

During 2021/22, we incurred £1,347 million of totex (table 2B) which was significantly higher than assumed in the PR19 FD (£1,125 million). As explained in the executive summary on page 17 this was largely as a result of the accelerated AMP7 spend plus the impact of the additional investment we are making outside the scope of our FD and, consistent with presentation in APR table 4C, this has been analysed below per customer sharing category.

1.4 Wholesale totex

Totex subject to standard sharing

Totex subject to standard sharing (All 50% company : 50% customer except Bioresources – 100% company: 0% customer)	Totex by price control 2021/22				
	Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Allowed totex subject to standard sharing	41.3	386.8	470.0	76.3	**974.4**
Actual totex subject to standard sharing	43.2	494.3	608.2	61.7	**1,207.4**
Variance total	1.9	107.5	138.2	-14.6	**233.0**
Variance due to timing	1.7	86.4	88.5	20.0	**156.6**
Variance due to efficiency	0.2	21.1	49.7	5.4	**76.4**

Total reported overspend of £233.0 million is split between variances due to timing and variances due to efficiency.

Variance due to timing

In addition to accelerated spend of just over £200 million of our AMP7 investment programme in 2020/21, we chose to accelerate further spend of just over £150 million in 2021/22 to enable us to deliver benefits sooner. This accelerated spend has all been categorised as timing within table 4C as this year's reported overspend will be offset by equivalent reductions in totex spend in the later years of this AMP, with no resultant over/underspend when considered across the across the AMP as a whole. As can be seen in the table, the accelerated expenditure is principally in the water network and wastewater network price controls.

Variance due to efficiency

In addition to the accelerated spend, we also announced our intention to invest a total of £765 million beyond the FD allowance over AMP7, as set out below:

Investing to improve service for customers c.£250 million

Helping us deliver further improvements to service for customers and better performance against our customer ODIs. This investment is targeted at delivering sustainable improvements for customers in two specific areas where we want to do better.

- c.£100 million investment in Dynamic Network Management (DNM), an advancement of Systems Thinking in our wastewater network that will help us reduce sewer flooding and pollution incidents using real-time performance data from a network of sensors to enable predictive and preventative optimisation; and
- c.£100 million investment in drinking water quality improvements (specifically discolouration).

We are also investing in a number of spend-to-save projects including hydraulic flooding, lead risk and water service resilience, where additional spend is expected to drive further improvements in customer service with resultant improvements in performance.

Investing outperformance for environmental improvements c.£250 million

Additional investment to deliver the new Environment Act 2021 requirements, which were not decided at the time of the final determination and thus not included in FD allowed totex.

The Environment Act 2021 introduces several new challenges for the sector, including a requirement for water companies to secure a progressive but very substantial reduction in the average number of spills from storm overflows, and controlling nutrient pollution by reducing phosphate release from wastewater treatment works. The Industrial Emissions Directive (IED) broadens the scope of activities covered by compliance requirements, and the Environment Agency's recent interpretation of Farming Rules for Water (FRfW) restricts the application of biosolids to land in certain areas at certain times, requiring more storage capacity or alternative means of disposal.

Approved incremental base investment c.£265 million

The remaining £265 million of the £765 million of additional investment is for projects where regulatory allowances and mechanisms have been secured following the FD, which include:

- **Green recovery c.£65 million** – We have received an additional allowance, on top of our 5-year FD allowance, to support the green economic recovery, as well as benefiting the environment. The underspend reported in 2021/22 is classified as timing in Table 4U, as outlined below.
- **Bolton WINEP c.£90 million** – Bolton wastewater enhancement scheme was not yet approved by the EA at the time of the final determination and thus not included in FD allowed totex. However, this scheme has subsequently been approved with a resultant increase in our projected AMP7 totex. Unlike the other additional investment projects this will be fully remunerated under the WINEP mechanism with an uplift to March 2025 RCV and FD allowed totex (across the later years of this AMP). As such, the small initial spend incurred to date is classified as timing, not efficiency.
- **Vyrnwy aqueduct c.£100 million** – The requirement for the Vyrnwy treated water aqueduct scheme was not set at the time of the final determination and thus not included in our FD allowed totex. However, following a DWI enforcement order issued in September 2020, we are subsequently going ahead with this scheme which will improve the quality and aesthetics of the water supply via a programme of cleaning and relining. Part of these costs will be reflected in outperformance payments earned on reducing discolouration from the Vyrnwy treated water aqueduct performance commitment which measures the length of aqueduct cleaned or relined.

For the purposes of this assessment we have categorised the changes in scope as efficiency (since for these projects spend will ultimately result in an increase in totex vs. PR19 allowance) and this totalled £76.4 million in 2021/22, split by £32.4 million on DNM, £25.0 million spend-to-save, £11.3 million on drinking

1.4 Wholesale totex

water quality improvements, £4.7 million on Environment Act requirements (split £3.5 million FRfW and £1.2 million IED) and £3.0 million on Vyrnwy. The majority of this spend (£49.7 million) was concentrated in wastewater network plus where all DNM spend and the most of the spend-to-save costs were incurred. This is in addition to the £32.3 million of efficiency overspend reported in 2020/21, resulting in a cumulative overspend due to efficiency of 108.7 million across the first two years of the 2020-25 period.

Rate and abstraction licence fees

Rates and abstraction licence fees (25% company: 75% customer)	Totex by price control 2021/22 Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Allowed rates and abstraction licence fees	36.0	48.8	21.5	6.3	**112.6**
Actual rates and abstraction licence fees	34.7	47.2	19.2	6.0	**107.1**
Variance	-1.3	-1.6	-2.3	-0.3	**-5.5**

Actual totex costs of £107.1 million are marginally below FD allowed costs of £112.6 million, with business rates of £89.6 million being £5.1 million below FD allowance and abstraction charges of £17.5 million being £0.3 million below the FD allowance.

Totex not subject to cost sharing

Totex not subject to cost sharing (100% company: 0% customer)	Totex by price control 2021/22 Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Allowed totex not subject to cost sharing	5.3	27.1	0.4	0.0	**32.8**
Actual totex not subject to cost sharing	3.6	25.2	2.1	1.3	**32.2**
Variance	-1.7	-1.9	1.7	1.3	**-0.6**

Overall totex not subject to cost sharing of £32.2 million was broadly in line with the FD allowance of £32.8 million. The main components of this are set out below

- Non-price control grants and contributions: – net costs, inclusive of income offset, of £23.1 million was £2.9 million below FD allowance, driven by lower connections activity;
- Strategic water resource development schemes costs of (£3.3 million) - £2.0 million below FD allowance;
- Third party costs (£1.7 million) – slightly above FD allowance of £1.5 million;
- Disallowable costs – comprising compensation, fines, investigation payments totalling £4.1 million (vs zero FD allowance). This is split out between compensation claims in relation to Guaranteed standards of service (GSS) totalling £1.8 million, and £2.2 million of fines and investigation costs driven by an increase in provisions.

Green recovery (Table 4U)

Green recovery (Underspend 10% company: 90% customer; Overspend 50% company: 50% customer)	Totex by price control 2021/22 Water resources	Water network plus	Wastewater network plus	Bioresources	Total totex
Allowed totex not subject to cost sharing	0.3	–	4.6	–	**4.9**
Actual totex not subject to cost sharing	0.1	–	0.4	–	**0.5**
Variance due to timing	-0.2	–	-4.2	–	**-4.4**

In 2021/22, green recovery spend of £0.5 million is below the allowed funding of £4.9 million, as the current forecast spend profile is different to our planned spend proposals. The majority of spend incurred to date relates to the ‘define phase’ to progress the development of solutions and negotiation of new commercial agreements, which has taken longer than originally anticipated. However, we are working towards completing the projects within AMP7, with an equivalent increase in green recovery spend expected in the later years of this AMP, and therefore the underspend is classified as timing.

1.4 Wholesale totex

Impact of expenditure on the RCV

APR Pro forma table 4C sets out the 2021/22 RCV determined at the PR19 FD and shows the implied revisions to this position as a result of the impact of totex over or underspend.

The RCV will be fully reassessed as part of the PR24 process with the value presented in table 4C being referred to as a 'shadow RCV'. As reported in table 4C the projected shadow RCV is £12,357 million. However, the calculation only apportions the customer share of totex overspend due to efficiency to the RCV. We believe that the shadow RCV should reflect accelerated/deferred spend in any given year in line with the PR19 cost reconciliation model (both the RCV and the consequential allowed returns on RCV) which takes account of the timing of totex. Correcting for this, the shadow RCV is higher at £12,436 million.

Financial measure £m	Water resources	Water network plus	Wastewater network plus	Bioresources	Total RCV
4C.32 Projected 'shadow' RCV	655.5	3,720.4	7,495.9	485.3	12,357.1
Projected 'shadow' RCV, including timing differences	655.3	3,751.8	7,543.1	485.3	12,435.5

As the below table shows, the shadow RCV of £12,357 million is £21 million higher than the RCV determined at the FD. This is as a result of the cumulative totex overspend due to efficiency described in the comparison of actual totex to FD assumed totex section above, with a resultant £18 million uplift in wastewater network plus and a £4 million uplift in water network plus. The water resources and bioresources price control RCV's were both broadly in line with their respective FD RCVs.

Financial measure £m	Water resources	Water network plus	Wastewater network plus	Bioresources	Total RCV
4C.31 Ofwat RCV	655.6	3,716.6	7,478.1	485.5	12,355.8
4C.32 Projected 'shadow' RCV	655.5	3,720.4	7,495.9	485.3	12,357.1
Increase/(Decrease) in RCV	-0.1	3.8	17.8	-0.2	21.3

1.5 Wholesale revenue

APR pro forma table 2I, (see section 2.3) sets out the actual build-up of the wholesale revenue for 2021/22 by price control. Table 2M then compares the total revenue governed by the price control with the level of adjusted revenue allowed by Ofwat.

The total revenue set by the wholesale price controls for recovery in 2021/22 was £1,672.9 million. This was made up of £1,661.7 million wholesale revenue, plus £15.0 million in grants and contributions and £3.8 million of other revenue adjustments. The level of income recovered in the year was £56.1 million higher than the £1,672.9 million of adjusted allowed revenue, with a £65.5 million increase in revenues partly offset by a £9.4 million reduction in grants and contributions income collected.

The £65.5 million increase in revenues comprised the following main components:

- £63.1 million increase in non-household revenue as more business premises remained in charge during the period than had been expected. Many businesses had been expected to fail due to the impacts of COVID-19 but the unexpected lifting of restrictions meant that more businesses were able to continue trading.
- £2.6 million increase in Household revenue due to a reduction in the uptake of Free Meter Options and a reduction in the average number of void premises.
- £(0.2) million reduction in other revenues.

The £9.4 million reduction in grants and contributions income collected was a result of an increased uptake of incentives for sustainable developments and an increase in total income offset payments made.

The net in-year £56.1 million revenue difference will be deducted from 2023/24 allowed revenues as follows:

- £52.0 million under the RFI (revenue forecasting incentive) adjustment mechanism for water resources (£5.3 million), water network plus (£18.7 million) and wastewater network plus (£28.0 million), and
- £4.1 million relating to bioresource revenue will be subject to an adjustment under the Bioreources Revenue Reconciliation Model.

In line with the RAGs for 2021/22 we have reported rechargeable works income (£0.6 million) as price control revenue, but this income was not included in the revenue control set at PR19 and therefore we will be excluding it from the RFI mechanism for the purposes of setting charges. This approach means that we will be both compliant with the change in regulatory reporting and also able to continue to recover revenue under the revenue control in line with the approach that underpinned the PR19 final determination. We intend to treat rechargeable works income in the same way for each year of the AMP.

1.6 Retail expenditure and revenues

Household retail

Background

The household retail price control is designed to allow companies to recover sufficient revenue from household customers to fund the efficient costs of providing retail services. This allowance is sometimes referred to as the allowed 'cost to serve'.

For companies whose historic and forecast costs were above industry upper quartile, allowed costs were set to projected upper quartile levels to reduce allowed costs to levels that Ofwat judged to be efficient.

Cost allowances considered the impact of a range of retail cost drivers such as levels of metering, household credit defaults, average water bill size and regional levels of deprivation.

Separate annual revenue allowances and costs to serve per customer were defined in the PR19 FD for household retail services. Total revenue allowances were determined by multiplying underlying cost to serve allowances by the assumed customer numbers and applying a margin defined as part of the price review.

The cost to serve incentive mechanism has three main principles:

- Initial cost to serve allowances per customer per year are fixed and do not increase year-on-year in line with inflation;
- The allowances are assumed to cover all retail operating costs, including depreciation on capital expenditure. Expenditure for demand side water efficiency and customer side leak repairs is also included where the activity is not for wholesale purposes; and
- Any over or underspend against the cost to serve allowed is paid for or retained wholly by the company and will not affect future customer bills.

2020/21 performance

We have continued to challenge the efficiency of the services offered in a number of areas and this has resulted in retail operating costs as reported in Table 2C reducing by £1.6 million from £107.7 million in 2020/21 to £106.1 million in 2021/22.

The cost reduction compared to the prior year can be attributed to:

- £4.5 million reduction in bad debt costs. Following a challenging year in 2020/21 due to the impact of COVID-19, cash collection performed strongly throughout 2021/22. Our reported bad debt charge of £43.0 million represented 3.3 per cent of regulated revenue, down from the £47.5 million and 3.6 per cent of regulated revenue reported in 2020/21.
- £0.8 million reduction in meter reading costs. These costs savings have been realised following the decision to insource our meter reading capability from a third party service provider. Whilst insourcing took place during the 2020/21 reporting year, we are now beginning to realise the operational efficiencies that were planned.

This is offset by;

- £3.2 million increase in debt management costs. In 2020/21, COVID-19 restrictions impacted many business practices and prohibited us from visiting customer premises. There was also reduced use of County Court Judgements and enforcement activity in recognition of the sensitivity of using such techniques during a national pandemic. As COVID-19 restrictions have been lifted, we have been able to recommence all debt management activity which has led to the year on year increase in cost.
- £0.4 million increase in depreciation following acceleration of capital expenditure to enable delivery of operating cost efficiencies.

Whilst retail operating costs reduced from 2020/21, costs were £8.6 million higher than the expenditure allowance of £97.5 million. Our costs are running higher than assumed in the PR19 FD as we are incurring higher bad debt costs at this point in the AMP due to the impact of COVID-19 on expected levels of cash collection through 2020/21 and 2021/22. Whilst collection has recovered through 2021/22, it remains below our original expectations. Postage costs have also increased at an average of 10 per cent over the last few years, exceeding the rate of inflation and placing an inherent efficiency challenge on the retail price control as the cost allowances do not increase with inflation.

During the year we also billed additional properties that were previously identified as void. Using credit reference and land registry data we were able to identify properties for which the occupant could be identified. This was targeted as part of an AMP7 ODI commitment to reduce our void proportion of billable properties to 5.2 per cent by the end of 2021/22. At 31 March 2022, void properties had been reduced to 4.5 per cent of billable properties, compared to 6.0 per cent at 31 March 2021.

Improving operating costs and efficiency

We have continued to refine our capabilities in a number of areas to reduce our underlying operating costs during the year. These include:

- Continuing to challenge overheads;
- Seeking to improve underlying operational performance;
- Proactively informing customers of known issues and their resolution, to reduce inbound customer contacts;
- Returning our workforce to the office, reducing costs associated with systems required for homeworking and improving productivity;
- Increased digital penetration; and
- Insourcing our meter reading capability, delivering this activity at reduced cost.

Improving debt management

UUW has a higher bad debt cost than the majority of the industry. Deprivation levels are the principal driver of our higher than average bad debt with the North West having a substantially higher proportion of customers impacted by welfare reform and claiming universal credit. These challenges are to some degree recognised and reflected in setting the allowed retail costs through the price review process.

Our collection performance through 2021/22 was encouraging but bad debt will remain a challenge in our region where there are significant numbers of communities which are subject to high levels of deprivation. The current cost of living increases are expected to impact on our customers' ability to pay their water bill in the future. As a result, debt management will be an area of continued focus as we drive for further improvement.

1.6 Retail expenditure and revenues

We are a leader in the water industry in affordability and vulnerability assistance, with a wide range of support schemes for customers, many of which are industry firsts. Using advanced data and analytic capabilities we have been able to focus our efforts on supporting the customer segments at greatest financial risk, promoting the support available and encouraging customers to contact us if they are struggling to pay their bill.

Providing assistance to those customers who need our help most continues to be an area of focus. We take a proactive approach to help customers back into making regular payments by assessing them for a lower bill and offering support in clearing their arrears. The number of customers benefiting from our Back on Track and Help to Pay tariffs have increased ensuring the maximum level of financial support is provided to our customers.

This year we finalised our Data share arrangement with the DWP and were the first water company to access the new provisions under the Digital Economy Act. This new arrangement helped us identify customers eligible for our Help to Pay and Back on Track tariffs contributing to the in-year reported growth. We've continued to explore ways to drive value from the data share arrangement working with the DWP to extend the data provision to include Universal Credit claimant data enabling us to extend the reach of the arrangement and support more customers.

We continue to innovate and develop new ways of offering support. In September we launched a new digital payment plan which gives customers more flexibility over how and when they make their payments. This is designed to support customers with unstable incomes who would benefit from more flexibility in their payment plan. Our new PayAsUGo plan gives customers the option to pay at whatever frequency suits their personal circumstances as long as they meet the agreed payment milestones. This has supplemented the extensive range of existing payment plan options available to our customers which include direct debit, payment cards and schedule only plans. Customers are able to choose what date and frequency they make their payment. This flexibility enables customers to pay in a way that aligns to their personal circumstances.

We were the first water company in the UK to roll out an Open Banking solution for social tariff applications. Introducing Open Banking into our affordability assessment process has simplified the application process for customers, improved the accuracy of the data captured ensuring customers benefit from the lowest tariff and improved first time completion rates meaning customers are given a decision on tariff eligibility there and then rather than after a longer application process.

We continue to use a variety of contact channels to reach out to customers who maybe struggling to pay. We've continued to take our financial support schemes direct to our customers' doorsteps. Last year we visited c.45,000 hard to reach customers and we've visited over 230,000 customers since the initiative was launched.

The North West Hardship Hub continues to be a valuable resource for members of the advice community to access support quickly and easily for their clients. The one stop shop provides a consolidated view of a wide range of support schemes from a range of sources and sectors across the North West of England.

In 2014/15 household bad debt costs were running at 6.3 per cent of regulated revenue. Since this time, we have maintained a clear focus on improving our bad debt and cash collection performance. This has included the establishment of a number of new initiatives, such as our 'better billing' initiative and has involved working with Credit Reference Agencies to identify which customers are likely to be in a financially challenging situation and which customers are able to pay their water bill but need further encouragement and engagement in order to prompt them to do so. At the end of 2021/22, household bad debt costs had reduced to 3.3 per cent of regulated revenue.

Our bad debt performance has also benefited from the sustained improvement in our cash collection performance since 2015/16 which has resulted in a cleaner debt book. We continue to focus on more dynamic targeting of debt collection activities and have invested in testing and improving our innovative data led collections strategies.

We continued to use our range of financial assistance schemes to support those customers that can't pay and provided support to c.204,000 customers during the year as illustrated in the table below:

	2021/22 Full Year Actual		
	Customers supported (No.)	Company funded (£m)	Customer funded social tariff (£m)
Watersure	27,284		9.9
Help to Pay Social Tariff	32,043	1.5	4.5
Back on Track Support Tariff	120,186	9.4	14.7
Sub-total – tariff support	179,513	10.9	29.1
UU Trust Fund	3,621	3.5	
Payment matching	20,486	15.8	
Sub-total – grants and allowances	24,107	19.3	
Total Support	203,620	30.2	29.1

£9.9 million of support, cross subsidised by other customers, was provided for the national Watersure tariff. There was £30.1 million of support in the form of a bill discount for over 150,000 households, via our social tariffs 'Help to Pay' and 'Back on Track'. £10.9 million of support for the social tariff schemes was provided by the company and £19.2 million was cross-subsidised by other residential customers.

Whilst the penetration and conversion of customers onto affordability solutions does impact in year revenues, it is a key factor in supporting customers to avoid falling into arrears, recovery from positions of debt, reductions in the amount of bad debt that United Utilities carries and our drive to continue to reduce our retail cost to serve.

United Utilities PLC provided £3.5 million to the independent United Utilities Trust Fund, which can support residents in the United Utilities' region through grants that can be used towards clearing water bill arrears or other household costs.

In addition, a further 20,486 customers received £15.8 million of support through our payment matching scheme. The scheme is an arrears clearance scheme funded through write-off and is a cost to the company through the bad debt charge as opposed to revenue sacrifice.

1.6 Retail expenditure and revenues

Revenue

APR pro forma table 2F (see Section 2.3) shows that retail revenue recovered in 2021/22 was £95.4 million.

However, as reported in table 2N, there were approximately 150,000 customers that received a discounted fixed price bill under a social tariff during the year. In total these customers received a £30.1 million discount to their underlying full price bill, of which £10.9 million was funded by the company and £19.2 million was cross-subsidised by other residential customers.

The revenue forgone by the company of £10.9 million is added to the £95.4 million of retail revenue recovered such that the total net retail revenue for 2021/22 was £106.3 million. This is £5.8 million lower than the 2021/22 retail revenue allowance, including margin, of £112.1 million. The reduction in revenue is mainly due to a higher number of customers being supported through our social and support tariffs than had been expected for the year.

The in-year revenue allowance of £112.1 million was based on actual customer numbers of 3.16 million. This was c.99,000 higher than assumed in the PR19 FD mainly due to new connections and a reduction in void properties across the region.

Operating profit

APR pro forma table 2A (see Section 2.3) shows the operating profit for UUW's price controls. For the household retail price control operating profit in 2021/22 was a £(10.6) million loss.

The 2021/2 retail revenue allowance of £112.1 million is based on an expenditure allowance of £97.5 million and a £14.6 million retail operating profit in respect of the allowed margin and adjustments.

The reported operating profit for 2021/22 is £25.3 million lower than expected due to the following:

- Retail revenues collected (£95.4 million) were £16.7 million lower than the revenue allowance. £10.9 million was attributable to the company funded element of the discount provided to the 150,000 customers that were billed under a social tariff during the year. £5.8 million was largely attributable to offering a social tariff discount to a larger number of customers than had originally been forecast when setting charges for the year. This element of revenue is therefore recoverable through the end of AMP revenue reconciliation for retail.
- Retail costs were £8.6 million higher than the expenditure allowance which is mainly due to bad debt costs running higher than expected at this point of the AMP due to the impact of COVID-19 on cash collection performance.


United Utilities
Water for the North West

Regulatory accounts

Regulatory Accounts for the 12 months ended 31 March 2022

Introduction

The Regulatory Accounts have been prepared in accordance with the requirements of Regulatory Accounting Guidelines (RAGs) 1.09, 2.08, 3.13, 4.10 and 5.07 issued by the Water Services Regulation Authority (WSRA or Ofwat). These are separate from the statutory financial statements which have been prepared under the basis of International Financial Reporting Standards as adopted by the UK.

Statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F 'Regulatory Accounting Statements' of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat:

- Condition F also requires the directors to keep appropriate accounting records, which are consistent with guidelines published by Ofwat.

The directors of the company hereby confirm that the company has kept appropriate accounting records, which comply with the guidelines published by Ofwat.

Condition P 'Regulatory ring fence' of United Utilities Water Limited's (UUW's) Licence requires directors to submit a 'Ring-fencing certificate' to Ofwat no later than the date on which the Company is required to deliver a copy of each set of regulatory accounting statements prepared under Condition F.

The Ring-fencing certificate requires directors to confirm that, in their opinion;

a) The company has sufficient financial resources and facilities to enable it to carry out the Regulatory Activities, for at least the twelve month period following the date on which the certificate is submitted.

b) The company will have available sufficient management resources and systems of planning and internal control to enable it to carry out the Regulatory Activities, for at least twelve months.

c) The company has available to it sufficient rights and resources other than financial resources, as required by paragraph P14 of the company's instrument of appointment.

d) All contracts entered into between United Utilities Water Limited and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to carry out the Regulated Activities.

The directors have issued a 'Ring-Fencing certificate' under Condition P30 of the Licence – see page 173.

Condition P also requires directors to:

a) Report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities.

The directors hereby confirm that there were no changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities, during the year ended 31 March 2022.

b) Ensure every transaction between the Appointed Business and any Associated Company is at arm's length, so that neither the Appointed Business nor the Associated Company gives a cross-subsidy to the other.

This has been confirmed within 'Information in respect of transactions with any other business or activity of the appointee or any associated company' on pages 158 to 160.

The above responsibilities are additional to those already set out in the United Utilities Water Limited statutory financial statements.

Regulatory accounts

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he or she is aware, there is no relevant information of which the company's auditor is unaware; and
2. he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the board and signed on its behalf by:

Phil Aspin
Chief Financial Officer
12 July 2022

Regulatory accounts

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and United Utilities Water Limited ("the Company")

Opinion

We have audited the sections of/tables within Company's Annual Performance Report for the year ended 31 March 2022 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables, comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of tangible fixed assets for wholesale and retail (table 2D), the analysis of 'grants and contributions' for wholesale (table 2E), the residential retail revenues (table 2F), the non-household water revenues by tariff type (table 2G - not completed in line with RAG 4.10), the non-household wastewater revenues by tariff type (table 2H - not completed in line with RAG 4.10), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, United Utilities Water Limited's Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F of the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2), set out on pages 135 to 142.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditor's responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F of the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom-adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 115 to 134 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Regulatory accounts

Conclusions relating to going concern

The directors have prepared the Regulatory Accounting Statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Regulatory Accounting Statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. That we considered most likely to adversely affect the Group's and Company's available financial resources and metrics related to the possible failure of the Haweswater water system resulting in a one-off totex impact.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.

Our procedures included:

- **Assessing key assumptions in the forecasts**: critically assessing assumptions in base case and downside scenarios relevant to liquidity and covenant metrics such as inflation rate growth compared to market forecasts, forecast bonus payments compared to historical bonus payments and forecast dividend payments compared to Group dividend policy. This included assessing whether downside scenarios applied assumptions which are mutually consistent, using our assessment of the possible range of each key assumption and our knowledge of inter-dependencies;

- **Funding assessment:** considering the availability of existing debt arrangements and committed loan facilities, including testing compliance with covenants and expected maturity dates;

- **Historical accuracy of managements forecasts:** comparing historical budgets to actual results to assess the directors' track record of budgeting accurately;

- **Evaluating directors' intent:** evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, including assessment of mitigating actions within their control;

- **Assessing the completeness and accuracy of the matters covered in the going concern disclosure:** considering whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and related sensitivities. We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate; or

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 108, the directors are responsible for the preparation of the Annual Performance Report in accordance with the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management, directors and sales staff including the EPS target for management remuneration.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets/ recent revisions to guidance/ our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates such as revenue recognition and provisions for household customer debt.

We also identified a fraud risk related to inappropriate capitalisation of costs relating to the capital programme and valuation of retirement benefit obligations in response to possible pressures to meet profit targets.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted which were unexpected to revenue, unexpected to cash or PPE postings to operating expenses.

- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Accounting Statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the Company's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Regulatory Accounting Statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Accounting Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Regulatory Accounting Statements items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Regulatory Accounting Statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity, OFWAT, Environment Agency, Drinking Water Inspectorate and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Regulatory Accounting Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Regulatory Accounting Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, the Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out on page 135 and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under ISAs (UK).

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company.

Regulatory accounts

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 28 June 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Ian Griffiths
For and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
12 July 2022

Regulatory accounts

Pro forma tables subject to audit opinion

Section 1 Regulatory financial reporting

Additional commentary on the Section 1 pro forma tables is provided on pages 145 to 150.

Keys to cells

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Pro forma 1A Income statement

Financial performance for the 12 months ended 31 March 2022

Line description	Units	DPs	Statutory	Adjustments			Total appointed activities	RAG 4 reference
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	£m	3	1,844.618	-12.267	10.401	-22.668	1,821.950	1A.1
Operating costs	£m	3	-1,243.189	9.354	-9.597	18.951	-1,224.238	1A.2
Other operating income	£m	3	0.000	-3.808	0.000	-3.808	-3.808	1A.3
Operating profit	£m	3	601.429	-6.722	0.804	-7.526	593.904	1A.4
Other income	£m	3	0.000	36.050	2.357	33.693	33.693	1A.5
Interest income	£m	3	12.199	-11.100	0.000	-11.100	1.099	1A.6
Interest expense	£m	3	-330.797	-52.730	0.000	-52.730	-383.527	1A.7
Other interest expense	£m	3	0.000	11.100	0.000	11.100	11.100	1A.8
Profit before tax and fair value movements	£m	3	282.831	-23.401	3.161	-26.562	256.269	1A.9
Fair value gains/(losses) on financial instruments	£m	3	142.769	0.000	0.000	0.000	142.769	1A.10
Profit before tax	£m	3	425.601	-23.401	3.161	-26.562	399.039	1A.11
UK Corporation tax	£m	3	82.022	0.000	-0.600	0.600	82.622	1A.12
Deferred tax	£m	3	-584.283	-8.254	0.000	-8.254	-592.537	1A.13
Profit for the year	£m	3	-76.661	-31.655	2.561	-34.215	-110.876	1A.14
Dividends	£m	3	-339.195	0.000	-5.455	5.455	-333.740	1A.15
Tax analysis								
Current year	£m	3	0.000	0.000	0.600	-0.600	-0.600	1A.16
Adjustment in respect of prior years	£m	3	-82.022	0.000	0.000	0.000	-82.022	1A.17
UK Corporation tax	£m	3	-82.022	0.000	0.600	-0.600	-82.622	1A.18
Analysis of non-appointed revenue								
Imported sludge	£m	3			0.000			1A.19
Tankered waste	£m	3			5.131			1A.20
Other non-appointed revenue	£m	3			5.269			1A.21
Revenue	£m	3			10.401			1A.22

Regulatory accounts

Pro forma 1B Statement of comprehensive income

Financial performance for the 12 months ended 31 March 2022

Line description	Units	DPs	Statutory	Adjustments			Total appointed activities	RAG 4 reference
				Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year	£m	3	-76.661	-31.655	2.561	-34.215	-110.876	1B.1
Actuarial gains/(losses) on post-employment plans	£m	3	228.710	0.000	0.000	0.000	228.710	1B.2
Other comprehensive income	£m	3	-3.900	0.000	0.000	0.000	-3.900	1B.3
Total Comprehensive income for the year	£m	3	148.149	-31.655	2.561	-34.215	113.934	1B.4

Regulatory accounts

Pro forma 1C Statement of financial position

Financial position for the 12 months ended 31 March 2022

Line description	Units	DPs	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities	RAG 4 reference
Non-current assets								
Fixed assets	£m	3	12,082.645	-276.597	5.376	-281.973	11,800.672	1C.1
Intangible assets	£m	3	160.756	-4.223	1.948	-6.171	154.585	1C.2
Investments - loans to group companies	£m	3	0.000	0.000	0.000	0.000	0.000	1C.3
Investments - other	£m	3	0.142	0.000	0.000	0.000	0.142	1C.4
Financial instruments	£m	3	399.351	0.000	0.000	0.000	399.351	1C.5
Retirement benefit assets	£m	3	771.246	0.000	0.000	0.000	771.246	1C.6
Total non-current assets	£m	3	13,414.140	-280.820	7.324	-288.144	13,125.996	1C.7
Current assets								
Inventories	£m	3	16.436	0.000	0.000	0.000	16.436	1C.8
Trade & other receivables	£m	3	326.261	30.559	0.096	30.463	356.724	1C.9
Financial instruments	£m	3	58.105	0.000	0.000	0.000	58.105	1C.10
Cash & cash equivalents	£m	3	181.879	0.000	0.000	0.000	181.879	1C.11
Total current assets	£m	3	582.681	30.559	0.096	30.463	613.145	1C.12
Current liabilities								
Trade & other payables	£m	3	-359.248	16.745	-7.303	24.048	-335.200	1C.13
Capex creditor	£m	3	0.000	0.000	0.000	0.000	0.000	1C.14
Borrowings	£m	3	-472.961	20.766	0.000	20.766	-452.194	1C.15
Financial instruments	£m	3	-0.425	0.000	0.000	0.000	-0.425	1C.16
Current tax liabilities	£m	3	0.000	0.000	0.000	0.000	0.000	1C.17
Provisions	£m	3	-13.464	-15.919	0.000	-15.919	-29.382	1C.18
Total current liabilities	£m	3	-846.097	21.593	-7.303	28.896	-817.202	1C.19
Net Current assets/(liabilities)	£m	3	-263.416	52.152	-7.207	59.359	-204.057	1C.20
Non-current liabilities								
Trade & other payables	£m	3	-835.217	818.221	0.000	818.221	-16.995	1C.21
Borrowings	£m	3	-7,897.549	0.000	0.000	0.000	-7,897.549	1C.22
Financial instruments	£m	3	-136.677	0.000	0.000	0.000	-136.677	1C.23
Retirement benefit obligations	£m	3	0.000	0.000	0.000	0.000	0.000	1C.24
Provisions	£m	3	0.000	0.000	0.000	0.000	0.000	1C.25
Deferred income – grants & contributions	£m	3	0.000	-298.030	-0.117	-297.913	-297.913	1C.26
Deferred income - adopted assets	£m	3	0.000	-519.896	0.000	-519.896	-519.896	1C.27
Preference share capital	£m	3	0.000	0.000	0.000	0.000	0.000	1C.28
Deferred tax	£m	3	-2,075.404	28.252	0.000	28.252	-2,047.152	1C.29
Total non-current liabilities	£m	3	-10,944.847	28.547	-0.117	28.664	-10,916.183	1C.30
Net assets	£m	3	2,205.876	-200.121	0.000	-200.121	2,005.756	1C.31
Equity								
Called up share capital	£m	3	-230.000	0.000	0.000	0.000	-230.000	1C.32
Retained earnings & other reserves	£m	3	-1,975.876	200.121	0.000	200.121	-1,775.756	1C.33
Total Equity	£m	3	-2,205.876	200.121	0.000	200.121	-2,005.756	1C.34

Regulatory accounts

Pro forma 1D Statement of cash flows

Financial performance for the 12 months ended 31 March 2022

Line description	Units	DPs	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities	RAG 4 reference
Operating activities								
Operating profit	£m	3	601.429	-6.722	0.804	-7.526	593.904	1D.1
Other income	£m	3	0.000	20.264	2.357	17.907	17.907	1D.2
Depreciation	£m	3	415.578	-7.760	0.702	-8.462	407.116	1D.3
Amortisation – Grants & contributions	£m	3	-15.787	15.787	0.000	15.787	0.000	1D.4
Changes in working capital	£m	3	18.806	-21.569	4.208	-25.776	-6.971	1D.5
Pension contributions	£m	3	-0.388	0.000	0.000	0.000	-0.388	1D.6
Movement in provisions	£m	3	2.402	0.000	0.000	0.000	2.402	1D.7
Profit on sale of fixed assets	£m	3	3.808	0.000	0.000	0.000	3.808	1D.8
Cash generated from operations	£m	3	1,025.848	0.000	8.071	-8.071	1,017.777	1D.9
Net interest paid	£m	3	-120.018	0.000	0.000	0.000	-120.018	1D.10
Tax paid	£m	3	-37.444	0.000	-0.079	0.079	-37.365	1D.11
Net cash generated from operating activities	£m	3	868.386	0.000	7.992	-7.992	860.393	1D.12
Investing activities								
Capital expenditure	£m	3	-628.251	0.000	-2.537	2.537	-625.714	1D.13
Grants & Contributions	£m	3	1.764	0.000	0.000	0.000	1.764	1D.14
Disposal of fixed assets	£m	3	0.000	0.000	0.000	0.000	0.000	1D.15
Other	£m	3	0.000	0.000	0.000	0.000	0.000	1D.16
Net cash used in investing activities	£m	3	-626.487	0.000	-2.537	2.537	-623.950	1D.17
Net cash generated before financing activities	£m	3	241.899	0.000	5.455	-5.455	236.444	1D.18
Cashflows from financing activities								
Equity dividends paid	£m	3	-339.195	0.000	-5.455	5.455	-333.740	1D.19
Net loans received	£m	3	-380.056	0.000	0.000	0.000	-380.056	1D.20
Cash inflow from equity financing	£m	3	0.000	0.000	0.000	0.000	0.000	1D.21
Net cash generated from financing activities	£m	3	-719.251	0.000	-5.455	5.455	-713.796	1D.22
Increase (decrease) in net cash	£m	3	-477.352	0.000	0.000	0.000	-477.352	1D.23

Regulatory accounts

Pro forma 1E Net debt analysis (appointed activities)

Net debt analysis at 31 March 2022

Line description	Units	DPs	Fixed rate	Floating rate	Index linked		Total	RAG 4 reference
					RPI	CPI/CPIH		
Interest rate risk profile								
Borrowings (excluding preference shares)	£m	3	3,488.234	415.467	3,119.388	1,146.272	8,169.362	1E.1
Preference share capital	£m	3					0.000	1E.2
Total borrowings	£m	3					8,169.362	1E.3
Cash	£m	3					-8.279	1E.4
Short term deposits	£m	3					-173.600	1E.5
Net Debt	£m	3					7,987.483	1E.6
Gearing								
Gearing	%	3					64.751%	1E.7
Adjusted Gearing	%	3					64.233%	1E.8
Interest								
Full year equivalent nominal interest cost	£m	3	74.325	4.845	324.137	74.073	477.381	1E.9
Full year equivalent cash interest payment	£m	3	74.325	4.845	40.991	-6.171	113.990	1E.10
Indicative interest rates								
Indicative weighted average nominal interest rate	%	3	2.312%	0.000%	10.391%	6.462%	5.858%	1E.11
Indicative weighted average cash interest rate	%	3	2.312%	0.000%	1.314%	-0.538%	1.399%	1E.12
Time to maturity								
Weighted average years to maturity	nr	3	10.154	0.000	18.974	11.918	13.798	1E.13

Regulatory accounts

Pro forma 1F Financial flows (2017/18 financial year average CPIH)

Financial flows analysis for the 12 months ended 31 March 2022

Line description			12 months ended 31 March 2022 Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG 4 reference
	Units		%			£m			
Regulatory equity	DPs		2			3			
Regulatory equity	£m	3	4448.126	4448.126	3997.357				1F.1
Return on regulatory equity									
Return on regulatory equity	See Column Heading		3.94%	3.54%	3.94%	175.399	157.624	157.624	1F.2
Financing									
Impact of movement from notional gearing	See Column Heading			0.40%	0.24%		17.775	9.566	1F.3
Gearing benefits sharing	See Column Heading			0.00%	0.00%		0.000	0.000	1F.4
Variance in corporation tax	See Column Heading			2.71%	3.02%		120.623	120.623	1F.5
Group relief	See Column Heading			0.00%	0.00%		0.000	0.000	1F.6
Cost of debt	See Column Heading			1.15%	1.44%		51.231	57.462	1F.7
Hedging instruments	See Column Heading			0.52%	0.58%		23.143	23.143	1F.8
Return on regulatory equity including Financing adjustments	See Column Heading		3.94%	8.33%	9.22%	175.399	370.396	368.418	1F.9
Operational Performance									
Totex out / (under) performance	See Column Heading			-0.81%	-0.90%		-35.825	-35.825	1F.10
ODI out / (under) performance	See Column Heading			0.45%	0.50%		19.927	19.927	1F.11
C-Mex out / (under) performance	See Column Heading			0.05%	0.05%		2.076	2.076	1F.12
D-Mex out / (under) performance	See Column Heading			0.02%	0.03%		1.053	1.053	1F.13
Retail out / (under) performance	See Column Heading			-0.24%	-0.27%		-10.765	-10.765	1F.14
Other exceptional items	See Column Heading			0.03%	0.04%		1.541	1.541	1F.15
Operational performance total	See Column Heading			-0.49%	-0.55%		-21.993	-21.993	1F.16
RoRE (return on regulatory equity)	See Column Heading		3.94%	7.83%	8.67%	175.399	348.403	346.426	1F.17
RCV growth	See Column Heading		6.73%	6.73%	6.73%	299.212	299.212	268.890	1F.18
Voluntary sharing arrangements	See Column Heading			-0.23%	-0.25%		-10.031	-10.031	1F.19
Total shareholder return	See Column Heading		10.67%	14.33%	15.14%	474.611	637.584	605.285	1F.20
Dividends									
Gross Dividend	See Column Heading		3.00%	6.91%	7.69%	133.444	307.481	307.481	1F.21
Interest Receivable on Intercompany loans	See Column Heading			0.00%	0.00%		0.000	0.000	1F.22
Retained Value	See Column Heading		7.67%	7.42%	7.45%	341.167	330.103	297.804	1F.23
Cash impact of 2015-20 performance adjustments									
Totex out / under performance	See Column Heading			0.29%	0.32%		12.871	12.871	1F.24
ODI out / under performance	See Column Heading			-0.02%	-0.02%		-0.686	-0.686	1F.25
Total out / under performance	See Column Heading			0.27%	0.30%		12.186	12.186	1F.26

Regulatory accounts

Pro forma 1F Financial flows (2017/18 financial year average CPIH)

Financial flows analysis for the price review to date

Line description	Units	DPs	Average 2020-25: Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG 4 reference
			%			£m			
			2			3			
Regulatory equity									
Regulatory equity	£m	3	4462.024	4462.024	3888.792				1F.1
Return on regulatory equity									
Return on regulatory equity	See Column Heading		3.93%	3.42%	3.93%	175.212	152.702	152.702	1F.2
Financing									
Impact of movement from notional gearing	See Column Heading			0.50%	0.26%		22.509	10.211	1F.3
Gearing benefits sharing	See Column Heading			0.00%	0.00%		0.000	0.000	1F.4
Variance in corporation tax	See Column Heading			1.13%	1.26%		50.281	50.281	1F.5
Group relief	See Column Heading			0.00%	0.00%		0.000	0.000	1F.6
Cost of debt	See Column Heading			0.73%	0.96%		32.374	38.304	1F.7
Hedging instruments	See Column Heading			0.69%	0.77%		30.750	30.750	1F.8
Return on regulatory equity including Financing adjustments	See Column Heading		3.93%	6.48%	7.17%	175.212	288.617	282.248	1F.9
Operational Performance									
Totex out / (under) performance	See Column Heading			-0.50%	-0.55%		-22.161	-22.161	1F.10
ODI out / (under) performance	See Column Heading			0.40%	0.44%		17.706	17.706	1F.11
C-Mex out / (under) performance	See Column Heading			0.02%	0.03%		1.038	1.038	1F.12
D-Mex out / (under) performance	See Column Heading			0.01%	0.01%		0.527	0.527	1F.13
Retail out / (under) performance	See Column Heading			-0.27%	-0.30%		-12.185	-12.185	1F.14
Other exceptional items	See Column Heading			0.03%	0.04%		1.404	1.404	1F.15
Operational performance total	See Column Heading			-0.31%	-0.34%		-13.672	-13.672	1F.16
RoRE (return on regulatory equity)	See Column Heading		3.93%	6.17%	6.83%	175.212	274.945	268.576	1F.17
RCV growth	See Column Heading		3.87%	3.87%	3.87%	172.671	172.671	150.488	1F.18
Voluntary sharing arrangements	See Column Heading			-0.22%	-0.26%		-10.008	-10.008	1F.19
Total shareholder return	See Column Heading		7.80%	9.81%	10.44%	347.883	437.608	409.056	1F.20
Dividends									
Gross Dividend	See Column Heading		3.00%	3.45%	3.95%	133.861	153.741	153.741	1F.21
Interest Receivable on Intercompany loans	See Column Heading			0.00%	0.00%		0.000	0.000	1F.22
Retained Value	See Column Heading		4.80%	6.37%	6.48%	214.022	283.867	255.315	1F.23
Cash impact of 2015-20 performance adjustments									
Totex out / under performance	See Column Heading			0.29%	0.33%		12.871	12.871	1F.24
ODI out / under performance	See Column Heading			-0.02%	-0.02%		-0.686	-0.686	1F.25
Total out / under performance	See Column Heading			0.27%	0.31%		12.186	12.186	1F.26

Regulatory accounts

Section 2 Price review and other segmental reporting

Additional commentary on the Section 2 pro forma tables is provided on pages 150 to 151.

Keys to cells

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Pro forma 2A Segmental income statement

For the 12 months ended 31 March 2022

Line description	Units	DPs	Residential retail	Business retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Revenue - price control	£m	3	95.440	0.000	114.548	662.467	841.844	104.569	1,818.868	2A.1
Revenue - non price control	£m	3	0.000	0.000	0.818	1.961	0.280	0.023	3.082	2A.2
Operating expenditure - excluding PU recharge impact	£m	3	-96.215	0.000	-68.466	-335.077	-275.766	-41.598	-817.122	2A.3
PU opex recharge	£m	3	-2.970	0.000	-0.189	-11.970	18.602	-3.473	0.000	2A.4
Operating expenditure - including PU recharge impact	£m	3	-99.185	0.000	-68.655	-347.047	-257.164	-45.072	-817.122	2A.5
Depreciation - tangible fixed assets	£m	3	-1.738	0.000	-9.555	-125.260	-190.708	-40.240	-367.501	2A.6
Amortisation - intangible fixed assets	£m	3	-5.144	0.000	-0.130	-8.341	-25.364	-0.636	-39.615	2A.7
Other operating income	£m	3	0.000	0.000	-0.033	-1.466	-1.319	-0.990	-3.808	2A.8
Operating profit	£m	3	-10.626	0.000	36.993	182.315	367.568	17.655	593.904	2A.9
Surface water drainage rebates										
Surface water drainage rebates	£m	3							0.328	2A.10

Regulatory accounts

Pro forma 2B Totex analysis - wholesale

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Base operating expenditure								
Power	£m	3	6.976	38.196	67.704	-9.448	103.428	2B.1
Income treated as negative expenditure	£m	3	-0.021	-0.287	-1.044	-14.584	-15.936	2B.2
Service charges/ discharge consents	£m	3	17.340	0.184	7.650	0.054	25.228	2B.3
Bulk Supply/Bulk discharge	£m	3	0.122	0.147	0.000	0.000	0.269	2B.4
Renewals expensed in year (Infrastructure)	£m	3	13.022	91.619	45.764	5.274	155.679	2B.5
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	2B.6
Other operating expenditure (including Location specific costs & obligations)	£m	3	13.083	154.281	113.954	57.561	338.879	2B.7
Local authority and Cumulo rates	£m	3	17.406	47.034	19.163	6.035	89.639	2B.8
Total base operating expenditure	£m	3	67.929	331.175	253.192	44.891	697.187	2B.9
Other operating expenditure								
Enhancement operating expenditure	£m	3	0.445	6.777	2.009	0.160	9.390	2B.10
Developer services operating expenditure	£m	3	0.000	7.796	1.866	0.000	9.662	2B.11
Total operating expenditure excluding third party services	£m	3	68.374	345.748	257.067	45.050	716.239	2B.12
Third party services	£m	3	0.281	1.299	0.097	0.021	1.698	2B.13
Total operating expenditure	£m	3	68.655	347.047	257.164	45.072	717.937	2B.14
Grants and contributions								
Grants and contributions - operating expenditure	£m	3	0.000	5.885	1.736	0.000	7.621	2B.15
Capital expenditure								
Base capital expenditure	£m	3	5.781	112.860	133.927	23.905	276.472	2B.16
Enhancement capital expenditure	£m	3	7.181	88.091	240.848	0.117	336.237	2B.17
Developer services capital expenditure	£m	3	0.098	18.580	6.952	0.000	25.630	2B.18
Total gross capital expenditure excluding third party services	£m	3	13.059	219.531	381.727	24.022	638.338	2B.19
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	2B.20
Total gross capital expenditure	£m	3	13.059	219.531	381.727	24.022	638.338	2B.21
Grants and contributions								
Grants and contributions - capital expenditure	£m	3	0.000	-6.064	7.383	0.000	1.319	2B.22
Net totex	£m	3	81.714	566.756	629.772	69.094	1,347.335	2B.23
Cash expenditure								
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	2B.24
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	2B.25
Totex including cash items	£m	3	81.714	566.756	629.772	69.094	1,347.335	2B.26

Regulatory accounts

Pro forma 2C Cost analysis - retail

For the 12 months ended 31 March 2022

Line description	Units	DPs	Residential	Business	Total	RAG 4 reference
Operating expenditure						
Customer services	£m	3	22.094	0.000	22.094	2C.1
Debt management	£m	3	15.927	0.000	15.927	2C.2
Doubtful debts	£m	3	42.972	0.000	42.972	2C.3
Meter reading	£m	3	2.605	0.000	2.605	2C.4
Services to developers	£m	3		0.000	0.000	2C.5
Other operating expenditure	£m	3	12.617	0.000	12.617	2C.6
Local authority and Cumulo rates	£m	3	0.000	0.000	0.000	2C.7
Total operating expenditure excluding third party services	£m	3	96.215	0.000	96.215	2C.8
Depreciation						
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	£m	3	0.000	0.000	0.000	2C.9
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	£m	3	1.738	0.000	1.738	2C.10
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	£m	3	0.168	0.000	0.168	2C.11
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	£m	3	4.976	0.000	4.976	2C.12
Recharges						
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	£m	3	0.636	0.000	0.636	2C.13
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	£m	3	0.013	0.000	0.013	2C.14
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	£m	3	2.810	0.000	2.810	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	£m	3	0.463	0.000	0.463	2C.16
Net recharges costs	£m	3	2.970	0.000	2.970	2C.17
Total retail costs excluding third party and pension deficit repair costs	£m	3	106.066	0.000	106.066	2C.18
Third party services operating expenditure	£m	3	0.000	0.000	0.000	2C.19
Pension deficit repair costs	£m	3	0.000	0.000	0.000	2C.20
Total retail costs including third party and pension deficit repair costs	£m	3	106.066	0.000	106.066	2C.21
Debt written off						
Debt written off	£m	3	37.183	0.000	37.183	2C.22
Capital expenditure						
Capital expenditure	£m	3	5.402	0.000	5.402	2C.23
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale						
Demand-side water efficiency - gross expenditure	£m	3	1.955			2C.24
Demand-side water efficiency - expenditure funded by wholesale	£m	3	1.955			2C.25
Demand-side water efficiency - net retail expenditure	£m	3	0.000			2C.26
Customer-side leak repairs - gross expenditure	£m	3	3.204			2C.27
Customer-side leak repairs - expenditure funded by wholesale	£m	3	3.204			2C.28
Customer-side leak repairs - net retail expenditure	£m	3	0.000			2C.29
Comparison of actual and allowed expenditure						
Cumulative actual retail expenditure to reporting year end	£m	3	217.738			2C.30
Cumulative allowed expenditure to reporting year end	£m	3	195.781			2C.31
Total allowed expenditure 2020-25	£m	3	495.836			2C.32

Regulatory accounts

Pro forma 2D Historic cost analysis of tangible fixed assets

For the 12 months ended 31 March 2022

Line description	Units	DPs	Residential Retail	Business Retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Cost										
At 1 April 2021	£m	3	50.905	0.000	298.131	5,823.484	8,764.833	1,131.383	16,068.736	2D.1
Disposals	£m	3	-3.011	0.000	-1.114	-14.911	-120.074	-13.527	-152.637	2D.2
Additions	£m	3	0.551	0.000	13.059	218.273	367.558	23.992	623.433	2D.3
Adjustments	£m	3	0.122	0.000	9.220	-9.178	-11.664	11.520	0.020	2D.4
Assets adopted at nil cost	£m	3	0.000	0.000	0.000	22.167	30.221	0.000	52.388	2D.5
At 31 March 2022	£m	3	48.567	0.000	319.296	6,039.835	9,030.874	1,153.368	16,591.940	2D.6
Depreciation										
At 1 April 2021	£m	3	-43.484	0.000	-115.449	-1,559.830	-2,270.230	-581.208	-4,570.201	2D.7
Disposals	£m	3	3.011	0.000	0.944	13.143	116.873	12.472	146.443	2D.8
Adjustments	£m	3	0.000	0.000	-0.500	-5.718	6.230	-0.021	-0.009	2D.9
Charge for year	£m	3	-1.738	0.000	-9.555	-125.260	-190.708	-40.240	-367.501	2D.10
At 31 March 2022	£m	3	-42.211	0.000	-124.560	-1,677.665	-2,337.835	-608.997	-4,791.268	2D.11
Net book amount at 31 March 2022	£m	3	6.356	0.000	194.736	4,362.170	6,693.039	544.371	11,800.672	2D.12
Net book amount at 1 April 2021	£m	3	7.421	0.000	182.682	4,263.654	6,494.603	550.175	11,498.535	2D.13
Depreciation charge for year										
Principal services	£m	3	-1.738	0.000	-9.329	-124.698	-190.708	-40.240	-366.713	2D.14
Third party services	£m	3	0.000	0.000	-0.226	-0.562	0.000	0.000	-0.788	2D.15
Total	£m	3	-1.738	0.000	-9.555	-125.260	-190.708	-40.240	-367.501	2D.16

The net book value includes £1585.5m in respect of assets in the course of construction.

Regulatory accounts

Pro forma 2E Analysis of grants and contributions - water resources, water network+ and wastewater network+

For the 12 months ended 31 March 2022

Line description	Units	DPs	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total	RAG 4 reference
Grants and contributions - water resources							
Diversions - s185	£m	3	0.000	0.000	0.000	0.000	2E.1
Other contributions (price control)	£m	3	0.000	0.000	0.000	0.000	2E.2
Price control grants and contributions	£m	3	0.000	0.000	0.000	0.000	2E.3
Diversions - NRSWA	£m	3	0.000	0.000	0.000	0.000	2E.4
Diversions - other non-price control	£m	3	0.000	0.000	0.000	0.000	2E.5
Other contributions (non-price control)	£m	3	0.000	0.000	0.000	0.000	2E.6
Total grants and contributions	£m	3	0.000	0.000	0.000	0.000	2E.7
Value of adopted assets	£m	3	0.000	0.000		0.000	2E.8
Grants and contributions - water network+							
Connection charges	£m	3	0.243	6.483	0.000	6.725	2E.9
Infrastructure charge receipts – new connections	£m	3	0.000	5.244	0.000	5.244	2E.10
Requisitioned mains	£m	3	0.000	4.497	0.000	4.497	2E.11
Diversions - s185	£m	3	3.043	0.000	0.000	3.043	2E.12
Other contributions (price control)	£m	3	0.124	0.000	0.000	0.124	2E.13
Price control grants and contributions before deduction of income offset	£m	3	3.409	16.224	0.000	19.633	2E.14
Income offset	£m	3	0.000	22.288	0.000	22.288	2E.15
Price control grants and contributions after deduction of income offset	£m	3	3.409	-6.064	0.000	-2.655	2E.16
Diversions - NRSWA	£m	3	2.312	0.000	0.000	2.312	2E.17
Diversions - other non-price control	£m	3	0.164	0.000	0.000	0.164	2E.18
Other contributions (non-price control)	£m	3	0.000	0.000	0.000	0.000	2E.19
Total grants and contributions	£m	3	5.885	-6.064	0.000	-0.178	2E.20
Value of adopted assets	£m	3	0.000	22.167		22.167	2E.21
Grants and contributions - wastewater network+							
Receipts for on-site work	£m	3	0.000	0.000	0.000	0.000	2E.22
Infrastructure charge receipts – new connections	£m	3	0.000	5.645	0.000	5.645	2E.23
Diversions - s185	£m	3	0.840	0.000	0.000	0.840	2E.24
Other contributions (price control)	£m	3	0.000	1.738	0.000	1.738	2E.25
Price control grants and contributions before deduction of income offset	£m	3	0.840	7.383	0.000	8.223	2E.26
Income offset	£m	3	0.000	0.000	0.000	0.000	2E.27
Price control grants and contributions after deduction of income offset	£m	3	0.840	7.383	0.000	8.223	2E.28
Diversions - NRSWA	£m	3	0.586	0.000	0.000	0.586	2E.29
Diversions - other non-price control	£m	3	0.310	0.000	0.000	0.310	2E.30
Other Contributions (non-price control)	£m	3	0.000	0.000	0.000	0.000	2E.31
Total grants and contributions	£m	3	1.736	7.383	0.000	9.119	2E.32
Value of adopted assets	£m	3	0.000	30.221		30.221	2E.33

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Total	
Movements in capitalised grants and contributions							
b/f	£m	3	1.271	173.713	133.790	308.773	2E.34
Capitalised in year	£m	3	0.000	-6.064	7.383	1.319	2E.35
Amortisation (in income statement)	£m	3	-0.061	-3.259	-2.864	-6.184	2E.36
c/f	£m	3	1.210	164.390	138.309	303.908	2E.37

Regulatory accounts

Pro forma 2F Residential retail

For the 12 months ended 31 March 2022

Line description	Revenue	Number of customers	Average residential revenues	RAG 4 reference
Units	£m	000s	£	
DPs	3	3	3	
Residential revenue				
Wholesale revenue	1,213.827			2F.1
Retail revenue	95.440			2F.2
Total residential revenue	1,309.268			2F.3
Retail revenue				
Revenue Recovered ("RR")	95.440			2F.4
Revenue sacrifice	10.888			2F.5
Actual revenue (net)	106.328			2F.6
Customer information				
Actual customers ("AC")		3,164.448		2F.7
Reforecast customers		3,162.411		2F.8
Adjustment				
Allowed revenue ("R")	112.084			2F.9
Net adjustment	5.756			2F.10
Other residential information				
Average household retail revenue per customer			33.601	2F.11

Regulatory accounts

Pro forma 2G & 2H Non-household water & wastewater – revenues by tariff type

As per RAG 4.10, Tables 2G & 2H should only be completed by Welsh companies. Please refer to Table 2I page 129 for the corresponding wholesale revenue.

Regulatory accounts

Pro forma 2I Revenue analysis

For the 12 months ended 31 March 2022

Line description	Units	DPs	Household	Non- household	Total	Water resources	Water network+	Total	RAG 4 reference
Wholesale charge - water									
Unmeasured	£m	3	325.667	3.385	329.052	48.330	280.722	329.052	2I.1
Measured	£m	3	253.556	188.378	441.934	61.918	380.016	441.934	2I.2
Third party revenue	£m	3	0.000	6.030	6.030	4.300	1.730	6.030	2I.3
Total wholesale water revenue	£m	3	579.223	197.792	777.015	114.548	662.467	777.015	2I.4

Line description	Units	DPs	Household	Non- household	Total	Wastewater network+	Bioresources	Total	RAG 4 reference
Wholesale charge - wastewater									
Unmeasured - foul charges	£m	3	213.597	2.557	216.154	168.181	47.973	216.154	2I.5
Unmeasured - surface water charges	£m	3	98.190	1.436	99.627	99.581	0.046	99.627	2I.6
Unmeasured - highway drainage charges	£m	3	42.300	0.673	42.973	42.950	0.024	42.973	2I.7
Measured - foul charges	£m	3	150.300	121.603	271.903	215.506	56.397	271.903	2I.8
Measured - surface water charges	£m	3	90.060	113.783	203.843	203.767	0.076	203.843	2I.9
Measured - highway drainage charges	£m	3	40.157	71.681	111.837	111.784	0.053	111.837	2I.10
Third party revenue	£m	3	0.000	0.075	0.075	0.075	0.000	0.075	2I.11
Total wholesale wastewater revenue	£m	3	634.604	311.808	946.413	841.844	104.569	946.413	2I.12
Wholesale charge - Additional Control									
Unmeasured	£m	3	0.000	0.000	0.000				2I.13
Measured	£m	3	0.000	0.000	0.000				2I.14
Total wholesale additional control revenue	£m	3	0.000	0.000	0.000				2I.15
Wholesale Total	£m	3	1,213.827	509.600	1,723.428				2I.16
Retail revenue									
Unmeasured	£m	3	46.201	0.000	46.201				2I.17
Measured	£m	3	49.239	0.000	49.239				2I.18
Retail third party revenue	£m	3	0.000	0.000	0.000				2I.19
Total retail revenue	£m	3	95.440	0.000	95.440				2I.20
Third party revenue - non-price control									
Bulk supplies - water	£m	3			0.634				2I.21
Bulk supplies - wastewater	£m	3			0.303				2I.22
Other third-party revenue - non price control	£m	3			1.916				2I.23
Principal services - non-price control									
Other appointed revenue	£m	3			0.230				2I.24
Total appointed revenue	£m	3			1,821.950				2I.25

Regulatory accounts

Pro forma 2J Infrastructure network reinforcement costs

For the 12 months ended 31 March 2022

Line description	Units	DPs	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
Wholesale water network+ (treated water distribution)					
Distribution and trunk mains	£m	3	1.613	0.702	2J.1
Pumping and storage facilities	£m	3	0.000	0.000	2J.2
Other	£m	3	0.000	0.000	2J.3
Total	£m	3	1.613	0.702	2J.4
Wholesale wastewater network+ (sewage collection)					
Foul and combined systems	£m	3	1.453	0.000	2J.5
Surface water only systems	£m	3	2.090	0.000	2J.6
Pumping and storage facilities	£m	3	0.000	0.000	2J.7
Other	£m	3	0.000	0.000	2J.8
Total	£m	3	3.543	0.000	2J.9

Regulatory accounts

Pro forma 2K Infrastructure charges reconciliation

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water	Wastewater	Total	RAG 4 reference
Impact of infrastructure charge discounts						
Infrastructure charges	£m	3	5.244	5.645	10.889	2K.1
Discounts applied to infrastructure charges	£m	3	0.000	0.000	0.000	2K.2
Gross Infrastructure charges	£m	3	5.244	5.645	10.889	2K.3
Comparison of revenue and costs						
Variance brought forward	£m	3	9.300	11.012	20.312	2K.4
Revenue	£m	3	5.244	5.645	10.889	2K.5
Costs	£m	3	-1.613	-3.543	-5.156	2K.6
Variance carried forward	£m	3	12.931	13.114	26.045	2K.7

Pro forma 2L Analysis of land sales

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Water Network+	Wastewater Network+	Additional control	Total	RAG 4 reference
Land sales – proceeds from disposals of protected land	£m	3	1.341	0.333	1.671	0.000	3.346	2L.1

Regulatory accounts

Pro forma 2M Revenue reconciliation - wholesale

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Bioresources	Total	RAG 4 reference
Revenue recognised								
Wholesale revenue governed by price control	£m	3	114.548	662.467	841.844	104.569	1,723.428	2M.1
Grants & contributions (price control)	£m	3	0.000	-2.655	8.223	0.000	5.568	2M.2
Total revenue governed by wholesale price control	£m	3	114.548	659.813	850.067	104.569	1,728.996	2M.3
Calculation of the revenue cap								
Allowed wholesale revenue before adjustments (or modified by CMA)	£m	3	109.271	644.796	807.160	100.435	1,661.661	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	£m	3	0.000	4.489	10.519	0.000	15.008	2M.5
Revenue adjustment	£m	3	0.000	0.000	0.000	0.000	0.000	2M.6
Other adjustments	£m	3	0.000	-8.156	4.395	0.000	-3.761	2M.7
Revenue cap	£m	3	109.271	641.128	822.074	100.435	1,672.908	2M.8
Calculation of the revenue imbalance								
Revenue cap	£m	3	109.271	641.128	822.074	100.435	1,672.908	2M.9
Revenue Recovered	£m	3	114.548	659.813	850.067	104.569	1,728.996	2M.10
Revenue imbalance	£m	3	-5.277	-18.685	-27.993	-4.134	-56.088	2M.11

Regulatory accounts

Pro forma 2N Residential retail – social tariffs

For the 12 months ended 31 March 2022

Line description	Revenue	Number of customers	Average amount per customer	RAG 4 reference
Units	£m	000s	£	
DPs	3	3	3	
Number of residential customers on social tariffs				
Residential water only social tariffs customers		0.346		2N.1
Residential wastewater only social tariffs customers		0.060		2N.2
Residential dual service social tariffs customers		149.395		2N.3
Number of residential customers not on social tariffs				
Residential water only no social tariffs customers		74.872		2N.4
Residential wastewater only no social tariffs customers		80.545		2N.5
Residential dual service no social tariffs customers		2,859.229		2N.6
Social tariff discount				
Average discount per water only social tariffs customer			101.919	2N.7
Average discount per wastewater only social tariffs customer			20.859	2N.8
Average discount per dual service social tariffs customer			201.088	2N.9
Social tariff cross-subsidy - residential customers				
Total customer funded cross-subsidies for water only social tariffs customers	0.023			2N.10
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.001			2N.11
Total customer funded cross-subsidies for dual service social tariffs customers	19.166			2N.12
Average customer funded cross-subsidy per water only social tariffs customer			0.310	2N.13
Average customer funded cross-subsidy per wastewater only social tariffs customer			0.010	2N.14
Average customer funded cross-subsidy per dual service social tariffs customer			6.370	2N.15
Social tariff cross-subsidy - company				
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	0.012			2N.16
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	0.000			2N.17
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	10.876			2N.18
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			34.479	2N.19
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			7.838	2N.20
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			72.797	2N.21
Social tariff support - willingness to pay				
Level of support for social tariff customers reflected in business plan			1.969	2N.22
Maximum contribution to social tariffs supported by customer engagement			6.997	2N.23

Regulatory accounts

Pro forma 2O Historic cost analysis of intangible fixed assets

For the 12 months ended 31 March 2022

Line description	Units	DPs	Residential Retail	Business Retail	Water Resources	Water Network+	Wastewater Network+	Bioresources	Total	RAG 4 reference
Cost										
At 1 April 2021	£m	3	80.852	0.000	0.814	63.671	258.546	5.508	409.391	2O.1
Disposals	£m	3	-2.499	0.000	0.000	-0.570	-9.969	-0.023	-13.061	2O.2
Additions	£m	3	4.851	0.000	0.000	1.258	14.170	0.030	20.309	2O.3
Adjustments	£m	3	3.119	0.000	0.000	5.771	-8.910	0.000	-0.020	2O.4
Assets adopted at nil cost	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2O.5
At 31 March 2022	£m	3	86.323	0.000	0.814	70.130	253.837	5.515	416.619	2O.6
Amortisation										
At 1 April 2021	£m	3	-50.958	0.000	-0.355	-37.496	-143.623	-3.056	-235.488	2O.7
Disposals	£m	3	2.499	0.000	0.000	0.570	9.969	0.023	13.061	2O.8
Adjustments	£m	3	-0.240	0.000	0.000	-0.314	0.562	0.000	0.008	2O.9
Charge for year	£m	3	-5.144	0.000	-0.130	-8.341	-25.364	-0.636	-39.615	2O.10
At 31 March 2022	£m	3	-53.843	0.000	-0.485	-45.581	-158.456	-3.669	-262.034	2O.11
Net book amount at 31 March 2022	£m	3	32.480	0.000	0.329	24.549	95.381	1.846	154.585	2O.12
Net book amount at 1 April 2021	£m	3	29.894	0.000	0.459	26.175	114.923	2.452	173.903	2O.13
Amortisation for year										
Principal services	£m	3	-5.144	0.000	-0.130	-8.341	-25.364	-0.636	-39.615	2O.14
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2O.15
Total	£m	3	-5.144	0.000	-0.130	-8.341	-25.364	-0.636	-39.615	2O.16

The net book value includes £22.2m in respect of assets in the course of construction.

Regulatory accounts

Accounting policies

For the 12 months ended 31 March 2022

The Regulatory Accounts have been prepared in accordance with IFRS, except for deviations required by Ofwat. Areas of deviation include revenue recognition, capitalisation of interest, grants and contributions and adopted assets, direct procurement for customers (DPC) and innovation fund costs reporting. Details of all significant accounting policies applied under IFRS are detailed in the United Utilities Water Limited statutory accounts. In addition, the RAGs require certain presentational differences within the income statement and statement of financial position between the statutory and the regulatory accounts.

The financial statements have been prepared on the going concern basis as the directors have a reasonable expectation that the company has adequate resources for a period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting the directors have reviewed the resources available to the company in the form of cash and committed facilities as well as consideration of the company's capital adequacy, along with a baseline plan that incorporates latest views of the current economic climate, including high levels of inflation in the near term. The directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the directors would consider undertaking. The baseline position has been subjected to a number of severe but reasonable downside scenarios in order to assess the company's ability to operate within the amount and terms (including relevant covenants) of existing facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; lower CPIH inflation; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; the close out of derivative asset balances; and the deferral or suspension of dividend payments.

Consequently, the directors are satisfied that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and that the severe but plausible downside scenarios indicate that the company will be able to operate within the amounts and terms (including relevant covenants) of existing facilities. The financial statements have therefore been prepared on a going concern basis.

Individual lines within the regulatory tables are rounded to 2 or 3 decimal places, as specified by Ofwat, therefore there may be instances where the total line within a table is not equal to the sum of the values presented.

Capitalisation policy

The company recognises property, plant and equipment (PPE) expenditure on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity and/or resilience of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them.

For non-infrastructure assets, expenditure that is directly attributable to the acquisition of the items of PPE and intangible assets is capitalised. Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The only exception to IFRS, as required by RAG 1.09 'Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime', is that the company does not capitalise interest in the Regulatory Accounts. The company applies a minimum capital limit per project of £500, any expenditure below this limit is expensed.

Price control segments policy

The accounts have been drawn up in accordance with RAG 2.08 'Guideline for classification of costs across the price controls'. Following our formal exit of the non-household market in 2016, we continue to exclude Tables 2G and 2H from the regulatory accounts which previously provided breakdowns of our non-household revenues by tariff type.

As noted in our Accounting Policies note to the UUW statutory accounts, management capitalises time and resources incurred by the company's support functions on capital programmes. In accordance with RAG 1.09 our historic cost accounting statements are in line with IFRS, except for deviations as specifically required by Ofwat (see 'Differences between statutory and RAG definitions' on pages 143 to 144). As such, any attribution or allocation of support costs between price controls is performed on the net cost balance after capitalisation. This approach is consistent with prior years and with our price review submission.

Regulatory accounts

All notable methodology changes from the prior year, as well as details of cost allocations used per cost line, can be found in our 2021/22 accounting methodology statement, published on our website alongside the APR.

Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable, as defined in RAG 4.10. Business activities and indirect costs are allocated on an activity basis using quantitative measures such as full time equivalent employee numbers and other methods reflecting consumption of service.

Appointed and non-appointed activities

The company has used the guidance in RAG 4.10 Appendix 1 in determining which of its activities are appointed or non-appointed. In summary, the appointed business is defined as the regulated activities of the Appointee, i.e. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The non-appointed business encompasses those activities for which the company is not a monopoly supplier or those activities which involve the optional use of an asset owned by the appointed business.

Revenue recognition policy

Revenue represents the income receivable in the ordinary course of business from the regulated activities of the business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

Where an invoice has been raised for services not provided in the year this will not be recognised within the current year's revenue, and any payment received against that invoice will be recognised within creditors.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

Charging policy

Water and sewerage charges fall into the following three categories:

- Charges which are payable in full;
- Charges which are payable in part; and
- Not chargeable (void properties).

The circumstances in which each of the above applies are set out below.

Charges payable in full

Water (and sewerage) charges are payable in full in the following circumstances:

Unmeasured household supply – when premises benefit from a supply of water, until notice is given by the customer that the supply should be disconnected

Measured household supply – premises with a measured water supply are charged until either:

- The customer leaves the premises having given an up to date meter reading; or
- The customer requests that the supply is disconnected.

Charges are applied to each and every connected supply point where a service is received, except where the water supply to the premises is permanently disconnected or the premises is vacant.

This includes premises where renovation, redecoration or building work is being undertaken.

Exceptions to this, where water (and sewerage) charges are not payable, include:

- Where the occupier is a sole occupier in a care home for three months or more;
- Where the occupier is a sole occupier in long-term hospitalisation for three months or more;
- Where the occupier is a sole occupier in prison for three months or more; or
- In the event of the death of a sole occupier.

Charges payable in part

The following charges are only payable in certain circumstances:

Metered standing charges
Payable on metered properties without evidence of consumption which remain connected.

Surface water drainage and highway drainage charges
Payable where there is evidence of consumption for metered premises or an unmeasured water supply.

Not chargeable

Properties which are identified as vacant are not chargeable for water (and sewerage) and therefore no bill is raised and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties
The occupier is any person in actual occupation of premises, or any person who:

- Owns the premises; or
- Has sufficient control over premises to put him under a duty of care towards lawful visitors; or
- Maintains premises for occupation (including multiple occupation) with shared facilities or as holiday or household accommodation for short term occupation (whether let wholly or in part), usually less than 12 months.

No bills are raised in the name of "the occupier".

The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all of the following:

- Physical inspection;
- Mailings;
- Customer contacts;
- Searches using third party electronic data;
- Meter readings for metered properties;
- Land registry checks.

When a new customer is identified, they may be required to provide documentary evidence to establish the date that they became responsible for water (and sewerage) charges at the property. This is normally the date at which they moved into the property. The new customer will be charged from the date at which they became responsible for water (and sewerage) charges of the premises.

For non-household customers, the Wholesale Settlement team use Central Market Operating System (CMOS) meter read data to identify vacant Supply Point Identifications (SPIDs) with consumption. Where consumption exists, we will engage with the relevant retailer, and follow the market process to ensure the SPID is recorded correctly as either vacant, or occupied in the market.

Unoccupied properties
A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and there is no consumption on the meter;
- The company has been informed that the customer has left the property; and not expected to be reoccupied immediately;
- It has been disconnected following a customer request;
- The property management process has not identified an occupier; or
- The company has been informed that for three months or more, the customer is in a care home, in long-term hospitalisation, or in prison.

If the property management process confirms that the property is unoccupied, the property will be declared void and the supply may be turned off.

New properties
All new properties are metered. Until the new occupier has been identified, the property is treated as unoccupied and is not billed.

Measured income accrual

The household measured income accrual is an estimation of the amount of mains water and sewerage charges unbilled at the year end. The accrual is estimated using a defined methodology based on weighted average water consumption by tariff which is calculated based on historical information. The measured income accrual is recognised within turnover.

An estimation of the non-household mains water and sewerage charges unbilled at the year-end is calculated and a measured income accrual recognised within turnover. The accrual is estimated using a defined methodology based on historical water consumption of individual customers or based on meter size where individual consumption is not available for use.

There has been no change to the methodology in calculating the measured income accrual since the prior year.

Bad debt policy

Household

Bad debt is written off when all economically viable efforts to recover outstanding amounts have been fully exhausted or, alternatively, when the write-off of such amounts forms part of customer rehabilitation processes (subject to acceptance criteria and customer "matching" payments). The company's bad debt write-off policy has remained unchanged and has been consistently applied in the current year compared with the previous year.

The household bad debt provision is charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. Household has continued to consistently apply its provisioning model to calculate the bad debt provision. The provision model applies expected recovery rates to debts outstanding at the end of the accounting period. The overall expected recovery rate takes into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt of greater age. Bad debt provisioning rates are reviewed annually to ensure they continue to reflect the latest collection performance data from the company's billing system. All debt greater than 3 years old is fully provided for.

The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

The household bad debt provision policy has remained unchanged and has been consistently applied in the current year. The bad debt provision has increased by £7.2m from 31 March 2021 to 31 March 2022 and the net household trade debtor balance has remained consistent with the level reported in the previous year. The increase in bad debt provision is a result of higher gross receivables which can be attributed to a number of factors. We have written off reduced amounts of debt as we have had increased the level of recovery of aged debt through use of Debt Collection Agencies. During the year we have also continued to bill a number of properties that were previously identified as void. Collection from these customers has proven more challenging than from customers who proactively inform us that they have moved into a property. The increased collection risk associated with these customers has been considered in our assessment of future cash collection and sufficiency of our bad debt provision.

Non-Household

In light of the increase in cost of living, we have performed an assessment of lifetime expected credit losses across the non-household retailer customer base that considers an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, reasonable and supportable information about past events, current conditions and forecasts of future economic conditions as required by IFRS 9.

Taking all of this into account, the total expected credit loss associated with non-household retailers was £2.1 million. This is considered to be adequate to mitigate the future collection risk associated with the increase in cost of living and any ongoing impacts of Covid-19.

Dividend policy

UUW's dividend policy for the 2020-25 (AMP7) regulatory period has been set as follows:

- a 4% (nominal) return on the actual equity portion of the Shadow RCV, paid in relation to the appointed activities of UUW;
- a further dividend comprising the profit after tax in relation to the non-appointed activities of UUW; and;
- an amount no greater than demonstrable outperformance versus the final determination.

Dividend payments in respect of 2020/21 and 2021/22

In May 2020 the UUW Board determined that in the context of the COVID-19 pandemic and the level of uncertainty at that time, no dividend payments would be made by UUW during 2020/21. In the 2020/21 APR we explained that the deferral of the 2020/21 base dividend payment was to be kept under review by the UUW Board, with a view to reinstating the dividend later in the AMP7 period at such time as there is more certainty in relation to the prevailing economic conditions following the pandemic, and the financial position had become more clear.

During 2021/22 the Board further reviewed the position and determined that there was sufficient certainty about the impact of the pandemic on the business and on the economy more generally such that dividend payments could be reinstated.

Regulatory accounts

In making dividend decisions, the Board has considered the company's financial resilience, the company's performance against its statutory obligations, the performance of the company against the final determination for AMP7, the impact that payment of the dividend would have on its ability to serve stakeholders and broader considerations set out below that the Board has committed to in relation to dividends in AMP7.

Dividends declared during 2021/22 represent the Board's consideration of the cumulative position across the first two years of AMP7. However, for the purposes of explaining our dividend decisions against the company's performance, it is helpful to present the dividends declared as they relate to each of 2020/21 and 2021/22. This is as follows:

	2020/21 £m	2021/22 £m
Total dividends payable	**167.0**	**172.2**
Comprising:		
AMP 7 base dividend	164.1	169.6
Non-appointed profit after tax	2.9	2.6
Demonstrable outperformance	Nil	Nil

Base dividend return

The level of base dividend was informed by the final determination for PR19 in which Ofwat viewed a base dividend yield of up to 4% as being reasonable for companies that have little real RCV growth and that perform in line with the determination in 2020-25. It is the Board's view that these conditions were met during 2020/21 and 2021/22.

- ***Calculation of base dividend as 4% of the Equity portion of Shadow RCV***
  In line with the assumptions described in the final determination, the base dividend of £164.1m in respect of 2020/21 reflects 4% of the equity portion of shadow RCV of £4,102.8m for that year.

  The base dividend of £169.6m in respect of 2021/22 also reflects 4% of the forecast equity portion shadow RCV of £4,240.0m for that year.

  The calculation of the equity portion of shadow RCV is set out in the table below:

	2020/21 Actual	2021/22 Forecast
Reported RCV	11,681.3	12,144.0
Customer share of totex overspend	49.8	**109.5**
Shadow RCV	11,731.1	12,253.5
Net debt	7,628.3	8,013.5
Equity portion of shadow RCV	**4,102.8**	**4,240.0**
4% base dividend	**164.1**	**169.6**

  Note that the payment of the 2021/22 base dividend was based on a forecast Shadow RCV and net debt at the time of the payment. As disclosed in our AMP7 dividend policy there will be a true-up in the following year for differences arising between the forecast and actual components used to determine the value of dividend paid.

  The Shadow RCV used in this calculation includes the impacts of timing of totex spend to reflect the fact that the accelerated spend is included in the net debt figure.

- ***Level of RCV growth and long term financial resilience***
  RCV growth was -1.2% in 2020/21 and 4.5% in 2021/22, as shown in the table below:

	2020/21 Actual	2021/22 Forecast
Opening RCV	11,871.8	11,731.1
Closing shadow RCV	11,731.1	12,253.5
RCV growth	-1.2%	4.5%

  Long term financial resilience is underpinned by the strong credit ratings given by Moody's (A3), Standard and Poor's (BBB+) and Fitch (A-) and the long term viability assessment carried out to support our viability statements published in the APR. The level of growth in the asset base and measures of long term financial resilience therefore appear consistent with the assumptions described in the final determination as supporting the base dividend assumption.

- ***Performing in line with the determination for 2020-25***
  The Board considers that there is substantial evidence that the company's overall performance is at least in line with the final determination, including the obligations and commitments embedded within our business plan and set out in the final determination for AMP7. Evidence supporting this view and of the company's delivery for customers includes the following:
  - UUW met or beat targets for 80% of its performance commitments in 2020/21 and 78% of performance commitments in 2021/22. Details of this performance are set out in section 1.1 of the APR.
  - Across the first two years of AMP7, UUW has earned net positive financial incentives reflecting delivery of its package of performance commitments and customer ODIs. These amounted to £21.5m in 2020/21 and £23.1m in 2021/22, a cumulative net reward of £44.6m. More details on how this performance has been calculated and the steps the company has taken to deliver this performance is provided in the APR Section 1.1 – Outcome Delivery.
  - Areas of relative weaker performance so far in AMP7 are internal sewer flooding and water quality performance. To improve performance in these areas and get closer to achieving targets, the company is delivering additional actions and investment. More details on this activity is included in the APR Section 1.1 – Outcome Delivery. A particular focus is investment in our Dynamic Network Management capability to improve performance in our wastewater network, with additional investment also targeting water quality improvements across our region.
  - The company has achieved 5th position out of 17 companies in Ofwat's customer satisfaction measure C-MEX in 2020/21 and 7th position in 2021/22. The company also achieved 5th position in the D-MEX survey for developer customers in 2020/21 and 6th in 2021/22. These results mean that we expect to be earning a net financial reward across the AMP as a whole reflecting our good performance.
  - Table 1F of the APR shows that return on regulated equity – a key measure of performance versus the final determination - was 4.50% in 2020/21 and 7.83% in 2021/22 compared to an assumed level of 3.94% in the final determination. The returns in both 2020/21 and 2021/22 have been adversely impacted by the acceleration of totex spend, compared to the assumed profile in the final determination, in order to improve operational performance for the benefit of customers.
  - UUW is expected to maintain a robust set of investment grade credit ratings with current credit ratings of A-, A3 and BBB+ with Fitch, Moody's and Standard and Poor's respectively demonstrating significant headroom.

Taking all the above into account, the Board considers that the payment of base dividends in respect of performance so far in AMP7 is appropriate.

Profit after tax from non-appointed activities

Dividend payments also reflected profit after tax from non-appointed activities of £2.9m and £2.6m in respect of 2020/21 and 2021/22 respectively. These are shown in Table 1A of the APR. These profits result from commercial activities which are identified as being outside the definition of the appointed water and wastewater service.

Demonstrable outperformance versus the final determination

Other dividend payments in excess of the base dividend are to be reflective of current or past outperformance versus the final determination. This outperformance can arise for a number of reasons such as cost savings, strong ODI performance, outperformance of financing assumptions or a combination of these. The Board considers outperformance and whether it should be reflected in dividend payments on a cumulative basis over the AMP. The Board has not distributed any outperformance earned through dividends paid to date. It will give consideration as to whether to recognise an element of accumulated AMP7 outperformance in next year's dividend payment, having reviewed the position in Year 3 of the AMP.

Additional considerations in determining dividend payments

UUW's dividend policy is also subject to a number of additional considerations which were committed to by the UUW Board in our business plan submissions for the PR19 price review. These considerations act to ensure that dividend payments are made subject to consideration of a broad range of stakeholders who have interests in the performance of the company. This approach seeks to ensure that payment of the dividend takes into account consideration of business performance, performance for customers and performance for employees. We have provided a summary of these considerations, and how they have been applied to dividend payments in respect of 2020/21 and 2021/22 in the following table.

UUW Dividend considerations	2020/21	2021/22
Financial assistance schemes: We committed that over AMP7 the company would fund £71m dedicated to supporting customers in need of financial support and that dividend payments would not be made if they meant such funding would be put at risk.	The board considers this condition was satisfied. In 2020/21 UUW funded £14m in financial assistance schemes, in line with achieving the £71m commitment by the end of AMP7.	The board considers this condition was satisfied. In 2021/22 UUW funded a further £14m in financial assistance schemes, in line with achieving the £71m commitment by the end of AMP7.

Regulatory accounts

Gearing safeguards: In the event that the company adopted a high level of gearing then we committed to sharing the financial benefits of this with customers, before consideration of any dividend payment. The sharing of financial benefits would commence once gearing exceeded 70%. We also committed that if gearing exceeded 70% then the level of base dividend might be restricted in order to help lower gearing and that, if a base dividend were paid, then the Board would explain its plan to restore gearing below the 70% threshold. We also said that if gearing fell below 60% then the base dividend distribution may be increased in order to efficiently manage the gearing position.	The board considers this condition was satisfied. Gearing in 2020/21 was reported as 65.3%. This is below the 70% threshold for high gearing and no additional action was required. Adjusting for the payment of a dividend of £167.0m, reported gearing would have been 66.7% in 2020/21. Again this is below the 70% threshold for high gearing and no additional action would have been required.	The board considers this condition was satisfied. Following the payment of the 2021/22 dividend, reported gearing is 63.2%, which is below the 70% threshold for high gearing and no additional action was required.
Sharing of outperformance: We have committed that where the distribution of outperformance through dividends exceed 7% of the equity portion of the RCV, that amounts in excess of this threshold would be matched with a benefit sharing payment to customers through our “Community Share” scheme. This could then facilitate bill reductions, additional targeted financial assistance and other initiatives to support the resilience of communities in the North West, depending on customer preferences. This is additional to any reinvestment of outperformance or other benefit sharing that might be undertaken during AMP7 through normal regulatory mechanisms or on the same voluntary basis as was taken by the company in AMP5 and AMP6. It provides an upfront guarantee that when dividend distributions reflecting outperformance are much higher than anticipated in the business plan that customers and other stakeholders will share in the benefits alongside investors.	The board considers this condition was satisfied. No distribution of outperformance has occurred.	The board considers this condition was satisfied. No distribution of outperformance has occurred.
Impact on financial resilience of UUW: Before payment of any dividend, the Board committed to considering whether the dividend payments would cause significant harm to the company’s financial resilience and the potential impact such distributions may have on customers and employees. This included consideration of the company’s pension deficit – were it to have one – which would for these purposes be considered as debt.	The board considers this condition was satisfied. As reported in the 2020/21 APR (pages 148-150), a long term viability assessment has been carried out for UUW. This assumed dividend distributions in line with the policy and concluded that UUW had significant headroom and effective mitigating actions available to withstand any risks facing the business in severe but reasonable scenarios at March 2021. UUW had a reported pension surplus of £531m at March 2021.	The board considers this condition was satisfied. As reported in the 2021/22 APR, a long term viability assessment has been carried out for UUW. This assumed dividend distributions in line with the policy and concluded that UUW had significant headroom and effective mitigating actions available to withstand any risks facing the business in severe but reasonable scenarios at March 2022. UUW had a reported pension surplus of £771m at March 2022.
Delivery of statutory obligations: The Board has committed that it would not pay outperformance dividends in circumstances where the company was known to be in material breach of statutory obligations.	The board considers this condition was satisfied. No distribution of outperformance has occurred.	The board considers this condition was satisfied. No distribution of outperformance has occurred.
Delivery of performance targets: The Board has committed that it would not pay outperformance dividends in excess of the equivalent of 7% of the equity portion of RCV where the company was materially failing to meet its performance targets, unless the dividend was accompanied by investment aimed at improving that position.	The board considers this condition was satisfied. No distribution of outperformance has occurred.	The board considers this condition was satisfied. No distribution of outperformance has occurred.

Regulatory accounts

Exceptional and unforeseen circumstances

In truly exceptional and unforeseen circumstances, the Board has stated that it may have to deviate from these principles – for example to meet changing statutory requirements or during unexpected and exceptional events. The Board committed that if it were to do so, it would explain its reasoning to customers and other stakeholders so that the company could be judged on the extent to which it sought to meet these commitments and the reasons why a deviation was justified.

Transparency

We also committed to providing increased transparency through our APR about the dividends paid and how these relate to our dividend policy. This is in addition to the existing statutory and regulatory requirements that we already disclose. We committed to explain how dividend payments have been determined and how these relate to our performance. This disclosure is aimed at providing stakeholders with transparency about our dividend policy and the broader considerations taken into account by the UUW board in making its determination.

We committed to provide an explanation of how the allowed equity return relates to that achieved under the actual company structure and how the dividend policy relates to the actual equity returns during the AMP. The Financial Flows table 1F in the APR demonstrates that the total shareholder return is greater than the dividends paid for 2020/21 and 2021/22 on both a notional company basis and an actual company basis.

We also committed to provide transparency of how payments from the Community Share have contributed towards the resilience of communities in the North West. To date, no payments have been triggered into the Community Share scheme proposed in our business plan, although a number of other voluntary initiatives during AMP7 have contributed towards the resilience of communities in the North West. This is discussed in more detail in the Communities section of the Operational Performance section of our Annual Report.

Regulatory accounts

Additional unaudited regulatory information

Differences between statutory and RAG definitions

Revenue recognition

The following differences exist between the revenue recognition policies in the statutory accounts and in the regulatory accounts:

- IFRS15 has been applied to the statutory accounts and requires revenue to be recognised only when it is probable that economic benefits associated with the transactions will flow to the company. The regulatory accounts, however, require revenue to be recognised in full unless properties have been confirmed as being void; and
- Income received from sales which are external to the appointed business, including energy generation, exported energy, renewable obligation certificates (ROC) and ROC bonuses, are treated as revenue in the statutory accounts but as negative operating expenditure in the regulatory accounts.

Capitalisation of borrowing costs

For statutory reporting, interest costs under IAS23 are capitalised and subsequently depreciated, whereas interest is charged immediately as an expense in the regulatory accounts.

Grants and contributions

All grants & contributions (G&Cs) recognised in the income statement under IFRS have been reclassified as other income in the regulatory accounts. More specifically this comprises the following two main reclassifications:

- Diversion income from revenue to other income
- The amortisation of capitalised grants and contributions from revenue and operating costs to other income.

Adopted Assets

Under IFRS15, we recognise adopted assets from customers or developers on the balance sheet and amortise the income over the life of the asset through revenue. The amortisation of this income has been reclassified from revenue to other income in the regulatory accounts.

Direct procurement for customers

In accordance with RAG 1.09, lease accounting under IFRS16 associated with assets procured through a direct procurement for customer process are to be excluded from the regulatory accounts. For 2021/22 no assets were leased to United Utilities by a competitively appointed provider (CAP).

As part of the Haweswater Aqueduct Resilience Programme (DPC project) UUW made advance purchases of land and other assets (e.g. electricity connections) supporting this project totalling £2.537m in 2021/22. UUW will be reimbursed for these items by the CAP (once appointed) and this will ultimately be funded by customers through the unitary charge mechanism. As such, in order to ensure this spend is not inadvertently also captured within appointee totex, which feeds the cost sharing mechanism, it was agreed with Ofwat that this spend would be classified as non-appointed within the regulatory accounts. This has been reported as non-appointed in tables 1C and 1D.

Innovation fund costs reporting

For statutory reporting, costs are accrued on receipt of revenue from customers or income from other water companies in relation to the Innovation in Water Challenge Scheme. This is to provide for costs that will be incurred on future projects for which we are successful bidders, or for which we will be required to transfer funds to other successful companies.

In accordance with the information notice *"IN 22/01 Expectations for monopoly company annual performance reporting 2021-22"*, we are required to reverse this provision in the regulatory accounts, and unwind the accrual that was reported in 2020-21. Only costs incurred on actual innovation projects should be reported in totex within tables 4D and 4E, therefore there is a reclassification of intra-company payment and receipts (facilitated by MOSL) and the administration charge from operating costs to other income. This ensures that the intra-company payments remain within the Income Statement and offset with the revenue collected from customers.

The differences within the Income statement (Table 1A) and the Statement of financial position (Table1C) have been summarised on page 144.

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Table 1A - Income statement

Differences between statutory & RAG definitions 2021/22	Revenue Recognition £m	Innovation Fund[1] £m	G&C's Diversion Income £m	Amortisation of G&C's £m	Adopted Assets £m	Reclass of income from sales external to the appointed business £m	Capitalisation of borrowing costs £m	Reclass from opex to other income[2] £m	Reclass of pension interest to other interest expense £m	Other £m	Total £m
Revenue	26.559		(7.241)	(5.789)	(9.559)	(15.870)				(0.367)	**(12.267)**
Operating costs	(20.361)	6.202		(0.438)		15.870	7.760	(3.553)		3.874	**9.354**
Other operating income										(3.808)	**(3.808)**
Operating Profit	**6.198**	**6.202**	**(7.241)**	**(6.227)**	**(9.559)**	**0.000**	**7.760**	**(3.553)**	**0.000**	**(0.301)**	**(6.722)**
Other income		9.169	7.241	6.227	9.559			3.553		0.301	**36.050**
Interest income									(11.100)		**(11.100)**
Interest expense							(52.730)				**(52.730)**
Other interest expense									11.100		**11.100**
Profit before tax (Table 1A line 11)	**6.198**	**15.371**	**0.000**	**0.000**	**0.000**	**0.000**	**(44.970)**	**0.000**	**0.000**	**0.000**	**(23.401)**

[1]Reversal of the 2021/22 provision in the statutory accounts (£15.4m). The net of intra-company transfers and the administration charge has been reclassified from operating costs to other income (£9.2m).
[2]Other income in the statutory accounts is included within operating costs, this is disclosed separately in the regulatory accounts.

Table 1C - Statement of financial position

Differences between statutory & RAG definitions 2021/22	Revenue Recognition £m	Innovation Fund[3] £m	Capitalisation of borrowing costs £m	Deferred tax adjustment £m	Other £m	Total £m
Total non-current assets			(279.821)		(0.999)	**(280.820)**
Total current assets	30.355				0.204	**30.559**
Total current liabilities		21.593				**21.593**
Total non-current liabilities				28.252	0.295	**28.547**
Net Assets (Table 1C line 31)	**30.355**	**21.593**	**(279.821)**	**28.252**	**(0.500)**	**(200.121)**

[3]Reversal of the 2020/21 provision (£6.2m) and 2021/22 provision (£15.4m).

Regulatory accounts

Additional Table Narrative

Table 1A – Income Statement

Analysis of Interest Expense

The interest expense (line 1A.7) and other interest expense (line 1A.8) incurred by the appointed business is broken down into the following components:

Interest component 2021/22 £m	1A.7 £m	1A.8 £m
Interest charged on external borrowings	(380.371)	-
Interest payable on intra-group borrowings	(0.940)	-
Amortisation of debt premiums and discounts	1.356	-
Interest payable on leases under IFRS 16	(1.539)	-
Interest on net pension scheme assets	-	11.100
Other financing costs	(2.033)	-
Interest and other interest expense	**(383.527)**	**11.100**

Table 1C - Statement of financial position

Consistent with 2020/21 reporting, we have continued to report capex creditors (line 14) within current liabilities in Table 1C as zero, and have included a capital accruals liability within trade & other payables (line 13) of £80.890m. This capital accrual represents work-in-progress not yet invoiced for 2021/22. We believe this classification is better aligned to the line definitions in RAG 4.10.

For 2021/22 UUW report a statutory current tax asset of £98.8m. We have included the current tax asset in Table 1C line 9 (trade & other receivables), as there is no equivalent current tax asset line within current assets in this table. We believe this to be aligned to the line definitions in RAG 4.10.

Included within the non-appointed column of Table 1C is a double entry for £2.537m between fixed assets and trade and other payables in relation to advance purchases of land and assets for the Haweswater Aqueduct Resilience Programme DPC project. This includes £0.404m of assets held for sale (e.g. electricity connections) that are accounted for within non-current inventories in the statutory accounts.

Table 1E - Net debt analysis

All figures in the table have been calculated by reference to 'RAG 4.10 - Guideline for the table definitions in the annual performance report'.

Net debt excludes fair value accounting adjustments which do not impact on the principal sum outstanding on the debt. The interest rate risk profile does not take account of the impact on interest of derivative instruments.

Adjusted gearing represents the consolidated net debt of United Utilities Water as a proportion of the company's RCV (per the Final determination, in outturn prices), calculated based on the methodology published by Moody's Investor Services. This is the gearing measure most commonly used by management and is a key ratio used by Moody's Investor Services in determining the credit rating of the company.

Indicative weighted average interest rates are based on the effective interest rates as at the balance sheet date, which includes the impact of derivative instruments but excludes those with a forward start date, weighted by the notional principal amount.

Due to the nature of the company's interest rate hedging policy, it has some forward starting interest rate swaps which are not included in the indicative weighted average interest rates as they are not effective at the balance sheet date. As a result the indicative weighted average interest rates are only representative of our economic cost of borrowing as at the balance sheet date and are not representative of our economic cost of borrowing over the duration of the fixed interest rate hedge.

The indicative weighted average nominal/cash interest rates (lines 11/12) for floating interest rate debt are unrepresentative of the cost of these borrowings and as such, have not been disclosed in the tables. We hedge most of our floating interest rate exposure through 'floating to fixed' interest rate swaps which results in a very low net floating interest rate exposure. As a consequence the interest cost ends up as a small interest expense once we strip out the fixed margin on the debt, due to the basis and timing differences on the floating rate legs of the debt and derivative contracts. The calculated rate was 0.70% as at 31 March 2022 based on a £3.5m net interest payable on £498m of net floating rate debt (after the impact of swaps).

Regulatory accounts

Weighted average years to maturity takes account of all applicable contractual commitments, which includes derivative instruments with a forward start date, weighted by notional amount and duration.

The calculation of the weighted average years to maturity on floating rate borrowings provides an unrepresentative figure and as such, has not been be disclosed in the tables. Typically we raise debt in fixed rate form, swap it to floating rate for the duration of the debt instrument and then swap it back to fixed rate on a 10 year reducing balance basis. This hedged position makes it difficult to calculate the weighted average duration in a meaningful way.

Annual RPI increase of 9.0 per cent at March 2022 has been applied.
Annual CPI increase of 7.0 per cent at March 2022 has been applied.

Following the adoption of IFRS 16, lease liabilities of £57.1m have been included within fixed rate borrowings. The inclusion of lease liabilities into borrowings has resulted in an increased average time to maturity as a great proportion of the group's leases are very long dated (many high value leases have c.150 years term), if leases had not been included the weighted average would have been 7.4 years.

Borrowings Reconciliation

The below table shows the reconciliation from borrowings within Table 1C to borrowings in Table 1E.

	2021/22 £m	Notes
Borrowings – current	(452.194)	Table 1C Line 15
Borrowings – non current	(7,897.549)	Table 1C Line 22
Borrowings (Table 1C)	**(8,349.743)**	IFRS measurement basis
Remove fair value movements	156.408	
Remove bond discount	21.301	
Remove interest accrued on FVO debt	2.672	
Borrowings (Table 1E)	**(8,169.362)**	Table 1E Line 1 Notional value basis

Analysis of Debt

The table below shows the reconciliation between Table 1E ‘Net debt analysis’ and 4B ‘Analysis of debt’.

	Total borrowings £m	Indicative weighted average nominal interest %	Nominal interest cost £m	Indicative weighted average cash interest %
Table 1E	**8,169.362**	**5.858%**	**477.381**	**1.399%**
Book overdrafts	(20.766)	-	-	0.000%
Committed Facilities	-	0.073%	5.936	0.073%
Table 4B	**8,148.596**	**5.931%**	**483.317**	**1.472%**

Table 1E includes book overdrafts within borrowings - these form part of cash and cash equivalents figure and do not impact our cost of debt, as they represent the value of cheques issued and payments initiated that had not cleared as at the reporting date.

Table 4B includes the cost revolving credit facilities. Table 1E does not disclose these facilities as they are not drawn down at year-end and have nil impact on the total borrowings at March 2022. Disclosing these facilities in table 4B increases the weighted average nominal and cash interest rates by 0.07%.

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Table 1F - Financial flows and Return on Regulatory Equity (RORE)

Introduction

Table 1F presents financial flows for 2021/22 and the cumulative average over the 2020-2025 period. The figures are presented both as a percentage of notional regulatory equity and as a percentage of actual regulatory equity. The table also shows the £ million equivalents and these values are all presented in 2017/18 prices.

The following narrative focuses on the actual return % on the actual regulatory equity - being most aligned to actual shareholder returns. There will be differences as actual equity is different from Ofwat's assumed regulatory equity of 40% (or assumed gearing of 60%). Since UUW's actual average gearing across the 2 years (65.77%) and for 2021/22 (65.03%) are both higher than Ofwat's assumed notional gearing (60.0%), the actual return percentage on each sub-measure will be slightly higher than the notional return.

Line 2 – Return on regulatory equity – 2021/22 Actual equity: 3.94%; Cumulative Actual equity: 3.93%

The base case return on regulatory equity assumed in the PR19 (Price Review) final determination (FD) was 3.94%. In accordance with Ofwat line definitions, on a notional equity basis this base return is split over line 2 (3.54%) and line 3 (0.40%).

Line 3 – Impact of movement from notional gearing – 2021/22 Actual equity: +0.24%; Cumulative Actual equity: +0.26%

This line represents the impact on the base case return (i.e. line 2 above) due to a company's actual gearing structure. As mentioned in the introduction above, UUW's average actual gearing of 65.03% has been slightly higher than Ofwat's assumed notional gearing of 60.0% for 2021/22. Since Ofwat's allowed cost of debt (2.24% real) is less than the allowed cost of equity (as per line 2), this results in an increase in actual return compared to notional.

The average gearing has been calculated using the opening and closing balances for the reporting period.

Line 4 – Gearing benefits sharing – 2021/22 Actual equity: nil; Cumulative Actual equity: nil

Under the gearing outperformance sharing mechanism, this line reduces the return where a company has gearing of more than 73% for 2021/22. Since UUW's actual average gearing for 2021/22 was well below this threshold at 65.03%, there is no impact from this mechanism.

Line 5 – Variance in corporation tax – 2021/22 Actual equity: +3.02%; Cumulative Actual equity: +1.26%

This line compares the amount allowed for corporation tax in the PR19 FD to a tax charge calculated as per the table below, in accordance with the line definition:

	2021/22 Actuals £m	2020/21 – 2021/22 Average £m
Corporation Tax as per PR19 FD (17/18 prices)	**47.5**	**48.2**
Appointed profit before tax and fair value movements (out-turn)	256.3	335.9
Tax payable at standard rate of corporation tax (out-turn) (19%)	48.7	63.8
Plus or minus accelerated or deferred capital allowances (out-turn)	-46.0	-26.4
Plus or minus prior year adjustments (out-turn)	-82.0	-41.0
Adjusted tax payable (out-turn)	**-79.3**	**-3.6**
Adjusted tax payable (17/18 prices)	**-73.1**	**-2.1**
Variance (17/18 prices)	**120.6**	**50.3**
% of actual regulatory equity	**3.02%**	**1.26%**
% of notional regulatory equity	**2.71%**	**1.13%**

Tax outperformance reflects our optimisation of available government tax incentives, including research and development tax allowances, and higher capital allowances driven by UUW's accelerated capital programme and the temporary 'super deductions'.

Taxable profit is lower mainly due to higher index-linked debt interest (with the high inflation environment), but this is partially offset by a higher rate of corporation tax than assumed at the PR19 FD (19% compared to the assumption of 17%).

Both the higher rate of corporation tax and the capital allowance 'super deductions' on our base FD capital programme are recoverable under the AMP7 tax reconciliation mechanism. For underlying RoRE (on a notional regulatory equity basis), we exclude the tax impact that will be recovered through the regulatory sharing mechanism, and have assessed the impact to be -0.24%, resulting in a slightly lower underlying tax outperformance of 2.47%.

Line 6 – Group relief – 2021/22 Actual equity: nil; Cumulative Actual equity: nil

No group relief was claimed as UUW is in a loss position this year. If UUW had utilised losses surrendered from other group companies it would pay for these at the mainstream rate of corporation tax and there would be no financial benefit.

Line 7 – Cost of debt – 2021/22 Actual equity: +1.44%; Cumulative Actual equity: +0.96%

The actual real interest paid used to calculate overall financing outperformance (i.e. sum of lines 7 and 8) has been calculated using UUW's net interest expense plus interest paid/received on swaps. As the table below shows, this is then divided by actual net debt to derive a net interest rate. This rate is then compared to Ofwat's allowed cost of debt (2.24% CPIH real) plus average CPIH in the year to derive a debt outperformance number (shown as 'c') in the table below. This is then multiplied by UUW's actual gearing positon to derive a cost of debt outperformance number, also presented as a % of actual regulatory. This has been calculated as 2.02% for 2021/22 and 1.73% for the cumulative 2 year position.

	2021/22 Actual equity £m	2020/21- 2021/22 Average Actual equity £m
a) Net interest paid including derivatives (£m)	377.5	284.3
b) Average Net Debt (£m)	7,807.9	7,783.7
Net interest rate (%)	4.84%	3.65%
Average CPIH (%)	3.66%	2.23%
Allowed cost of debt (% CPIH real)	2.24%	2.33%
c) Debt outperformance (%) (applying Fisher equation)	**1.11%**	**0.94%**
d) x Average RCV (£m 17/18 prices)	11,190.9	11,191.3
e) x Average actual gearing rate (%)	65.03%	65.77%
Cost of debt outperformance (£m 17/18 prices)	**80.6**	**69.1**
Cost of debt outperformance (% of regulatory equity)	**2.02%**	**1.73%**
Split by:		
Net interest excluding swaps (Line 7)	**1.44%**	**0.96%**
Interest of swaps (Line 8)	**0.58%**	**0.77%**

Financing outperformance is mainly attributable to the embedded cost of debt UUW has locked in at lower rates than Ofwat's PR19 FD assumed cost of debt. Ofwat's assumed cost of debt was based on a water industry average and under the regulatory model companies with below average debt can expect to outperform on financing. In addition, we have consistently issued debt at efficient rates that compare favourably with the industry average, due to our leading treasury management, clear and transparent financial risk management policies, and ability to act swiftly to access pockets of opportunity as they arise.

UUW's debt predominantly comprises a mix of index-linked debt (RPI and CPI/CPIH linked) and fixed rate debt. UUW's RPI index-linked debt is locked-in at an average real rate of 1.3%, and CPI/CPIH at -0.6%, locking in outperformance vs. the allowed cost of debt of 2.24%. Inclusive of all hedging derivatives, UUW's fixed rate debt is locked-in at a rate of 2.4% nominal. The level of outperformance fluctuates depending on out-turn CPIH – this year we have seen high levels of inflation with average CPIH at 3.66% over the year, therefore generating further financing outperformance compared to last year (when average CPIH was at 0.8%).

The total outperformance relating to hedging instruments (see line 8 below) is deducted from total cost of debt outperformance to derive a cost of debt outperformance excluding swaps of 1.44% for 2021/22, as reported on line 8.

Line 8 – Hedging instruments – 2021/22 Actual equity: +0.58%; Cumulative Actual equity: +0.77%

This line shows the impact on financing outperformance of our interest rate and cross-currency swap derivatives. Since market interest rates have, on average, reduced from the time of issuance to market rates at the reporting date, our overall swaps are in a net asset position (as can be seen in Table 1C) and have generated net cash inflows for the year 2021/22.

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Line 10 – Totex out / (under) performance – 2021/22 Actual equity: -0.90%; Cumulative Actual equity: -0.55%

This line shows totex out/(under) performance versus the amount allowed in the PR19 FD, adjusted for timing differences, and presented net of the customer sharing ratio.

Whilst we have incurred significantly more wholesale totex across the year than was assumed in the FD, this has been impacted by the acceleration of AMP7 spend in the period which has been adjusted for in this metric. Our current plans indicate that we should be able to deliver our AMP7 FD programme of work at the allowed level of expenditure across the 5-year regulatory period.

Totex underperformance reflects the impact of the additional investment we are making outside the scope of our FD. We incurred additional totex totalling c£76m, split £32m on Dynamic Network Management, £11m on drinking water quality improvements and £25m spend to save opportunities (re: £250m investment to improve service for customers), c£5m to deliver Environment Act requirements (re. £250m investment outperformance for environmental improvements) and £3m on Vyrnwy. This additional spend has been included in reported RORE, although the upside ODI benefits will not be reflected until future years.

Reported totex overspend, excluding timing differences due to the acceleration of the AMP7 capital programme but including additional scope projects, net of the customer share (main sharing ratios: 50% water resources, 50% water network+, 50% wastewater network+ and 0% bioresources) was -0.90% in 2021/22, and -0.55% on a cumulative basis.

Line 11 – ODI out / (under) performance – 2021/22 Actual equity: +0.50%; Cumulative Actual equity: +0.44%

This line shows the actual out/(under) performance of Outcome Delivery Incentives (ODIs) accrued in the year. In 2021/22 we delivered another strong performance against customer ODIs resulting in a net reward of c£19.9m.

The net reward of c£19.9m includes a penalty of c£2.3m in relation to per capita consumption (PCC) performance. Given the impact of COVID-19 on household consumption, Ofwat do not expect to make an in-period adjustment for performance on PCC. However, Ofwat have advised that all companies continue to report against the performance commitment set out in the PR19 FD, including the impact this has on RoRE, which may, or may not, crystallise.

Line 12 – C-Mex out / (under) performance – 2021/22 Actual equity: +0.05%; Cumulative Actual equity: +0.03%

Under PR19, the Service Incentive Mechanism (SIM) was replaced with two new common performance commitments to incentivise companies to provide an excellent experience for residential customers (C-Mex) and developer services customers (D-Mex). This line shows the C-Mex out/(under) performance.

In 2020/21, we out-performed our peers on C-Mex and received a reward of £2.1m based on our strong performance. The final C-Mex position is confirmed by Ofwat following the publication of companies APRs and is thus reported in the APR one year in arrears and so our final C-Mex reward for 2020/21 is included within this year's RoRE.

Line 13 – D-Mex out / (under) performance – 2021/22 Actual equity: +0.03%; Cumulative Actual equity: +0.01%

This line shows the D-Mex out/(under) performance. In 2020/21, we out-performed our peers on D-Mex and received a reward of £1.1m based on our strong performance. As with C-Mex, Ofwat publish the values to be reported in the APR one year in arrears.

Line 14 – Retail out / (under) performance – 2021/22 Actual equity: -0.27%; Cumulative Actual equity: -0.30%

Line 14 represents the difference between PR19 FD allowed retail costs for household customers and actual costs incurred. Overall, costs incurred in household retail have been slightly higher than the FD allowance predominantly due to the impact of Covid-19 on cash collection rates versus our original assumptions in the first two years of the AMP. Whilst cash collection recovered well in 2021/22, collection levels remained below those assumed in our original business plan. This impacted debt levels and led to a bad debt charge in 2021/22 that was higher than we set out in our business plan.

Line 15 – Other exceptional items – 2021/22 Actual equity: +0.04%; Cumulative Actual equity: +0.04%

This line is defined as exceptional items that are outside normal operating activities. In accordance with the line definition, the 2021/22 return relates to proceeds from land sales of £3.3m net of the customer share and deflated to 17/18 prices.

Line 17 – RoRE – 2021/22 Actual equity: 8.67%; Cumulative Actual equity: 6.83%

This line represents the return on regulatory equity after the base case return assumed in the PR19 FD has been adjusted for all items highlighted above.

Regulatory accounts

RoRE is 7.83%, on a notional equity basis, which is the key RoRE metric disclosed within Table 4H Financial Metrics. Underlying RoRE was slightly lower at 7.59% per cent, as it excludes the tax impact that will be recovered through the regulatory sharing mechanism.

On an actual equity basis, reported RoRE at 8.67% is most aligned to actual shareholders return.

Line 18 – RCV growth from inflation – 2021/22 Actual equity: +6.73%; Cumulative Actual equity: +3.87%

This line shows the inflationary uplift to RCV for the period, representing a blended RPI/CPIH basis, as published by Ofwat.

Line 19 – Voluntary sharing arrangements – 2021/22 Actual equity: -0.25%; Cumulative Actual equity: -0.26%

This line shows the amount of revenue forgone by the company to fund social tariff discounts for retail customers, as reported in table 2N, deflated to 17/18 prices.

There were approximately 150,000 customers that received a discounted fixed price bill under our social tariffs, 'Help to Pay' and 'Back on Track', intended to support those customers that can't pay. In total these customers received a £30.1m discount to their underlying full price bill, of which £10.9m was funded by the company. This reduces the actual retail revenue compared to the allowed retail revenue, as reported in Table 2F Residential Retail.

Line 20 – Total shareholder return – 2021/22 Actual equity: 15.14%; Cumulative Actual equity: 10.44%

This line adds average inflation in the year (line 18) and the voluntary sharing arrangements in year (line 19) to RoRE (line 17) to represent the actual nominal return.

Lines 21 and 22 – Net dividend – 2021/22 Actual equity: 7.69%; Cumulative Actual equity: 3.95%

This is the net of gross dividends and interest received on intercompany loans. The amount of dividends paid during the period for the appointee business totalled £333.7m, as reported in Table 1A.

In line with the dividend policy on page 138, no dividend was paid in 2020/21, due to the COVID-19 pandemic and the level of uncertainty at the time. The Board reviewed the position and determined that there was sufficient certainty about the impact of the pandemic on the business and on the economy more generally such that dividend payments could be reinstated this year. As such, this year's gross dividend represents the cumulative position across the first two years of AMP7 (i.e. the 2021/22 dividend and the 2020/21 deferred dividend).

Line 23 – Retained value – 2021/22 Actual equity: 7.45%; Cumulative Actual equity: 6.49%

This line shows the nominal return (line 20) less the gross dividends paid (line 21) and interest received on intercompany loans (line 22) to represent the value retained in the business post-dividend. Retained value should be considered on a cumulative basis, given that this year's dividend represented the 2-year cumulative position.

Lines 24 to 26 – Cash impact of 2015-20 performance adjustments – 2021/22 Actual equity: +0.30%; Cumulative Actual equity: +0.31%

Per the line definition, this represents out/(under) performance adjustments in relation to the 2015-20 regulatory period. The £ adjustment is published by Ofwat, and the value is divided by regulatory equity to derive the % impact on shareholder returns.

Tables 2C – Operating cost analysis retail

Variance analysis of retail costs compared to the prior year can be found in our 2021/22 accounting methodology statement, published on our website alongside the APR.

Tables 2D and 2O - Historic cost analysis of tangible fixed assets and Historic cost analysis of intangible fixed assets

Lines 4 and 9 of Tables 2D and 2O 'Adjustments' includes reclassifications of assets between price controls and transfers between tangible and intangible assets. These reclassifications across price controls have mainly occurred due to data cleanse activities performed in the year to ensure assets are correctly allocated per RAG 4.10. Consistent with last year, transfers between tangible and intangible assets have been included in the adjustments lines.

Table 2E - Analysis of 'grants and contributions' - water resources, water network+ and wastewater network+

Grants and contributions associated with water network+ (before deduction of the income offset) have increased in year due to an increase in the number of connections and related mains laying activity. There has also been an increase in income associated with both S185 and NRSWA diversions. This increase has been partly offset by an increase in income offset payments that are directly linked to the increase in number of connections.

Grants associated with wastewater network+ have increased due to increased NRSWA and other non-price control diversions.

Table 2K - Infrastructure charges reconciliation

The purpose of table 2K is to reconcile the infrastructure charges with the infrastructure network reinforcement costs over a five year rolling period. This is to ensure that the money we receive from developers due to the impact of new connections increasing the demand on our existing water mains and sewers, is spent accordingly.

Our infrastructure charges are set to be reflective of the service we provide, therefore we have differing level of charges to reflect the demand placed on our network.

For example there is a lower rate infrastructure charge applicable for developments in relation to water efficient homes or where properties are built with no surface water connection to the existing public sewer. Where developers implement these sustainable developments it places less demand on our network which reduces our spend on infrastructure network reinforcement. Likewise, where developers do not adopt the sustainable solutions it places greater demand on our network, which means we have to spend more on infrastructure network reinforcement. The overall aim being that our developer charges recover our expected infrastructure network reinforcement costs and hence there is nil totex impact.

This ensures that existing customers are not funding infrastructure network reinforcement due to new developments.

Table 2K is expected to show the performance over a five-year rolling period. At the end of the fourth year the cumulative position is shown in the table below:

Comparison of revenue and costs	Water £m	Wastewater £m	2021/22 Total £m
Variance brought forward	9.300	11.012	20.312
Revenue (net of discounts applied)	5.244	5.645	10.889
Costs	(1.613)	(3.543)	(5.156)
Variance carried forward	**12.931**	**13.114**	**26.045**

The variance between cost and revenue for Water is £12.9m and £13.1m for Wastewater. This is mainly due to:

- £10.7m higher revenue due to higher than expected volumes of properties connected (£5.4m higher in water and £5.3m higher in wastewater), c.19,100 more properties were connected in the last four years than forecast, driven by some significant apartment developments in and around major cities
- £15.4m lower infrastructure network reinforcement spend compared with forecast due to the timing of scheme's being delivered (£7.5m lower in water and £7.9m lower in wastewater)

Although we are currently in a surplus position; mainly due to higher connections volumes than previously forecast, we have significant Network Reinforcement expenditure planned for later in the AMP which we expect to address this balance

Table 2N – Residential Retail – Social Tariffs

As reported in table 2N, there were approximately 150,000 customers that received a discounted fixed price bill under a social tariff during the year. In total these customers received a £30.1m discount to their underlying full price bill, of which £10.9m was funded by the company and £19.2m was funded by other residential customers.

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Tax strategy

Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on an annual basis, ensure that we:

- Only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law
- do not engage in marketed, aggressive or abusive tax avoidance;
- do not use tax havens for tax avoidance purposes, including not taking advantage of any related secrecy rules which can apply to tax havens;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working; and
- maintain a robust governance and risk management framework to ensure that these policies and objectives are fully complied with and applied at all levels.

We expect to fully adhere to the HMRC framework for co-operative compliance.

Our Chief Financial Officer ("CFO") has responsibility for tax governance with oversight from the board. The CFO is supported by a specialist team of tax professionals with many years of tax experience within the water sector and led by the Head of Tax. The Head of Tax has day-to-day responsibility for managing the company's tax affairs and engages regularly with key stakeholders from around the company in ensuring that tax risk is proactively managed. Where appropriate, he will also engage with both external advisers and HMRC to provide additional required certainty with the aim of ensuring that any residual risk is typically low. All significant tax issues are reported to the board regularly.

Consistent with the company's general risk management framework, all tax risks are assessed for the likelihood of occurrence and the negative financial or reputational impact on the company and its objectives, should the event occur. In any given period, the key tax risk is likely to be the introduction of unexpected legislative or tax practice changes which lead to increased cash outflow which has not been reflected in the current regulatory settlement. The company is committed to actively engaging with relevant authorities in order to actively manage any such risk.

In any given year, the company's effective cash tax rate on underlying profits may fluctuate from the standard UK rate mainly due to the available tax deductions on capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to tax.

Under the regulatory framework the company operates within, the majority of any benefit from reduced tax payments will typically not be retained by the company but will pass to customers; reducing their bills. For 2021/22, the impact of tax deductions on capital investment alone reduced average household bills by around £20.

United Utilities Water Limited operates solely in the UK and its customers are based here and all of the company's profits are taxable in the UK.

Every year, the company pays significant contributions to the public finances on its own behalf as well as collecting and paying further amounts for its 5,000 strong workforce. Details of the total payments for 2022 of around £230m are set out below:

- Business rates – £92m
- Corporation tax - £9m
- Employment taxes: company - £27m
- Employment taxes: employees - £59m
- Environmental taxes and other duties - £12m
- Regulatory services fees (e.g. water extraction charges) - £31m

The above tax policy disclosure meets the company's statutory requirement under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish its UK tax strategy for the year ended 31 March 2022.

See our website for our latest separate annual tax report, which includes further details in relation to the following key areas:

- How much tax we pay;
- How we ensure that we pay the right tax at the right time; and
- How we ensure that our tax affairs are transparent for all our stakeholders

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Recognising the company's on-going commitment to paying its fair share of tax and acting in an open and transparent manner in relation to its tax affairs, we were delighted to have retained the Fair Tax Mark independent certification for a third year, having been only the second FTSE 100 company to be awarded the Fair Tax Mark in July 2019.

Current tax reconciliation

	2021/22 £m
Profit on appointed ordinary activities before tax and fair value movements as per Table 1A line 9	**256.3**
Multiplied at the standard rate of corporation tax of 19%	48.7
Capital allowances in excess of depreciation	(38.7)
Adjustment in respect of prior years	(82.0)
Super-deductions – 30% element	(7.3)
Net non-deductible expenses	0.7
Pension deductions	(2.2)
Fair value movements	0.2
Other timing differences	(4.2)
Tax loss carried forward	2.2
Appointed current tax charge per Table 1A line 12	**(82.6)**

Details of factors affecting future tax charges:
The headline rate of corporation tax is due to increase from 19% to 25%, effective from 2023/24.

For the 2 years to 31 March 2023, enhanced capital allowance rates will apply to spend on plant and machinery (P&M) assets:

a) The rate will increase from 18% to 130% for standard life P&M
b) The rate will effectively increase from 6% to 50% (100% FYA on 50% of additions) for long life P&M

The capital allowance changes include a restriction such that the new enhanced rates do not apply to any expenditure in relation to contracts entered into prior to 3rd March 2021. Given the nature of our capital programme together with the related contractual arrangements, this represents a material reduction to the potential benefit available.

In line with the consultative document issued on 9th May 2022 (Potential Reforms to UK's Capital Allowance Regime) further enhanced capital allowances may well be introduced from 2023/24 onwards.

In PR19 Ofwat introduced a tax reconciliation mechanism to reflect legislative changes to either the headline corporation tax rate or to the capital allowances rates available on capital expenditure, recognising that these matters were outside of managements control:

- To do this, Ofwat will rerun the PR19 financial model using the totex allowances, PAYG and RCV run-off rates (set out in the final determination).
- The resulting difference to the tax allowed at PR19 is then added/deducted to PR24 revenue requirements.
- In order to ensure that the incentive for companies to manage their liabilities in the most efficient manner is retained, this reconciliation will purely affect the agreed FD scope and profile, not the actual performance of the company.
- Accordingly, this reconciliation will mitigate some of the above additional tax that has been incurred as a result of the increase to corporation tax from 17% to 19% but only on the FD scope and profile, not the actual performance of the company.

Reconciliation of significant variations between the appointed current tax charge or credit reported in line 1A.12 to the total current tax charge allowed in price limits

	2021/22 £m	Commentary
Current tax charge allowed in price limits	**51.7**	
Adjustment in respect of prior years	(82.0)	The adjustments in respect of prior years relates to optimising the available research and development UK tax allowances on our innovation related expenditure for multiple prior years.
Pension deductions	(2.2)	The tax impact of the increase in pension deductions compared to the figures in the FD.

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Net increase in profit before tax and depreciation	15.7	The tax impact of the increase in profit before tax and depreciation compared to the figures per the FD, including the actual interest charge which is lower than the notional amount assumed in the FD.
Fair value movements	(23.3)	Non-taxable interest, currency and inflation swaps.
Increase in capital allowances/other	(43.5)	The increase in capital allowances is mainly due to the temporary "super-deductions" introduced in 2021
Super-deductions – 30% element	(7.3)	
Increase in tax rate from 17% to 19%	6.1	Impact of the corporation tax rate change
Tax loss carried forward	2.2	
Appointed current tax charge per Table 1A line 12	**(82.6)**	

Adjustments in respect of prior years

The adjustments in respect of prior years mainly relates to optimising the available research and development UK tax allowances on our innovation related expenditure for multiple prior years.

Pension deductions

The tax impact of the increase in pension deductions compared to the figures in the FD.

Net increase in profit before tax and depreciation

The tax impact of the increase in profit before tax and depreciation compared to the figures per the FD including the actual interest charge which is lower than the notional amount assumed in the FD.

Fair value movements

Non-taxable interest, currency and inflation swaps.

Increase in capital allowances
The increase in capital allowances is mainly due to the temporary "super-deductions" introduced in 2021.

Increase in tax rate from 17% to 19%
Impact of the corporation tax rate change.

Tax loss carried forward
Given the future increase in the headline rate, effective from 2023/24 where possible tax losses will be carried forward to this period.

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Long term viability statement

The directors have assessed the viability of UUW, taking account of UUW's current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. This assessment has been performed in the context of UUW's prospects as considered over the longer term. Based on this viability assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the seven year period to March 2029.

Basis of assessment

This viability statement is based on the fundamental assumption that the current regulatory and statutory framework does not substantively change. The long-term planning detailed on pages 18 to 19 of the UUW statutory accounts assesses the group's prospects and establishes its strategy over a 25-year time horizon consistent with its rolling 25-year licence and its published long-term strategy. This provides a framework for the group's strategic planning process, and is key to achieving the company's aim of providing the best service to customers at the lowest sustainable price and in a responsible manner over the longer term, underpinning our business model set out on pages 5 to 21 of the UUW statutory accounts.

In order to achieve this aim and promote the sustainability and resilience of the business, due consideration is given to the management of risks over the long term that could impact on the business model, future performance, credit ratings, solvency and liquidity of the company. Specifically, risks associated with current levels of economic uncertainty and climate change have been incorporated into the baseline position and factored into the various scenarios modelled as part of the company's assessment. An overview of our risk management approach that supports the group's long-term planning and prospects, together with the principal risks and uncertainties facing the business, can be found on pages 66 to 68 of the UUW statutory accounts. This approach considers the full range of categories of risk that could impact the company, such as financial, operational and regulatory risks. In addition, consideration is given to the adequacy of workforce policies and practices, all liabilities including pension liabilities, any exposure to revenue variations, and expectations of future performance taking account of past performance in delivering for customers.

The viability assessment is performed on a standalone basis in relation to UUW. UUW is part of the United Utilities group.[1] The regulated activities of UUW represent 97 per cent of the total assets of the United Utilities group as a whole, which taken together with the financial resources and interests of the regulated business being robustly ring-fenced, means there is minimal risk from the non-regulated activities.

Within the context of this long-term planning and management of risks, the company's principal business operates within five year regulatory price control cycles. Medium-term planning considers the current price control period, over which there is typically a high degree of certainty, and looks beyond this in order to facilitate smooth transitions between price control periods. This results in the board concluding a recurring period of seven years to be an appropriate period over which to perform a robust assessment of the company's long-term viability.

Viability assessment: resilience of the company

The viability assessment is based upon the company's medium-term business planning process, which sits within the overarching strategic planning process and considers:

- **UUW's current liquidity position** – with £657 million of available liquidity at March 2022 providing a significant buffer to absorb short-term cash flow impacts;
- **The group's robust capital solvency and credit rating positions** – with a debt to regulatory capital value (RCV) ratio of 65 per cent, a robust pension position and current credit ratings of A3/BBB+/A- with Moody's, S&P and Fitch respectively, this provides considerable headroom supporting access to medium-term liquidity where required;
- **The company's expected performance**, underpinned by its historical track-record; and
- **The current regulatory framework within which the group operates** – which provides a high degree of cashflow certainty over the regulatory period and the broader regulatory protections outlined below.

The company has a proven track-record of being able to raise new finance in most market conditions, and expects to continue to do so into the future. This is despite the group no longer having access to future EIB funding following the UK's exit from the EU.

From a regulatory perspective, the group benefits from a rolling 25-year licence and a regulatory regime in which regulators – including the economic regulator, Ofwat – are required to have regard to the principles of best regulatory practice. These include that regulation should be carried out in a way that is transparent, accountable, proportionate, consistent and targeted. Ofwat's primary duties provide that it should protect consumers' interests, by promoting effective competition wherever appropriate; secure that the company properly carries out its statutory functions; secure that the company can finance the proper carrying out of these functions – in particular through securing reasonable returns on capital; and secure that water and wastewater supply systems have long term resilience and that the company takes steps to meet long-term demands for water supplies and wastewater services.

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[1] United Utilities Group PLC and its subsidiary undertakings.

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In addition, from an economic perspective, given the market structure of water and wastewater services, threats to the group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries.

Viability assessment: resilience to principal risks facing the business

The directors have assessed the company's viability based on the resilience of the group and its ability to absorb a number of 'severe but reasonable' scenarios, derived from the principal risks facing the group, as set out on pages 72 to 78 of the UUW statutory accounts. The baseline plan against which the viability assessment has been performed incorporates the estimated impact of current high levels of inflation which are expected to endure in the near term before falling to more normal levels. This baseline plan is then subject to further stress scenarios and reverse stress testing that takes into account the potential impact of group's principal risks. Such risks include: environmental risks such as the occurrence of extreme weather events and other impacts of climate change, further details of which are included in the company's TCFD disclosures on pages 41 to 57 of the UUW statutory accounts; political and regulatory risks; the risk of critical asset failure; significant cyber security breaches; current economic uncertainties including high levels of inflation and a squeeze on the cost of living impacting the group's customer base; and the potential for a restriction to the availability of financing resulting from a capital markets crisis.

The scenarios considered are underpinned by the group's established risk management processes, taking into account those risks with a greater than 10% (1 in 10) cumulative likelihood of occurrence. Risks associated with current economic conditions are reflected within the baseline position, with potential downside risks (most notably in relation to bad debt and inflation volatility) covered by the individual scenarios modelled, and collectively within a combined scenario.

Based on these risks, the following six largest impacting scenarios were identified and applied as downside stress scenarios to the group's baseline plan:

Scenario modelled	Link to risk factors
Scenario 1: Totex £500m one-off impact in 2022/23	Broadly representing the largest 'severe but reasonable' risk which is a critical asset failure, all assumed to be operating costs
Scenario 2: Totex underperformance of 10% (c£120m-c£140m) per annum for 2022/23-2028/29	Representing more than the cumulative total expected NPV totex impact of the remaining top 10 'severe but reasonable' risks (including environmental, cyber security and network failure risks)
Scenario 3: CPIH inflation of 2.0% below baseline plan for 2022/23 and 2023/24, and 1.0% below baseline plan for 2024-25-2028/29	Consistent with quantum of inflation impacts modelled within top 10 severe but reasonable risks
Scenario 4: An increase in bad debt of £15m per annum from 202/23 to 2028/29	Aligned to internal risk factor on debt collection
Scenario 5: Additional ODI penalty of c£50m per annum	Assumes mid-point of UUW's baseline and final determination P90 ODI position
Scenario 6: Combined scenario – 50% of scenarios 2-5	50% of scenarios 2-5

Example mitigations (of which none are required to remain viable under the scenarios modelled):

- Issuing of new finance
- Reduction in discretionary totex spend
- Capital programme deferral
- Closing out of derivative asset position
- Restriction of dividend
- Raising of new equity

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The assessment has considered the impact of these scenarios on the group's business model, future performance, credit ratings, solvency and liquidity over the course of the viability assessment period. This assessment has demonstrated the group's ability to absorb the impact of all severe but reasonable scenarios modelled, without the need to rely on the key mitigating actions detailed below.

The most extreme of the severe but reasonable scenarios modelled, without any mitigating action, resulted in: the group comfortably retaining investment grade credit ratings; liquidity of more than one year; and no projected breaches of financial debt covenants.

As part of the assessment, reverse stress testing of two extreme theoretical scenarios focusing on totex overspend and persisting low inflation have been performed to understand the extent to which the group could further absorb financial stress before it reaches a sub-investment grade credit rating. This reverse stress testing demonstrated that these extreme conditions would have to be significantly outside what would be considered 'severe but reasonable' scenarios before the group's long-term viability would be at risk.

Viability assessment: key mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the group, the effectiveness of which are underpinned by the strength of the group's capital solvency position.

As well as the protections that exist from the regulatory environment within which the group operates, a number of actions are available to mitigate more severe scenarios, which include: the raising of new finance, including hybrid debt; capital programme deferral; reduction in other discretionary totex spend; the closeout of derivative asset positions; the restriction of dividend payments; and access to additional equity.

Consideration of the mitigating actions that could be applied would take account of the specific circumstances arising under different extreme scenarios. For example, to mitigate against a large one-off impact (such as scenario 1 - £500m one-off totex impact), liquidity could be quickly enhanced by issuing new finance, accessing additional equity or closing out derivative asset positions. Where longer-term persisting impacts were expected (such as in scenario 2-6), mitigations such as the restriction of dividend payments or a reduction in discretionary totex spend are viable alternative options. However, it should be stressed that no specific mitigating actions are required under any of the six scenarios modelled above.

Governance

The analysis underpinning this assessment has been through a robust internal review process, which has included scrutiny and challenge from the audit committee and board, and has been reviewed by the group's external auditor, KPMG, as part of their normal audit procedures.

Going concern

The directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the basis of preparation note to the accounts.

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Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of their knowledge, the directors of the company declare that all appropriate transactions with associated companies have been disclosed and material transactions with associated companies are at arm's length and no cross-subsidy has occurred. The materiality level of transactions used for reporting is 0.5 per cent of turnover.

Borrowings and loans

The following loans from associated companies existed at 31 March 2022:

	£m	Interest rate	Repayment date
United Utilities PLC: overdraft facility	20.701	0.175%+BoE Base Rate	On demand
United Utilities PLC: £588.0 million loan	204.000	0.175%+BoE Base Rate	Amortising until August 2023
United Utilities PLC: £170.0 million loan	170.009	0.175%+BoE Base Rate	18 months from lender intention to withdraw facility
United Utilities Water Finance PLC: GBP Notes 2.0% 2025	441.222	2.000%	February 2025
United Utilities Water Finance PLC: GBP 0.013% RPI Bond 2025	30.975	0.013%+RPI	April 2025
United Utilities Water Finance PLC: HKD Notes 2.867% 2026	31.268	2.867%	January 2026
United Utilities Water Finance PLC: HKD Notes 2.92% 2026	72.428	2.920%	February 2026
United Utilities Water Finance PLC: EUR Notes 1.129% 2027	43.221	1.129%	April 2027
United Utilities Water Finance PLC: HKD Notes 2.37% 2027	80.411	2.370%	October 2027
United Utilities PLC: $400.0 million bond	369.875	6.875%	August 2028
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2028	25.305	0.010% +RPI	September 2028
United Utilities Water Finance PLC: GBP Notes 1.43% 2028	94.140	1.430%	October 2028
United Utilities Water Finance PLC: GBP Notes 0.875% 2029	274.603	0.875%	October 2029
United Utilities Water Finance PLC: GBP 0.178% RPI Bond 2030	43.348	0.178%+RPI	April 2030
United Utilities Water Finance PLC: JPY Notes 0.175% 2030	67.572	0.175%	August 2030
United Utilities Water Finance PLC: EUR Notes 2.058% 2030	25.676	2.058%	October 2030
United Utilities Water Finance PLC: GBP Notes 2.625% 2031	407.783	2.625%	February 2031
United Utilities Water Finance PLC: HKD Notes 2.900% 2031	55.145	2.900%	June 2031
United Utilities Water Finance PLC: EUR Notes 1.641% 2031	24.460	1.641%	June 2031
United Utilities Water Finance PLC: USD Notes 1.474% 2031	22.826	1.474%	August 2031
United Utilities Water Finance PLC: GBP 0.245% CPI Bond 2031	22.687	0.245% +CPI	December 2031
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2031	47.641	0.010% +RPI	December 2031
United Utilities Water Finance PLC: EUR Notes 1.707% 2032	24.009	1.707%	October 2032
United Utilities Water Finance PLC: EUR Notes 1.653% 2032	21.875	1.653%	December 2032
United Utilities Water Finance PLC: EUR Notes 1.70% 2033	25.666	1.700%	January 2033
United Utilities Water Finance PLC: GBP Notes 2.0% 2033	337.344	2.000%	July 2033
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2036	35.064	0.010% +RPI	September 2036
United Utilities Water Finance PLC: GBP 0.379% CPI Bond 2036	22.668	0.379% +CPI	December 2036
United Utilities Water Finance PLC: GBP 0.010% RPI Bond 2036	36.589	0.010% +RPI	December 2036
United Utilities Water Finance PLC: GBP 0.093% CPI Bond 2037	67.621	0.093% +CPI	February 2037
United Utilities Water Finance PLC: GBP Notes 1.75% 2038	248.156	1.750%	February 2038
United Utilities Water Finance PLC: GBP 0.010% CPI Bond 2040	151.306	0.010% +CPI	July 2040
United Utilities Water Finance PLC: GBP Notes 1.875% 2042	295.452	1.875%	June 2042
United Utilities Water Finance PLC: GBP 0.359% CPI Bond 2048	35.603	0.359% +CPI	October 2048
United Utilities Water Finance PLC: GBP 0.387% CPI Bond 2057	36.389	0.387% +CPI	October 2057

Loans to associated companies at 31 March 2022

There were no loans to associated companies as at 31 March 2022.

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Dividends paid to associated undertakings

During 2021/22, interim dividends were paid to the parent company, United Utilities North West Limited, totalling £339.2 million (2021: Nil).

In line with the dividend policy, dividends paid of £339.2m comprised:

- £164.1m 4% base return of the equity portion of the shadow RCV in relation to 2020/21.
- £169.6m 4% base return of the estimated equity portion of the shadow RCV in relation to 2021/22.
- £2.9m non-appointed profits for 2020/21
- £2.6m non-appointed profits for 2021/22

Guarantees by the appointee

A financing subsidiary of United Utilities Water Limited (UUW), United Utilities Water Finance PLC (UUWF), was set up in 2014/15 to issue new listed debt on behalf of UUW, following UUW's re-registration as a private limited company. Debt instruments issued by UUWF (as listed in borrowing and loans above) have been guaranteed by UUW.

Transfer of assets by or to the appointee

There were no transfers of assets or liabilities by or to the company in 2021/22.

Services supplied to the company by associated companies in 2021/22

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work or services 2021/22 £m
Functions	UU PLC	-	Employment costs	15.862
Share-based payments recharge	UU Group PLC	-	Employment costs	4.644
Purchase of energy	UU Renewable Energy	8.447	Contract price	4.922
Estates charges	LM Bus Park Dev Co Ltd	-	Contract price	0.656
				26.084

Services supplied by the company to associated companies in 2021/22

Nature of transaction	Company	Turnover of associate £m	Terms of supply	Total value of goods, work or services 2021/22 £m
Employment costs and travel costs	UU Property Services	14.547	Recharge of costs	0.397
Employment costs and travel costs	UU PLC	-	Recharge of costs	0.178
Employment costs and travel costs	UU International Ltd	-	Recharge of costs	0.021
Employment costs and travel costs	UU Total Solutions	-	Recharge of costs	0.002
Employment costs and travel costs	UU Renewable Energy	8.447	Recharge of costs	0.737
Employment costs and travel costs	UU US (Industrial) Ltd	-	Recharge of costs	0.003
Wholesale water/wastewater charges	Water Plus Ltd	557.376	Contract price	362.893
Wholesale water/wastewater charges	Water Plus Select Ltd	193.479	Contract price	0.199
Central services including IT	UU Property Services	14.547	Recharge of costs	0.103
Wastewater treatment services	UUW Ltd (non-appointed)	5.131	Contract price	0.086
Property searches	UUW Ltd (non-appointed)	3.846	Contract price	0.027
				364.646

Corporation tax group relief received/surrendered by the regulated business in 2021/22

The regulated business did not receive or surrender any corporation tax group relief in 2021/22.

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Services supplied to the non-appointed business in 2021/22

Service	Basis of recharge made by the appointed business	Value of recharge made by the appointed business 2021/22 £m
Treatment of imported sludge	Nil	Nil
Treatment of tankered waste	The appointed business recharges the non-appointed business for treating tankered waste at wastewater treatment works. The recharge is calculated using the Mogden formula based on tankered waste volumes and as per RAG 2.08 (2.21) the income is recorded as negative expenditure, reducing appointed operating expenditure.	2.700
Meter reading services	The appointed business recharges the non-appointed business in respect of meter reading services provided to retailers in the non-household market. The operating cost recharge is calculated using a cost allocation model that apportions cost based on the volume and type of activity completed for retailers. Amortisation associated with systems used to deliver the meter reading service is calculated based on a split of activity volumes between those performed for domestic customers and those completed for retailers or the wholesaler.	0.605
Other	The appointed business recharges the non-appointed business for the use of operating systems consumed directly in the performance of non-appointed activities. This is calculated based on the frequency and proportion of system use.	1.777

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Statement of directors' remuneration and standards of performance

All directors of United Utilities Water Limited (UUW) are also directors of UUG. Further remuneration details including the policy can be found in the annual report and accounts of UUG.

For the purposes of this disclosure, the company's directors can be split into two categories:

- executive directors of UUW; and
- non-executive directors of UUW.

During the year ended 31 March 2022, the directors have received remuneration linked to levels of performance against service standards in connection with activities subject to price regulation.

Overview of remuneration policy

Our current remuneration policy was approved by shareholders at the 2019 UUG AGM and so a new policy will be put to UUG shareholders for approval at the 2022 UUG AGM. In the summer of 2021 we started a review, including a stakeholder consultation, to identify aspects of our overall approach to executive remuneration which should be addressed in the new policy. Being less than two years into the regulatory period, we are satisfied that overall our current approach to executive remuneration remains appropriate for at least the next three years and that there was no need to make material changes to the current policy. A key area of focus however, was how the remuneration committee (committee) might strengthen the extent to which environmental, social and governance matters are reflected in executive remuneration arrangements, and the incentive plans in particular. A summary of the key elements of the policy review and its outcome are shown in the table below.

Our proposed remuneration policy will be put to shareholders for approval at the 2022 AGM and is intended to apply until the 2025 AGM. Full details about the proposed policy are available in the annual report and accounts of UUG

Element of Policy	Focus/rationale for review	Position following consultation
Updating our mechanism for delivery of long-term incentives	Our current long-term incentive arrangement is the 'Long Term Plan 2013' (the LTP). It was adopted by shareholders on 26 July 2013 so in line with shareholder expectations and in recognition of the Investment Association's Principles of Remuneration, the LTP will expire on 25 July 2023. The committee is mindful that corporate governance best practice and the expectations of shareholders have evolved significantly since 2013. As such, we propose to replace the current LTP with a new plan whose rules better reflect those contemporary practices and expectations, and provide shareholders and participants with further clarity over key matters, including withholding and recovery, and change of control provisions.	We intend to seek shareholder approval of the new Long Term Plan 2022 at our 2022 AGM, and our notice of AGM will provide further details. If approved, the 2022 LTP awards will be issued under this new plan. The committee recognises that providing dividend sustainability to shareholders remains important, and so when granting awards under the new plan we will retain our practice of making delivery of our dividend policy an overall underpin, alongside the existing underpin of the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.
Inclusion of carbon measures in our long-term incentives	The committee proposes to keep the overall structure of the LTP the same, but to evolve the customer basket to include new measures that are based on our relevant, publicly disclosed and measurable climate change related targets. For the 2022 LTP awards we propose to use our carbon pledges to define delivery targets for the end of the three-year performance period, and this approach could be extended and expanded in future years with the ultimate aspiration being an LTP measure that is directly aligned to our Science Based Targets initiative (SBTs) for 2030.	Shareholders and other stakeholders, including employees, were supportive of the inclusion of carbon measures in the LTP and so they will be included in the 2022 LTP awards as part of the customer basket. Our intention is to dedicate 10 per cent of the total LTP to these new carbon measures. Stretching targets will be set, and the inclusion of these measures will mean that the whole of the customer basket component of the LTP is focused on areas of performance that are in the interests of customers, and have an environmental or social impact
Withholding and recovery provisions	Our current incentive plan rules already include provisions that enable the committee to withhold or recover payments from participants in certain circumstances. The withholding provisions can be applied in a wider range of circumstances than the recovery provisions. We have considered the Financial Reporting Council's Guidance on Board Effectiveness and taken note of the Business, Energy and Industrial Strategy's (BEIS) consultation on 'Restoring trust in audit and corporate governance and propose to extend the circumstances in which our provisions might be applied.	Going forward, the circumstances in which the withholding and recovery provisions can be applied will be aligned and will include: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine. The extended provisions will first apply to Deferred Bonus Plan awards granted in 2022 and annual bonuses paid in 2023. If the new Long Term Plan 2022 is approved by shareholders at the 2022 AGM the extended provisions will first apply to Long Term Plan awards granted in 2022.

Notice periods	Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director.	For executive directors appointed on or after 1 May 2022 the notice period will be one year whether terminated by the company or the director.
Benefits	The current policy provides for executive directors to receive a car or car allowance as part of their benefits package.	The committee supports the use of sustainable methods of travel, such as public transport or the company's new all-employee electric car scheme, so in the new policy this benefit will be replaced by a green travel allowance. There is no change to the underlying value of this benefit.

The company's remuneration arrangements are designed to promote the long-term success of the company. The company does not pay more than is necessary for this purpose. The UUG remuneration committee (committee) recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

The committee monitors the remuneration arrangements to ensure that there is an appropriate balance between risk and reward and that the long-term performance of the business is not compromised by the pursuit of short-term value. There is a strong direct link between incentives and the company's strategy, and if the strategy is delivered within an acceptable level of risk, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

The committee also understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long-term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged.

Account is taken of employee views when consulting on the policy, typically via the employee voice panel. Additionally, the company carries out annual employee engagement surveys and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements, all of which can provide insight which is of value to the committee. The general base salary increase and broader remuneration arrangements, including pension provision, for the wider employee population are considered by the committee when determining remuneration policy for the executive directors.

Processes are in place for the committee to regularly review and consider any remuneration-related matters that may arise from the activities undertaken by the board to take account of the 'employee voice'.

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Element: purpose and link to strategy	Operation	Opportunity 2021/22	Performance measures
Base salary			
To attract and retain executives of the experience and quality required to deliver the company's strategy.	Reviewed annually. Executive directors will normally receive a salary increase that is generally no greater than the general workforce. Significant increases only awarded infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • The pay market for directly comparable companies (for example, companies of a similar size and complexity).	Steve Mogford: 1 April 2021 – 31 March 2022: £775,200. Increased by 2.0 per cent to £790,700 from 1 September 2021. Phil Aspin: 1 April 2021 - 31 March 2022: £400,000. Increased by 2.0 per cent to £408,000 from 1 September 2021.	None.
Benefits			
To provide market competitive benefits to help recruit and retain high calibre executives.	Provision of benefits such as health benefits, car or car allowance, relocation assistance, life assurance, group income protection, opportunity to join the ShareBuy scheme, travel and communication costs.	See table on executive directors' remuneration 2021/22 on page 167	None.
Pension			
To provide a level of benefits that allow for personal retirement planning.	Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; or • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance.	Aligned to the approach available to the wider workforce, currently: • up to 14 per cent of salary into a defined contribution scheme; • cash allowance of broadly equivalent cost to the company (i.e. up to 12 per cent of base salary for 2021/22);or • a combination of both such that the cost to the company is broadly the same. For executive directors appointed to the role before 26 July 2019 a cash allowance of 22 per cent of salary is payable until 31 December 2022. From 1 January 2023 arrangements for such executive directors will be aligned to the approach available to the wider workforce.This applies only to Steve Mogford.	None.

Regulatory accounts

Element: purpose and link to strategy	Operation	Opportunity 2021/22	Performance measures
Annual bonus			
To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part bonus into shares aligns the interests of executive directors and shareholders.	All: • Maximum of 50 per cent paid as cash. • A minimum of 50 per cent of bonus awarded deferred into company shares under the deferred bonus plan (DBP) for a period of at least three years. • Dividends or dividend equivalents accrue during the DBP deferral period and are paid upon vesting. • Not pensionable. • Withholding provisions apply.	Maximum 130 per cent of salary	Payments predominantly based on financial and operational performance. Targets and weightings set by reference to the company's financial and operating plans. Bonus outcomes are subject to the committee being satisfied that the company's performance on the measures is consistent with underlying business performance and individual contributions. The committee will exercise discretion on bonus outcomes if it deems necessary. 100 per cent of maximum bonus potential for stretch performance; up to 50 per cent of maximum for target performance; and up to 25 per cent of maximum for threshold performance. No payout for below-threshold performance. Detail is set out in table 2021/22 annual bonus on page 167.
Long Term Plan			
To incentivise long-term value creation and alignment with the long-term interests of shareholders, customers, and other stakeholders.	Awards under the Long Term Plan (LTP) are rights to receive company shares, subject to certain performance conditions. Each award is measured over at least a three-year performance period. An additional holding period applies after the end of the three- year performance period so that the total vesting and holding period is at least five years. Dividends or dividend equivalents accrue until awards are released to participants, to the extent that such awards vest for performance. Shares under the LTP are subject to withholding and recovery provisions in cases of: material misstatement of audited financial results; an error in the calculation; gross misconduct; serious reputational damage; serious failure of risk management; corporate failure; or other circumstances that the committee may determine.	The normal maximum award level will be up to 130 per cent of salary per annum. The overall policy limit is 200 per cent of salary. It is not anticipated that awards above the normal level will be made to current executive directors and any such increase on an ongoing basis will be subject to prior consultation with major shareholders.	The two performance conditions are Return on Regulated Equity and a basket of customer measures. The weighting of each of these two components is 50 per cent. Any vesting is subject to the delivery of the dividend policy during the respective performance period, and the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. The committee will exercise discretion on LTP outcomes if it deems it necessary. The committee has discretion to set alternative performance measures for future awards but will consult with major shareholders before making any changes to the currently applied measures and/or weightings. 100 per cent of awards vest for stretch performance; and up to 25% of awards vest for threshold performance. No awards vest for below-threshold performance.

Regulatory accounts

Element: purpose and link to strategy Shareholding requirements	Operation	Opportunity 2021/22	Performance measures
The committee believes that it is important for each executive director to build and maintain a significant investment in shares of the company to provide alignment with shareholder interests during and after employment.	Executive directors are expected to reach a shareholding requirement of 200 per cent of salary, normally within five years of appointment. The following post-employment shareholding requirements apply in the event of an executive director leaving the company: • Executive directors must continue to hold the lower of 200 percent of salary in shares or their shareholding on departure, for two years after ceasing employment with the group. • Executive directors appointed on or after 19 May 2020 must retain shares vesting (net of tax) from all share awards (including in-flight awards) if not doing so would take their shareholding below the requirement. • As the only current executive director in role before 19 May 2020, Steve Mogford must retain shares vesting (net of tax) from share awards relating to performance periods beginning on or after 1 April 2020 if not doing so would take his shareholding below the requirement. Nominee accounts are used to enable the post-employment shareholding requirements to be robustly enforced.	None	None
Non-executive director's fees and benefits			
To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.	The remuneration policy for the non-executive directors (with the exception of the Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman is not a member). Fees are reviewed annually taking into account the salary increase for the general workforce and the levels of fees paid by companies of a similar size and complexity. Any changes are normally effective from 1 September. Additional fees are paid in relation to extra responsibilities undertaken, such as chairing certain board subcommittees, and to the senior independent non-executive director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for non-executive directors, the board may pay extra fees on a pro rata basis to recognise the additional workload. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes.	Base fees were increased by 2.0 per cent in 2021/22. The additional fees were not increased The value of benefits may vary from year to year according to the cost to the company.	Non-executive directors are not eligible to participate in any performance-related arrangements.

Non-executive directors

As outlined in the annual report and accounts of UUG, the non-executive Chairman and non-executive directors do not participate in the company's incentive arrangements (i.e. annual bonus or share schemes) and were paid no remuneration linked to water service standards.

Why the standards of performance impacting incentives are set and how they are assessed

Our remuneration approach is aligned to our purpose, vision and strategy, thereby incentivising great customer service and the creation of long-term value for all of our stakeholders.

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Through the annual bonus and long-term incentive schemes, the executive directors receive remuneration linked to the achievement of performance measures which relate to water service standards in order to provide an incentive for them to deliver improvements in those standards.

The following table provides a summary of how our incentive framework in 2021/22 aligns with our business strategy and the results that it delivers. Many of the performance measures are key performance indicators (KPIs) for the regulatory period 2020–25 and a significant weighting of the incentive measures are linked to stretching delivery for customers.

Element	Why it's important to our remuneration approach	Link to strategic themes	Alignment to purpose reflecting views of different stakeholders
Annual bonus			
Underlying operating profit	Underlying operating profit is a key measure of shareholder value.		
Customer service in year • C-MeX ranking • Written complaints	By using Ofwat's measure of customer experience alongside a measure which focuses on reducing the number of complaints made by customers, executive directors are incentivised to deliver the best service to customers. Ofwat can apply financial incentives or penalties depending on our customer service performance.		
Maintaining and enhancing services for customers • Outcome delivery incentive (ODI) composite • Time, cost and quality of the capital programme (TCQi)	The ODI composite measure is calculated by summing the outperformance payments earned and financial penalties incurred by the company based on its delivery of the performance targets embedded in the AMP7 final determination. The performance targets and the financial incentives associated with them are determined by Ofwat in the expectation that achieving them means that stretching outcomes have been delivered for customers and the environment. Bonus awards to executives are only made where the value of these payments exceeds a predetermined level which the committee sets relative to the AMP7 determination. Non-delivery of our performance commitments can result in financial penalties being applied and therefore reduces the likelihood of this target being achieved. The TCQi measure incentivises the executive directors to keep tight control of our capital programmes to ensure we can provide a reliable and environmentally conscious service to our customers at the lowest sustainable cost.		
Compulsory deferral of bonus	Requiring executive directors to defer part of their bonus into shares provides reassurance that the company is being run in the longer-term interests of shareholders and customers, including beyond the annual bonus period. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the deferral period this is deemed necessary.		
Long Term Plan (LTP)			
Return on Regulated Equity (RoRE)	RoRE is a key regulatory measure of performance against the final determination. Outperformance will result in an increase to RoRE which should translate into higher returns for shareholders through share price performance. Outperformance also benefits customers through strong delivery against stretching performance commitments, efficiencies in the capital investment programme and lower long-term financing costs.		
Customer basket of measures	The customer basket is made up of specific performance commitments embedded in the AMP7 final determination, focusing on areas which customers have identified via our research as being most important to them. Strong delivery of the commitments benefits our customers, communities and the environment, and can result in outperformance payments from Ofwat which is positive for shareholders.		
Additional holding period (at least two years)	Requiring the executive directors to wait a further period after the performance outcome of their award is known ensures continued longer-term alignment with shareholder interests and delivery for stakeholders, including customers and the environment. It also reassures shareholders and customers that some/all of the deferred bonus could ultimately be withheld if during the holding period this is deemed necessary.		
Shareholding guidelines	It is important that each executive director builds and maintains a significant shareholding in shares of the company to provide alignment with shareholder interests (during and after employment) and as a demonstration that the company is being run for the long-term benefit of all its stakeholders, including customers and the environment.		

Key:

The best service to customers
At the lowest sustainable cost
In a responsible manner
Communities
Customers
Environment
Investors
Suppliers

Regulatory accounts

In determining the outcome of the incentive schemes, standards of performance are assessed by the committee to ascertain whether targets have been achieved. In addition, the committee also considers relevant reports from Ofwat in assessing the achievement of standards of performance.

The data required to report on the delivery of our performance commitments and other commitments has been developed to be a subset of our routine and often long standing operational and management information that is directly used to support and direct key business activities. We have also established a centralised reporting function, which has accountability for both assuring the quality of the data and for providing a central source of management information which can be used by many areas of the business.

Executive directors' remuneration 2021/22

	Base salary £'000	Benefits £'000	Cash allowance in lieu of pension £'000	Bonus (1) £'000	Long-term incentives (2) £'000	2021/22 Total £'000
Steve Mogford	784	23	173	727	1,471	3,178
Phil Aspin	405	21	49	452	113	1,040

(1) 50 per cent of each executive director's bonus was to be deferred into shares for three years under the Deferred Bonus Plan (DBP) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

(2) See page 168 for further detail on the long-term incentives

A recharge of £231,000 during the year ended 31 March 2022 (2021: £221,000) was charged to other companies in the United Utilities group in relation to the provision of executive director services (£177,000 (2021: £168,000)) and non-executive director services (£55,000 (2021: £53,000).

2021/22 annual bonus

Cash bonuses are earned by reference to performance in the financial year, are paid in June following the end of the financial year and are subject to recovery provisions for two years.

At least fifty per cent of any bonus is deferred into shares under the Deferred Bonus Plan. These awards vest after three years and are subject to withholding provisions during the deferral period.

The performance measures, targets and outcomes in respect of the executive directors' annual bonus for the year ended 31 March 2022 are set out below.The measures used reflect material weightings to delivery for customers and the environment. The table on page 168 summarises how the performance measures are linked to our business strategy, including delivery for customers and the environment.

The committee was satisfied that the bonus scorecard outcome was reflective of overall company performance during the year and was aligned with the delivery of outcomes for our stakeholders and, as such, it would not seek to exercise its discretion over the bonuses for the executive directors. Prior to the committee determining the individual bonus outcomes for the executive directors, Steve Mogford expressed his wish to unconditionally waive £150,000 of any bonus that would otherwise have been due, and so this is reflected in the details shown in the table below.

Measure	Max. %	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)	Actual	Actual %
Underlying operating profit(1)	25.0%	£708.8m	£738.8m	£758.8m	£768.2m	25%
Customer service in year:						
C-Mex ranking out of the 17 water companies	10.0%	8th position	6th position	4th position	7th position	3.8%
Written complaints	10.0%	20.5	20.25	20.00	17.65	10.0%
Maintaining and enhancing services for customers:						
Outcome delivery incentive (ODI) composite	35.0%	£10.0m	£18.4m	£26.9m	£23.1m(3)	27.2%
Time, cost and quality of capital programme (TCQi)(2)	20.0%	85%	90%	95.0%	95.6%	20.0%
Total scorecard outcome:						**86.0%**

					Steve Mogford[4]	Phil Aspin
Actual award (% of maximum)					71.3%	86.0%
Maximum award (% of base salary)					130%	130%
Actual award (% of salary)					92.7%	111.7%
Actual award (£000)					727	452

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

(2) The outcome of the ODI composite measure has been subject to independent external assurance.

(3) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required quality standard. It is expressed as a percentage, with a higher percentage representing better performance.

(4) Steve Mogford informed the committee that he wished to unconditionally waive £150,000 of his 2021/22 bonus. This is reflected in the details shown.

For each of these bonus measures there was a threshold level of performance which triggered a partial payment of bonus with a sliding scale providing for achievement of up to 100 per cent of the relevant element of bonus.

Long-term incentives

2019 Long Term Plan (LTP) awards vesting in relation to 2021/22

The 2019 LTP awards were granted in June 2019 and performance was measured over the three-year period from 1 April 2019 to 31 March 2022. As they were executive directors when the awards were granted in 2019 it will normally vest following an additional holding period so that the overall vesting period is at least five years from the grant date, and the unvested shares will remain subject to withholding provisions during this two-year holding period. Phil Aspin was not an executive director when his award was granted and so in line with the remuneration policy this historic award will vest once the final outcome is confirmed. Under the shareholding guidelines he will be required to hold the vesting shares (on a net of tax basis).

Performance against each of the three measures applicable to the 2019 LTP has been very strong as shown in the table below. Note that the final outcome for the customer service excellence measure (which forms one-third of the award) will not be known until the customer service scores for the other water and wastewater companies are published in late summer 2022.

Performance measure	Weighting	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)	Actual	Estimated % achievement
Relative Total Shareholder Return (TSR) TSR versus median TSR of FTSE 100 companies (excluding financial services, oil and gas, and mining companies)	33.3%	Median TSR	Straight-line between threshold and stretch	Median TSR x 1.15	48.1	33.3% out of 33.3% (Actual)
Return on Regulated Equity (RoRE) Average RoRE compared to the average allowed return set by the regulator across the three-year performance period	33.3%	Average RoRE of -0.50% below the average allowed return	Average RoRE equal to the average allowed return set by the regulator	Average RoRE of 1.00% above the average allowed return	Average RoRE of 6.10% was 1.64% above the average allowed return	33.3% out of 33.3% (Actual)
Customer service excellence Ranking for the year ended 31 March 2022 out of the 11 water and wastewater using a combined customer service measure comprising C-MeX performance and customer complaints	33.3%	Median rank (6th position)	Straight-line between threshold and stretch	Upper quartile rank (3rd position)	2nd position (Estimated)	33.3% out of 33.3% (Estimated)

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Overall underpin: Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period		✓ Assumed met. The committee will make a final assessment of the company's performance once the outcome of the customer service excellence measure is known.	
Estimated vesting			**100%**

Details of the number of 2019 LTP award shares vesting and the value of those vesting shares are as follows:

Director	Number of shares vesting 2019 LTP(1)	Value of shares vesting 2019 LTP(2) £000
Steve Mogford	138,222	1,471
Phil Aspin	10,597	113

(1) The 2019 Long Term Plan (LTP) awards were granted in June 2019. The performance period started on 1 April 2019 and ended on 31 March 2022. The number and value of the vested 2019 LTP awards in the table above is estimated pending the final outcome of the customer service excellence measure, expected to be published in late summer 2022. Awards granted for Steve Mogford will normally vest following an additional holding period. The awards accrue dividend equivalents.

(2) The value of the 2019 LTP awards has been calculated by multiplying the number of shares vesting by the average share price over the three month period 1 January 2022 to 31 March 2022 (1,064.4 pence per share)

2021 LTP awards granted during 2021/22

LTP awards made during the year were based on two equally weighted components: Return on Regulated Equity (RoRE) and a customer basket of measures. Stretching targets were set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance. When determining the measures that should form the customer basket component of the awards the committee took into account feedback received from customer research and focus groups (as to which areas of service and performance they considered the highest priority) and the performance commitments agreed with Ofwat in the final determination for the regulatory period, thereby ensuring that the measures selected reflected the views and priorities of key stakeholders. The committee is pleased that alongside focusing on areas of performance that will have meaningful and tangible outcomes for customers, the measures chosen reflect its commitment to recognizing evolving expectations in regard to environmental, social and governance matters.

Details about the 2021 LTP performance measures and targets are shown in the following table. Performance is measured over the three-year period 1 April 2021 to 31 March 2024.

Performance measured	Targets(1) Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Return on Regulated Equity (RoRE)			
Company RoRE	Equal to the average of Ofwat's allowed RoRE over the three financial years of the performance period	1.5% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	50.0%
Customer basket of measures(2)			
C-MeX ranking out of all the other water and wastewater companies(3)	Ranked 8th	Ranked 4th or better	5.0%
Water poverty(3)	64,300 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%

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Priority services[3]	No threshold target. Stretch target must be achieved for any vesting on this measure	6.3% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 19.89 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents[4]	22.40 pollution incidents per 10,000km of our wastewater network	12.21 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	99.0% (or greater) compliance	5.0%
Water quality contacts[4]	13.5 customer contacts per 10,000 customers	12.0 (or fewer) customer contacts per 10,000 customers	5.0%
Leakage[3]	A three-year average of 97.7 megalitres of leakage per 10,000km of our water network per day	A three-year average of 94.3 megalitres (or less) of leakage per 10,000km of our water network per day	5.0%
Compliance risk index (CRI)[4]	CRI score of 3.27	CRI score of 2.00 (or less)	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3* rating	4* rating	5.0%
Total			**100%**

Overall underpin

Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance

(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination

(3) Outcome based on performance in respect of the year ending 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2022/23

(4) Outcome based on performance in respect of the calendar year ending 31 December 2023 as published in our own and/or the other water companies' Annual Performance Reports for 2023/24

(5) Outcome based on performance in respect of the calendar year ending 31 December 2022 as published in the Environment Agency's published report in 2024

Directors' remuneration 2022/23

Ensuring alignment with our business plan

The performance measures used in the incentive schemes during 2022/23 will remain aligned directly with the business plan, with a material weighting on measures that are linked to delivery for customers and the environment.

Annual bonus in respect of the financial year commencing 1 April 2022

The maximum bonus opportunity for the year commencing 1 April 2022 will remain unchanged at 130 per cent of base salary.

The measures used in our annual bonus arrangements for executive directors demonstrate significant alignment to stakeholder interests, including customers and the environment. In 2022/23 we will retain many of those measures but have also decided to introduce a number of new measures which further demonstrate our intention to incentivise stretching performance delivery for customers, including on our environmental commitments and obligations.

New annual bonus measures for 2022/23

Measure	Why it's being introduced
Water quality contacts (appearance)	Customers expect the water that comes out of their tap to be clear, and when it is discoloured it can affect public confidence in the water supply. This new measure will drive improvements in our performance in this aspect of our service, as we know it is a priority for our customers.

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Better Rivers commitments	Improving river health and recreation in the North West is a priority for the company. We have published a four-part plan setting out how we will achieve this for the benefit of customers, the environment and other stakeholders. This new measure will focus on the delivery of our programme milestones.
Capital programme delivery incentive (CPDi)	The new CPDi measure is an evolution of the Time, Cost and Quality (TCQi) measure we have used in recent years, in which the time, cost and quality of our capital programme delivery remains important, but with an increased emphasis on efficiency. CPDi also takes account of the carbon impact of our enhancement projects, providing a further environmental element to the annual bonus arrangements.

The table below summarises the measures, weightings and targets for the 2022/23 bonus. Targets that are considered commercially sensitive will be disclosed retrospectively in next year's report.

Measure	Max. %	Threshold (25% vesting)	Intermediate (50% vesting)	Stretch (100% vesting)
Underlying operating profit[1]	25.0%	Commercially sensitive		
Customer service in year:				
C-Mex ranking out of the 17 water companies	10.0%	8th position	7th position	5th position
Written complaints per 10,000 customers	5%	17.50	17.10	16.80
Water quality contacts (appearance)	10.0%	7,604	6,974	6,344
Maintaining and enhancing services for customers:				
Better Rivers commitments (% of 2022/23 programme milestones delivered)	10.0%	90.0%	95.0%	100%
Outcome delivery incentive (ODI) composite	25.0%	Commercially sensitive		
Capital programme delivery incentive (CPDi)	15.0%	80.0%	85.0%	95.0%

(1) Underlying operating profit for bonus purposes excludes infrastructure renewals expenditure and property trading.

2022 LTP awards with a performance period ending 31 March 2025

Awards are expected to be made in July 2022, following approval of the new Long Term Plan 2022 at the 2022 AGM and the award level for executive directors will remain unchanged at 130 per cent of base salary.

Consistent with the approach last year the awards will be based on Return on Regulated Equity and a customer basket of measures, with each component being equally weighted at 50 per cent.

Stretching targets will be set for the RoRE measure taking into account the allowed return over the period (as set out in the final determination) and the expected returns to be generated through financial and operational performance.

In respect of the customer basket, the approach used to date means that award outcomes are directly attributable to clearly identified customer, environmental and social measures, including those which are within scope of our key regulators.

In our 2022 LTP we will introduce four measures covering four priority areas of our carbon agenda, each with an equal weighting of 2.5 per cent, so that 10 per cent of the overall LTP outcome is directly related to carbon-related performance. In the longer term, as we further mature our carbon plan, we aspire to introducing one or two holistic carbon measures that are directly aligned to our SBTs for 2030.

To create space for the new carbon measures we have removed the C-MeX and water quality contacts measures used in previous LTP awards on the basis that they are both covered under the 2022/23 annual bonus. With these new carbon measures, the whole of the customer basket now focuses executives on areas of performance that are in the interests of customers and have an environmental or social impact.

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Performance measured	Targets[1] Threshold (25% vesting)	Stretch (100% vesting)	Weighting
Return on Regulated Equity (RoRE)			
Company RoRE	0.25% above the average of Ofwat's allowed RoRE over the three financial years of the performance period	2.0% (or more) above the average of Ofwat's allowed RoRE over the three financial years of the performance period	50.0%
Customer basket of measures[2]			
Carbon – green fleet	170 electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	200 (or more) electric or other low carbon vehicles will be deployed in our fleet by 31 March 2025	2.5%
Carbon – peatland restoration	527 hectares of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	644 hectares (or more) of peatland will be restored and certified to the Peatland Carbon Code (or equivalent standard) by 31 March 2025	2.5%
Carbon – woodland creation	77 hectares of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard) by 31 March 2025	94 hectares (or more) of woodland will be created and certified to the Woodland Carbon Code (or equivalent standard)	2.5%
Carbon – supply chain engagement	No threshold target. Stretch target must be achieved for any vesting on this measure	66% (or more) of suppliers, by emissions within scope 3 capital goods, will have science-based targets by 31 March 2025	2.5%
Water poverty[3]	66,500 customers have been lifted out of water poverty	83,900 (or more) customers have been lifted out of water poverty	5.0%
Priority services[3]	No threshold target. Stretch target must be achieved for any vesting on this measure	7.0% (or more) of our customers are listed on the Priority Services Register	5.0%
Sewer flooding incidents[3]	A combined total of 26.38 sewer flooding incidents per 10,000 connected properties	A combined total of 18.85 (or fewer) sewer flooding incidents per 10,000 connected properties	5.0%
Pollution incidents[4]	19.50 pollution incidents per 10,000km of our wastewater network	11.80 (or fewer) pollution incidents per 10,000km of our wastewater network	5.0%
Treatment works compliance[4]	97.9% compliance	99.0% (or greater) compliance	5.0%
Compliance risk index (CRI)[4]	CRI score of 2.75	CRI score of 2.00 (or less)	5.0%
Leakage[3]	A three-year average of 93.1 megalitres of leakage per 10,000km of our water network per day	A three-year average of 90.5 megalitres (or less) of leakage per 10,000km of our water network per day	5.0%
The Environment Agency's Environmental Performance Assessment (EPA) rating[5]	3* rating	4* rating	5.0%
Total			**100%**

Overall underpin

Overall vesting is subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance and that the company's dividend policy has been delivered in respect of each financial year of the performance period.

(1) Straight-line vesting applies between the threshold and stretch targets, with nil vesting below threshold performance
(2) The customer basket of measures are based on the performance commitment definitions as per the AMP7 final determination
(3) Outcome based on performance in respect of the year ending 31 March 2025 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(4) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in our own and/or the other water companies' Annual Performance Reports for 2024/25
(5) Outcome based on performance in respect of the calendar year ending 31 December 2024 as published in the Environment Agency's published report in 2025

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RING-FENCING CERTIFICATE (RFC) UNDER PARAGRAPH P30 OF CONDITION P OF THE COMPANY'S INSTRUMENT OF APPOINTMENT

In the opinion of the Board of United Utilities Water:

(1) United Utilities Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the next twelve months;
(2) United Utilities Water Limited will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve months;
(3) United Utilities Water Limited has available to it sufficient rights and resources other than financial resources, as required by paragraph P14 of the company's instrument of appointment; and
(4) all contracts entered into between United Utilities Water Limited and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to United Utilities Water Limited, to ensure that it is able to carry out the Regulated Activities;

STATEMENT UNDER PARAGRAPH P33 OF CONDITION P OF THE INSTRUMENT OF APPOINTMENTS

In providing this opinion under paragraph P30 of the Licence, the Directors have considered many factors, which fully incorporate the 28 factors listed by Ofwat in Information Notice IN20/01 as the minimum factors to consider. The list of factors considered, include, but is not limited to:

Financial resources and facilities	• UUW's financial position at 31 March 2022 as represented by the statutory and regulatory accounts • UUW's IFRS pension surplus of £771m, fully-funded on a low dependency basis • UUW's projected cash flows as represented by the business plan, budget and treasury funding plan, which incorporates the estimated impact of current high levels of inflation • UUW's expected performance against the 2020-25 Final Determination, underpinned by its historical track-record • UUW's current liquidity position with £657m of available liquidity at March 2022 • UUW's capital solvency position with a net debt to RCV gearing ratio of 65% as at March 2022. • UUW's robust credit rating position with unsecured senior debt ratings of Moody's A3; S&P BBB+ and Fitch A-, with all ratings on stable outlook • UUW's compliance with its financial covenants • UUW's long-term viability statement of seven years, included within the 2021/22 APR
Management resources	• Organisational capability reviews, forming basis of broad recruitment plans, ensure the right supply of management skills, experience, qualifications and capabilities to respond to the needs of the business • High employee engagement, evidenced by scores regularly above the UK norm and this year significantly above UKHP norm, supporting employee retention and wellbeing • Succession plan maintained for all executive directors and team, including outline timescales • Training and personal development programmes exist for all employees, enabling the development or maintenance of skills appropriate for their role • Board appointments and succession planning overseen by Nomination Committee (100% non-executive directors), applying board diversity policy to ensure balance of experience, skills and perspectives • Equality and diversity policy and action plan supports our intention of providing equality for all our employees in a diverse working environment • The strategy of the company set by the board, including the company's approach to business planning, risk management and the development of policies including health and safety • Non-executive directors considered to be independent when assessed against Provision 10 of the 2018 UK Corporate Governance Code and in accordance with the relevant Board Leadership, Transparency and Governance (BLTG) objectives and provisions • The chairman was independent on appointment when assessed against Provision 10 and in accordance with the relevant BLTG objectives and provisions
Systems of planning and internal control	• Established risk management framework including the governance and reporting structure • Biannual board review of the principal risk and uncertainties facing the business and mitigating controls • Board supported by the Group Audit and Risk Board (GARB) which review and monitor compliance with governance processes, risk management and the internal control framework • UUG Audit Committee approves annual audit plan of work, underpinned by five-year strategic plan, with findings reported back to them • Business continuity system aligned to International standards best practice, with plans addressing loss of buildings, people, systems and key services and updated to reflect our enhanced ability to support remote working for office staff • Policies to prevent unethical behaviours including an anti-fraud policy, anti-bribery and corruption policy, whistleblowing policy and security policy, supported by an independently provided, confidential, whistleblowing hotline

Regulatory accounts

	• Dedicated employee voice panel sponsored by Non Exec Director Alison Golligher enabling the Board to have a close and regular check in with employees and a clear temperature check of the employee voice. • Published assurance framework used to support assurance statements supporting key regulatory submissions. • Compliance working group actively maintains a log of key obligations that are referred to within the risk and compliance statement, with each obligations linked policy having a senior named owner
Rights and resources other than financial resources	• Clear purpose to provide great water and more for the North West • Clear vision to be the best UK water and wastewater company • Underpinned by our core values of being customer focused; innovative and trustworthy; and our strategic themes of delivering the best service to customers at the lowest sustainable cost in a responsible manner • Committed to a long term strategy, embracing systems thinking in how we run our service • Monitoring and control technology systems cover real-time monitoring of our water and wastewater systems, ensuring continuing operations • Key policies encouraging an integrated and consistent approach, including policies on Risk Management, Asset Management and the Environment • Well-established approach to water production planning with real-time central tracking of site production capacities and water demand forecasting • Comprehensive asset maintenance plans, developed on a risk basis with high criticality assets receiving additional preventative maintenance activities • Operational insurance policies protect against material financial loss on insurable risks, supplemented by appropriate levels of self-insurance ensuring ongoing focus on internal-risk management
Contracting	• Major contracts, typically 5+ years, completed with financial robust organisations which have been thoroughly tested through our procurement processes, with flexibility to use alternative suppliers to ensure continuous service • In line with UUW's transfer pricing policy, all intercompany trading relationships must have a contract in place with defined Service Level Agreements (SLAs) • Transactions between the appointee and any associated company are completed at arm's length in accordance with UUW's transfer pricing policy and Licence Condition P19 • The APR includes a list of all transactions between the appointee and associated companies in line with RAG 3.13 • No guarantees or cross-default obligations have been given without Ofwat's written consent
Material issues or circumstances	• We are not aware of any further material issues or circumstances that could impact our ability to carry-out our regulatory activities for the next year

In addition to taking all of the above into account, in accordance with Condition P35 the company's instrument of appointment, UUW engaged with KPMG to examine the RFC in conjunction with the completion of their audit of the Regulatory Accounting Statements within the Company's regulatory accounts for the year ended 31 March 2022. KPMG presented a report to the UUW board stating whether they were aware of any inconsistencies between the RFC and their findings arising from their audit or any information they obtained in the course of their work as the company's auditors. A copy of KPMG's RFC report is included in appendix 1.

This is certificate was approved by the board and signed on its behalf by:

Philip Aspin

Phil Aspin
Chief Financial Officer
12 July 2022

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Pro forma tables not subject to KPMG audit opinion

This section of the UUW Annual Performance Report provides a copy of the pro-forma tables in section 3 to 11, that Ofwat require all companies to publish, that have not been subject to financial audit opinion. The information within these tables has been subject to detailed governance and assurance by either KPMG or Jacobs (our non financial auditor), with the nature and findings of the assurance being set out in Appendix 1 Assurance summary and findings.

The list of data tables is shown below.

Section 3 – Performance Summary	
Pro forma 3A	Outcome performance - wastewater performance commitments (financial) (some redacted information)
Pro forma 3B	Outcome performance - wastewater performance commitments (financial) (some redacted information)
Pro forma 3C	Customer measure of experience (C-MeX) table
Pro forma 3D	Developer services measure of experience (D-MeX) table
Pro forma 3E	Outcome performance - Non financial performance commitments
Pro forma 3F	Underlying calculations for common performance commitments – water and retail
Pro forma 3G	Underlying calculations for common performance commitments – wastewater
Pro forma 3H	Summary information on outcome delivery incentive payments
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Section 4: Additional regulatory information – Service level	
Pro forma 4A	Water bulk supply information
Pro forma 4B	Analysis of debt – Omitted from inclusion within Regulatory Accounts due to size in adherence with RAG 3.13
Pro forma 4C	Impact of price control performance to date on RCV
Pro forma 4D	Totex analysis – water resources and water network+
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Pro forma 4F	Major project expenditure for wholesale water by purpose
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Pro forma 4K	Base expenditure analysis –wastewater network+ and bioresources
Pro forma 4L	Enhancement expenditure analysis – water resources and water network+
Pro forma 4M	Enhancement expenditure analysis –wastewater network+ and bioresources
Pro forma 4N	Developer services expenditure – water resources and water network+
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Pro forma 4P	Expenditure on non-price control diversions
Pro forma 4Q	Developer Services – new connections, properties and mains
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Pro forma 4S	Green recovery expenditure – water resources and water network+
Pro forma 4T	Green recovery expenditure – wastewater network+ and bioresources
Pro forma 4U	Impact of Green Recovery on RCV

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Section 5: Additional regulatory information – water resources	
Pro forma 5A	Water resources asset and volume data
Pro forma 5B	Water resources operating cost analysis

Section 6: Additional regulatory information – water network+	
Pro forma 6A	Raw water transport, raw water storage and water treatment
Pro forma 6B	Treated water distribution operations - assets and Water resources operating cost analysis
Pro forma 6C	Water network+ - Mains, communication pipes and other data
Pro forma 6D	Demand management - Metering and data leakage activities
Pro forma 6E	WRMP annual reporting on delivery - non-leakage activities

Section 7: Additional regulatory information – wastewater network+	
Pro forma 7A	Wastewater network+ - Functional expenditure
Pro forma 7B	Wastewater network+ - Large sewage treatment works
Pro forma 7C	Wastewater network+ - Sewer and volume data
Pro forma 7D	Wastewater network+ - Energy consumption and other data
Pro forma 7E	Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers

Section 8: Additional regulatory information – wastewater network+	
Pro forma 8A	Bioresources sludge data
Pro forma 8B	Bioresources operating expenditure analysis
Pro forma 8C	Bioresources energy and liquors analysis
Pro forma 8D	Bioresources sludge treatment and disposal data

Section 9: Additional regulatory information – innovation competition	
Pro forma 9A	Innovation competition

Section 10: Additional regulatory information – green recovery	
Pro forma 10A	Green recovery data capture
Pro forma 10B	Water common performance commitments relevant to green recovery
Pro forma 10C	Wastewater common performance commitments relevant to green recovery
Pro forma 10D	Bespoke performance commitments relevant to green recovery
Pro forma 10E	Green recovery data capture reconciliation model input

Section 11: Operational greenhouse gas emissions reporting	
Pro forma 11A	Green recovery data capture reconciliation model input

Keys to cells

- Input cell
- Calculation cell
- Copy cell

Commentary is also provided for tables 3A-3I, 4A, 4F, 4G, 4L,4M, 4Q-4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A within the supporting commentary document which is published on our website

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Section 3 Performance summary

Pro forma 3A Outcome performance - water performance commitments (financial)

Line description	Unique reference	Unit	Decimal places	Performance level - actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m	RAG 4 reference
Common PCs - Water (Financial)								
Water quality compliance (CRI)	PR19UUW_A01-CF	number	2	3.02	No	-1.148		3A.1
Water supply interruptions	PR19UUW_B03-WN	hh:mm:ss		00:07:58	No	-1.711		3A.2
Leakage	PR19UUW_B01-WN	%	1	4.7	Yes	1.825		3A.3
[For use by NES and SSC only]								3A.3
Per capita consumption	PR19UUW_B05-WN	%	1	-1.5	No	0.000		3A.4
[For use by SSC only]								3A.4
Mains repairs	PR19UUW_B02-WN	number	1	96.0	Yes	2.930		3A.5
Unplanned outage	PR19UUW_B04-CF	%	2	2.07	Yes	0.000		3A.6
Bespoke PCs - Water and Retail (Financial)								
Reducing water quality contacts due to taste, smell and appearance	PR19UUW_A02-WN	nr	1	17.9	No	-4.733		3A.7
Number of properties with lead risk reduced	PR19UUW_A03-WN	nr		3525	Yes	3.388		3A.8
Helping customers look after water in their home	PR19UUW_A04-WN	%	1	23.8	Yes	1.445		3A.9
Reducing discolouration from the Vyrnwy treated water aqueduct	PR19UUW_A05-WN	nr	2	0.00	Yes	0.000		3A.10
Reducing areas of low water pressure	PR19UUW_B07-WN	nr	3	0.513	Yes	0.071		3A.11
Water service resilience	PR19UUW_B08-WN	nr		915	Yes	1.928		3A.12
Manchester and Pennine resilience	PR19UUW_B09-DP	control		0	Yes	0.000		3A.13
Keeping reservoirs resilient	PR19UUW_B10-WR	risk	5	0.00000	Yes	0.000		3A.14
Thirlmere transfer into West Cumbria (AMP7)	PR19UUW_B11-WN	%		99	No	-2.340		3A.15
Abstraction incentive mechanism	PR19UUW_C03-WR	Ml	1	-134.4	Yes	0.048		3A.16
Improving the water environment	PR19UUW_C04-WR	nr		62	Yes	0.000		3A.17
Number of customers lifted out of water poverty	PR19UUW_E01-HH	nr		77312	Yes	2.643		3A.18
Voids	PR19UUW_E10-HH	%	2	4.51	Yes	6.024		3A.19
Non-household vacancy incentive scheme	PR19UUW_E03-CF	nr		14519	Yes	1.975		3A.20
Gap sites (Wholesale)	PR19UUW_E04-CF	nr		1912	Yes	0.585		3A.21
Gap sites (Retail)	PR19UUW_E05-HH	nr		7455	Yes	0.097		3A.22
Successful delivery of direct procurement of Manchester and Pennine resilience	PR19UUW_E07-DP	nr		0	Yes	0.000		3A.23
Financial water performance commitments achieved		%			78			3A.27
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%			78			3A.28

Regulatory accounts

Pro forma 3B Outcome performance - wastewater performance commitments (financial)

Line description	Unique reference	Unit	Decimal places	Performance level - actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m	RAG 4 reference
Common PCs - Wastewater (Financial)								
Internal sewer flooding	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	2	2.98	No	-9.114		3B.1
Pollution incidents	PR19UUW_C01-WWN	Pollution incidents per 10,000 km of sewer length	2	17.71	Yes	4.552		3B.2
Sewer collapses	PR19UUW_F01-WWN	Number of sewer collapses per 1,000 km of all sewers	2	13.70	Yes	0.000		3B.3
Treatment works compliance	PR19UUW_C02-CF	%	2	98.98	No	-0.030		3B.4
Bespoke PCs - Wastewater (Financial)								
Improving river water quality	PR19UUW_C05-WWN	nr		0	Yes	0.000		3B.5
Protecting the environment from the impact of growth and new development	PR19UUW_C06-WWN	nr		94	No	0.000		3B.6
Enhancing natural capital value for customers	PR19UUW_C08-CF	£m	3	2.508	Yes	0.379		3B.7
Recycling biosolids	PR19UUW_C09-BR	%	2	100	Yes	0.000		3B.8
Better air quality	PR19UUW_C10-BR	nr	2	1.19	Yes	0.619		3B.9
Sewer blockages	PR19UUW_F02-WWN	nr		20368	No	-0.056		3B.10
External flooding Incidents	PR19UUW_G03-WWN	nr		6223	Yes	2.019		3B.11
Raising customer awareness to reduce the risk of flooding	PR19UUW_G04-WWN	%	1	17.4	Yes	1.152		3B.12
Hydraulic internal flood risk resilience	PR19UUW_G05-WWN	nr	2	40.61	Yes	7.648		3B.13
Hydraulic external flood risk resilience	PR19UUW_G06-WWN	nr	2	184.04	Yes	2.028		3B.14
Financial wastewater performance commitments achieved		%			71			3B.19

Regulatory accounts

Pro forma 3C Customer measure of experience (C-MeX) table

Item	Unit	Value	RAG 4 reference
Annual customer satisfaction score for the customer service survey	Number	81.82	3C.1
Annual customer satisfaction score for the customer experience survey	Number	82.19	3C.2
Annual C-MeX score	Number	82.01	3C.3
Annual net promoter score	Number	34.00	3C.4
Total household complaints	Number	19335	3C.5
Total connected household properties	Number	3,327,779	3C.6
Total household complaints per 10,000 connections	Number	58.102	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Regulatory accounts

Pro forma 3D Developer services measure of experience (D-MeX) table

Item	Unit	Value	RAG 4 reference
Qualitative component annual results	Number	77.38	3D.1
Quantitative component annual results	Number	99.43	3D.2
D-MeX score	Number	88.40	3D.3
Developer services revenue (water)	£m	19.861	3D.4
Developer services revenue (wastewater)	£m	8.223	3D.5

Regulatory accounts

Pro forma 3E Non financial performance commitments

Line description	Unique reference	Unit	Decimal places	Performance level - actual	PCL met?	RAG 4 reference
Common						
Risk of severe restrictions in a drought	PR19UUW_B06-CF	%	1	0.0	Yes	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	PR19UUW_D03-HH	%	1	5.9	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	PR19UUW_D03-HH	%	1	93.3	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19UUW_D03-HH	%	1	50.7	Yes	3E.4
Risk of sewer flooding in a storm	PR19UUW_G01-WWN	%	2	13.35	Yes	3E.5
Bespoke PCs						
Street works performance	PR19UUW_D04-CF	%	2	12.67	No	3E.6
Priority Services- BSI accreditation	PR19UUW_D05-HH	text		Maintained	Yes	3E.7
Systems thinking capability	PR19UUW_E06-CF	nr		2.00	Yes	3E.8
Customers say that we offer value for money	PR19UUW_E09-HH	%		79	Yes	3E.9
Non-financial performance commitments achieved		%			89	3E.29

Regulatory accounts

Pro forma 3F Underlying calculations for common performance commitments – water and retail

Table is provided within the APR tables file.

www.unitedutilities.com/globalassets/documents/pdf/performance-summary-tables-2022

Regulatory accounts

Pro forma 3G Underlying calculations for common performance commitments – wastewater

Line description	Unique reference	Unit	Standardising data indicator	Standardising data numerical value	Performance level - actual current reporting year	Calculated performance level	RAG 4 reference
Performance commitments set in standardised units							
Internal sewer flooding - customer proactively reported	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,434.07	794	2.31	3G.1
Internal sewer flooding - company reactively identified (ie neighbouring properties)	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,434.07	229	0.67	3G.2
Internal sewer flooding	PR19UUW_G02-WWN	Number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	3,434.07	1,023	2.98	3G.3
Pollution incidents	PR19UUW_C01-WWN	Pollution incidents per 10,000 km of sewer length	Sewer length in km	77,339.00	137	17.71	3G.4
Sewer collapses	PR19UUW_F01-WWN	Number of sewer collapses per 1,000 km of all sewers	Sewer length in km	78,846.00	1,080	13.70	3G.5

Regulatory accounts

Pro forma 3H Summary information on outcome delivery payments

Line description	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)	RAG 4 reference
Initial calculation of in period revenue adjustment by price control		
Water resources	-0.03	3H.1
Water network plus	3.07	3H.2
Wastewater network plus	9.79	3H.3
Bioresources (sludge)	0.64	3H.4
Residential retail	8.76	3H.5
Business retail	0.00	3H.6
Dummy control	0.00	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	0.00	3H.8
Water network plus	-2.30	3H.9
Wastewater network plus	-0.15	3H.10
Bioresources (sludge)	0.00	3H.11
Residential retail	0.00	3H.12
Business retail	0.00	3H.13
Dummy control	0.00	3H.14
Initial calculation of end of period RCV adjustment by price control		
Water resources	0.00	3H.15
Water network plus	0.00	3H.16
Wastewater network plus	0.00	3H.17
Bioresources (sludge)	0.00	3H.18
Residential retail	0.00	3H.19
Business retail	0.00	3H.20
Dummy control	0.00	3H.21

Regulatory accounts

Pro forma 3I Supplementary outcomes information

Line description	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 reference
Unplanned or planned outage				
Planned outage	3,372.93	266.45	7.90%	3I.1

	4	5	6	7	8	9	
Line description	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	
Risk of severe restrictions in drought							
Risk of severe restrictions in drought	1.996.1	102.90	1,754.10	104.10	7,338.22	0.00	3I.2

	10	11	12	13	14	15	16	17	18	19	
Line description	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Vulnerability risk grade Low	Vulnerability risk grade Medium	Vulnerability risk grade High	
								Percentage of total population served			
Risk of sewer flooding in a storm											
Risk of sewer flooding in a storm	7,673,612.30	107,039.08	1.39%	0.00	0.00%	7,566,573.22	98.61%	86.65%	7.55%	5.80%	3I.3

	20	
Line description	Number of patch repairs or relining undertaken on sewer and not included in reported sewer collapses.	
Sewer collapses		
Sewer collapses	245	3I.4

Regulatory accounts

Section 4 Additional regulatory information

Pro forma 4A Water bulk supply information

For the 12 months ended 31 March 2022

Line description	Volume	Operating costs	Revenue	RAG 4 reference
Units	Ml	£m	£m	
DPs	3	3	3	
Bulk supply exports				
Heronbridge	3,576.923	0.254	0.379	4A.1
Peel Media City	146.015	0.111	0.181	4A.2
Leep - Liverpool International Business Park	13.518	0.012	0.023	4A.3
Severn Trent Hayfield Road	0.349	0.000	0.001	4A.4
Hafren Dyfrdwy	3.701	0.003	0.006	4A.5
Northumbria	0.655	0.001	0.001	4A.6
Severn Trent Congleton Edge	0.290	0.000	0.014	4A.7
No.1 Old Trafford	11.384	0.010	0.017	4A.8
Sitch Lane	0.000	0.000	0.000	4A.9
Llanforda	0.000	0.000	0.000	4A.10
Liverpool John Lennon Airport	12.406	0.011	0.012	4A.11
Total bulk supply exports	3,765.241	0.404	0.634	4A.26

Line description	Volume	Operating costs		RAG 4 reference
Units	Ml	£m		
DPs	3	3		
Bulk supply imports				
Northumbrian Water - Alston	204.977	0.261		4A.27
Farndon	16.470	0.007		4A.28
Oven Hill Road	1.242	0.001		4A.29
Roe Park	0.058	0.000		4A.30
Total bulk supply imports	222.747	0.269		4A.52

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Pro forma 4B Analysis of debt

For the 12 months ended 31 March 2022
Omitted from inclusion within Regulatory Accounts due to size in adherence with RAG 3.13, Section 2.7. The table is submitted to Ofwat separately, and published on the company website www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 4C Impact of price control performance to date on RCV

For the 12 months ended 31 March 2022

Line description	Units	DPs	12 months ended 31 March 2022 Water resources	Water network plus	Wastewater network plus	Bioresources	RAG 4 reference
Totex (net of business rates, abstraction licence fees and grants and contributions)							
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	£m	3	41.264	386.817	469.958	76.355	4C.1
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	£m	3	43.292	495.046	610.076	63.034	4C.2
Transition expenditure	£m	3	0.000	0.000	0.000	0.000	4C.3
Disallowable costs	£m	3	0.086	0.704	1.968	1.308	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	43.206	494.342	608.108	61.727	4C.5
Variance	£m	3	1.942	107.524	138.150	-14.628	4C.6
Variance due to timing of expenditure	£m	3	1.663	86.411	88.524	-20.007	4C.7
Variance due to efficiency	£m	3	0.279	21.113	49.626	5.379	4C.8
Customer cost sharing rate - outperformance	%	2	50.00%	50.00%	50.00%	0.00%	4C.9
Customer cost sharing rate - underperformance	%	2	50.00%	50.00%	50.00%	0.00%	4C.10
Customer share of totex overspend	£m	3	0.140	10.557	24.813	0.000	4C.11
Customer share of totex underspend	£m	3	0.000	0.000	0.000	0.000	4C.12
Company share of totex overspend	£m	3	0.140	10.557	24.813	5.379	4C.13
Company share of totex underspend	£m	3	0.000	0.000	0.000	0.000	4C.14
Totex - business rates and abstraction licence fees							
Final determination allowed totex - business rates and abstraction licence fees	£m	3	35.999	48.800	21.505	6.301	4C.15
Actual totex - business rates and abstraction licence fees	£m	3	34.746	47.218	19.163	6.035	4C.16
Variance - business rates and abstraction licence fees	£m	3	-1.253	-1.582	-2.342	-0.266	4C.17
Customer cost sharing rate - business rates	%	2	75.00%	75.00%	75.00%	75.00%	4C.18
Customer cost sharing rate - abstraction licence fees	%	2	75.00%	75.00%	75.00%	75.00%	4C.19
Customer share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.940	-1.186	-1.756	-0.199	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.313	-0.395	-0.585	-0.066	4C.21
Totex not subject to cost sharing							
Final determination allowed totex - not subject to cost sharing	£m	3	5.306	27.129	0.397	0.000	4C.22
Actual totex - not subject to cost sharing	£m	3	3.653	25.196	2.063	1.332	4C.23
Variance - 100% company allocation	£m	3	-1.652	-1.933	1.666	1.332	4C.24
Total customer share of totex over/under spend	£m	3	-0.801	9.370	23.057	-0.199	4C.25
RCV							
Total customer share of totex over/under spend	£m	3	-0.801	9.370	23.057	-0.199	4C.26
PAYG rate	%	2	81.491%	70.094%	49.514%	51.201%	4C.27
RCV element of cumulative totex over/underspend	£m	3	-0.148	2.802	11.641	-0.097	4C.28
Adjustment for ODI outperformance payment or underperformance payment	£m	3					4C.29
Green recovery	£m	3					4C.30
RCV determined at FD at 31 March	£m	3					4C.31
Projected 'shadow' RCV	£m	3					4C.32

Regulatory accounts

Pro forma 4C Impact of price control performance to date on RCV

For the price control period to date

Line description	Units	DPs	Price control period to date: Water resources	Water network plus	Wastewater network plus	Bioresources	RAG 4 reference
Totex (net of business rates, abstraction licence fees and grants and contributions)							
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	£m	3	80.237	774.541	901.569	147.546	4C.1
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	£m	3	78.822	985.337	1,160.967	127.387	4C.2
Transition expenditure	£m	3	0.000	15.423	9.422	0.000	4C.3
Disallowable costs	£m	3	1.104	0.656	1.540	1.313	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	£m	3	77.718	1000.104	1168.849	126.074	4C.5
Variance	£m	3	-2.519	225.564	267.280	-21.472	4C.6
Variance due to timing of expenditure	£m	3	-2.937	199.507	190.511	-26.966	4C.7
Variance due to efficiency	£m	3	0.419	26.057	76.769	5.493	4C.8
Customer cost sharing rate - outperformance	%	2	50.00%	50.00%	50.00%	0.00%	4C.9
Customer cost sharing rate - underperformance	%	2	50.00%	50.00%	50.00%	0.00%	4C.10
Customer share of totex overspend	£m	3	0.209	13.028	38.385	0.000	4C.11
Customer share of totex underspend	£m	3	0.000	0.000	0.000	0.000	4C.12
Company share of totex overspend	£m	3	0.209	13.028	38.385	5.493	4C.13
Company share of totex underspend	£m	3	0.000	0.000	0.000	0.000	4C.14
Totex - business rates and abstraction licence fees							
Final determination allowed totex - business rates and abstraction licence fees	£m	3	70.723	95.871	42.248	12.378	4C.15
Actual totex - business rates and abstraction licence fees	£m	3	69.390	94.394	37.643	11.862	4C.16
Variance - business rates and abstraction licence fees	£m	3	-1.333	-1.478	-4.604	-0.516	4C.17
Customer cost sharing rate - business rates	%	2	75.00%	75.00%	75.00%	75.00%	4C.18
Customer cost sharing rate - abstraction licence fees	%	2	75.00%	75.00%	75.00%	75.00%	4C.19
Customer share of totex over/underspend - business rates and abstraction licence fees	£m	3	-1.000	-1.108	-3.453	-0.387	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	£m	3	-0.333	-0.369	-1.151	-0.129	4C.21
Totex not subject to cost sharing							
Final determination allowed totex - not subject to cost sharing	£m	3	8.774	52.723	1.148	0.000	4C.22
Actual totex - not subject to cost sharing	£m	3	7.332	44.673	1.983	1.360	4C.23
Variance - 100% company allocation	£m	3	-1.442	-8.050	0.835	1.360	4C.24
Total customer share of totex over/under spend	£m	3	-0.791	11.920	34.931	-0.387	4C.25
RCV							
Total customer share of totex over/under spend	£m	3	-0.791	11.920	34.931	-0.387	4C.26
PAYG rate	%	2	82.254%	68.470%	50.391%	52.145%	4C.27
RCV element of cumulative totex over/underspend	£m	3	-0.140	3.758	17.329	-0.185	4C.28
Adjustment for ODI outperformance payment or underperformance payment	£m	3	0.000	0.000	0.000	0.000	4C.29
Green recovery	£m	3	0.108	0.000	0.438		4C.30
RCV determined at FD at 31 March	£m	3	655.579	3716.617	7478.111	485.471	4C.31
Projected 'shadow' RCV	£m	3	655.547	3,720.375	7,495.878	485.286	4C.32

Table 4C apportions the customer share of totex overspend due to efficiency to the RCV. We believe that the shadow RCV should reflect accelerated/deferred spend in any given year in line with the PR19 cost reconciliation model which takes account of the timing of totex. Correcting for this, the shadow RCV is higher at £12,436 million.

Regulatory accounts

Pro forma 4D Totex analysis – water resources and water network+

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Network+ Raw water transport	Network+ Raw water storage	Network+ Water treatment	Network+ Treated water distribution	Total	RAG 4 reference
Operating expenditure									
Base operating expenditure	£m	3	67.929	16.239	1.302	102.113	211.520	399.104	4D.1
Enhancement operating expenditure	£m	3	0.445	0.014	0.001	1.356	5.406	7.221	4D.2
Developer services operating expenditure	£m	3	0.000	0.000	0.000	0.000	7.796	7.796	4D.3
Total operating expenditure excluding third party services	£m	3	68.374	16.253	1.304	103.469	224.722	414.121	4D.4
Third party services	£m	3	0.281	0.625	0.000	0.153	0.520	1.580	4D.5
Total operating expenditure	£m	3	68.655	16.879	1.304	103.622	225.241	415.702	4D.6
Grants and contributions									
Grants and contributions - operating expenditure	£m	3	0.000	0.000	0.000	0.000	5.885	5.885	4D.7
Capital expenditure									
Base capital expenditure	£m	3	5.781	0.624	0.000	65.460	46.777	118.641	4D.8
Enhancement capital expenditure	£m	3	7.181	13.325	0.000	3.857	70.909	95.272	4D.9
Developer services capital expenditure	£m	3	0.098	0.000	0.000	0.000	18.580	18.677	4D.10
Total gross capital expenditure excluding third party services	£m	3	13.059	13.948	0.000	69.317	136.266	232.590	4D.11
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.12
Total gross capital expenditure	£m	3	13.059	13.948	0.000	69.317	136.266	232.590	4D.13
Grants and contributions									
Grants and contributions - capital expenditure	£m	3	0.000	0.000	0.000	0.000	-6.064	-6.064	4D.14
Net totex	£m	3	81.714	30.827	1.304	172.939	361.686	648.470	4D.15
Cash expenditure									
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.16
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.17
Totex including cash items	£m	3	81.714	30.827	1.304	172.939	361.686	648.470	4D.18

Line description	Units	DPs	Water resources	Network+ Raw water transport	Network+ Raw water storage	Network+ Water treatment	Network+ Treated water distribution	Total	
Atypical expenditure									
Item 1	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.19
Item 2	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.20
Item 3	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.21
Item 4	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.22
Item 5	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.23
Total atypical expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4D.24

Variance analysis of operating and capital expenditure compared to the prior year can be found in our 2021/22 accounting methodology statement, published on our website alongside the APR.
www.unitedutilities.com/globalassets/documents/pdf/rr22-accounting-methodology-statement

Regulatory accounts

Pro forma 4E Totex analysis – wastewater network+ and bioresources

For the 12 months ended 31 March 2022

Line description	Units	DPs	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			Total	RAG 4 reference
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		
Operating expenditure												
Base operating expenditure	£m	3	62.672	37.988	14.532	135.153	2.847	12.642	23.375	8.873	298.083	4E.1
Enhancement operating expenditure	£m	3	0.167	0.067	0.026	1.747	0.000	0.106	0.001	0.052	2.168	4E.2
Developer services operating expenditure	£m	3	0.765	0.792	0.309	0.000	0.000	0.000	0.000	0.000	1.866	4E.3
Total operating expenditure excluding third party services	£m	3	63.605	38.847	14.867	136.900	2.848	12.749	23.377	8.925	302.118	4E.4
Total third party services	£m	3	0.034	0.002	0.001	0.059	0.002	0.006	0.012	0.003	0.118	4E.5
Total operating expenditure	£m	3	63.639	38.848	14.868	136.959	2.850	12.755	23.389	8.928	302.236	4E.6
Grants and contributions												
Grants and contributions - operating expenditure	£m	3	0.712	0.736	0.288	0.000	0.000	0.000	0.000	0.000	1.736	4E.7
Capital expenditure												
Base capital expenditure	£m	3	1.835	1.898	0.742	129.452	0.000	0.000	23.355	0.550	157.831	4E.8
Enhancement capital expenditure	£m	3	34.197	35.394	13.835	157.421	0.000	0.000	0.114	0.003	240.965	4E.9
Developer services capital expenditure	£m	3	2.850	2.949	1.153	0.000	0.000	0.000	0.000	0.000	6.952	4E.10
Total gross capital expenditure excluding third party services	£m	3	38.882	40.242	15.729	286.873	0.000	0.000	23.469	0.553	405.749	4E.11
Third party services	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.12
Total gross capital expenditure	£m	3	38.882	40.242	15.729	286.873	0.000	0.000	23.469	0.553	405.749	4E.13
Grants and contributions												
Grants and contributions - capital expenditure	£m	3	3.027	3.132	1.224	0.000	0.000	0.000	0.000	0.000	7.383	4E.14
Net totex	£m	3	98.783	75.222	29.086	423.832	2.850	12.755	46.858	9.481	698.865	4E.15
Cash expenditure												
Pension deficit recovery payments	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.16
Other cash items	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.17
Totex including cash items	£m	3	98.783	75.222	29.086	423.832	2.850	12.755	46.858	9.481	698.865	4E.18

Line description	Units	DPs	Network+			Network+		Bioresources			Total	
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		
Atypical expenditure												
Item 1	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.19
Item 2	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.20
Item 3	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.21
Item 4	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.22
Item 5	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.23
Total atypical expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4E.24

Variance analysis of operating and capital expenditure compared to the prior year can be found in our 2021/22 accounting methodology statement, published on our website alongside the APR.

www.unitedutilities.com/globalassets/documents/pdf/rr22-accounting-methodology-statement

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Pro forma 4F Major project expenditure for wholesale water by purpose
Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Pro forma 4G Major project expenditure for wholesale wastewater by purpose
We have no large projects to report in this table.

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Pro forma 4H Financial metrics

For the 12 months ended 31 March 2022

Line description	Units	DPs	Current year	AMP to date	RAG 4 reference
Financial indicators					
Net debt	£m	3	7987.483		4H.1
Regulatory equity	£m	3	4,348.295		4H.2
Regulatory gearing	%	2	64.75%		4H.3
Post tax return on regulatory equity	%	2	8.07%		4H.4
RORE (return on regulatory equity)	%	2	7.83%	6.17%	4H.5
Dividend yield	%	2	7.68%		4H.6
Retail profit margin - Household	%	2	-0.81%		4H.7
Retail profit margin - Non household	%	2	0.00%		4H.8
Credit rating - Fitch	Text	n/a	BBB+ (Stable)		4H.9
Credit rating - Moody's	Text	n/a	A3 Stable		4H.10
Credit rating - Standard and Poor's	Text	n/a	BBB+ (Stable)		4H.11
Return on RCV	%	2	5.85%		4H.12
Dividend cover	dec	2	-0.33		4H.13
Funds from operations (FFO)	£m	3	867.364		4H.14
Interest cover (cash)	dec	2	6.57		4H.15
Adjusted interest cover (cash)	dec	2	2.42		4H.16
FFO/Net debt	dec	2	0.11		4H.17
Effective tax rate	%	2	-0.23%		4H.18
Retained cash flow (RCF)	£m	3	533.625		4H.19
RCF/Net debt	dec	2	0.07		4H.20
Borrowings					
Proportion of borrowings which are fixed rate	%	2	42.70%		4H.21
Proportion of borrowings which are floating rate	%	2	5.09%		4H.22
Proportion of borrowings which are index linked	%	2	52.22%		4H.23
Proportion of borrowings due within 1 year or less	%	2	5.76%		4H.24
Proportion of borrowings due in more than 1 year but no more than 2 years	%	2	4.12%		4H.25
Proportion of borrowings due in more than 2 years but no more than 5 years	%	2	14.09%		4H.26
Proportion of borrowings due in more than 5 years but no more than 20 years	%	2	56.51%		4H.27
Proportion of borrowings due in more than 20 years	%	2	19.52%		4H.28

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Lines 9 -11 include the long-term issuer default ratings. Fitch long-term issuer default rating is BBB+ (stable), which differs from the senior unsecured debt rating of A- (stable).

Line 17 – FFO/Debt of 0.11 is calculated in accordance with the Ofwat line definition as per RAG 4.10.
UUW's FFO/Debt applying Standard & Poor's (S&P) calculation method would equal 0.09. The main difference is that S&P FFO definition includes all interest, whereas the Ofwat FFO definition includes just cash interest, so would exclude all interest on index-linked debt.

Lines 21-28 – Borrowings represents the notional value in the company's statutory accounts and does not take account of the impact on interest of derivative instruments. Further narrative regarding borrowings is disclosed on pages 145 to 146.

Lines 21-23 – The proportion of borrowings between fixed, floating and index-linked takes into account hedging arrangements in place, mirroring how borrowings are allocated to each category in Table 1E.

Regulatory accounts

Pro forma 4I Financial derivatives

At 31 March 2022

Line description	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2021)		RAG 4 reference
	0 to 1 years	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable	
Units	£m	£m	£m	£m	£m	£m	£m	%	%	
DPs	3	3	3	3	3	3	3	3	3	
Interest rate swap (sterling)										
Floating to fixed rate	300.000	575.000	804.234	653.041	2,332.275	-51.513	0.000	1.330%	0.966%	4I.1
Floating from fixed rate	0.000	0.000	450.000	1,425.000	1,875.000	-45.476	0.000	1.644%	2.831%	4I.2
Floating to index linked	0.000	0.000	0.000	575.000	575.000	47.735	33.222	5.580%	1.473%	4I.3
Floating from index linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.4
Fixed to index-linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.5
Fixed from index-linked	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000%	0.000%	4I.6
Index-linked to index-linked	0.000	0.000	0.000	100.379	100.379	-3.303	-4.073	7.902%	10.049%	4I.7
Total	300.000	575.000	1,254.234	2,753.420	4,882.654	-52.558	29.150			4I.8
Foreign Exchange										
Cross currency swap USD	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.9
Cross currency swap EUR	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.10
Cross currency swap YEN	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.11
Cross currency swap Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.12
Total	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.13
Currency interest rate										
Currency interest rate swaps USD	0.000	0.000	0.000	252.866	252.866	-127.555	0.000			4I.14
Currency interest rate swaps EUR	0.000	0.000	0.000	156.790	156.790	-1.315	0.000			4I.15
Currency interest rate swaps YEN	0.000	0.000	0.000	73.221	73.221	5.509	0.000			4I.16
Currency interest rate swaps Other	0.000	0.000	99.887	186.140	286.027	-29.794	0.000			4I.17
Total	0.000	0.000	99.887	669.017	768.904	-153.156	0.000			4I.18
Forward currency contracts										
Forward currency contracts USD	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.19
Forward currency contracts EUR	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.20
Forward currency contracts YEN	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.21
Forward currency contracts CAD	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.22
Forward currency contracts AUD	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.23
Forward currency contracts HKD	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.24
Forward currency contracts Other	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.25
Total	0.000	0.000	0.000	0.000	0.000	0.000	0.000			4I.26
Other financial derivatives										
Other financial derivatives	0.000	0.000	0.000	0.000	0.000	-114.641	0.000			4I.27
Total financial derivatives	300.000	575.000	1,354.121	3,422.437	5,651.558	-320.354	29.150			4I.28

The inclusion of all 'Other' interest rates swaps in to one line in the table (line 17) makes the calculation of a meaningful weighted average interest rate problematic. We would recommend that the weighted average interest rate is better represented by splitting the three swaps that make up the balance:

The interest rates disclosed reflect the following gross positions:
- 'RDC' rate: pay 1.39%, receive 5.02% (Notional of £54.2m)
- 'HKD' rate: pay 2.20%, receive 2.90% (Notional of £53.0m)
- 'HKD' rate: pay 1.72%, receive 2.37% (Notional of £78.9m)
- 'HKD' rate: pay 1.59%, receive 2.92% (Notional of £68.1m)
- 'HKD' rate: pay 1.87%, receive 2.867% (Notional of £31.8m)

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For certain interest rate swaps we have swapped the fixed coupon on the debt (including credit spread) to a floating interest rate plus margin, whereas for other interest rate swaps we have swapped a fixed rate representing underlying interest (i.e. debt coupon less the credit spread) to a floating interest rate without any margin. Therefore certain rates payable/receivable included in the table are market interest rates excluding any element of credit spread, whereas other rates are 'all in' effective interest rates including credit spread. Care should be taken when interpreting the rates in the table.

For certain cross currency swaps that have historically reached mandatory breaks, these have been re-hedged mid-life at on-market rates (at that point). In these scenarios the fair value of the swap would have been paid to / received from the counterparty (affecting the volume of debt), with the rate on the re-hedged swap being amended either up or down accordingly (sometimes significantly so). Therefore the rates payable on these swaps may not reflect the underlying cost of debt (for instance we have some swaps where we receive the debt coupon but pay the floating reference rate minus a margin and others where we pay the floating reference rate plus a margin significantly higher than the underlying credit spread), again care should be taken when interpreting the rates in the table.

The interest rates incorporate fixed interest rates which are reflective of the position at the balance sheet date, and floating interest rates based on SONIA as at the balance sheet date. As such, these are not representative of our future cost of debt.

The paying interest rate on the floating to index linked swaps represents the weighted average effective interest rate at the balance sheet date. An annual CPI increase of 7.0 per cent at March 2022 has been applied to calculate this nominal effective rate.

The nominal value of the currency swaps reflect the sterling receivable amount.

Other Financial derivatives includes forward starting swaps and electricity swaps which ensures the table now agrees to table 1C.

The Index-linked to index-linked derivatives (line 7) contains RPI-to-CPI derivatives (£100m nominal). The nominal effective interest rate on these RPI-to-CPI swaps has been disclosed, where the annual RPI increase of 79.0% and annual CPI increase of 7.0% have been used to calculate the weighted average receivable and payable legs, respectively.

Electricity swaps- £111.1m asset
S22 - 131,760Mwh @ £42.57 £ per Mwh
W22 - 174,720Mwh @ £49.49 £ per Mwh
S23 - 153,720Mwh @ £42.81 £ per Mwh
W23 - 175,680Mwh @ £44.45 £ per Mwh
S24 - 153,720 Mwh @ £42.60 £ per Mwh
W24 - 196,560 Mwh @ £48.57 £ per Mwh

Forward starting floating to fixed rate swaps- £1.6m liability
£59.6m Apr 22 - Oct 26 pay 1.65% receive 6 month compounded SONIA + 27.66 bps credit adjustment spread
£75.9m Jun 22 - Dec 26 pay 1.64% receive 6 month compounded SONIA + 27.66 bps credit adjustment spread
£100.0m Feb 23 - Feb 32 pay 1.60% receive 6 month compounded SONIA

Regulatory accounts

Pro forma 4J Base expenditure analysis – water resources and water network+

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Water network+				Total	RAG 4 reference
				Raw water distribution	Raw water storage	Water treatment	Treated water distribution		
Operating expenditure									
Power	£m	3	6.976	5.698	0.147	19.412	12.939	45.172	4J.1
Income treated as negative expenditure	£m	3	-0.021	-0.239	0.000	-0.025	-0.022	-0.308	4J.2
Bulk Supply/Bulk discharge	£m	3	0.122	0.008	0.002	0.137	0.000	0.269	4J.3
Renewals expensed in year (infrastructure)	£m	3	13.022	0.030	0.000	0.000	91.589	104.641	4J.4
Renewals expensed in year (non-infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.5
Other operating expenditure	£m	3	13.083	8.190	0.836	74.334	68.801	165.244	4J.6
Local authority and Cumulo rates	£m	3	17.406	2.553	0.317	8.071	36.094	64.441	4J.7
Service Charges									
Canal & River Trust abstraction charges/ discharge consents	£m	3	0.772	0.000	0.000	0.000	0.000	0.772	4J.8
Environment Agency / NRW abstraction charges/ discharge consents	£m	3	14.643	0.000	0.000	0.184	0.000	14.827	4J.9
Other abstraction charges/ discharge consents	£m	3	1.925	0.000	0.000	0.000	0.000	1.925	4J.10
Location specific costs & obligations									
Costs associated with Traffic Management Act	£m	3	0.000	0.000	0.000	0.000	2.120	2.120	4J.11
Costs associated with lane rental schemes	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.12
Statutory water softening	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.13
Total base operating expenditure	£m	3	67.929	16.239	1.302	102.113	211.520	399.104	4J.14
Capital expenditure									
Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4J.15
Maintaining the long term capability of the assets - non-infra	£m	3	5.781	0.624	0.000	65.460	46.777	118.641	4J.16
Total base capital expenditure	£m	3	5.781	0.624	0.000	65.460	46.777	118.641	4J.17
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act	nr	0	0	0	0	0	37705	37705	4J.18

Regulatory accounts

Pro forma 4K Base expenditure analysis – wastewater network+ and bioresources

For the 12 months ended 31 March 2022

Line description	Units	DPs	Expenditure in report year									RAG 4 reference
			Wastewater network+					Bioresources				
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge Transport	Sludge Treatment	Sludge Disposal	Total	
Operating expenditure												
Power	£m	3	7.564	3.765	1.486	52.707	2.183	0.013	-9.492	0.030	58.256	4K.1
Income treated as negative expenditure	£m	3	-0.292	-0.093	-0.034	-0.624	0.000	0.000	-14.584	0.000	-15.628	4K.2
Bulk Supply/Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.3
Renewals expensed in year (infrastructure)	£m	3	18.763	19.414	7.587	0.000	0.000	2.327	2.947	0.000	51.038	4K.4
Renewals expensed in year (non-infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.5
Other operating expenditure	£m	3	35.118	13.220	4.823	59.716	0.474	10.211	37.971	8.240	169.772	4K.6
Local authority and Cumulo rates	£m	3	0.038	0.014	0.005	18.916	0.190	0.091	5.340	0.604	25.198	4K.7
Service Charges												
Canal & River Trust abstraction charges/ discharge consents	£m	3	0.115	0.140	0.056	0.366	0.000	0.000	0.000	0.000	0.677	4K.8
EA / NRW abstraction charges/ discharge consents	£m	3	0.940	1.143	0.457	4.412	0.000	0.000	0.054	0.000	7.006	4K.9
Other abstraction charges/ discharge consents	£m	3	0.178	0.217	0.087	-0.461	0.000	0.000	0.000	0.000	0.020	4K.10
Location specific costs & obligations												
Costs associated with Traffic Management Act	£m	3	0.248	0.169	0.065	0.000	0.000	0.000	0.000	0.000	0.482	4K.11
Costs associated with lane rental schemes	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.12
Costs associated with Industrial emissions directive	£m	3	0.000	0.000	0.000	0.122	0.000	0.000	1.139	0.000	1.261	4K.13
Total base operating expenditure	£m	3	62.672	37.988	14.532	135.153	2.847	12.642	23.375	8.873	298.083	4K.14
Capital expenditure												
Maintaining the long term capability of the assets - infra	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	4K.15
Maintaining the long term capability of the assets - non-infra	£m	3	1.835	1.898	0.742	129.452	0.000	0.000	23.355	0.550	157.831	4K.16
Total base capital expenditure	£m	3	1.835	1.898	0.742	129.452	0.000	0.000	23.355	0.550	157.831	4K.17
Traffic Management Act												
Projects incurring costs associated with Traffic Management Act	nr	0	3615	2460	948	0	0	0	0	0	7023	4K.18
Operating expenditure (AMP 7 shadow reported values)												
Power	£m	3	7.576	3.771	1.488	52.567	2.183	0.013	3.400	0.030	71.028	4K.19
Income treated as negative expenditure	£m	3	-0.292	-0.093	-0.034	-0.624	0.000	0.000	-27.476	0.000	-28.520	4K.20

Regulatory accounts

Pro forma 4L Enhancement expenditure - water network+ and bioresources
Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Pro forma 4M Enhancement expenditure - wastewater network+ and bioresources
Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Pro forma 4N Developer services expenditure – water resources and water network+

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water network+ Treated water distribution Capex	Water network+ Treated water distribution Opex	Water network+ Treated water distribution Totex	RAG 4 reference
New connections	£m	3	12.042	0.241	12.283	4N.1
Requisition mains	£m	3	5.022	0.000	5.022	4N.2
Infrastructure network reinforcement	£m	3	1.613	0.000	1.613	4N.3
s185 diversions	£m	3	0.000	3.932	3.932	4N.4
Other price controlled activities	£m	3	0.000	0.262	0.262	4N.5
Total developer services expenditure	£m	3	18.677	4.435	23.113	4N.6

Regulatory accounts

Pro forma 4O Developer services expenditure – wastewater network+ and bioresources

For the 12 months ended 31 March 2022

Line description	Units	DPs	Wastewater network+					Total	RAG 4 reference
			Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment		
Capex									
New connections	£m	3	0.014	0.014	0.005	0.000	0.000	0.033	4O.1
Requisition sewers	£m	3	0.118	0.122	0.048	0.000	0.000	0.287	4O.2
Infrastructure network reinforcement	£m	3	1.453	1.503	0.587	0.000	0.000	3.543	4O.3
s185 diversions	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4O.4
Other price controlled activities	£m	3	1.267	1.310	0.512	0.000	0.000	3.089	4O.5
Total total developer services capex	£m	3	2.850	2.949	1.153	0.000	0.000	6.952	4O.6
Opex									
New connections	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4O.7
Requisition sewers	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4O.8
Infrastructure network reinforcement	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4O.9
s185 diversions	£m	3	0.411	0.425	0.166	0.000	0.000	1.001	4O.10
Other price controlled activities	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	4O.11
Total developer services opex	£m	3	0.411	0.425	0.166	0.000	0.000	1.002	4O.12
Totex									
Total developer services expenditure	£m	3	3.261	3.374	1.319	0.000	0.000	7.954	4O.13

Following a detailed review of categorisation of capital expenditure, in 2020/21 on a like-for-like basis, £2.239m should be reclassified from new connections and requisition sewers (line 4O.1) to other price controlled activities (line 4O.7). This results in £0.726m new connections and requisition sewers (line 4O.1) and £2.239m other price controlled activities (line 4O.7), with no impacts to total developer services capital expenditure reported in line 4O.9. Line references are consistent with the 2020/21 proforma table.

Regulatory accounts

Pro forma 4P Expenditure on non-price control diversions

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water resources	Water network+	Wastewater network+	Total	RAG 4 reference
Totex							
Costs associated with NSWRA diversions	£m	3	0.000	3.225	0.574	3.798	4P.1
Costs associated with other non-price control diversions	£m	3	0.000	0.136	0.291	0.427	4P.2
Other developer services non-price control totex	£m	3	0.000	0.000	0.000	0.000	4P.3
Developer services non-price control totex	£m	3	0.000	3.361	0.865	4.226	4P.4

Regulatory accounts

Pro forma 4Q Developer services – New connections, properties and mains

For the 12 months ended 31 March 2022

Line description	Units	DPs	Water	Wastewater	Total	RAG 4 reference
Connections volume data						
New connections (residential – excluding NAVs)	nr	0	17863	34136	51999	4Q.1
New connections (business – excluding NAVs)	nr	0	429	820	1249	4Q.2
Total new connections served by incumbent	nr	0	18292	34956	53248	4Q.3
New connections – SLPs	nr	0	15606			4Q.4
Properties volume data						
New properties (residential - excluding NAVs)	nr	0	25872	25355	51227	4Q.5
New properties (business - excluding NAVs)	nr	0	646	633	1279	4Q.6
Total new properties served by incumbent	nr	0	26518	25988	52506	4Q.7
New residential properties served by NAVs	nr	0	609	303	912	4Q.8
New business properties served by NAVs	nr	0	2	2	4	4Q.9
Total new properties served by NAVs	nr	0	611	305	916	4Q.10
Total new properties	nr	0	27129	26293	53422	4Q.11
New properties – SLP connections	nr	0	17341			4Q.12
New water mains data						
Length of new mains (km) - requisitions	nr	0	23			4Q.13
Length of new mains (km) - SLPs	nr	0	121			4Q.14

Pro forma 4R Connected properties, customers and population

For the 12 months ended 31 March 2022

The complete table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 4S Green recovery expenditure – water resources and water network+

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Pro forma 4T Green recovery expenditure –wastewater network+ and bioresources

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 4U Impact of Green Recovery on RCV

For the 12 months ended 31 March 2022 and price control period to date

	Units	DPs	12 months ended 31 March				Price control period to date				RAG 4 reference
			Water resources	Water network plus	Wastewater network plus	Bioresources	Water resources	Water network plus	Wastewater network plus	Bioresources	
Totex - Green recovery											
Approved bid	£m	3	0.325	0.000	4.647		0.325	0.000	4.647		4U.1
Actual totex	£m	3	0.108	0.000	0.438		0.108	0.000	0.438		4U.2
Variance	£m	3	-0.217	0.000	-4.209		-0.217	0.000	-4.209		4U.3
Variance due to timing of expenditure	£m	3	-0.217	0.000	-4.209		-0.217	0.000	-4.209		4U.4
Variance due to efficiency	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.5
Customer cost sharing rate - outperformance	%	2	90.00%	90.00%	90.00%		90.00%	90.00%	90.00%		4U.6
Customer cost sharing rate - underperformance	%	2	50.00%	50.00%	50.00%		50.00%	50.00%	50.00%		4U.7
Customer share of totex - outperformance	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.8
Customer share of totex - underperformance	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.9
Company share of totex - outperformance	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.10
Company share of totex - underperformance	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.11
Increase / decrease in shadow RCV	£m	3	0.108	0.000	0.438		0.108	0.000	0.438		4U.12
In period funding	£m	3	0.000	0.000	0.000		0.000	0.000	0.000		4U.13
Net increase / decrease in shadow RCV	£m	3	0.108	0.000	0.438		0.108	0.000	0.438		4U.14

In 2021/22, green recovery spend of £0.5 million is below the allowed funding of £4.9 million, as the current forecast spend profile is different to our planned spend proposals. The majority of spend incurred to date relates to the 'define phase' to progress the development of solutions and negotiation of new commercial agreements, which has taken longer than originally anticipated. However, we are working towards completing the projects within AMP7, with an equivalent increase in green recovery spend expected in the later years of this AMP, and therefore the underspend is classified as timing.

Regulatory accounts

Pro forma 5A Water resources asset and volume data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input	RAG 4 reference
Water resources				
Water from impounding reservoirs	Ml/d	2	1205.33	5A.1
Water from pumped storage reservoirs	Ml/d	2	0.00	5A.2
Water from river abstractions	Ml/d	2	666.87	5A.3
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	2	143.55	5A.4
Water from artificial recharge (AR) water supply schemes	Ml/d	2	0.00	5A.5
Water from aquifer storage and recovery (ASR) water supply schemes	Ml/d	2	0.00	5A.6
Water from saline abstractions	Ml/d	2	0.00	5A.7
Water from water reuse schemes	Ml/d	2	0.00	5A.8
Number of impounding reservoirs	nr	0	48	5A.9
Number of pumped storage reservoirs	nr	0	0	5A.10
Number of river abstractions	nr	0	25	5A.11
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	0	71	5A.12
Number of artificial recharge (AR) water supply schemes	nr	0	0	5A.13
Number of aquifer storage and recovery (ASR) water supply schemes	nr	0	0	5A.14
Number of saline abstraction schemes	nr	0	0	5A.15
Number of reuse schemes	nr	0	0	5A.16
Total number of sources	nr	0	144	5A.17
Total number of water reservoirs	nr	0	165	5A.18
Total volumetric capacity of water reservoirs	Ml	0	286869	5A.19
Total number of intake and source pumping stations	nr	0	142	5A.20
Total installed power capacity of intake and source pumping stations	kW	0	25192	5A.21
Total length of raw water abstraction mains and other conveyors	km	2	545.81	5A.22
Average pumping head – raw water abstraction	m.hd	2	8.96	5A.23
Energy consumption - water resources (MWh)	MWh	3	56663	5A.24
Total number of raw water abstraction imports	nr	0	0	5A.25
Water imported from 3rd parties to raw water abstraction systems	Ml/d	2	0.00	5A.26
Total number of raw water abstraction exports	nr	0	1	5A.27
Water exported to 3rd parties from raw water abstraction systems	Ml/d	2	9.80	5A.28
Water resources capacity (measured using water resources yield)	Ml/d	2	2319.45	5A.29

Regulatory accounts

Pro forma 5B Water resources operating cost analysis

For the 12 months ended 31 March 2022

Line description	Units	DPs	Impounding Reservoir	Pumped Storage	River Abstractions	Groundwater, excluding MAR water supply schemes	Artificial Recharge (AR) water supply schemes	Aquifer Storage and Recovery (ASR) water supply schemes	Other	Total	RAG 4 reference
Power	£m	3	0.089	0.000	3.222	3.355	0.000	0.000	0.310	6.976	5B.1
Income treated as negative expenditure	£m	3	-0.002	0.000	0.000	-0.019	0.000	0.000	0.000	-0.021	5B.2
Abstraction charges/ discharge consents	£m	3	7.055	0.000	8.417	1.867	0.000	0.000	0.000	17.340	5B.3
Bulk supply	£m	3	0.122	0.000	0.000	0.000	0.000	0.000	0.000	0.122	5B.4
Other operating expenditure											
Renewals expensed in year (Infrastructure)	£m	3	13.022	0.000	0.000	0.000	0.000	0.000	0.000	13.022	5B.5
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	5B.6
Other operating expenditure excluding renewals	£m	3	9.543	0.000	1.844	1.696	0.000	0.000	0.000	13.083	5B.7
Local authority and Cumulo rates	£m	3	16.919	0.000	0.313	0.174	0.000	0.000	0.000	17.406	5B.8
Total operating expenditure (excluding 3rd party)	£m	3	46.749	0.000	13.797	7.074	0.000	0.000	0.310	67.929	5B.9

Pro forma 6A Raw water transport, raw water storage and water treatment data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input		RAG 4 reference
Raw water transport and storage					
Total number of balancing reservoirs	nr	0	3		6A.1
Total volumetric capacity of balancing reservoirs	Ml	0	549		6A.2
Total number of raw water transport stations	nr	0	8		6A.3
Total installed power capacity of raw water transport pumping stations	kW	0	32337		6A.4
Total length of raw water transport mains and other conveyors	km	2	903.59		6A.5
Average pumping head ~ raw water transport	m.hd	2	18.11		6A.6
Energy consumption – raw water transport (MWh)	MWh	3	39118.000		6A.7
Total number of raw water transport imports	nr	0	0		6A.8
Water imported from 3rd parties to raw water transport systems	Ml/d	2	0.00		6A.9
Total number of raw water transport exports	nr	0	0		6A.10
Water exported to 3rd parties from raw water transport systems	Ml/d	2	0.00		6A.11
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	km	2	92.04		6A.12

Water treatment - treatment type analysis	Surface water		Ground water		
	Water treated	Number of works	Water treated	Number of works	
Units	Ml/d	nr	Ml/d	nr	
DPs	2	0	2	0	
All simple disinfection works	0.00	0	1.62	5	6A.13
W1 works	0.00	0	0.00	0	6A.14
W2 works	235.82	2	27.27	19	6A.15
W3 works	629.68	15	0.00	1	6A.16
W4 works	302.31	9	50.76	7	6A.17
W5 works	875.41	27	13.19	3	6A.18
W6 works	0.00	0	0.00	0	6A.19

Water treatment - works size	% of total DI	Number of works			
Units	DI	nr			
DPs	1	0			
WTWs in size band 1	0.4	12			6A.20
WTWs in size band 2	1.0	14			6A.21
WTWs in size band 3	2.8	18			6A.22
WTWs in size band 4	6.9	18			6A.23
WTWs in size band 5	6.6	9			6A.24
WTWs in size band 6	11.3	7			6A.25
WTWs in size band 7	10.2	4			6A.26
WTWs in size band 8	60.7	6			6A.27

Water treatment - other information	Units	DPs	Input		
Total water treated at more than one type of works	Ml/d	2	-310.81		6A.28
Number of treatment works requiring remedial action because of raw water deterioration	nr	0	0		6A.29
Zonal population receiving water treated with orthophosphate	000's	3	7327.976		6A.30
Average pumping head – water treatment	m.hd	2	4.20		6A.31
Energy consumption - water treatment (MWh)	MWh	3	162235.000		6A.32
Total number of water treatment imports	nr	0	0		6A.33
Water imported from 3rd parties to water treatment works	Ml/d	2	0.00		6A.34
Total number of water treatment exports	nr	0	0		6A.35
Water exported to 3rd parties from water treatment works	Ml/d	2	0.00		6A.36

Regulatory accounts

Pro forma 6B Treated water distribution – assets and operations

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input	RAG 4 reference
Assets and operations				
Total installed power capacity of potable water pumping stations	kW	0	85748	6B.1
Total volumetric capacity of service reservoirs	Ml	1	3545.8	6B.2
Total volumetric capacity of water towers	Ml	1	13.2	6B.3
Distribution input	Ml/d	2	1825.66	6B.4
Water delivered (non-potable)	Ml/d	2	57.63	6B.5
Water delivered (potable)	Ml/d	2	1462.18	6B.6
Water delivered (billed measured residential properties)	Ml/d	2	411.44	6B.7
Water delivered (billed measured businesses)	Ml/d	2	340.14	6B.8
Total annual leakage	Ml/d	2	413.89	6B.9
Distribution losses	Ml/d	2	360.52	6B.10
Water taken unbilled	Ml/d	2	51.23	6B.11
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	3	0.371	6B.12
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	3	0.000	6B.13
Proportion of distribution input derived from river abstractions	Propn 0 to 1	3	0.574	6B.14
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	3	0.055	6B.15
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	3	0.000	6B.16
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	3	0.000	6B.17
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	3	0.000	6B.18
Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	3	0.000	6B.19
Total number of potable water pumping stations that pump into and within the treated water distribution system	nr	0	532	6B.20
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	0	27	6B.21
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	0	59	6B.22
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	0	446	6B.23
Number of potable water pumping stations that pump water imported from a 3rd party supply into the treated water distribution system	nr	0	0	6B.24
Total number of service reservoirs	nr	0	348	6B.25
Number of water towers	nr	0	6	6B.26
Energy consumption – treated water distribution (MWh)	MWh	3	91149.000	6B.27
Average pumping head – treated water distribution	m.hd	2	53.82	6B.28
Total number of treated water distribution imports	nr	0	4	6B.29
Water imported from 3rd parties to treated water distribution systems	Ml/d	2	0.61	6B.30
Total number of treated water distribution exports	nr	0	10	6B.31
Water exported to 3rd parties from treated water distribution systems	Ml/d	2	0.52	6B.32

Regulatory accounts

Pro forma 6C Water network+ - mains communication pipes and other data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input	RAG 4 reference
Treated water distribution - mains analysis				
Total length of potable mains as at 31 March	km	1	42736.7	6C.1
Total length of potable mains relined	km	1	0.0	6C.2
Total length of potable mains renewed	km	1	12.4	6C.3
Total length of new potable mains	km	1	139.2	6C.4
Total length of potable water mains (≤320mm)	km	1	39103.4	6C.5
Total length of potable water mains (>320mm and ≤ 450mm)	km	1	1211.6	6C.6
Total length of potable water mains (>450mm and ≤610mm)	km	1	1009.4	6C.7
Total length of potable water mains (> 610mm)	km	1	1412.4	6C.8
Communication pipes				
Number of lead communication pipes	nr	0	511083	6C.9
Number of galvanised iron communication pipes	nr	0	720	6C.10
Number of other communication pipes	nr	0	2566572	6C.11
Treated water distribution - mains age profile				
Total length of potable mains laid or structurally refurbished pre-1880	km	1	892.4	6C.12
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	1	640.8	6C.13
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	1	1860.1	6C.14
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	1	5408.8	6C.15
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	1	3764.6	6C.16
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	1	6685.4	6C.17
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	1	13887.1	6C.18
Total length of potable mains laid or structurally refurbished post 2001	km	1	9597.6	6C.19
Other				
Company area	km^2	0	15045	6C.20
Number of lead communication pipes replaced for water quality	nr	0	4992	6C.21
Compliance Risk Index	nr	2	3.02	6C.22
Event Risk Index	nr	0	54	6C.23

Regulatory accounts

Pro forma 6D Demand management – Metering and leakage activities

For the 12 months ended 31 March 2022

Line description	Units	DPs	Basic meter	AMR meter	AMI meter	RAG 4 reference
Metering activities - Totex expenditure						
New optant meter installation for existing customers	£m	3	0.000	8.922	0.000	6D.1
New selective meter installation for existing customers	£m	3	0.000	1.403	0.000	6D.2
New business meter installation for existing customers	£m	3	0.000	0.053	0.000	6D.3
Residential meters renewed	£m	3	0.000	3.315	0.000	6D.4
Business meters renewed	£m	3	0.000	1.149	0.000	6D.5
Metering activities - Explanatory variables						
New optant meters installed for existing customers	000s	3	0.001	21.300	0.000	6D.6
New selective meters installed for existing customers	000s	3	0.000	0.070	0.000	6D.7
New business meters installed for existing customers	000s	3	0.000	0.196	0.000	6D.8
Residential meters renewed	000s	3	0.000	10.995	0.000	6D.9
Business meters renewed	000s	3	0.001	1.876	0.000	6D.10
New residential meters installed for existing customers – supply-demand balance benefit	Ml/d	2	0.00	0.67	0.00	6D.11
New business meters install ed for existing customers – supply-demand balance benefit	Ml/d	2	0.00	0.00	0.00	6D.12
Residential meters renewed - supply-demand balance benefit	Ml/d	2		0.00	0.00	6D.13
Business meters renewed - supply-demand balance benefit	Ml/d	2		0.00	0.00	6D.14
Residential properties - meter penetration	%	1	20.1	27.3	0.0	6D.15

Leakage activities	Units	DPs	Maintaining leakage	Reducing leakage	Total	RAG 4 reference
Total leakage activity	£m	3	79.675	14.854	94.529	6D.16
Leakage improvements delivering benefits in 2020-25	Ml/d	2			10.80	6D.17

Per capita consumption (excluding supply pipe leakage)	Units	DPs	Value	RAG 4 reference
Per capita consumption (measured)	l/h/d	2	123.16	6D.18
Per capita consumption (unmeasured)	l/h/d	2	159.23	6D.19

Regulatory accounts

Pro forma 6F WRMP annual reporting on delivery - non-leakage activities

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 7A Wastewater network+ - Functional expenditure

For the 12 months ended 31 March 2022

Line description	Units	DPs	£'000	RAG 4 reference
Costs of STWs in size bands 1 to 5				
Direct costs of STWs in size band 1	000s	3	7,011.137	7A.1
Direct costs of STWs in size band 2	000s	3	3,644.355	7A.2
Direct costs of STWs in size band 3	000s	3	5,405.169	7A.3
Direct costs of STWs in size band 4	000s	3	7,127.379	7A.4
Direct costs of STWs in size band 5	000s	3	8,520.013	7A.5
General & support costs of STWs in size bands 1 to 5	000s	3	245.433	7A.6
Functional expenditure of STWs in size bands 1 to 5 (excluding 3rd party services)	000s	3	31,953.486	7A.7
Costs of large STWs (size band 6)				
Service charges for STWs in size band 6	000s	3	2,264.065	7A.8
Estimated terminal pumping costs size band 6 works	000s	3	4,678.370	7A.9
Other direct costs of STWs in size band 6	000s	3	79,408.402	7A.10
Direct costs of STWs in size band 6	000s	3	86,350.837	7A.11
General & support costs of STWs in size band 6	000s	3	548.817	7A.12
Functional expenditure of STWs in size band 6 (excluding 3rd party services)	000s	3	86,899.654	7A.13
Costs of STWs - all sizes				
Total operating functional expenditure (excluding 3rd party services)	000s	3	118,853.139	7A.14

Regulatory accounts

Pro forma 7B Wastewater network+ - Large sewage treatment works

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 7C Wastewater network+ - Sewer and volume data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input	RAG 4 reference
Wastewater network				
Connectable properties served by s101A schemes completed in the report year	nr	0	0	7C.1
Number of s101A schemes delivered in the report year	nr	0	0	7C.2
Total pumping station capacity	kW	0	107,745	7C.3
Number of network pumping stations	nr	0	2,751	7C.4
Total number of sewer blockages	nr	0	20,368	7C.5
Total number of gravity sewer collapses	nr	0	1,020	7C.6
Total number of sewer rising main bursts	nr	0	60	7C.7
Number of combined sewer overflows	nr	0	2,050	7C.8
Number of emergency overflows	nr	0	611	7C.9
Number of settled storm overflows	nr	0	197	7C.10
Sewer age profile (constructed post 2001)	km	0	1,881	7C.11
Volume of trade effluent	Ml/yr	2	43,999.12	7C.12
Volume of wastewater receiving treatment at sewage treatment works	Ml/yr	2	1,266,452.10	7C.13
Length of gravity sewers rehabilitated	km	0	29	7C.14
Length of rising mains replaced or structurally refurbished	km	0	0	7C.15
Length of foul (only) public sewers	km	0	7,319	7C.16
Length of surface water (only) public sewers	km	0	10,657	7C.17
Length of combined public sewers	km	0	22,799	7C.18
Length of rising mains	km	0	1,110	7C.19
Length of other wastewater network pipework	km	0	397	7C.20
Total length of "legacy" public sewers as at 31 March	km	0	42,282	7C.21
Length of formerly private sewers and lateral drains (s105A sewers)	km	0	36,565	7C.22

Regulatory accounts

Pro forma 7D Wastewater network+ - WINEP phosphorus removal scheme costs and drivers

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 7E Wastewater network+ - Sewerage Treatment works data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Input	RAG 4 reference
Other				
Total sewerage catchment area	km^2	0	2,165	7E.1
Designated coastal bathing waters	nr	0	25	7E.2
Number of intermittent discharge sites with event duration monitoring	nr	0	140	7E.3
Number of monitors for flow monitoring at STWs	nr	0	57	7E.4
Number of odour related complaints	nr	0	1,783	7E.5
Energy consumption				
Energy consumption - sewage collection	MWh	3	50,901.000	7E.6
Energy consumption - sewage treatment	MWh	3	423,127.000	7E.7
Energy consumption - wastewater network +	MWh	3	474,028.000	7E.8

Regulatory accounts

Pro forma 7F Wastewater network+ - WINEP phosphorus removal scheme costs and drivers

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

Pro forma 8A Bioresources sludge data

For the 12 months ended 31 March 2022

Line description	Units	DPs	Total	RAG 4 reference
Total sewage sludge produced, treated by incumbents	ttds/ year	1	200.4	8A.1
Total sewage sludge produced, treated by 3rd party sludge service provider	ttds/ year	1	0.1	8A.2
Total sewage sludge produced	ttds/ year	1	200.6	8A.3
Total sewage sludge produced from non-appointed liquid waste treatment	ttds/ year	1	2.5	8A.4
Percentage of sludge produced and treated at a site of STW and STC co-location	%	2	30.56	8A.5
Total sewage sludge disposed by incumbents	ttds/ year	1	103.6	8A.6
Total sewage sludge disposed by 3rd party sludge service provider	ttds/ year	1	7.1	8A.7
Total sewage sludge disposed	ttds/ year	1	110.7	8A.8
Total measure of intersiting 'work' done by pipeline	ttds*km/year	0	1,663	8A.9
Total measure of intersiting 'work' done by tanker	ttds*km/year	0	1,735	8A.10
Total measure of intersiting 'work' done by truck	ttds*km/year	0	2,541	8A.11
Total measure of intersiting 'work' done (all forms of transportation)	ttds*km/year	0	5,939	8A.12
Total measure of intersiting 'work' done by tanker (by volume transported)	m^3*km/yr	0	57,185,689	8A.13
Total measure of 'work' done in sludge disposal operations by pipeline	ttds*km/year	0	0	8A.14
Total measure of 'work' done in sludge disposal operations by tanker	ttds*km/year	0	0	8A.15
Total measure of 'work' done in sludge disposal operations by truck	ttds*km/year	0	10,542	8A.16
Total measure of 'work' done in sludge disposal operations (all forms of transportation)	ttds*km/year	0	10,542	8A.17
Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m^3*km/yr	0	0	8A.18
Chemical P sludge as % of sludge produced at STWs	%	2	35.06	8A.19

Regulatory accounts

Pro forma 8B Bioresources operating expenditure analysis

For the 12 months ended 31 March 2022

Line description	Units	DPs	Pipeline	Tanker	Truck	Total	RAG 4 reference
Sludge transport method							
Power	£m	3	0.013	0.000	0.000	0.013	8B.1
Income treated as negative expenditure	£m	3	0.000	0.000	0.000	0.000	8B.2
Discharge consents	£m	3	0.000	0.000	0.000	0.000	8B.3
Bulk discharge	£m	3	0.000	0.000	0.000	0.000	8B.4
Other operating expenditure							
Renewals expensed in year (Infrastructure)	£m	3	2.327	0.000	0.000	2.327	8B.5
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	8B.6
Other operating expenditure excluding renewals	£m	3	0.180	8.433	1.705	10.317	8B.7
Total functional expenditure	£m	3	2.520	8.433	1.705	12.657	8B.8
Local authority and Cumulo rates	£m	3	0.002	0.074	0.015	0.091	8B.9
Total operating expenditure (excluding 3rd party)	£m	3	2.521	8.507	1.720	12.749	8B.10

Line description	Units	DPs	Untreated Sludge	Raw Sludge liming	Conventional AD	Incineration of raw sludge	Photo-conditioning/ composting	Advanced Anaerobic Digestion	Other	Total	RAG 4 reference
Sludge treatment type											
Power	£m	3	0.000	0.084	-5.670	0.000	0.000	-6.231	2.325	-9.492	8B.11
Income treated as negative expenditure	£m	3	0.000	0.000	-2.803	0.000	0.000	-11.797	0.015	-14.584	8B.12
Discharge consents	£m	3	0.000	0.003	0.082	0.000	0.000	0.052	0.111	0.248	8B.13
Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.14
Other operating expenditure											
Renewals expensed in year (Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	2.947	2.947	8B.15
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.16
Other operating expenditure excluding renewals	£m	3	0.000	0.436	9.384	0.000	0.000	16.042	13.056	38.917	8B.17
Total functional expenditure	£m	3	0.000	0.523	0.994	0.000	0.000	-1.934	18.454	18.037	8B.18
Local authority and Cumulo rates	£m	3	0.000	0.096	0.876	0.000	0.000	1.274	3.094	5.340	8B.19
Total operating expenditure (excluding 3rd party)	£m	3	0.000	0.619	1.870	0.000	0.000	-0.660	21.548	23.377	8B.20

Line description	Units	DPs	Landfill, raw	Landfill, partly treated	Land restoration/ reclamation	Sludge recycled to farmland	Incineration of digested Sludge	Other	Total	RAG 4 reference
Sludge disposal route										
Power	£m	3	0.000	0.000	0.003	0.027	0.000	0.000	0.030	8B.21
Income treated as negative expenditure	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.22
Discharge consents	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.23
Bulk discharge	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.24
Other operating expenditure										
Renewals expensed in year (Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.25
Renewals expensed in year (Non-Infrastructure)	£m	3	0.000	0.000	0.000	0.000	0.000	0.000	0.000	8B.26
Other operating expenditure excluding renewals	£m	3	0.000	0.000	0.822	7.462	0.000	0.007	8.291	8B.27
Total functional expenditure	£m	3	0.000	0.000	0.825	7.490	0.000	0.007	8.322	8B.28
Local authority and Cumulo rates	£m	3	0.000	0.000	0.000	0.000	0.604	0.000	0.604	8B.29
Total operating expenditure (excluding 3rd party)	£m	3	0.000	0.000	0.825	7.490	0.604	0.007	8.925	8B.30

Regulatory accounts

Pro forma 8C Bioresources energy and liquors analysis

For the 12 months ended 31 March 2022

Line description	Units	DPs	Electricity MWh (0 DPs)	Heat MWh (0 DPs)	Biomethane MWh (0 DPs)	Total MWh (0 DPs)	Electricity £m (3 DPs)	Heat £m (3 DPs)	Biomethane £m (3 DPs)	Total £m (3 DPs)	RAG 4 reference
Energy											
Energy consumption - bioresources	SE Column	SE Column								14.573	8C.1
Energy generated by and used in bioresources control	SE Column	SE Column	32,472	121,665	0	154,137	4.386	3.519	0.000	7.905	8C.2
Energy generated by bioresources and used in network plus control	SE Column	SE Column	90,713	0	0	90,713	12.892	0.000	0.000	12.892	8C.3
Energy generated by bioresources and exported to the grid or third	SE Column	SE Column	10,632	0	56,261	66,893	1.679	0.000	2.905	4.583	8C.4
Energy generated by bioresources that is unused	SE Column	SE Column	0	58,666	0	58,666					8C.5
Energy bought from grid or third party and used in bioresources	SE Column	SE Column	16,116	46,011	6,709	68,837	2.366	1.078	0.292	3.735	8C.6

Income from renewable energy subsidies	Unit	DPs	Value	RAG 4 reference
Income claimed from Renewable Energy Certificates (ROCs)	£m	3	-6.611	8C.7
Income claimed from Renewable Heat Incentives (RHIs)	£m	3	-3.080	8C.8
Income claimed from [other renewable energy subsidy (1)]	£m	3	-0.309	8C.9
Income claimed from [other renewable energy subsidy (2)]	£m	3	0.000	8C.10
Income claimed from [other renewable energy subsidy (3)]	£m	3	0.000	8C.11
Total income claimed from renewable energy subsidies	£m	3	-10.001	8C.12
% of total number of renewable energy subsidies due to expire in the next 2 financial years	%	0	0%	8C.13
This year's value of renewable energy subsidies due to expire in the next 2 financial years	£m	3	0.000	8C.14

Note: Companies to input specific subsidy which is being referenced in lines 8C.8 - 8C.10.

Bioresources liquors treated by network plus (shadow reported)	Unit	DPs	Value	RAG 4 reference
BOD load of liquor or partially treated liquor returned from bioresources to network plus	kg/d	0	20,511	8C.15
Ammonia load of liquor or partially treated liquor returned from bioresources to network plus	kg Amm-N/d	0	8,794	8C.16
Recharge to Bioresources by network plus for costs of handling and treating bioresources liquors	£m	3	7.255	8C.17

	Units	DPs	Electricity MWh (0 DPs)	Heat MWh (0 DPs)	Biomethane MWh (0 DPs)	Total MWh (0 DPs)	Electricity £m (3 DPs)	Heat £m (3 DPs)	Biomethane £m (3 DPs)	Total £m (3 DPs)	
Energy (AMP 7 shadow reported values)											
Energy consumption - bioresources	SE Column	SE Column								14.573	8C.18
Energy generated by and used in bioresources control	SE Column	SE Column	32,472	121,665	0	154,137	4.386	3.519	0.000	7.905	8C.19
Energy generated by bioresources and used in network plus control	SE Column	SE Column	90,713	0	0	90,713	12.892	0.000	0.000	12.892	8C.20
Energy generated by bioresources and exported to the grid or third	SE Column	SE Column	10,632	0	56,261	66,893	1.679	0.000	2.905	4.583	8C.21
Energy generated by bioresources that is unused	SE Column	SE Column	0	58,666	0	58,666					8C.22
Energy bought from grid or third party and used in bioresources	SE Column	SE Column	16,116	46,011	6,709	68,837	2.366	1.078	0.292	3.735	8C.23

	%	
Percentage of bioresources energy consumption that is metered	55.751%	8C.24

Regulatory accounts

Pro forma 8D Bioresources sludge treatment and disposal data

For the 12 months ended 31 March 2022

Line description	Units	DPs	By incumbent	By 3rd party sludge service providers	RAG 4 reference
Sludge treatment process					
% Sludge - untreated	%	1	3.3%	0.0%	8D.1
% Sludge treatment process - raw sludge liming	%	1	2.9%	0.0%	8D.2
% Sludge treatment process - conventional AD	%	1	27.8%	0.0%	8D.3
% Sludge treatment process - advanced AD	%	1	65.9%	0.1%	8D.4
% Sludge treatment process - incineration of raw sludge	%	1	0.0%	0.0%	8D.5
% Sludge treatment process - other (specify)	%	1	0.0%	0.0%	8D.6
% Sludge treatment process - Total	%	1	99.9%	0.1%	8D.7
(Un-incinerated) sludge disposal and recycling route					
% Sludge disposal route - landfill, raw	%	1	0.0%	0.0%	8D.8
% Sludge disposal route - landfill, partly treated	%	1	0.0%	0.0%	8D.9
% Sludge disposal route - land restoration/ reclamation	%	1	0.0%	6.3%	8D.10
% Sludge disposal route - sludge recycled to farmland	%	1	93.7%	0.0%	8D.11
% Sludge disposal route - other (specify)	%	1	0.0%	0.0%	8D.12
% Sludge disposal route - Total	%	1	93.7%	6.3%	8D.13

Regulatory accounts

Section 9 Additional regulatory information – Innovation Competition

Pro forma 9A Innovation Competition

For the 12 months ended 31 March 2022

Line description	Units	DPs	Current year	RAG 4 reference
Allowed				
Allocated innovation competition fund price control revenue	£m	3	6.257	9A.1
Revenue collected for the purposes of the innovation competition				
Innovation fund income from customers	£m	3	6.257	9A.2
Income from customers to fund innovation projects the company is leading on	£m	3	0.057	9A.3
Income from other water companies to fund innovation projects the company is leading on	£m	3	9.564	9A.4
Income from customers that is transferred to other companies as part of the innovation fund	£m	3	0.260	9A.5
Non-price control revenue (e.g. royalties)	£m	3	0.000	9A.6

	1	2	3	4	5	6	7	8	9	10	
	Total amount of funding awarded to the lead company through the innovation fund	Forecast expenditure on innovation fund projects in year (excl 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Forecast project lifecycle expenditure on innovation fund projects (excl 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Allowed future expenditure on innovation fund projects	In year expenditure on innovation projects funded by shareholders	Cumulative expenditure on innovation projects funded by shareholders	
Units	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
DPs	3	3	3	3	3	3	3	3	3	3	
Innovation project 1 - IWC Round 1 - Sewer AI (WRC)	0.210	0.063	0.009	-0.054	0.189	0.009	-0.180	0.180	0.001	0.021	9A.7
Innovation project 2 - IWC Round 1 - Industrial Symbiosis	0.200	0.107	0.041	-0.067	0.200	0.041	-0.159	0.159	0.005	0.022	9A.8
Innovation project 3 - WBC Round 2 - Alternative Phosphorous (Natural Cooagulants)	3.152	0.000	0.000	0.000	2.837	0.000	-2.837	2.837	0.000	0.056	9A.9
Innovation project 4 - WBC Round 2 - Catchment Systems Thinking Cooperative	7.135	0.000	0.000	0.000	6.421	0.000	-6.421	6.421	0.000	0.040	9A.10
Innovation project 5	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.11
Innovation project 6	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.12
Innovation project 7	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.13
Innovation project 8	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.14
Innovation project 9	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.15
Innovation project 10	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.16
Innovation project 11	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.17
Innovation project 12	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.18
Innovation project 13	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.19
Innovation project 14	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.20
Innovation project 15	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	9A.21
Total	10.697	0.170	0.050	-0.121	9.647	0.050	-9.597	9.597	0.006	0.139	9A.22
Administration											
Administration charge for innovation partner	0.289										9A.23

Regulatory accounts

Section 10 – Additional regulatory information – green recovery

For the 12 months ended 31 March 2022

The tables for section 10 are provided within the APR tables www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Pro forma 11A Operational greenhouse gas emissions reporting

For the 12 months ended 31 March 2022

Table is provided within the APR tables file www.unitedutilities.com/globalassets/documents/pdf/apr-table-2022

Regulatory accounts

APPENDIX 1: UUW P30 certificate

Report of KPMG LLP to United Utilities Water Limited ('the Company') and the Water Services Regulation Authority ('the WSRA') under Licence Condition P

In accordance with the terms of our engagement letter dated 20 June 2022, we have examined the Company directors' certificate - Condition P dated 12 July 2022 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022.

Respective duties of directors and auditors

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition P in accordance with Section P30 of the Licence. The Certificate is presented as set out in the instrument of appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Act 1989.

As specified in our engagement letter dated 7 June 2022, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition P30. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 12 July 2022, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2022.

This report is made solely to the Company as a body and the WSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WSRA, for our report, or for the opinions we have formed. We will accept such responsibility to the WSRA on condition that the WSRA agrees in writing to the WSRA's Contract by signing the WSRA's Contract. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Basis of our findings

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

Findings

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2022 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2022.

KPMG LLP

KPMG LLP
Chartered Accountants
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12 July 2022

Appendix 1 Assurance summary and findings

This Appendix describes how we have executed our published assurance plan, which has been developed in accordance with Ofwat's requirements. It sets out the assurance activities that we undertake to provide reliable, accurate and complete data, the key findings from the assurance process and updates on our specific targeted risk areas.

A) Overview and assurance framework

As we strive for best practice in assurance arrangements to deliver reliable, accurate and transparent information, we have continued to evolve our assurance framework. As a minimum we have adopted the requirements established by the targeted category under Ofwat's previous company monitoring framework. This involves engagement with stakeholders and publication of a draft and final assurance plan. Accordingly we consulted on our regulatory reporting 2021/22 and then following feedback published our 'Final assurance plan' for our year two reporting. These publications are both available on our website: www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2020–25/.

The purpose of the assurance framework is to ensure that stakeholders can rely on the information we provide as a water company and to make sure that the assurance of this information builds confidence and trust. There are six elements covered by our framework which are outlined below under 'Assurance framework'.

In order to satisfy ourselves that we meet stakeholder expectations for our approach to monitoring and assuring delivery, we have processes in place to:

- Publish information that can be trusted;
- Demonstrate the board is taking an active role to ensure accurate and accessible information is provided about company performance and challenge for improvements in assurance (linked to our board leadership and transparency principles);
- Show the data assurance activities we have put in place to provide accurate data; and
- Provide confidence to all customers and stakeholders that we will continue to deliver the services they want in both an efficient and affordable manner and report on our performance.

Assurance framework

Our AMP7 regulatory reporting assurance framework is published on our website: www.unitedutilities.com/corporate/about-us/performance/assuring-our-performance-2020–25/. It sets out the assurance activities that we have put in place to provide reliable, accurate and complete data. It also sets out the wider assurance activities that we undertake to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford. The framework is set out in six sections which are summarised below:

- **Measurement and data capture** – The data required to report on the delivery of our performance commitments and other commitments has been developed to be a subset of our routine and often long standing operational and management information that is directly used to support and direct key business activities. We have also established a centralised reporting function, which has accountability for both assuring the quality of the data and for providing a central source of management information which can be used by many areas of the business.
- **Risk based assurance** – We have adopted a structured risk assessment process to underpin the governance and assurance processes supporting our regulatory reporting. The overall combined risk rating is used to help to determine the level of governance and assurance that is applied to the reported information.
  - As the level of risk increases the governance and assurance applied to the reporting of this data also increases and ensures that key risks are escalated – ultimately, up to board level where necessary. This ensures that the management, control and reporting of any risks and resulting actions identified through the process are proportionate to the level of risk.
- **Targeted audit and assurance** – We have adopted a well-established 'three lines of assurance' framework. The three lines of assurance are:
  - **First line** – management has accountability for developing and maintaining sound processes, systems and controls in the normal course of their operations;
  - **Second line** – the Strategy, Policy and Regulation or Finance teams, where applicable, have accountability for providing the framework and governance for our regulatory reporting. Our Corporate Audit team undertake rolling and cyclical audit activity and targeted reviews of key submissions; and
  - **Third line** – independent audit and assurance activities are undertaken by specialist external auditors.
- **Governance and accountability** – We are committed to the very highest standards of corporate governance with defined accountabilities from the UUW board level cascaded into our operational governance and review processes. The boards of both UUW and UUG PLC fully support Ofwat's drive for the highest standards of board leadership, transparency and governance in the industry. We are satisfied that current practices and the application of the 2018 Code at the holding company level is entirely consistent with the Ofwat principles.
- **Independent challenge and review** – To ensure that our reporting is independently challenged we established an independent challenge panel called 'YourVoice'. The role of YourVoice is to both monitor and challenge us on the delivery of our business plan, to review and assure our reporting and to scrutinise our customer engagement on the development of our future business plans.
- **Additional communications and publications** – We are a purpose-led company, driven by what matters to customers and other stakeholders. We go beyond publishing the minimum requirements for publishing information in the Annual Performance Report and are committed to providing regular and transparent reporting of our performance and using a broad range of communications channels to communicate with our customers.

COVID-19 risk

Throughout the period we have again been affected by the impact of COVID-19. This has changed the way we work and impacted some of our operations. Following the lifting of COVID-19 restrictions, a large number of staff including contractors and auditors work to a hybrid model, which involves working from home on certain days and in the office on others.

Appendix 1 Assurance summary and findings

Despite the challenges we have faced we have continued to maintain the highest levels of data integrity, informed by our risk based approach to assurance. We have utilised technology in order to facilitate the audit and assurance of data and documents and have preserved our published process for sign off by relevant levels throughout the organisation. The process has resulted in electronic sign offs with strict controls and robust audit trails, assured by both our Corporate Audit function and our technical auditor Jacobs.

Corporate responsibility

We publish information on how we operate in a responsible manner in the United Utilities Group PLC Annual Report and Financial Statements and on the responsibility pages of our corporate website (which can be found on our website: www.unitedutilities.com/corporate/responsibility/our-approach/cr--performance/). Our APR assurance process provides a level of assurance for a number of measures relating to corporate responsibility performance across the six stakeholder groups that we identify that we create value for.

B) 2021/22 Annual Performance Report assurance plan

Our 2021/22 Final assurance plan set out how data reported in this year's APR would be subject to a structured and risk based governance and assurance process. This is summarised in the table below. Our planning process also identified a number of potentially higher risk (targeted) areas. These are summarised on the next page.

Risk based assurance plan for the 2021/22 Annual Performance Report

Section	Content	Governance and assurance activities
Risk and compliance statement	Annual statement confirming compliance with the relevant statutory, licence and regulatory obligations for the provision of services to its customers.	Signed off by the UUW board, based upon the defined governance and assurance approach relevant for each obligation.
Regulatory financial reporting	Historical cost financial information. Disaggregation of income, from a regulatory accounting perspective, with reconciliation to the UU statutory accounts.	(1) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(2) Finance team review of information and audit trails.
		(3) Financial Auditors (KPMG) audit as set out in the audit opinion on pages 110–114.
Price review and other segmental reporting	Further separation of revenue and costs to allow stakeholders to review the company's performance against the FD.	(4) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(5) Finance team review of information and audit trails.
		(6) Financial Auditors (KPMG) audit as set out in the audit opinion on pages 110–114.
Performance summary	A high-level report of the operational performance of the business against the performance commitments set out in the PR19 FD, highlighting any financial incentives accrued in the year.	(7) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trials to support the reported performance and demonstrate the control checks that have been applied.
		(8) Regulatory Reporting team review of information and audit trails.
		(9) Technical Auditors (Jacobs) review data and commentary and report opinion to the board.
Additional regulatory tables	Additional financial and non-financial information, including wholesale totex performance against both the PR19 FD assumptions and intercompany unit cost metrics, retail operating cost analysis and financial metrics.	(10) Data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.
		(11) Regulatory Reporting team review of information and audit trails.
		(12) Financial Auditors (KPMG) or Technical Auditors (Jacobs) procedures as agreed with management on the relevant tables in Section 2.

Appendix 1 Assurance summary and findings

Targeted areas, mitigation and assurance

In addition to the generic assurance processes described above and which have been applied to data within the APR, we also reviewed the potential risks to our reporting as part of the development of the assurance plan. This year, in addition to those of the previous year, we added in the risk associated with delivery of the PR24 business plan process.

This risk assessment process confirmed that our established systems of governance and control were effective in identifying and managing reporting risk levels. The areas we identified for additional assurance activity in our final assurance plan were flagged as a result of four main factors:

- Previous reporting issues had been identified;
- Inherent data quality issues (usually due to new requirements or changes in circumstances or reporting regimes);
- High priority areas from a customer or stakeholder view point; and
- Areas where delivery of our performance commitment targets may have been at risk.

The targeted areas are summarised in the table below.

Our published 2021/22 final assurance plan contains full details of the reasons for the targeted status, the ongoing and planned activity to mitigate the risks and the planned activity to assure our reporting in these areas.

Targeted area	Status	Previous issues	Inherent data accuracy	High priority	Delivery and performance
Performance commitments and outcome delivery incentives	Continued		✓	✓	✓
Water quality	Continued			✓	✓
Charges and tariffs scheme	Continued		✓	✓	
System implementation (formerly Integrated Network Solution)	Updated		✓	✓	
Market support	Continued			✓	
Consent compliance	Continued			✓	
Haweswater aqueduct replacement programme	Continued		✓	✓	
Water transfer programme	Continued		✓	✓	
Drainage and wastewater management plans	Continued		✓	✓	
Internal sewer flooding	Continued			✓	✓
COVID-19	Continued		✓	✓	
Reconciliation models and applications for in-period determination	Continued		✓	✓	✓
PR24	New		✓	✓	✓

The corporate audit report – set out in Section C of this Appendix – confirms that the assurance activities included within the Final assurance plan have been complied with and sets out the summary of the team's findings.

Appendix 1 Assurance summary and findings

2021/22 targeted areas and reason for status

Following publication of our final assurance plan, we said that we would highlight any variations in approach that were taken in delivery of the assurance, including any changes that were required because of ongoing COVID-19 impacts. We are pleased to confirm that we were able to deliver each area of targeted work in line with the governance and assurance approach set out in plan document and no variations were required.

Targeted area	Action taken to assure targeted area
Performance commitments and outcome delivery incentives	Performance and any resulting financial incentive is reviewed and signed off by an executive sponsor. The executive sponsors review performance against our performance commitments regularly through director review meetings and performance boards, which are typically held on a monthly basis. Performance reviews and forecasts are carried out each month to track progress against delivery of our performance commitments. Performance against each commitment is reported at UUW board level throughout the year. We have regular liaison with relevant external regulators and groups (CCW, DWI and EA) who also publish annual company performance reports. Regular challenge sessions are held to ensure compliance with methodologies for water and wastewater network performance commitments. We regularly review performance against our performance commitments with the customer challenge group, YourVoice, which challenges the measures we are taking to manage performance levels or manage the customer impacts of any issues. The detailed internal methodologies and calculation tools have been subject to third party review by our independent technical auditor, Jacobs. ODIs that have been identified as requiring targeted assurance are subject to a detailed audit of the data collection, incentive calculations and reporting process by our independent technical auditor, Jacobs, to provide assurance that the data can be reported reliably, accurately and completely and in accordance with reporting requirements. This includes sample checks to test process, assumptions, methodology, implementation, governance and results.
Water quality	We monitor and track our performance throughout the year. The DWI assesses our performance at year end and confirm the CRI score. Our water quality strategy has been refreshed to drive further improvements in water quality. Existing initiatives have been aligned to the objectives of our Water Quality First Programme and additional work required to meet our challenging performance commitments has been identified. We have a comprehensive plan focused on people (e.g. training and education), process change and investment in both our water treatment works and network. Updates are provided to the board and the DWI on a quarterly basis, providing progress against improvement plan delivery and achievement of the Water Quality First programme objectives. Quarterly updates are provided to senior management at DWI, and monthly with the Northern team including the principal inspector and our liaison inspector. The reported data is reviewed and signed off by the appropriate executive director. The reporting of our performance in this area is reviewed with the YourVoice panel. A detailed third party audit of the data collection and reporting process by our independent technical auditor, Jacobs to provide assurance that the data can be reported reliably, accurately and completely and in accordance with reporting requirements. This includes sample checks to test process, assumptions, methodology, implementation, governance and results.
Charges and tariffs scheme	The charges schemes are subject to a series of reviews by members of the company's legal team for compliance with the relevant legislation. Management undertake a review of each charging rule to demonstrate how each charging rule has been complied with, and this document is published on the United Utilities website. Corporate Audit reviews sections 3 and 4 of the assurance statement and presents its findings to the UUW board. The company publishes and provides to Ofwat an assurance statement from the UUW board, no later than the time of publication of the charges schemes, confirming that: a) UUW has complied with its legal obligations relating to the charges set out in the charges schemes b) the board has assessed the effects of the new charges on retailers and on customers' bills for a range of different customer types and approves the impact assessments and handling strategies developed in instances where the bill increases for particular customer types exceed 5 per cent c) UUW has appropriate systems and processes in place to make sure that the information contained in the charge schemes, and additional information is accurate d) the company has consulted the Consumer Council for Water (CCW) in a timely and effective manner on its charges schemes.

Appendix 1 Assurance summary and findings

Targeted area	Action taken to assure targeted area
Systems implementation	With all new systems we create a dedicated programme team to develop the new system and manage the transition with progress reported through to a programme board. Alongside this, post go-live working groups ensure the continuity of reporting in addition to identifying any system defects. New systems then move into a business as usual phase with processes in place to raise any issues or defects that may be identified. All the information within new systems that will be used for our AMP7 regulatory reporting is identified and included with the list of programme deliverables, and our regulatory reporting data continues to be risk assessed and assured appropriately. The Regulatory Reporting team review the design of the solutions to ensure that regulatory requirements and obligations are addressed. Existing reporting methods were continued post go live to ensure the new system provided reliable, accurate and complete data. Programme deliverables were signed off by the both the project steering group delivery team and the business team responsible for undertaking the relevant activity. Sign off of reported data was undertaken by the line owner, responsible, accountable and executive manager as appropriate. A detailed audit of the data collection and reporting process was undertaken by the independent technical auditor, Jacobs, to provide assurance that reported data is reliable, accurate and complete and in accordance with reporting requirements. This included sample checks to test process, assumptions, methodology, implementation, governance and results.
Market support	Details of Ofwat's findings regarding incumbent support for markets were taken to the board and the identified actions are being monitored at an executive level. Our continued competition law compliance programme aims to ensure ongoing compliance with our competition obligations. We have reviewed the competition compliance policy, training and guidance in light of Effective Market publications ensuring we can support collaboration where appropriate (and not restrict efforts unnecessarily).
Consent compliance	The November 2019 Jacobs report aimed to examine whether United Utilities has sufficient and effective governance, processes, controls and systems to identify and mitigate the types of risks highlighted by the Southern Water investigation. The report also looked to recommend actions to strengthen process controls. For the water compliance regime, the report concluded that there were no issues identified, stating that there is clear organisational separation and accountability for operations, regulatory sampling, sample analysis and board/regulatory reporting, which are effective in ensuring that performance of drinking water assets is being fully and correctly disclosed. For the wastewater regime, the report concluded that United Utilities has comprehensive processes in place to manage the compliance regime, to prevent, detect and correct any potential compliance issues and to escalate through the business and to the Environment Agency. In terms of opportunities for improvement, Jacobs suggested the company would benefit from small improvements to the sampling regime, post-incident technical reviews and the process to reclassify erroneous sample results for wastewater. These suggested improvements were then addressed through a series of changes in practices, associated control checks and extended audits. In our final assurance plan we said a further Jacobs report would be undertaken this year and this has been completed with no actions raised from it.
Haweswater aqueduct replacement programme	During 2021/22 accountability for development of this scheme remained assigned to the Director of Strategic Programmes, who reports progress directly to the monthly executive meeting. The executive meeting is chaired by the Chief Executive, with key risks and decisions being highlighted to the UUW board as required. Three specific established steering groups provided guidance on the commercial, legal, regulatory, financial, technical, operational and stakeholder aspects of the scheme. An independent assurance specialist, Deloitte LLP, delivered a specific assurance framework for this project. This ensured that potential risks were identified at a sufficiently early stage to allow them to be resolved in a way which did not compromise the delivery, or the quality of the work being developed which was required to be submitted to Ofwat throughout the development of the scheme. Alongside this, the programme utilised our established assurance and governance framework following a risk-based approach using a three lines of assurance model. Where required, external specialist assurance will be put in place for those higher risk areas. As the HARP process has now moved on to the tender stage, arrangements have been updated for 2022/23 to reflect the changing project lifecycle.

Appendix 1 Assurance summary and findings

Targeted area	Action taken to assure targeted area
Water transfer programme	A number of intercompany groups have been established with representatives from each affected company. These include stakeholder, engineering and environmental working groups and an overall programme board and steering group. Within United Utilities, accountability for development of this schemes lies with the Director of Strategic Programmes, who reports progress directly to the monthly executive meeting. The executive meeting is chaired by the Chief Executive, with key risks and decisions being highlighted to the UUW board as required. An independent assurance specialist, Deloitte LLP, were appointed to develop a specific assurance framework for this project This will ensure that any potential risks are identified at a sufficiently early stage to allow them to be resolved in a way which does not compromise the delivery, or the quality of the work being developed which will be required to be submitted to Ofwat throughout the development of the scheme. A joint assurance framework has been agreed with the other appointees to assure RAPID and the UUW board of the details and requirements within the programme. This framework will take a risk based approach, assessing the programme deliverables and where required apply external specialist assurance to those complex or higher-risk areas.
Drainage and wastewater management plans	A technical steering group of key subject matter experts has been established to ensure that all key data and assumptions used within the process can be appropriately challenged, validated and agreed. A programme board of operational directors or equivalent has been established to advise and govern the process to assure and direct the approach taken by the programme team and technical steering group. Updates are provided to the executive at key milestones detailing any decisions that have been made and information to be published. Additional assurance of the data used within the process is being provided by adding the data to the data set covered by our established three lines of assurance, regulatory reporting process. The plan will be audited internally on two occasions prior to draft plan publication. The first was completed in October 2020, with a subsequent report being prepared for the board. In line with our final assurance plan a second audit took place in the first quarter of 2022/23.
Internal sewer flooding	Performance and any resulting financial incentive is reviewed and signed off by an executive sponsor. The executive sponsors review performance against our performance commitments regularly through director review meetings and performance boards, which are typically held on a monthly basis. Performance reviews and forecasts are carried out each month to track progress against delivery of our performance commitments. We regularly review performance against our performance commitments with the customer challenge group, YourVoice, which challenges the measures we are taking to manage performance levels or manage the customer impacts of any issues. A detailed audit of the data collection and reporting process by our independent technical auditor, Jacobs, to provide assurance that the data can be reported reliably, accurately and completely and in accordance with reporting requirements. This includes sample checks to test process, assumptions, methodology, implementation, governance and results. Clarification is sought from Jacobs throughout the reporting year for any difficult or unusual events or circumstances.
COVID-19	As part of our contingency planning, we established a multifunctional incident team, to manage all aspects of our essential service provision during the pandemic. We are now in a position where we have moved to a business model providing us with greater flexibility in our practices. Where roles allow, a number of our staff have now adopted hybrid working practices. We will seek to undertake additional reviews of data which is unable to be subject to the planned assurance processes to highlight any potential risks or caveats that need to be applied to the data. External assurance providers have described any limitations to their approach as part of their reports. Corporate Audit have reviewed the outputs from this work as part of its planned reviews of regulatory submissions.
Reconciliation models and applications for in-period determination	Data used to populate reconciliation models were subject to risk based assurance as part of the Annual Performance Report process and have been reviewed and approved by a business sponsor. Reconciliation models were used to calculate revenue or RCV adjustments and were subject to assurance as part of the Annual Performance Report process. The results of this assurance, together with confirmation from the accountable executive sponsor, have been provided to the UUW board to support its consideration of the submission.

Appendix 1 Assurance summary and findings

Targeted area	Action taken to assure targeted area
PR24	The UUW board is actively engaged in reviewing and setting the strategic direction for the business plan and in the assurance that will be provided to support the plan. The UUW board will review and sign a specific assurance statement which certifies and endorses the business plan. The programme will utilise the existing company assurance framework and seek to complement this with programme specific assurance, to ensure that the information within or supporting the business plan submission is subject to an appropriate risk based level of governance and assurance. The programme assurance will ensure that all Executive Sponsors provide evidence to the UUW board to demonstrate that the elements of the business plan that they are accountable for (as defined in the programme RACI) will meet the requirements for that element of the business plan. Evidence used to support the UUW board statement will be supported by specifically identified assurance activities, with the findings of this assurance being provided to the UUW board to support and a summary of the findings included in the business plan.

In addition to our published targeted areas, we also focused some more specific external assurance relating to a number of our performance commitments. The table below outlines which third party has undertaken that assurance in order to meet the additional assurance requirements of the final determination (www.ofwat.gov.uk/publication/pr19-final-determinations-united-utilities-outcomes-performance-commitment-appendix/). Further information and relevant copies of those assurance reports which require publication can be found at the following link www.unitedutilities.com/globalassets/documents/pdf/apr-2022-external-assurance-reports

Performance commitment	Requirement	Assurance provider
Keeping reservoirs resilient (no. of people moved to acceptable risk)	Third party assurance needed for works completed at each site	Jacobs
Improving the water environment (AMP7)	The company will ask the EA to confirm this is reported correctly	Jacobs
Improving river water quality	The company will ask the EA to confirm this is reported correctly	Jacobs
Protecting the environment from growth and development	Independent assurance report on baseline and additional capacity	The additional assurance requirement will be undertaken at the end of the AMP when the PC is reconciled
Enhancing natural capital value for customers	Independent baseline assurance and annual assurance	Vivid Economics and Jacobs
Better air quality	Independent assurance report	Element Materials Technology Environmental UK Ltd (formerly Envirodat) see **www.unitedutilities.com/globalassets/documents/pdf/apr-2022-external-assurance-reports for independent report**
C-MeX – Customer experience	See guidance	Jacobs
D-MeX – Developer experience	See guidance	Jacobs
Gap sites (retail)	Independent assurance report to identify and bill new properties	Jacobs
Systems thinking	Independent assurance report	Accenture
Raising customer awareness to reduce the risk of sewer flooding	Tracked by independent research organisation	McCann Manchester
Water service resilience	Jacob's independent reports of the assessment audit of the baseline position and then further audits of any changes in the risk position	Jacobs see **www.unitedutilities.com/globalassets/documents/pdf/apr-2022-external-assurance-reports for independent report**
Hydraulic flood risk resilience (internal)	Independent baseline assurance	Jacobs see **www.unitedutilities.com/globalassets/documents/pdf/apr-2022-external-assurance-reports for independent report**
Hydraulic flood risk resilience (external)	Independent baseline assurance	Jacobs see **www.unitedutilities.com/globalassets/documents/pdf/apr-2022-external-assurance-reports for independent report**

Appendix 1 Assurance summary and findings

C) Compliance with methodology

In order to provide transparency on the degree to which we have been able to implement the reporting guidance for shadow reporting, we have produced the following table.

Performance commitment	Status
Water supply interruptions	Green – compliant
Internal sewer flooding	Green – compliant
Sewer collapses	Green – compliant
Treatment works compliance	Green – compliant
C-MeX	Green – compliant
D-MeX	Green – compliant
Water quality CRI	Green – compliant
Leakage	Amber – partially compliant*
Per capita consumption	Green – compliant*
Pollution incidents	Green – compliant
Risk of sewer flooding in a storm	Green – compliant
Mains repairs	Green – compliant
Priority services for vulnerable customers	Green – compliant
Risk of severe restrictions in a drought	Green – compliant
Unplanned outages	Green – compliant

* see page 252 Section D for full breakdown of compliance with components of leakage and PCC methodology with shadow reporting methodology (RAG 3.13 Section 4.14)

D) Deviation from methodology – statement of additional clarity

This section sets out identified exceptions to published methodology requirements.

Statement of additional clarity – leakage

There are two areas of the leakage common methodology where we are not fully compliant though the impact on our overall leakage figure is marginal. The 2018 Ofwat leakage reporting guidance states that 90 per cent of all properties within continuous night flow monitoring networks shall be available for reporting night flow data through the year. Our availability during 2021/22 was 86.34 per cent against a target of 90%.Whilst we had carried out additional maintenance activity during the year to try to achieve an availability of 90 per cent we also had issues with flow loggers / sensors reaching the end of their asset life. We expect this issue will be addressed through the implementation of a new procurement framework in FY23. The leakage reporting impact of this issue is likely to be very marginal and we generally find that leakage derived from demand/distribution monitoring zone (DMZ) estimates is marginally higher than leakage derived from metered flows. Therefore, this issue would typically be expected to lead to a slight over-estimate of leakage levels.

In line with the 2018 Ofwat leakage reporting guidance, we also commenced a programme to meter all sewage treatment sites and other key assets using greater than 10m3/d (0.01 Ml/d). This programme has again been delayed by site access changes due to COVID-19 and we are now expecting it to complete in 2022/23. The leakage reporting impact of this issue is likely to be very marginal and offset by the availability overestimation explained in the paragraph above. This work in lead by a dedicated project manager and progress against these programmes of work is led by the leakage board, an internal governance group. As part of our full year water balance reconciliation we can confirm our water balance gap is -0.80 per cent, which falls within the +/- 2 per cent tolerance as defined in the reporting requirements.

E) Summary of the findings of the assurance

This section summarises the findings of the assurance that has been undertaken to support the Annual Performance Report.

Financial auditor – We have engaged KPMG to provide an audit opinion or perform procedures as agreed with management on the regulatory accounting information set out in the table below. The coverage of the KPMG audit opinion is set out in more detail, together with the findings from this review on pages 110 to 114 within section 2 of the APR. KPMG has also completed agreed upon procedures for the section 4 and section 9 pro forma tables identified in the following table, with no issues noted.

Technical auditors – We have engaged Jacobs to review the performance and volumetric data used to support the remainder of the data within the APR tables, including the outcome delivery information and cost assessment tables.

The findings from technical auditor's review, which covers the APR information were presented to the UUW board and are set out below. The Independent Technical Assurance Statement is set out on page 241.

Corporate audit – UU Corporate Audit performed an independent review of the effectiveness and application of the assurance framework applied to the APR. The findings were presented directly to the UUW board and are set out in Section 4 of the corporate audit report on page 249 below.

Appendix 1 Assurance summary and findings

In addition YourVoice, the independent challenge panel, has reviewed our performance and reporting throughout the year and presented it's findings directly to the UUW board. The reflections of the panel on United Utilities' performance during 2021/22, which can be found on our website www.unitedutilities.com/globalassets/documents/pdf/apr-yourvoice-statement-2021-22

The table below sets out each area of the APR and shows how the independent assurance has been provided for that area.

UUW Annual Performance Report data tables – independent assurance

Section 1 Regulatory financial reporting at 31 March 2021		Lines	Independent assurance
1A	Income statement	All	KPMG audit opinion
1B	Statement of comprehensive income	All	KPMG audit opinion
1C	Statement of financial position	All	KPMG audit opinion
1D	Statement of cash flows	All	KPMG audit opinion
1E	Net debt analysis	All	KPMG audit opinion
1F	Financial flows	All	KPMG audit opinion
Section 2 Price review and other segmental reporting at 31 March 2022			
2A	Segmental income statement	All	KPMG audit opinion
2B	Totex analysis – wholesale water and wastewater	All	KPMG audit opinion
2C	Operating cost analysis – retail	All	KPMG audit opinion
2D	Historical cost analysis of tangible and fixed assets wholesale and retail	All	KPMG audit opinion
2E	Analysis of grants and contributions – water resources, water network plus and wastewater network plus	All	KPMG audit opinion
2F	Residential retail	All	KPMG audit opinion
2G	Non-household water – revenues by tariff type	All	N/A
2H	Non-household wastewater – revenues by tariff type	All	N/A
2I	Revenue analysis	All	KPMG audit opinion
2J	Infrastructure network reinforcement costs	All	KPMG audit opinion
2K	Infrastructure charges	All	KPMG audit opinion
2L	Analysis of land sales	All	KPMG audit opinion
2M	Revenue reconciliation – wholesale tariffs	All	KPMG audit opinion
2N	Residential retail – social tariffs	All	KPMG audit opinion
2O	Historic cost analysis of intangible fixed asset	All	KPMG audit opinion
Section 3 Performance summary			
3A	Outcome performance Water common performance commitments	All	Jacobs agreed upon procedures
3B	Outcome performance Wastewater common performance commitments	All	Jacobs agreed upon procedures
3C	Customer measure of experience (C-MeX) table	All	Jacobs agreed upon procedures
3D	Developer services measure of experience (D-MeX) table	All	Jacobs agreed upon procedures
3E	Outcome performance – non financial performance commitments	All	Jacobs agreed upon procedures
3F	Underlying calculations for common performance commitments – Water and Retail	All	Jacobs agreed upon procedures
3G	Underlying calculations from common performance commitments – Wastewater	All	Jacobs agreed upon procedures
3H	Summary information on outcome delivery incentive payments	All	Jacobs agreed upon procedures
3I	Supplementary outcomes information	All	Jacobs agreed upon procedures
Section 4 Additional regulatory information – service level			
4A	Water bulk supply information	All	Jacobs agreed upon procedures
4B	Analysis of debt	All	KPMG agreed upon procedures
4C	Impact of price control performance to date on RCV	All	KPMG agreed upon procedures
4D	Totex analysis – water resources water network plus	All	KPMG agreed upon procedures
4E	Totex analysis – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4F	Major project expenditure for wholesale water by purpose	All	Jacobs agreed upon procedures
4G	Major project expenditure for wholesale wastewater by purpose	All	Jacobs agreed upon procedures
4H	Financial metrics	All	KPMG agreed upon procedures
4I	Financial derivatives	All	KPMG agreed upon procedures
4J	Base expenditure analysis – water resources and water network plus	All	KPMG agreed upon procedures
4K	Base expenditure analysis – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4L	Enhancement expenditure water resources and water network plus	All	Jacobs agreed upon procedures
4M	Enhancement expenditure on wastewater network plus and bioresources	All	Jacobs agreed upon procedures
4N	Developer services expenditure – water resources and water network plus	All	KPMG agreed upon procedures
4O	Developer services expenditure – wastewater network plus and bioresources	All	KPMG agreed upon procedures
4P	Expenditure on non-price control diversions	All	KPMG agreed upon procedures
4Q	Developer services non financial information	All	Jacobs agreed upon procedures
4R	Properties, customers and population	All	Jacobs agreed upon procedures
4S	Green recovery expenditure – water resources and water network plus	All	Jacobs agreed upon procedures
4T	Green recovery expenditure – wastewater network plus and bioresources	All	Jacobs agreed upon procedures
4U	Impact of green recovery on RCV	All	KPMG agreed upon procedures

Appendix 1 Assurance summary and findings

Section 5 Additional regulatory information – water resources			
5A	Water resources asset and volumes data	All	Jacobs agreed upon procedures
5B	Water resources operating cost analysis	All	Jacobs agreed upon procedures
Section 6 Additional regulatory information – water network plus			
6A	Raw water transport, raw water storage and water treatment	All	Jacobs agreed upon procedures
6B	Treated water distribution – assets and operations	All	Jacobs agreed upon procedures
6C	Water network plus – mains, communication pipes and other data	All	Jacobs agreed upon procedures
6D	Demand management – metering and leakage activities	All	Jacobs agreed upon procedures
6F	WRMP annual reporting on delivery	All	Jacobs agreed upon procedures
6D	Demand management – metering and leakage activities	All	Jacobs agreed upon procedures
Section 7 Additional regulatory information – wastewater network plus			
7A	Wastewater network plus functional expenditure	All	Jacobs agreed upon procedures
7B	Wastewater network plus large STW	All	Jacobs agreed upon procedures
7C	Wastewater network plus sewer and volume data	All	Jacobs agreed upon procedures
7D	Wastewater network plus sewage treatment works data	All	Jacobs agreed upon procedures
7E	Wastewater network plus energy consumption and other data	All	Jacobs agreed upon procedures
7F	WINEP Phosphorus removal scheme costs	All	Jacobs agreed upon procedures
Section 8 Additional regulatory information – bioresources			
8A	Bioresources sludge data	All	Jacobs agreed upon procedures
8B	Bioresources operating expenditure analysis	All	Jacobs agreed upon procedures
8C	Bioresources energy and liquors analysis	All	Jacobs agreed upon procedures
8D	Bioresources sludge treatment and disposal data	All	Jacobs agreed upon procedures
Section 9 Additional regulatory information – innovation competition			
9A	Innovation competition	All	KPMG agreed upon procedures
Section 10 Green recovery			
10A	Green recovery data capture additional items	All	Jacobs agreed upon procedures
10B	Green recovery data capture outcomes – water	All	Jacobs agreed upon procedures
10C	Green recovery data capture outcomes - wastewater	All	Jacobs agreed upon procedures
10D	Bespoke performance commitments	All	Jacobs agreed upon procedures
10E	Green recovery data capture reconciliation	All	Jacobs agreed upon procedures
Section 11 Operational greenhouse gases			
11A	Operational greenhouse gas emissions	All	Jacobs agreed upon procedures

Relevant commentary for tables 3–11 is provided on our website www.unitedutilities.com/globalassets/documents/pdf/apr-tablescommentary-2022 and www.unitedutilities.com/globalassets/documents/pdf/rr22-accounting-methodology-statement

Jacobs

United Utilities Technical Assurance

RR22 Board Assurance Statement

1 | 1

22nd June 2022

United Utilities Water

Appendix 1 Jacobs audit report

RR22 Board Assurance Statement

United Utilities Technical Assurance

Project No: B2349200
Document Title: RR22 Board Assurance Statement
Document No.: 1
Revision: 1
Document Status: Final
Date: 22/06/22
Client Name: United Utilities Water
Client No:
Project Manager: Chris Morley
Author: Glen Hawken & Chris Morley
File Name: RR22 Board Assurance Statement

Jacobs U.K. Limited

www.jacobs.com

Document history and status

Revision	Date	Description	Author	Reviewed	Approved
1.0	21/06/22	Initial Draft to UU for review	C Morley	G Hawken	G Hawken
1.1	22/06/22	Final	G Hawken	United Utilities	G Hawken

Appendix 1 Jacobs audit report

RR22 Board Assurance Statement

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2. Role and Scope 4
3. Approach 5
3.1 Process 5
3.2 Assessment 5
4. Findings 7
5. Independent Technical Assurance Statement 9

Appendix 1 Jacobs audit report

1. Introduction

UUW engaged Jacobs UK Limited to provide external technical assurance, in order to confirm that specific technical and expenditure elements of RR22 have been compiled in accordance with the guidance of the Water Services Regulatory Authority (Ofwat); good practice; and the PR19 Final Determination.

All water companies are required by Ofwat to submit an Annual Performance Report (APR) to demonstrate compliance with their separate price controls. This includes specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Data used by United Utilities (UUW) to populate the APR has been predominantly derived from their RR22 data return.

The reports prepared by the Company are required to be accessible to all stakeholders so that they show how the sector is delivering for its customers, environment, and wider society. In this regard, Ofwat has provided a series of standard templates and accompanying guidance for the outcome, performance commitment and incentive mechanisms. The information in the spreadsheet will assist stakeholders to track and compare actual performance.

Each company's Board is accountable for the quality and transparency of the information they provide on their performance and for implementing assurance procedures to make sure they meet all their legal and regulatory obligations.

This statement covers our work in providing independent technical assurance on aspects of the Company's APR submission to Ofwat.

2. Role and Scope

Jacobs UK Ltd was appointed to provide an independent review of UUW's compliance and governance processes covering the key technical information presented in or supporting their regulatory performance and public domain information reports.

The scope of our work has been determined by UUW, and largely agreed in our Outline Assurance Plan, dated 01st April 2022, which is summarised as follows:

APR information (as reported in RR2 2), which is prepared in accordance with Ofwat's APR guidance and information which supported the Final Deter mination for the AMP 7 period, includes:

- General information
- Customer service information
- Operational activities and performance in AMP7 against PR19 and other business targets
- Networks and treatment
- Capital expenditure allocations to revenue controls and business streams, to investment categories and to performance commitments
- Calculation of 2021/22 performance associated with the Outcome Delivery Incentives and Performance Commitments.
- Other miscellaneous metrics

Where the above guidance does not cover the items assured, they are assessed against the guidelines set out by Ofwat for June Return information up to 2012, where detailed Reporting Requirements can be used to assess compliance and consistency of reporting over time and between companies. The following hierarchy of guidance is deemed to apply:

- Relevant Regulatory Accounting Guidelines: version 4.10 and subsequent clarifications
- APR22 table templates and guidance
- Performance commitments and definitions agreed with Ofwat for the AMP7 period, or as subsequently superseded
- Ofwat's most recent 'June Return' guidance (2012)
- UUW procedures, definitions and assumptions which should where relevant, be compliant with the guidance hierarchy above
- Reasonable and appropriate judgement

3. Approach

3.1 Process

Our approach is summarised in the following steps:

1. Agree Scope with UUW
2. Produce and agree Assurance Plan
3. Review preliminary topic information
4. Undertake Remote Audits via MS Teams
   - Check that the Company's reported data conforms to the published guidance
   - Identify and examine the material assumptions to assess their reasonableness, and challenge those which we deem to be inappropriate
   - Where appropriate, test on a sample basis, UUW's approach against its stated methods, procedures, policies and assumptions, and reliability of source data
   - Review the appropriateness of the confidence grades assigned,
   - Assess performance in the Report Year and check consistency against that of previous years, and
   - Ensure relevant performance data has been accurately utilised in the calculation of the various performance commitments and ODIs, where applicable.
5. Summarise Audit Findings (SAF)
   - For RR22, the SAF consists of a brief bullet point summary of the findings and a tabulation of any outstanding issues or areas identified for further UUW action. The purpose of this approach was to meet UUW's tighter reporting timetable and ensure a SAF is available in advance of the Level 2 sign off.
6. Close out key issues – through iteration between auditor and UUW specialists, escalating through both organisations where appropriate to agree, as appropriate: adjustment to reported information; future action plans; or additional statements which provide adequately transparency of the issue.
7. Presentations and preparation of Reports and Assurance Statement.

3.2 Assessment

We use the following RAG coding to simply highlight the areas of concern:

Figure 1 - RAG Criteria used by Jacobs for reporting compliance against the guidelines

Key to Audit RAG status	
R	Material concerns over the validity of the reported information
A	Potential material concerns over reported information
B	Content with reported information but supporting data needs completion/ noting/or future improvements required
G	No material exceptions and compliant with the requirements

The following tests are applied to the data presented and the accompanying commentaries:

Figure 2 - Example of Tests applied to APR Data and Performance Commitment information

RR22 Table Criteria	RAG	Assessment
Performance and Significant events	Green	Has the company met their respective targets and is the reporting process well managed/maintained?
Methodology	Green	Does the methodology remain unchanged from previous year and is it clearly laid out with key data sources, processes and well-defined control points?
Assumptions	Green	Are all assumptions reasonable and appropriately applied?
Source Data	Green	Has the source data been clearly identified, is it complete beyond material concern and is it well managed through to accurate systems input?
Clarity of Audit Trails	Green	Is the audit trail detailed, comprehensive and traceable back to source?
Confidence Grades	Green	Do you concur with the confidence grades presented by the company?
Governance	Green	Has all evidence of appropriate sign-off been provided?

ODI Measure	RAG	Assessment
Performance Commitment	Green	Are the performance figures accurately carried forward to the ODI and correctly calculated in accordance with Ofwat's PR19 FD - United Utilities – Outcomes performance commitment appendix?

Appendix 1 Jacobs audit report

RR22 Board Assurance Statement

Jacobs

4. Findings

Below we highlight the key findings and exceptions:

- The reported data is materially compliant with Ofwat's Reporting Requirements (Regulatory Accounting Guidelines, APR22 table guidance, 2019 Final Determination or superseding definitions, or June Return definitions, as appropriate)
- The tables, commentaries and statements provide a fair and balanced overview of the Company's 2021/22 circumstances and performance
- Procedures and assumptions are generally reasonable and well embedded, well documented, and appropriately implemented
- Overall, UUW staff were knowledgeable, helpful, receptive, and generally well prepared for the audits.
- We continue to see very good evidence of senior management engagement.

RED issues	There are no RED status issues.
AMBER issues	Whilst there were a small number of AMBER issues raised during the audit process, these were all resolved prior to submission.
BLUE issues	Several non-material BLUE issues were identified during the audit process. Some examples of these are summarised below:

- **3A.20 Non-household vacancy incentive –**

  We recommend the introduction of an additional automated process to add further control on actioning payments.

- **3B – Pollution Incidents** –

  At year end there was a single pollution event at Kendal WwTW that is still pending verification. EA consider this to be a Cat 1 incident whereas UU do not believe they are responsible (but have erred on the side of caution by reporting as a Cat 3). Whilst this still needs to be resolved with the EA, it does not impact on reported performance.

- **6A - Raw water transport, storage and water treatment data –**

  The Company should seek clarification as to whether the new balancing reservoirs lines reported in Table 6A Lines 1&2 should also continue to be counted in Table 5A Lines 18&19.

- **6C & 7E– Water Area –**

  Contradictory guidance from Ofwat on inclusion of NAVs in calculation of company area.

- **10E – Green Recovery Data Partnerships–**

  Ahead of RR23 we recommend a consistency review for reporting Lines 56 (Eden) and 57 (Irwell), as they are both phosphorous management projects, tracking weight of P removed and with equivalent methodologies , however, they are reported differently (kg removed vs % allowance used).

It is also not clear how Ofwat are expecting Line 60 to be reported as there is an apparent contradiction between the "Green economic recovery: Final decisions" document (No. of SuDS & NFM solutions installed) and the APR table definition (% of the £ allowance used).

There are also a few areas where further improvements have been recommended. This includes improvements to the quality and handling of some source data, clarity of audit trails and general improvements to methodologies. However, these are not deemed to be sufficiently material to be escalated into this report.

5. Independent Technical Assurance Statement

Jacobs UK Ltd has been appointed by United Utilities Water to provide independent technical assurance of the data that feeds into their regulatory submissions.

Through a series of virtual meetings and information exchanges, we have reviewed and tested the methodologies, processes and supporting evidence on which the statements in the Annual Performance Report 2022 are based. In general, this has worked satisfactorily and has not adversely impacted on the effectiveness of the overall assurance process.

Based upon our assessment of United Utilities Water's performance and the supporting information we have reviewed, with only minor and non-financially material exception, we conclude that:

- the statements of non-financial numeric measures are consistent with our assurance of the supporting information, which is appropriately robust; and
- the Company's explanations of their activities and performance are reasonably based.

Our detailed findings will be provided under separate cover.

On the basis of our audit work and with exceptions as noted, we are satisfied that the information within and which supports RR22 has been assembled using appropriate data and methodologies and provides a reliable representation of Company performance. There is also good evidence of senior management engagement, governance and programme management.

GA Hawken

Technical Assurance Director

Jacobs UK Ltd

22 June 2022

Appendix 1 Corporate audit report

CORPORATE AUDIT MEMORANDUM

Review of the APR 2022

To: **See Distribution List (Section 6)**

From: **James Taylor, Head of Audit & Risk**

Date: **21 June 2022**

1. Background

Ofwat require companies to report on their financial and operational performance in an Annual Performance Report (APR). This includes information specific to customers and stakeholders, together with information that enables comparison between companies across the sector.

The APR is supplemented by a series of data tables and supporting commentary in four main sections:

- Section 1: Regulatory financial reporting;
- Section 2: Price control and additional segmental reporting of costs and revenues;
- Section 3: Performance summary, including outcome delivery performance; and
- Section 4: Additional regulatory information, including totex and financeability information.

Alongside the Annual Performance Report, the following reports and statements are required:

- Board Statement - stating that the data and information which the company has provided to Ofwat in the reporting year and/or which they have published in their role as water and sewerage undertaker was accurate and complete and setting out any exceptions to this.
- Risk and Compliance Statement - setting out how the company has complied with its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate key risks it faces.
- Assurance Report - a summary of the results of the data assurance.

The Annual Performance Report, together with Assurance Report and statements, need to be published by 15 July each year. Our audit is therefore timed to provide assurance over the process by which regulatory data is compiled in advance of UUW Board sign-off at the end of June.

Key Risks

The overall risk is that inaccurate, incomplete or misleading data / information is published and reported to Ofwat resulting in regulatory action being taken against UU and/or its Directors. Consequently, financial penalties could be imposed together with a loss of confidence by customers and investors.

2. Audit Objective and Scope

The **objective** of the audit is to provide assurance in respect of the governance, processes and key controls over the production of the 2021-22 Annual Performance Report, including associated Board and Risk & Compliance statements and Assurance Report.

The scope of this review supplements the assurance provided by KPMG and Jacobs. The audit covered the following areas:

- Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescales;
- The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report. This will include sample testing to agree data back to underlying UU records and systems. *Note: this review will not duplicate the testing performed by KPMG or Jacobs;*
- Compliance of the reported data in the APR with key aspects of Regulatory Guideline 3.13 "*Guideline for the format and disclosures for the annual performance report*";
- Review the proposed Assurance Report to ensure it is appropriately aligned with UU's published Final Assurance Plan and a fair reflection of associated assurance activities;
- Review the process for identifying and agreeing compliance departures from statutory, licence and regulatory obligations and reporting of these within the Risk & Compliance Statement; and
- Review the Board statement for reasonableness.

Appendix 1 Corporate audit report

Review of the APR 2022

Note: The review was carried out alongside the preparation of the regulatory data and therefore we have fed back observations in real-time to the Regulatory Contract Team.

Exclusions from scope

- As testing was performed on a sample basis, the review did not verify all the regulatory data or compliance with regulatory obligations;
- Sections 1 and 2 of the Annual Performance Report which are subject to external audit by KPMG with opinion;
- Review of the performance commitment data collection, incentive calculations and reporting processes as this was performed by the technical auditor Jacobs; and
- The review did not assess the underlying adequacy of other assurance activities performed or the competency and objectivity of the assurance provider. However we did consider, by reference to the scope and provider, the appropriateness of the assurance activity given the nature of the risk.

Additional data request

Ofwat requested circa 50 further data sets to supplement the 2022 APR submission, the majority of which are due in August. The assurance process for these data sets is similar to that over the APR submission and we will test an additional sample of data items when they are available. We will issue an addendum to this memo to include the outcome of our additional data testing.

3. Conclusion

There is a robust governance framework in place over the production of the APR data tables and commentaries, and our sample audit testing has not highlighted any inconsistencies or inaccuracies in the data. The Assurance Report is a fair reflection of the published Assurance Plan and associated assurance activities. The format of the APR is compliant with RAG 3.13 "*Guideline for the format and disclosures for the annual performance report"*. Specifically, the Board statement on completeness and accuracy of data and the measures taken to assure this, complies with the provisions set out in RAG 3.13. We reviewed the Risk and Compliance Statement and also the process in place to identify and report potential material departures. A sub-group of the Compliance Working Group was formed specifically to consider significant non-compliance and we concluded that this process was appropriate and robust.

Note that our work has been performed on draft copies of the APR and associated documents. We will continue to work alongside Regulatory Contract Team to assure any changes made to the data and/or commentaries and other draft documents until the final publication of the APR.

4. Summary of Audit Findings

4.1 Overall governance arrangements in place to ensure the regulatory data is complete, accurate and reported in line with the required timescale

- ✓ The governance framework in place for Regulatory Reporting has been documented in a Board paper and includes documented roles and responsibilities for each data table including three levels of sign-off. These are documented in a "Table of Accountabilities", and we confirmed that this was up-to-date and appropriate.
- ✓ In advance of the 2021/22 reporting cycle, the Regulatory Contract Team successfully tested and introduced a JIRA based workflow methodology to enable electronic sign-off of the APR data tables and the associated documentation.
- ✓ The Regulatory Reporting SharePoint site is well structured enabling easy navigation around the site.
- ✓ We confirmed that a timetable had been published for submission of the regulatory data tables and that submission of the data is managed through standard evidence packs, the "Performance and Compliance Statements".

No issues noted.

4.2 The validity and consistency of the data and associated commentaries reported in Sections 3 and 4 of the Annual Performance Report

- ✓ We selected a sample of data table blocks (which included multiple lines) and these were traced back to the underlying systems and records with reference to the supporting Methodology Statements. This includes the additional data items requested by Ofwat.
- ✓ For the selected data lines, we confirmed consistency with associated APR commentary.

Review of the APR 2022

See Section 5 of this report for details of the sample testing.

No issues noted, however we will continue to work alongside Regulatory Contract Team, to assure any changes made to the data and/or commentaries until the final publication of the APR.

4.3 Compliance of the reported data in the APR with key aspects of Regulatory Accounting Guideline 3.13 "Guideline for the format and disclosures for the annual performance report"

- ✓ We reviewed the content of the draft Annual Performance Report (APR), dated 15 June, against the requirements set out in RAG 3.13 "Guideline for the format and disclosures for the annual performance report" to ensure that the APR included all the required disclosures (e.g. policy notes on revenue recognition, capitalisation policy, bad debt).
- ✓ All the required disclosures are included in the APR. Specifically, the Board statement on completeness and accuracy of data and the measures taken to assure this, complies fully with the provisions set out in RAG 3.13.

No issues noted.

4.4 Review the proposed Assurance Report (to be published along with the Annual Performance Report 2021/22) to ensure it is a fair reflection of UU's published Final Assurance Plan and associated assurance activities

- ✓ We verified, on a sample basis, that the assurance activities as described within the Assurance Plan had been performed.
- ✓ We have reviewed the Assurance Report and are satisfied that it is a fair reflection of the assurance activities performed and the results of those activities.

No issues noted.

4.5 Review the process for identifying and agreeing compliance departures from statutory, licence and regulatory obligations and reporting of these within the Risk & Compliance Statement

- ✓ The process for identifying any material departures from obligations or exceptions in data accuracy and completeness has been improved this year. There has been more extensive consultation with senior leaders in the business to raise awareness of the requirements to disclose material non-compliance matters. In addition, more sources of information have been used to identify potential departures, for example: regulatory reporting; outputs from an established compliance working group; and an additional targeted question added to the annual Management Control Self-Assessment (MCSA) questionnaire.
- ✓ We reviewed the Risk and Compliance Statement and are satisfied that it is a reasonable description of the activities that the Board undertake to comply with relevant statutory, licence and regulatory obligations.

No issues noted.

4.6 Review the Board statement for reasonableness

- ✓ The requirement within RAG 3.13 for a Board statement on the accuracy and completeness of data and information is included within the Risk and Compliance Statement and we confirmed compliance with the requirement.
- ✓ We have confirmed that the Board statement and Risk and Compliance Statement contain the elements required by RAG 3.13, such as Board engagement and challenge on assurance.
- ✓ We confirmed that exceptions to data accuracy or completeness have been set out in a table following the Risk and Compliance Statement, as required by RAG 3.13.

No issues noted.

Appendix 1 Corporate audit report

Review of the APR 2022

5. Sample Testing

Sample No.	Table Line Reference	Measure Description	Type	*All Tests completed Without Any Issues noted
1	3B.1 - Internal and external flooding	Internal sewer flooding incidents	ODI	Y
2	3B.6 - Improving river water quality and protecting the environment	Protecting the environment from growth and development	ODI	Y
3	3B.13 - Collapses. Blockages, HIFFR, HEFRR	Hydraulic flood risk resilience (internal)	ODI	Y
4	3B.14 - Collapses. Blockages, HIFFR, HEFRR	Hydraulic flood risk resilience (External)	ODI	Y
5	3A.2 - Interruptions	Water supply interruptions - average minutes supply lost per property	ODI	Y
6	3A.12 - Resilience	Water service resilience	ODI	Y
7	3A - Leakage	Leakage	ODI	Y
8	3E.1 - Water reputational	Drought resilience (% of customers experiencing severe supply restrictions in a 1 in 200 year drought)	ODI	Y
9	6C.22	Supply/demand side enhancements lines	Supporting	Y
10	3A.1 - CRI	Compliance Risk Index	ODI	Y
11	3A.6 - Unplanned outages	Unplanned outages	ODI	Y
12	3A.13 - Manchester and Pennine resilience	Manchester and Pennine resilience	ODI	Y

*** Tests performed:**

- RR22 timetable reflects accurately the contributors/owners, and Responsible / Accountable managers;
- Table line data consistent with Performance & Compliance statement;
- Methodology verified by the owner, Responsible and Accountable managers;
- Performance & Compliance statement verified by (signed off) by the owner, Responsible & Accountable managers;
- Responsible manager review evidenced in JIRA;
- Accountable manager review evidenced in JIRA;
- Traced to underlying records and evidence obtained; and
- Executive sign-off evidenced in JIRA (applies to higher risk lines only).

Section D

The below tables outline our compliance with the leakage and the PCC methodology in line with RAG 3.13 section 4.14

Leakage

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
1	**Coverage**	Green		A2
1a	**Coverage** - 95% of all properties have continuous night flow monitoring through the year		Green	A2
	Availability	Amber		A2
2a	**Availability** - At least 90% of all properties within continuous night flow monitoring networks available for reporting night flow data through the year		Amber	A2
3	**Properties**	Green		A2
3a	**Properties** - All properties mapped to defined zones or DMAs using geo-location or similar methods		Green	A2
3b	**Properties** - Consistency of property numbers contained within DMAs or zones with company billing system. Valid differences explained		Green	A2
3c	**Properties** - defined as void excluded from night use allowances unless evidence for use or losses from illegal occupation is available.		Green	A2
3d	**Properties** - Leakage allowance applied for properties not within DMAs or monitored zones consistent with other leakage estimates.		Green	A2
3e	**Properties** – Property data updated at least annually		Green	A2
4	**Night flow period and analysis**	Green		A2
4a	**Night flow period and analysis** - Night flow data frequency at least every 15 minutes		Green	A2
4b	**Night flow period and analysis** - Leakage derived from a fixed period during the night of at least a one hour period and up to two hours		Green	A1
4c	**Night flow period and analysis** - If the fixed period is varied during the year for some or all DMAs or zones to address significant changes to night use patterns such as during Ramadan evidence for this is provided		Green	A1
4d	**Night flow period and analysis** - Leakage allowance applied for properties not within DMAs or monitored zones consistent with other leakage estimates		Green	A2
4e	**Night flow period and analysis** - Data infilling for a single DMA or zone does not use more than six months of historic data before moving to area average		Green	A2
4f	**Night flow period and analysis** - Data infilling where historic data is not available uses the area average in which the DMA is located		Green	A2
4g	**Night flow period and analysis** - When a DMA is restored to operability, the subsequent leakage data is used to retrospectively update the data infilling interpolating between pre- and post- data over at least one month		Green	B2
4h	**Night flow period and analysis** - Where NHH properties are continuously monitored, the actual values of flow over the night flow period are used in place of estimates within the night flow analysis		Green	A2

Section D

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
4i	**Night flow period and analysis** - Weekly leakage estimates are used for annual reporting with no exclusions for summer months		Green	A2
4j	**Night flow period and analysis** - Negative leakage values are used in compiling values of annual average leakage		Green	B2
4k	**Night flow period and analysis** - The reasons for any prolonged periods of negative leakage are investigated and explained		Green	A2
5	**Household night use**	Green		A2
5a	**Household night use** - The time period for HHNU is the same time period as used for night flow and NHHNU		Green	A1
5b	**Household night use** - Own data or shared data with proximate companies is used for HHNU		Green	A1
5c	**Household night use** - Plumbing losses are included and based on own data		Green	A2
5d	**Household night use** - Evidence that survey is representative (based on demography, property type or other factors) of the company as a whole		Green	A2
5e	**Household night use** - Sample size is sufficient to capture continuous and intermittent night use with reasonable confidence		Green	A1
5f	**Household night use** - Continual monitoring and maintenance of IHMs (individual household monitors) and SAMs (small area monitors)		Green	A2
5g	**Household night use** - HHNU is derived daily with regular, adjustment of values on a weekly or monthly frequency to reflect actual seasonal use. This may be done retrospectively		Green	A2
5	**Non-household night use**	Green		A2
6a	**Non-household night use** - The time period for NHHNU is the same time period as used for night flow and HHNU		Green	A1
6b	**Non-household night use** - Own data or shared data with proximate companies is used for NHHNU		Green	A3
6c	**Non-household night use** - 1999 UKWIR methodology with the appropriate time window as used for the night flow and the published outcome of further methodology development is applied		Green	A1
6d	**Non-household night use** - Stratification of non-households to a number of groups and consumption bands is representative of the varying characteristics of commercial and industrial properties		Green	A3
6e	**Non-household night use** - Sample size is sufficient to capture night use by stratification with reasonable confidence		Green	A1
6f	**Non-household night use** - Reliable and representative average billed volume (ABV) model based on data logging of the representative sample sufficient to capture demand variations with further seasonal logging where relevant. Continuously logged properties not part of the sample.		Green	A2
6g	**Non-household night use** - ABV model linked to billing system or replacement database of billed volumes. Average billed volumes updated at least annually		Green	A2
6h	**Non-household night use** - Continuous monitoring of selected non-households is carried out where average demand of an individual non-household has a material impact on the ability for a DMA or zone to provide valid and consistent data within operability limits		Green	A2
7	**The hour-to-day factor**	Green		B2
7a	**The hour-to-day factor** is derived separately for each DMA or zone using pressure logging within each DMA or zone.		Green	B2

Section D

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
	The factors are updated at least annually or where there are any significant changes to pressure regimes			
7b	**Hour to day conversion -** As an alternative, hydraulic models reflecting latest network configuration and pressure changes, are used if they dis-aggregate in sufficient detail at sub-zone level		Green	B2
7c	**Hour to day conversion** - Evidence based N1 value used. Expected range is 1.0 to 1.20		Green	B2
8	**Annual distribution leakage** -	Green		B2
8a	**Annual distribution leakage** - Average weekly data is derived from valid daily values of leakage using data points which are representative of the week. Backfilling using the methods described in Section 5.4 – night flow analysis - is done when valid data is not available for three or more data points		Green	B2
8b	**Annual distribution leakage-**The annual value of leakage expressed as Ml/d is be derived from an average of the 52 week data		Green	B2
9	**Trunk main leakage**	Green		B2
9a	**Trunk main leakage -** Company specific data is used to assess the value of trunk main leakage		Green	B2
9b	**Trunk main leakage -** Proactive leakage monitoring approach applied where trunk main losses form a significant element of total leakage or the MLE water balance gap is greater than +/-2%		Green	B1
9c	**Trunk main leakage -** If trunk main losses greater than 5% of total leakage estimates reviewed annually		Green	B1
10	**Service reservoir losses**	Green		
10a	**Service reservoir losses** - Company specific data is used to assess the value of service reservoir losses;		Green	B2
10b	**Service reservoir losses** - Reservoirs with known high leakage, structural deficiencies or at risk of water quality failures are investigated on an individual basis		Green	B2
10c	**Service reservoir losses** - Drop tests (12 hour duration depending on size) carried out every five or ten years. All valves checked for tight close; and losses through overflows investigated. Appropriate monitoring arrangements in place to control and minimise overflow events.		Green	B2
11	**Distribution input**	Green		A2
11a	**Distribution input** - to the system is metered with at least daily readings at all defined locations		Green	A2
11b	**Distribution Input -** Meters are appropriate size for the flow to be measured and located at appropriate inputs to the network confirmed by record plans. Any treatment works take-off downstream of a meter are excluded from the DI calculations		Green	A2
11c	**Distribution Input** - Data validity checks are carried out at least monthly		Green	A2
11d	**Distribution Input** - Missing data is infilled using both pre- and post- data for the location over at least one month, extrapolated from pump hours or use of upstream or downstream meters		Green	A2
11e	**Distribution Input -** The data transfer systems from meter output to central database are checked and validated on a risk-based frequency from one up to two years		Green	A2
11f	**Distribution Input -** Flow checks are carried out on DI meters consistent with the principles of the document 'EA Abstraction Good Metering Guide' and in particular the		Green	B2

Section D

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
	frequency of flow checking defined in table 6.2 of the EA guide			
12	**Measured consumption**	Green		A2
12a	**Measured consumption** - Metered data is derived from own billing system or from CMOS for non-households		Green	A2
12b	**Measured consumption** - Estimate of supply pipe losses is included for internally metered properties consistent with own current assumption of supply pipe losses		Green	A2
12c	**Measured consumption** - Inclusion of any leakage allowance is included where a rebate has been applied to a customer's bill		Green	A2
12d	**Measured consumption** - Meter under-registration (MUR) is applied consistent with own estimates. Evidence of MUR available especially for MUR above 3%.		Green	A2
12e	**Measured consumption** - Meter replacement consistent with own replacement programme		Green	A3
13	**Unmeasured consumption**	Green		A2
13a	**Unmeasured consumption** - Monitors follow principles set out in the UKWIR Report 'Best Practice for unmeasured per-capita consumption monitors 1999' and the more recent report 'Future Estimation of Unmeasured Household Consumption', UKWIR 2017		Green	A2
13b	**Unmeasured consumption** - Consumption is derived from own individual household monitor or small area surveys		Green	A2
13c	**Unmeasured consumption** - Evidence that survey is representative (based on demography, property type or other factors) of the company as a whole; valid data available from at least 80% of monitors as an annual average measure		Green	A2
13d	**Unmeasured consumption** - For companies using SAMs – SAM (small area monitor) comprises a representative sample of customer' characteristics. The sample size is sufficient to provide a statistically representative sample after allowing for outages. Where the proportion of metered properties in an area exceeds 50% of total properties then further data validity tests are applied. For companies using IHMs – IHM (individual household monitor) comprises representative sample of customer characteristics. The sample is at least 1000 properties.		Green	A2
13e	**Unmeasured consumption** - Uncertainty allocated to unmeasured household consumption is estimated and justified		Green	A2
13f	**Unmeasured consumption** - There is continual monitoring and maintenance of IHMs and SAM monitors		Green	A2
13g	**Unmeasured consumption** - Meters are selected to provide sufficient granularity to detect low continuous flows indicative of plumbing losses or leakage short duration flow variations. The value of meter under registration is less than the company's average meter stock		Green	B3
13h	**Unmeasured consumption** - Estimate of plumbing losses is based on own data		Green	B2
13i	**Unmeasured consumption** - Where unmeasured non-household reported volume is less than 2% of total non-household demand, data from a per property consumption study is refreshed every five years		Green	AX
13j	**Unmeasured consumption** - Where unmeasured non-household reported volumes are greater than 2% of non-		Green	A2

Section D

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
	household demand, data from a property study is refreshed every two years		Green	
14	**Company own water use**	Green		
14a	**Company own water use** - All sewage treatment sites and other sites and assets supplied downstream of the DI meters using greater than 10 m3/d (0.01 Ml/d) are metered		Amber	B2
14b	**Company own water use** - An estimate of total company own use is included in the water balance, based on a clear methodology and actual data		Green	B2
14c	**Company own water use** - Estimate of distribution operational use is evidence based and not greater than 0.6% of distribution input		Green	A2
15	**Other water use**	Green		
15a	**Other water use** - Other use components are based on own data		Green	B2
15b	**Other water use** - Estimate of water delivered unbilled (legally and illegally) is evidence based and not greater than 1.8% of distribution input		Green	B2
15c	**Other water use** - Estimates are updated when there is a material increase or decrease to volumes		Green	B2
16	**Water balance and MLE**	Green		
16a	**Water balance and MLE** - Fully measured components have a range from 2% to 4%		Green	B2
16b	**Water balance and MLE** - Mainly measured with some estimated adjustments have a range from 2.5% to 5%		Green	B2
16c	**Water balance and MLE** - Estimated using detailed and reliable methods have a range from 8% to 12%		Green	B2
16d	**Water balance and MLE** - Broad estimates not fully detailed or reliable have a range from 20% to 50%		Green	B2
16e	**Water balance and MLE** - Water balance discrepancy: <2% = Green >2% and <3% = Amber >3% = Red		Green	B2

Per capita consumption

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
1	**Household population estimates**	Green		A2
1a	**Household population estimates –** derived using WRMP methodology		Green	A2
1b	**Household population estimates –** evidence for adjustments for clandestine population if any		Green	A2
1c	**Household population estimates –** updated annually		Green	A2
1d	**Household population estimates –** exclusion of non household population in accordance with WRMP methods		Green	A2
2	**Household property estimate**	Green		A2

Section D

Component/Element		2021/22		
		Component R/A/G	Element R/A/G	Confidence grade
2a	**Household property estimate** - Definition of household / non-household consistent with eligibility under market separation		Green	A2
2b	**Household property estimate** - Evidence of void properties updated annually		Green	A2
2c	**Household property estimate** - Property figures annually updated		Green	A2
3	**Measured household consumption**	Green		A2
3a	**Measured household consumption** – Metered data is derived from own billing system		Green	A2
3b	**Measured household consumption** – If leakage allowances are applied the process and evidence for this is clearly set out		Green	A2
3c	**Measured household consumption -** Average SPL (supply pipe leakage) deductions for externally metered households using company own data updated annually		Green	A2
3d	**Measured household consumption** – Company own estimate of MUR (meter under-registration) for revenue meters which is updated annually		Green	A2

Appendix 2

Certificate demonstrating the delegated authority to sign off the Condition P certificate

(ring fencing) July 2022

Appendix 2

United Utilities Water Limited

United Utilities
Water for the North West

EXTRACT FROM THE MINUTES OF A MEETING OF THE BOARD OF DIRECTORS HELD AT 8.30AM ON 28 JUNE 2022, AT 55 GROSVENOR STREET, LONDON

....

9. UUW STATUTORY AND REGULATORY ACCOUNTS

9.6 In relation to the UUW Regulatory accounts, the Board also approved the Condition P Ring-Fencing Certificate (the Certificate) and delegated authority to sign the Certificate on behalf of the Company to any one director.

Certified to be a correct extract of the minutes.

....
Jane Gilmore
Deputy Secretary

Appendix 3 Non-standard ODI pro-forma

This appendix sets out the calculations for the non-standard outcome delivery incentive payment for abstraction incentive mechanism (AIM), better air quality, enhancing natural capital value for customers and Thirlmere transfer into West Cumbria.

Introduction

As part of the process to calculate the net outperformance or underperformance payment required, a reconciliation between the reporting period company performance and the performance commitment level for each performance commitment occurs. The majority follow a standard calculation format of:

(A – B) * C

Where A is actual performance, B is the performance commitment level and C is the incentive rate.

However, there are times where complex or non-standard calculations are required in order to provide additional detail regarding the steps to calculate the outperformance or underperformance payment due per performance commitment. In this reporting period, four of our performance commitments required a non-standard calculation approach. A description of each of these performance commitments and a summary of the level of performance delivered can be found in section 1.1 of this document. The section below outlines the calculation steps for each of the four non-standard performance commitments.

C03-WR – Abstraction Incentive Mechanism

There are two components to this performance commitment, associated to two environmentally sensitive sites where abstraction of water is to be reduced: Old Water and Ennerdale and each has their own incentive rate. Performance is measured in megalitres and a negative number signifies an improved performance as average abstraction is less than the baseline. The nature of the ODI calculation follows the typical approach of:

(A – B) * C

Where A is actual performance, B is the performance commitment level and C is the incentive rate.

However, due to each site having its own incentive rate, as stated in the Outcomes performance commitment appendix[1] on pages 77 and 78, this means it is difficult in table 3A to specify whether any performance value that is stated is reflective of the performance of the company against only one component of the measure or be an amalgamation of performance across both components. Therefore, a non-standard calculation approach is required to specify our performance against each component.

The calculation detailed below outlines the performance per component of the measure and then the subsequent calculation, that follows the standard (A - B) * C approach.

Old Water

Performance in year two of AMP: 0.0 ML

Performance Commitment Level in year two of AMP: 0.0 ML

Outperformance incentive rate: £0.00078 million

Underperformance incentive rate: -£0.00080 million

ODI Calculation: (0.0 ML – 0.0 ML) * £0.00078 million = £0.00000 million

Ennerdale

Performance in year two of AMP: -134.4 ML

Performance Commitment Level in year two of AMP: 0.0 ML

Outperformance incentive rate: £0.00036 million

Underperformance incentive rate: -£0.00036 million

ODI Calculation: (-134.4 ML – 0.0 ML) * £0.00036 million = £0.048 million

The outputs of the calculation above indicates that for the 2021–22 reporting period, We outperformed and are due an outperformance payment of £0.048m as a result of reduced abstraction of water at the Ennerdale site.

C10-BR – Better Air Quality

This performance commitment is bespoke to us and is measured as tonnes of NOx emissions per GWh of renewable electricity generated per year, reported to two decimal places. This measured in an A/B formula where:

A – total tonnes of NOx emitted per year

B – total renewable electricity generated per year

The result of the A/B calculation is then our performance against the performance commitment level in that reporting period and the value calculated in the A/B calculation should be decreasing across each reporting period in this AMP (found on page 99 of the FD outcomes appendix(1)).

In our business plan submission, within the S3001 Performance Commitments technical document, we stated that the incentive rate was to be applied as a rate per tonne/ GWh as opposed to a rate per tonne only. This was applied in order to avoid deterring additional renewable electricity generation.

Based upon projections of tonnes NOx and GWh at that time, an adjustment was calculated as follows:

1.6008 tonnes reduction in NOx will lead to a reduction of 0.01 tonnes NOx per GWh.

Incentive rate per 0.01 tonnes NOx per GWh = 1.6008 × £16,820 per tonne incentive rate = £26,925

Therefore, when calculating the outperformance or underperformance payment due, a 0.01 point conversion is required in order to ensure the incentive is applied and measured as 0.01 NOx/GWh point values. This means that as part of the standard (A – B) * C approach for the outperformance/underperformance ODI calculation, a conversion step must be added and is done after (A – B), but before applying the incentive rate. This additional calculation step is not included within the FD outcomes appendix[1] but is required in order to accurately determine the underperformance or outperformance payment due to us for this performance commitment.

Therefore, when applying our actual performance the performance commitment level and incentive rate (found on page 99 of the FD outcomes appendix(1)) for the 2021–22 reporting year in the above formula and using the additional conversion calculation step (to multiply up the performance by 100 from its 0.01 factoring), the ODI is:

(1.42 – 1.19) * 100 = 23

23 * £0.02690m = £0.619 million

Appendix 3 Non-standard ODI pro-forma

The outputs of the calculation above indicates that for the 2021–22 reporting period, we outperformed and are due an outperformance payment of £0.619 million as a result of reduced tonnes of NOx emitted per GWh of renewable electricity generated across the period, therefore we have applied a manual adjustment to correct for the application of this factor as we did last year.

C08-CF – Enhancing natural capital value for customers

This performance commitment is bespoke to us and is measured as the total added natural capital value generated through the use of non-conventional solutions to deliver water quality improvement schemes.

The ODI model includes a standard outperformance cap in year two of £2.000 million based on App1 data, the actual performance cap in the FD is £5.750 million as found on page 92 of the FD Outcomes performance commitment appendix[1]. The outperformance cap of £2.000 million in the ODI model results in an incorrect calculation of our outperformance payment of £0.1250 million.

Our actual performance in year two was £2.508 million of added natural capital value against a target of £1.750 million.

(2.508 - 1.750) * 0.5 = £0.379 million

The outputs of the calculation above indicates that for the 2021–22 reporting period, we outperformed and are due an outperformance payment of £0.379 million rather than the capped value of £0.125 million calculated in the ODI model. Therefore we have applied a manual adjustment to reflect the year two FD performance cap.

B11-WN Thirlmere transfer into West Cumbria (2020–25)

This performance commitment is bespoke to us and is a measure of percentage of project completion milestones based on earned value.

Performance in the year is 99% project completion against a target of 100%.

In the FD, the collar has been set at 100% as stated in the Outcomes performance commitment appendix[1] on page 74. This means that when our performance of 99% is entered into the model the calculated incentive payment is £0.000 million.

Our understanding is that Ofwat's intention would have been to set the collar at 99%. This would mean that the resulting value was (100-99)*-£2.340 million = -£2.340 million

This would mean that performance on this measures would have led to an underperformance payment of £2.340 million. We have manually applied this adjustment in the ODI model to reflect the approach above.

(1) https://www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-United-Utilities-Outcomes-performance-commitment-appendix.pdf