UUWR_106

PR24 Draft Determination

Reconciliation commentary

August 2024

This document provides the commentary for a set of prescribed reconciliation mechanisms and two feeder models that we will submit alongside this document. It details the adjustments required to our revenue and opening RCV as a result of the reconciliation process. We have populated each mechanism with actual data from the first four years of AMP7 and forecast data for the final year. The adjustments from the mechanisms will be made as part of the PR24 process. We will submit another set of reconciliation models next year updating 24/25 forecasts with actuals.

United Utilities

Water for the North West

1. PR19 Reconciliation Submission

1.1 Key messages

1.1.1 We have populated the reconciliation models and two feeder models in accordance with Ofwat's 'Reconciliation Rulebook'[1] and provide commentary for each model within this document. We have populated each reconciliation model with actual data from the first four years of AMP7 and forecast data for the remaining year of AMP7.

1.1.2 The impact of the reconciliation mechanisms will change over the final year of AMP7 as actual data becomes available. We will submit another set of reconciliation models next year and adjustments will be made for any variance between the 2024-25 forecasts included in the final determination and actual reported performance. However, we have a strong track record of forecasting these to the end of the AMP, as demonstrated by the fact that previous blind year adjustments have been minor, providing confidence in our broader estimates that we are making accurate forecasts.

1.1.3 The impact of a number of unprecedented events, e.g. the COVID-19 pandemic have inevitably resulted in larger reconciliation values than would have been expected at the PR19 determination. However, we are confident that the scale of these adjustments reflects either the combination of a series of factors that are either outside of management control; or are the result of the proactive and responsible way that we have engaged with issues that we were able to influence by, for example, accelerating investment to respond to emerging investment requirements.

1.1.4 The reconciliation mechanisms and the PR14 blind year adjustments result in a positive AMP8 revenue adjustment of £447.9 million and a positive RCV adjustment of £492.09 million.

[1] PR19 Reconciliation Rulebook: Guidance Document - Ofwat

2. Summary of adjustments to revenue and regulatory capital value (RCV)

2.1.1 The adjustments determined through the reconciliation mechanisms affect either revenues or the wholesale regulatory capital value (RCV), with the revenue adjustments either being applied in-period or at the end of the period.

2.1.2 The in-period adjustments are managed through an ongoing annual process. The end-of-period adjustments are managed through the PR24 process and will adjust the required revenue and RCV to account for our actual and forecast performance against the 19 reconciliation mechanisms set out within this document. These adjustments are calculated using the processes set out within Ofwat's relevant 'PR19 Reconciliation rulebook'[2].

2.1.3 The reconciliation mechanisms and the PR14 blind year adjustments result in a positive AMP8 revenue adjustment of £447.9 million and a positive RCV adjustment of 492.09 million. The AMP8 revenue adjustment includes all of the adjustments in Table 2 (end of period and blind year adjustments), as well as the total in-period adjustments for 2023/24 and 2024/25 in Table 1 as these will be recovered in AMP8.

2.1.4 The in-period revenue adjustments are set out in Table 1 below.

Table 1: Summary of in-period reconciliation adjustments per year (2017/18 prices), £m

PR19 reconciliation model	Total revenue adjustment	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue forecasting incentive (RFI) (24/25 prices)	(3.51)	0.00	0.00	0.00	0.00	(3.51)
Customer measure of experience (C-MeX)	11.01	2.08	2.18	3.02	1.73	2.00
Developer measure of experience (D-MeX)	3.404	1.05	0.82	0.05	0.70	0.80
Bilateral Entry Adjustment	0.00	0.00	0.00	0.00	0.00	0.00
Bioresources revenue reconciliation (24/25 prices)	4.99	0.00	0.00	0.00	0.00	4.99
ODI performance model (excludes C-MeX and D-MeX)	148.71	17.40	21.15	22.16	30.79	57.21
Total	**164.60**	**20.53**	**24.15**	**25.23**	**33.22**	**61.49**

Source: Data taken from individual reconciliation mechanisms.

[2] PR19 Reconciliation Rulebook: Guidance Document - Ofwat

2.1.5 The end-of-period adjustments are set out in Table 2 below.

Table 2: Summary of end-of-period reconciliation adjustments to revenue and RCV (2017/18 prices), £m

PR19 reconciliation model	Adjustments type	Revenue	RCV
Cost reconciliation	Revenue/RCV	308.69	210.21
ODI performance model	Revenue/RCV	-1.31	
Residential retail (24/25 prices)	Revenue	9.72	
Developer services revenue adjustment mechanism	Revenue	82.2	
Cost of new debt reconciliation	Revenue	45.93	
Tax reconciliation	Revenue	-132.39	
RPI-CPIH wedge reconciliation	Revenue/RCV	62.74	171.81
WINEP reconciliation model	RCV		52.75
PR19 Water trading incentive model	Revenue	0.00	
Land sales	RCV		-6.98
Strategic regional water resources reconciliation	Revenue/RCV	-21.70	-6.29
Green recovery adjustment	RCV		19.59
PR14 blind year ODI performance reconciliation	RCV		-9.99
PR14 blind year totex menu	RCV		24.04
PR14 blind year land sales	RCV		0.25
PR14 blind year RPI-CPIH wedge	RCV		36.69
IFRS16 RCV adjustment	RCV	0.00	
Total	**Revenue/RCV**	353.19	492.09

Source: Data taken from individual reconciliation mechanisms.

2.1.6 It is clear that some reconciliation models have resulted in larger adjustments than others, namely:

- **The Cost reconciliation mechanism**- this is mainly a result of the costs that we have incurred in responding to the impacts of COVID-19 together with the costs of implementing a number of initiatives that were initiated following the PR19 determination.
- **The Developer services revenue adjustment mechanism**- this is due to a significantly higher number of new connections than assumed.
- **The Cost of new debt reconciliation mechanism**- this is due to national and international factors that have impacted on the financial markets.
- **The Tax reconciliation mechanism**- this is mainly due to changes in capital allowances.
- **The RPI-CPIH wedge reconciliation mechanism**- the scale and the nature of the inflation that we have experienced is outside of the company's control and has had a direct impact on the RPI-CPIH wedge reconciliation, resulting in a large adjustment.

3. UUW's response to Ofwat's DD approach

Table 3 below sets out our response to Ofwat's DD approach for each of the reconciliation models.

Table 3: UUWs response to Ofwat's DD approach

Reference number	Reconciliation model	UUW response to Ofwat's DD approach
UUWR_102.016	Revenue forecasting incentive model	We do not contest Ofwat's position
UUWR_102.010	C-MeX	We note that a blank C-MeX model was published by Ofwat as part of its DD
UUWR_102.012	D-MeX	We note that a blank D-MeX model was published by Ofwat as part of itd DD
UUWR_102.006	Bilateral Entry Adjustment	We do not contest Ofwat's position
UUWR_102.013	Bioresources revenue reconciliation model	We do not contest Ofwat's position
UUWR_102.001/ UUWR_102.002	ODI performance model	We do not contest Ofwat's position
UUWR_102.019	In-period adjustments model	We do not contest Ofwat's position
UUWR_102.015	Residential retail reconciliation model	We do not contest Ofwat's position
UUWR_102.011	Developer Services reconciliation model	We do not contest Ofwat's position
UUWR_102.007	Cost of new debt reconciliation model	We do not contest Ofwat's position
UUWR_102.018	Tax reconciliation mechanism	We do not contest Ofwat's position
UUWR_102.017	RPI-CPIH wedge reconciliation mechanism	We do not contest Ofwat's position
UUWR_102.014	WINEP reconciliation model	We do not contest Ofwat's position, but we do have comments on its proposed approach. Please see document UUWR20 for more details.
UUWR_102.020	Water trading incentive model	We do not contest Ofwat's position
UUWR_102.004	Land sales reconciliation model	We do not contest Ofwat's position
UUWR_102.005	Strategic Regional Water Resources reconciliation model	We do not contest Ofwat's position but have identified a number of errors that still remain in Ofwat's model that will need to be corrected for FD
UUWR_102.009	Green Recovery Cost Allowance Adjustment	We do not contest Ofwat's position, but we do have comments on its proposed approach. Please see UUWR20 for more details.
UUWR_102.003	Green Recovery Time Value of money	We do not contest Ofwat's position
UUWR_102.008	Cost Recovery Reconciliation Model	We do not contest Ofwat's position
UUWR_103	Revenue feeder model	We do not contest Ofwat's position, however we maintain our approach to ODI payments set out in our PR19 reconciliation document submitted in 2023[3]
UUWR_101	RCV feeder model	We do not contest Ofwat's position

[3] PR19 Reconciliation submission

4. Impact of individual reconciliation mechanisms

4.1 Revenue Forecasting Incentive Model

Background and nature of the reconciliation

4.1.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[4]

Assumptions and method

4.1.2 We have:

- Input all PR19 final determination using the source specified within the Ofwat PR19 reconciliation rulebook.
- Applied the blind year adjustments required for 2019/20 as specified by Ofwat in guidance provided on 13 of November 2020. This has been applied in full to the 2021/22 charging year.
- Applied the latest K factors including ODI rewards, penalties as per Ofwat's in-period determination provided on 14 November 2023.
- Used actual revenues recovered for the first four years of the AMP and expected revenues based on our charging structure for the final year.
- For the Network Plus price controls, the actual revenues that we have reported in the RFI model for the first four years are consistent with the values reported in the APR less the value of Rechargeable works. This is to ensure that the RFI operates in accordance with the PR19 Final Determination, which did not include rechargeable works as part of the price control allowed income. The table below reconciles the revenue reported in the APR to the revenue reported in the RFI.

Table 4: Revenue Reconciliation

Price Control	2020/21	2021/22	2022/23	2023/24
Water Network Plus				
Revenue reported in APR	645.133	659.813	646.324	705.237
Rechargeable works	0.408	0.533	1.224	0.762
Revenue reported in RFI	644.724	659.280	645.100	704.475
Wastewater Network Plus				
Revenue reported in APR	846.632	850.067	820.424	890.543
Rechargeable works	0.131	0.075	0.426	0.504
Revenue reported in RFI	**846.501**	**849.991**	**819.998**	**890.039**

4.1.3 Actual revenue for 2024/25 is assumed to be in line with price controls, therefore the revenue imbalance for 2024/25 is forecast to be nil.

Value of adjustments

4.1.4 Following the population of the RFI model on the above basis for both the Water and Wastewater price controls, we have calculated that a penalty adjustment applies for 2021/22 and 2022/23 where revenue variances have exceeded the 2 per cent threshold. This was caused by difficulties forecasting during the COVID-19 pandemic. The end of AMP7adjustments reflect the actual revenue variance for 2023/24 plus a forecast nil variance for 2024/25:

- £0.90 million Water Resources

[4] PR19 Reconciliation submission

- £1.68 million Water Network Plus
- (£6.09 million) Wastewater Network Plus

4.2 C-MeX

Background and nature

4.2.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[5].

Assumptions and method

4.2.2 The incentive rate is calculated as:

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

4.2.4 This is then multiplied by our allowed revenue for the Residential Retail price control in the 2022/23 to calculate the overall ODI.

4.2.5 Our forecasts of C-MeX are based upon our expectations of performance from our AMP7 business planning process and our performance against C-MeX so far in AMP7.

Value of adjustment

4.2.6 We expect to achieve sixth in the C-MeX table and are therefore eligible for a standard outperformance payment. The outperformance payment for our C-MeX performance for the 2023/24 reporting period is £1.725m (2017-18 prices)

4.2.7 We expect to continue to receive rewards against this measure in the final year of AMP7 and are forecasting that these will be broadly similar in value to the reward for 2023/24. In 2024/25 we expect to achieve an outperformance payment of £2.00m

4.2.8 The outputs from this model flow into the in-period adjustments model which will apply adjustments for issues such as inflation, tax and time value of money.

Ofwat's DD published C-MeX model

4.2.9 We note that Ofwat published a blank version of the C-MeX reconciliation model as part of its Draft Determination. In the absence of any feedback from Ofwat following our previous submission of this model, we are assuming that our completion of it was acceptable and that no further representation or explanation is required.

4.3 D-MeX

Background and nature

4.3.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[5].

Assumptions and method

4.3.2 The D-MeX model will determine how Ofwat will reconcile outperformance and underperformance payments for D-MeX which are applied in-period.

4.3.3 The incentive rate is calculated as:

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

4.3.5 This is then multiplied by our actual Developer Services revenue for both Water Network Plus and Wastewater Network Plus price controls in the 2023/24 period to calculate the overall ODI.

[5] PR19 Reconciliation submission

4.3.6 Our forecast of D-MeX is based upon our expectations of performance from our AMP7 business planning process and our performance against C-MeX and D-MeX so far in AMP7.

Value of adjustment

4.3.7 We expect to achieve sixth in the D-MeX table and are therefore eligible for a standard outperformance payment. The outperformance payment for our D-Mex performance for the 2023/24 reporting period is £0.668m (2017/18 prices).

4.3.8 For the final year of the period, we expect to maintain performance at a similar level to 2023/24 and expect to achieve an outperformance payment of £0.80m.

4.3.9 The outputs from this model will flow into the in-period adjustments model which will apply adjustments for issues such as inflation, tax and time value of money.

Ofwat's DD published D-MeX model

4.3.10 We note that Ofwat published a blank version of the D-MeX reconciliation model as part of its Draft Determination. In the absence of any feedback from Ofwat following our previous submission of this model, we are assuming that our completion of it was acceptable and that no further representation or explanation is required.

4.4 Bilateral entry adjustment (BEA) model

4.4.1 There is currently no utilisation of the bilateral market to provide supply within the UUW region and therefore the output of this model is zero.

4.5 Bioresources revenue reconciliation model

Background and nature

4.5.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[6].

Assumptions and method

4.5.2 We have completed the assessment of the bioresources revenue reconciliation model for AMP7 in accordance with the updated guidance set out in the August 2021 publication 'Ofwat PR19 reconciliation rulebook'. In particular, we have:

- Input all PR19 final determination information using the source specified within the Ofwat PR19 reconciliation rulebook.
- Used actual revenues recovered for the first four years of the AMP and expected revenues based on our charging structure for the final year.

4.5.3 Actual revenues for 2020/21 to 2023/24 are consistent with revenues reported within table 2M. Actual sludge volumes for 2022/23 and 2023/24 are consistent with the values reported in table 8A line 3 of the APR. For 2020/21 and 2021/22 we have reported sludge volumes to equal the revised volumes reported to Ofwat under APR query reference 'UUW-APR-CA-012', which are different to the volumes previously reported in the APR and in the version of the Bioresources Revenue Reconciliation model that we previously submitted.

4.5.4 Forward forecast data for 2024/25 is consistent with PR24 tables PD5 past delivery (revenue reconciliation) and BIO1 (sludge data) line 3.

4.5.5 The forecast sludge volumes for 2024/25 include sludge growth in AMP7.

[6] PR19 Reconciliation submission

Value of adjustment

4.5.6 The end of AMP7 adjustment is forecast to be £4.99 million (24/25 prices), of which £4.77 million is due to 2023/24 revenue variances and £0.23 million is due to forecast 2024/25 revenue variances.

4.5.7 The bioresources forecasting accuracy incentive penalty is nil. The per centage level which the company must exceed in order to be subject to a penalty rate is 6 per cent. The forecast error of 1.97 per cent (which represents the difference between the forecast volume of sludge (FTDS) and the actual volume of sludge (ATDS) is lower than the 6 per cent deadband rate that would trigger a penalty.

4.6 ODI performance model

Background and nature of the reconciliation

4.6.1 For background information on this reconciliation mechanism please see our 2023 Reconciliation submission (PR19 Reconciliation submission).

Assumptions and method

4.6.2 Input data is aligned to submissions made within the Table 3A and 3B components of the APR[7] and the components are assured by both internal and external governance processes. Our previous performance levels for each performance commitment can be seen in Appendix A of this document.

Value of adjustment

4.6.3 The 2023/24 ODI performance model that we are submitting alongside this document has already been presented to Ofwat as part of the usual APR submission requirement (July 2024). We note that this version of the year 4 ODI model is not the most up-to-date and therefore does not contain financial updates for Per Capita Consumption (PCC), as per the recent Ofwat guidance. In the model the 'expected' end of period reconciliation totals for this metric are still considered, as per the position we considered accurate on the APR submission date. We expect Ofwat to reflect the correct, up-to-date version of the model in its final determination

4.6.4 The total in-period outperformance payment for the 2023/24 reporting period was £30.79 million. This total excludes C-MeX and D-MeX.

4.6.5 For populating the ODI performance model for 2024/25, our forecasts are based upon our expectations of performance from our AMP7 business planning process and our performance so far in AMP7.

4.6.6 We are forecasting to receive £55.90 million in outperformance payments in 2024/25.

4.6.7 This total is calculated through an expected annual in-period outperformance total of £61.14 million for 2024/25, but being the final year of AMP7, a forecast adjustment of -£5.24 million is then applied to the total.

4.6.8 This -£5.24 million adjustment is comprised of four elements. One relates to the impact of the customer sharing mechanism, one relates to the historic restatement of Ww Network metrics and two relate to end-of-period performance commitment adjustments. The associated values of these four adjustments are shown in Table 5 below.

[7] APR Performance Tables

Table 5: Forecast outperformance 2024/25 and end of period adjustments (2017/18 prices - £m)

2024/25 forecast	
Initial net annual in-period outperformance total	**£61.14**
Water Network+ outperformance sharing mechanism	-£0.78
Restatement of Wastewater Network metrics in years 2020/21 to 2022/23	-£3.15
In-period sub total	**£57.21**
Manchester and Pennine Resilience (end-of-period)	-£1.91
Protecting the environment from growth and new development (end-of-period)	+£0.60
Total (post end-of-period adjustment)	**£55.90**

4.6.9 Please note that in the model all financial values match with predicted forecast positions submitted in the 3 series tables in the 2024 APR. The only exception to this is Per Capita Consumption (PCC). For PCC we have utilised the updated guidance from Ofwat in the 'InpOverride' and 'Override_Additional info' tabs, as added into this ODI model at the PR24 Draft Determination. As a consequence of the updated guidance, the adjusted PCC performance has generated a zero (£0.00 million) financial position for 2020/21 to 2023/34. Likewise, our forecast PCC performance in the Table 3F tab would also generate an adjusted financial position of £0.000 million.

Water Network plus outperformance sharing mechanism

4.6.10 The outperformance sharing mechanism has been applied to the Water Network plus Price Control. In this Price Control we anticipate an outperformance only total of £46.88 million (see Table 6 below). This is prior to the application of the anticipated underperformance payments in this Price Control

Table 6: Water Network+ Price control forecast outperformance 2024/25 (2017/18 prices - £m)

Performance Commitment	Outperformance Table View	Water N+ Allocation	Outperformance Per Price Control
Mains repairs	£0.90	100%	£0.90
Number of properties with lead risk reduced	£2.65	100%	£2.65
Helping customers look after water in their home	£1.79	100%	£1.79
Reducing discolouration from the Vyrnwy treated water aqueduct	£32.30	100%	£32.30
Reducing areas of low water pressure	£0.08	100%	£0.08
Water service resilience	£8.78	100%	£8.78
Non-household vacancy incentive scheme	£0.21	50%	£0.10
Gap sites (Wholesale)	£0.54	50%	£0.27
Natural Capital	£0.07	5%	£0.00
Total			**£46.88**

4.6.11 This £46.88 million total is higher than the £45.32 million aggregate sharing threshold set by the model (3 per cent of RoRE). At this point 50 per cent of outperformance is shared with customers.

4.6.12 It should be noted that the majority (c. 75 per cent) of the forecast outperformance in this price control is predicted to be generated via the 'Reducing discolouration from the Vyrnwy treated water aqueduct' and 'Number of properties with lead risk reduced' performance commitments. Both these PCs are 'cost recovery' and were designed to deal with future uncertainty within our lead pipe replacement and aqueduct relining programmes in AMP7. As work was confirmed and then undertaken, the ODI mechanism would then allow us to recover the cost of the activity. The application of the sharing mechanism to this total therefore seems to contradict this principle, as now an element of the cost will potentially be incorrectly given back to customers instead of being recouped by the company.

4.6.13 We do not anticipate any end-of-period RCV adjustment through the ODI model.

Restatement of Wastewater Network metrics in years 2020/21 to 2022/23

4.6.14 As outlined on page 94 of the 2023/24 APR document, we have undertaken a historical restatement of some of our Wastewater network metrics. This issue affected years 2020/21, 2021/22 and 2022/23. As such, an associated additional underperformance payment of -£3.15 million is being reconciled through this model.

4.6.15 The three individual elements of this adjustment are:

- -£0.329 million for Sewer blockages
- -£0.433 million for Internal sewer flooding
- -£2.388 million for External sewer flooding

4.6.16 Tables 7, 8 and 9 below show the profiles of these adjustments. We have reconciled the 'total' values from these tables in the model by using the 'Additional underperformance payments – override' (row 29) option in the 'Company_PC_Inputs' tab.

4.6.17 Please note that by using this option, it has also adjusted the figures displayed in the Table 3B tab. For these three metrics the financial values in Column H now show the in-year performance minus the adjustment.

Table 7: Financial adjustment due to restated performance values – Sewer blockages (2018/18 prices - £m)

Sewer blockages	2020/21	2021/22	2022/23	Total
Adjusted ODI financial value - as per restated performance	-£0.049	-£0.095	-£0.161	-£0.305
Associated 'Time value money' addition	-£0.006	-£0.009	-£0.010	-£0.024
Total				**-£0.329**

Table 8: Financial adjustment due to restated performance values – Internal flooding (2018/18 prices - £m)

Internal sewer flooding	2020/21	2021/22	2022/23	Total
Adjusted ODI financial value - as per restated performance	£0.000	-£0.135	-£0.270	-£0.405
Associated 'Time value money' addition	£0.000	-£0.012	-£0.016	-£0.028
Total				**-£0.433**

Table 9: Financial adjustment due to restated performance values – External flooding (2018/18 prices - £m)

External sewer flooding	2020/21	2021/22	2022/23	Total
Adjusted ODI financial value - as per restated performance	-£0.908	-£0.521	-£0.757	-£2.185
Associated 'Time value money' addition	-£0.111	-£0.047	-£0.045	-£0.203
Total				**-£2.388**

4.7 In-period adjustments model

Background and nature of the reconciliation

4.7.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[8].

Assumptions and method

4.7.2 We have populated the model to match the version of the model published by Ofwat in its in-period outcome delivery incentives final determinations for 2022/23, published on 14 November 2023. We are therefore re-submitting the updated model for completeness.

Value of adjustment

4.7.3 Following the population of the model on the above basis we have calculated the adjustments for 2024/25 for the following:

- Revised K factors for Water resources, Water network plus and Wastewater network plus.
- Revised unadjusted revenue for Bioresources sludge.
- Revised total revenue for Residential retail.

Table 10: In-period adjustments per price control per year (2017/18 CPIH FYA prices), £m

Price control		2021/22	2022/23	2023/24	2024/25
Water resources (K factors)	Previous determination	-0.06	0.37	1.64	4.77
	Revised	-0.06	0.37	1.64	4.52
Water network plus (K factors)	Previous determination	0.29	-1.03	-1.10	-3.84
	Revised	0.29	-1.03	-1.10	-4.80
Wastewater network plus (WaSCs only)	Previous determination	-2.87	-0.38	-1.50	-2.83
	Revised	-2.87	-0.38	-1.50	-0.13
Bioresources (WaSCs only)	Previous determination	93.31	94.55	96.22	96.94
	Revised	93.31	94.55	96.22	98.20
Residential retail (total revenue, TRt – £m, nominal prices)	Previous determination	108.38	120.75	127.60	111.24
	Revised	108.38	120.75	127.60	135.29

Source: Data taken from In-period adjustments model

4.8 Cost sharing total costs reconciliation

Background

4.8.1 The PR19 Final Determination set total expenditure (totex) assumptions for the 2020-25 period across UUW's four wholesale price controls. If a company overspends or underspends compared to the PR19 assumptions then incentives are applied to 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 and Residential retail price controls, which has no standard customer sharing (i.e. 0 per cent customer share, 100 per cent company share for both overspend and underspend).

[8] PR19 Reconciliation submission

- **Business rates and abstraction licence feeds.** Companies can only exercise limited control over these costs and so the cost variance to the company's PR19 cost allowance is subject to a 75:25 (customer share: company share) sharing rate.
- **Totex not subject to cost sharing**. Some spend is set to have zero customer sharing through the cost reconciliation. 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 controls (e.g. non-section 185 diversion costs and income.)

4.8.2 **Green Recovery.** An additional allocation has been granted, in addition to the five-year final determination allowance, to invest in schemes that will help the green economic recovery, as well as benefitting the environment. For more information see our latest Green Recovery overview document[9].

4.8.3 Given the uncertainty over the ultimate costs of the innovative schemes, underspend will be subject to a 90:10 (customer share:company share) sharing rate, to ensure underspend variances are weighted heavily in customers' favour, whilst still providing companies with an incentive to act efficiently. Overspend is subject to an equal 50:50 share between customers and the company.

4.8.4 The PR19 cost reconciliation compares actual expenditure against these allowances for each category of spend for AMP7. The exception to this is totex not subject to cost sharing e.g. disallowable costs and strategic water resources development costs), which is out of scope for customer sharing. This mechanism splits out the reported totex over/underspend per category, with the resulting customer share element being recovered through a mixture of opening adjustments to AMP8 RCV and through AMP8 revenues (with the RCV/revenue split consistent PR19 assumptions on Pay As You Go).

4.8.5 **Defra's accelerated infrastructure delivery project and AMP8 transition expenditure.** The Department for Environment Food and Rural Affairs asked English water companies to propose schemes for accelerated infrastructure delivery in 2023-24 and 2024-25, to tackle challenges in three areas: water resilience (supply and demand), storm overflows and nutrient neutrality. Ofwat allowed companies to undertake work in this price control period on the approved schemes with allowances to be determined through the PR24 process, to deliver earlier benefits for customers, communities and the environment. Expenditure on accelerated programme schemes will be subject to a separate reconciliation.

Forecast customer cost share adjustments

4.8.6 Total forecast customer cost share of totex underperformance against the PR19 final determination is largely as a result of planned additional investment beyond the final determination allowance over AMP7. This includes delivering sustainable improvements for customers through Dynamic Network Management and drinking water quality improvements, investing outperformance to deliver our 'Better Rivers: Better North West' programme and making an early start on aspects of the new Environment Act 2021 requirements, and improving the quality and aesthetics of the water supply from the Vyrnwy aqueduct. In addition, we have delivered additional scope requirements on our base capital programme, experienced the impact of inflation with costs rising above average CPIH, and the impact of weather events and incidents.

- **Investing to improve services for customers:** Delivering further improvements to service for customers and better performance against our customer outcome deliver incentives (ODIs). This investment is targeted at delivering sustainable improvements for customers in two specific areas where we want to do better:

[9] https://www.unitedutilities.com/globalassets/documents/pdf/green-recovery-2023/download

  - 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
  - Drinking water quality improvements (specifically reducing discolouration).
- We are also investing in a number of other 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:** Additional investment to deliver our 'Better Rivers: Better North West' programme and to make an early start on aspects of 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.
- **Vyrnwy Aqueduct improvements:** 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 final determination allowed totex. However, following a Drinking Water Inspectorate (DWI) enforcement order issued in September 2020, we were subsequently required to proceed with the scheme which will improve the quality and aesthetics of the water supply via a programme of cleaning. 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 the aqueduct cleaned or relined.

4.8.7 We also chose to accelerate our AMP7 investment programme within the AMP itself to enable us to deliver benefits sooner. This accelerated spend profile has been categorised as timing within APR table 4C as the overspend across the first three years of the AMP will be offset by equivalent reductions in totex spend in the final two years.

4.8.8 Other adjustments include customer share adjustments for the abstraction charges and business rates uncertainty mechanism. Total business rates were below the final determination allowance due to a reduction in the central list Rateable Values. This was partially offset by abstraction charges being above the final determination allowance due to changes to the EA charging scheme.

Real wage growth

4.8.9 We have aligned to Ofwat's assumptions for real wage growth.

Performance-related pay

4.8.10 In June 2023, Ofwat published 'Protecting customer interest on performance related executive pay – consultation response document'[10]. This document sets out Ofwat's intention to introduce a mechanism that allows it to adjust revenue allowances so that customers do not fund Performance Related Pay (PRP) awards if a company is unable to demonstrate that its decisions reflect Ofwat's expectations.

4.8.11 Ofwat also published an updated cost reconciliation model with additional inputs and mechanisms to allow it to carry out the PRP adjustment. At the time of early submission, Ofwat has not yet published a determination for PRP adjustments. For this reason, we have input zero for all PRP related inputs.

[10] https://www.ofwat.gov.uk/wp-content/uploads/2023/03/Protecting_customer_interests_on_performance_related_executive_pay.pdf

Value of adjustments

4.8.12 The total revenue adjustment from this model is £318.94 million (17/18 prices) and the total RCV adjustment is £210.21 million (17/18 prices).

4.9 Residential retail reconciliation model

Background

4.9.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[11].

Assumptions and method

4.9.2 We have completed the assessment of the Residential Retail Reconciliation Model for AMP7 using Ofwat's reconciliation feeder model in accordance with the guidance set out in the 'Ofwat PR19 reconciliation rulebook'. In particular, we have:

- Input all PR19 final determination information using the source specified within the Ofwat PR19 reconciliation rulebook.
- Calculated reforecast customer numbers on an annual basis which are stated in the forecast charge multipliers at the beginning of each year (those used in setting the tariffs for the relevant year).
- The forecast customer numbers are consistent with both the changes in customer numbers and with the forecast charge multipliers.
- The forecast retail revenues by category are consistent with both the changes in customer numbers and with the forecast charge multipliers. For 2024/25 use forecast charge multipliers against future forecast tariffs to obtain outturn revenues.
- The actual customer numbers are linked to the actual customers for each financial years, as reported in table 2F of the Regulatory Reporting Tables. For future years, the same figure is input here as is in the reforecast customer numbers.
- Revised total revenue for FY25 in our model is 135.37, which is 0.08 different to the latest PR24 Draft Determination figure of 135.29. We are assuming the updated figure is due to different inflation assumptions. We have kept the original figure in our model to ensure no adjustment is calculated in the output for FY25.
- The revenues in each reporting category include a revenue sacrifice due to offering Support and Social tariffs. This has been calculated as the total value of discounts, given to customers on the Support and Help to Pay social tariffs that has been funded by UUW and not cross-subsidised by other customers. The loss of revenue resulting from this revenue sacrifice is not recovered back from the Household Retail Mechanism
- Applied a discount rate of 2.96 per cent (PR19 Allowed return on capital appendix, Appointee WACC) in reconciling AMP6 performance.

Performance and value of adjustments

4.9.3 The revenue amount to be reconciled is unchanged from the position as at the end of FY24.

4.9.4 Following the population of the model on the above basis, the total retail revenue adjustments applied at the end of AMP7 to correct for variations from assumptions set out at PR19 will be £9.72million (24/25 prices). This is the amount that we are forecasting to be under recovered within AMP7, and is the amount that will be recovered in AMP8 retail revenues.

[11] PR19 Reconciliation submission

Table 11: Forecast vs actual customer numbers 2020-2025, thousands

	2020/21	2021/22	2022/23	2023/24	2024/25
Forecast customer numbers	3,042.29	3,065.04	3,088.82	3,113.63	3,139.47
Reforecast customer numbers	3,069.12	3,163.09	3,200.43	3,247.73	3,251.96
Actual customer numbers	3,086.17	3,164.45	3,190.02	3,247.73	3,251.96

Source: Data taken from the Residential retail reconciliation mechanism.

Table 12: Residential retail adjustments per price control per year, 2024/25 prices, £m

Price control	2020/21	2021/22	2022/23	2023/24	2024/25
Residential retail	7.49	5.57	1.43	(4.34)	-
Blind Year Adjustment					(0.43)

Source: Data taken from the Residential retail reconciliation mechanism.

4.10 Developer services revenue adjustment mechanism

Background and nature of the reconciliation

4.10.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[12].

Assumptions and method

4.10.2 The values for new properties connected for FY21-24 represent actual values reported within table 4Q of the Annual Performance Report and the components are assured by both internal and external governance processes 2024/25 values are based upon a forward forecast. Values can differ year on year and are largely dependent on external property and construction market conditions outside our direct control.

4.10.3 We have observed a reduction in new properties connected in FY23 and FY24 from FY22 and expect the short term market conditions to be challenging. Economic conditions across the next year are uncertain and this is reflected in the forecast for FY25. The forecast for new water properties connected assumes a small improvement in market conditions in FY25 of around 9%.

Value of adjustment.

4.10.4 The actual number of new properties connected to water and wastewater services for the period FY21-24 are higher than the forecast number of connections set by Ofwat in the final determination.

4.10.5 The forecast number of new properties connected to water and wastewater services for FY25 is also expected to be higher than the forecast number of connections set by Ofwat in the final determination.

4.10.6 In summary, for the period 2020 to 2025 we are forecasting the number of new properties connected to water services to be 133,858 (56,912 higher than the final determination forecast of 76,946). For wastewater services the forecast is 126,727 (49,633 higher than the final determination forecast of 77,095). See Table 13 and Table 14 below for a breakdown of these numbers.

[12] PR19 Reconciliation submission

Table 13: Forecast vs actual number of new properties connected to wastewater services 2020-2025, thousands

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Forecast	15,991	14,999	16,402	15,008	14,695	77,095
Actual	27,007	26,293	24,051	22,939	26,438	126,727
Difference in volume	11,016	11,294	7,649	7,932	11,743	49,633

Source: Data taken from Developer services revenue adjustment model

Table 14: Forecast vs actual number of new properties connected to water services 2020-2025, thousands

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Forecast	15,967	14,980	16,360	14,973	14,666	76,946
Actual	27,423	27,129	25,865	25,617	27,824	133, 858
Difference in volume	11,456	12,149	9,505	10,644	13,158	56,912

4.10.7 Following the population of the model on the above basis we are forecasting an end-of-period adjustment of £63.31 million for Water and £18.89 million for Wastewater. The total value of the adjustment is £82.20 million.

Table 15: Developer Services revenue adjustment per price control per year (2017/18 prices), £m

Price control	2020/21	2021/22	2022/23	2023/24	2024/25
Water	13.53	13.84	10.46	11.50	13.98
Wastewater	4.80	4.62	2.95	2.78	3.74
Total	**18.32**	**18.46**	**13.41**	**14.28**	**17.72**

Source: Data taken from developer services revenue adjustment reconciliation model

4.11 Cost of new debt reconciliation model

Background and nature of the reconciliation

4.11.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[13]

Assumptions and method

4.11.2 UUW did not receive any company specific adjustment within its cost of debt allowance for PR19.

4.11.3 The iBoxx assumptions within the cost of debt reconciliation model have ben input as:

- Actual iBoxx data up to 28 May 2024 (to 2 decimal places).
- For the period from 29 May 2024 to 31 March 2030 the future iBoxx rate has been forecast by bootstrapping 20 year nominal forward gilt rates as at 28 May 2024, adding the semi-annual spread to benchmark from the iBoxx indices as at 28 May 2024 and then annualising the resultant rates.
- For the period from 1 April 2030 this is kept static at the forecast 31 March 2030 rate.

Value of adjustment

4.11.4 Following the population of the model on the above basis, the total revenue adjustments applied at the end of AMP7 to correct for variations from assumptions set out at PR19 will be £45.93 million.

[13] PR19 Reconciliation submission

Table 16: Cost of new debt revenue adjustments per price control per year (2017/18 prices), £m

Price control	2020/21	2021/22	2022/23	2023/24	2024/25
Water resources	1.13	0.39	0.09	0.28	0.59
Water network plus	6.42	2.20	0.49	1.51	3.12
Wastewater network plus	12.93	4.42	0.97	3.08	6.55
Bioresources	0.83	0.29	0.06	0.20	0.40
Total	**21.30**	**7.29**	**1.61**	**5.07**	**10.66**

Source: Data taken from the cost of new debt reconciliation model.

4.12 Gearing outperformance sharing mechanism

4.12.1 Ofwat have proposed not to apply this mechanism as part of the PR19 reconciliation process or for the 2025-30 period and therefore we have not submitted an updated version of it.

4.13 Tax reconciliation

Background and nature of the reconciliation

4.13.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission (PR19 Reconciliation submission).

Assumptions and method

4.13.2 We recalculate the tax allowance for each year, to reflect changes to either the headline corporation tax rate or to the writing down allowances available on capital expenditure. In calculating the reconciliation adjustments for corporation tax, the reconciliation also takes into account the impact on the tax charge arising from changes to the cost of debt, derived from the cost of new debt index mechanism. To do this, we rerun the PR19 financial model using the totex allowances, PAYG and RCV run-off rates (set out in the final determination). The difference between these two models is then the resulting reconciliation adjustment that will be made at PR24.

Value of adjustment

4.13.3 Following the population of the model on the above basis, the total allowed revenue adjustment for this mechanism across AMP7 is -£132.39 million. Whilst the rate of corporation tax increased from 17 per cent to 25 per cent, changes in the capital allowances rates since the Budget in March 2021 mean that the amount of tax the company is required to pay is lower than what was allowed in PR19, with these benefits being passed back to customers. Capital allowances enable companies that invest in plant and machinery to offset part or all of the value of the investment against its taxable profits in each year. The rate was raised with the intention of incentivising companies to increase their capital investment to help support growth following economic downturn caused by the COVID-19 pandemic.

4.13.4 As the capital allowances have been substantial this has generated large values through the incentive mechanism. The breakdown of this adjustment is shown in Table 17 below.

Table 17: Tax reconciliation total revenue adjustments per price control per year (2017/18 prices), £m

Price control	2020/21	2021/22	2022/23	2023/24	2024/25
Water resources	(0.05)	(0.64)	(0.89)	(2.03)	(1.95)
Water network	0.27	(9.29)	(7.59)	(17.51)	(12.77)
Wastewater network	0.05	(14.88)	(9.33)	(21.31)	(22.11)
Bioresources	0.28	(2.91)	(2.09)	(4.08)	(3.55)
Total	**0.55**	**(27.73)**	**(19.90)**	**(44.94)**	**(40.38)**

Source: Data take from tax reconciliation model.

4.14 RPI-CPIH wedge reconciliation model

Background and nature of the reconciliation

4.14.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[14]

Assumptions and method

4.14.2 Our forecast values for both CPIH and RPI are derived from a combination of independent forecasts obtained from Banks in the short run (2 years) and the HMT medium and long term forecast thereafter. These forecasts are also contained within PR24 submission table PD1.

4.14.3 We have used the model published by Ofwat for the PR24 Draft Determinations, which included updated calculations and a reconciliation to derive the revenue adjustment associated with the 2019-20 RPI-CPIH wedge adjustment.

Value of adjustment

4.14.4 Following the publication of the PR19 final determination, the country was hit by COVID-19 pandemic, which has been followed by the 'cost of living crisis' and a period of sustained high inflation with a larger disparity between CPIH and RPI than what was accounted for in the assumptions made within the final determination. The scale and the nature of the inflation that we have experienced is outside of the company's control and has had a direct impact on the RPI-CPIH wedge reconciliation, resulting in a large adjustment. We have calculated the revenue and RCV adjustments required to reconcile the differences in actual inflation to the wedge assumption applied to the RPI (CPIH + wedge) RCV as part of the PR19 final determination. The difference between RPI and CPIH has increased throughout AMP7, particularly in FY23, which results in positive reconciliation adjustments of £171.81 million of RCV and £62.74 million of revenue that will be applied as a midnight adjustment to the RCV and AMP8 revenues as part of PR24.

4.15 WINEP reconciliation model

Background and nature of the reconciliation

4.15.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[15].

Assumptions and method

4.15.2 In theory, the mechanism only applies to schemes designated as amber under the WINEP at the time of the PR19 determinations. An amber scheme is one that was not confirmed as being required under the WINEP at PR19, but was funded for in the final determinations.

4.15.3 Following the final determination, the EA confirmed that all of UUW's amber schemes were required and were therefore now classified as green schemes. The EA also confirmed that our red schemes were required. The schemes that were designated as red in our final determination were not confirmed as required at the time of the final determination and therefore not funded for at PR19. The uncertainty mechanism also means that the efficient expenditure associated with the red schemes can be recovered.

4.15.4 Given the EA has now confirmed these schemes are statutory obligations, the reconciliation needs to reflect an uplift for the associated costs. The associated costs as set out in the final determination will be recovered from customers in AMP8. We have included these schemes in the WINEP reconciliation model and this scenario applies to UUW's WINEP scheme at Bolton. We have included schemes that were removed from the WINEP in agreement with the Environment Agency, but were classed as amber and therefore funded within our PR19 Final Determination. We have ensured that the reconciliation

[14] PR19 Reconciliation submission

[15] PR19 Reconciliation submission

model recognises that the funding for these schemes is no longer required and therefore the model adjusts allowances downwards.

Value of adjustment

4.15.5 The total value of the adjustment to RCV is £52.75 million

Ofwat's DD WINEP reconciliation model

4.15.6 Whilst we do not seek to directly challenge Ofwat's draft determination for this model, it should not be taken as our agreement to the change in approach to reconciling AMP7 that Ofwat set out in its PR19 final determinations and subsequent PR19 Reconciliation Rulebook.

4.15.7 The only reason that we are not seeking to challenge this approach is because there are more material areas of concern elsewhere within the draft determination that warrant Ofwat's attention ahead of the final determination. However, we could encourage Ofwat to consider strongly the legitimacy of making retrospective changes to its framework and risk undermining the regulatory contract. For more details please see UUWR20

4.16 Water trading incentive model

Background and nature of the reconciliation

4.16.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[16].

Assumptions and method

4.16.2 We can confirm that whilst we do have a number of trading arrangements with other companies, we have not entered into any new trades during the 2020-2025 period over and above those that were in place prior to the beginning of the AMP.

Value of adjustment

4.16.3 Because no new trades occurred within the period the output of the model is 0.

4.17 Land sales

Background and nature of the reconciliation

4.17.1 United Utilities owns a significant value and volume of land and buildings, considered to be regulated assets held for the purpose of undertaking the role of a regulated water and wastewater business.

4.17.2 When a company disposes of land, the licence requires that the net proceeds are split equally between shareholders and customers. The mechanism for this is through the RCV; the customers' share of any net proceeds is deducted from the RCV. The Land Sales Reconciliation model derives the adjustment needed for the RCV for disposals of interest in land expected in the current control period 2020-25. The benefit of any proceeds are split 50:50 on a discounted value basis (2.92% as per Ofwat methodology) between the company and customers via true-up of the RCV at April 2025.

4.17.3 For each PR19 price control that the adjustment applies to, the model will compare the actual land sales with the forecast land sales for each of the years in 2020-25 and calculates the customers' share of any net proceeds of land sales as set out in the company licence. It calculates the present value of the customers' share of any net proceeds from disposals of interest in land in years 2020-25 using the price control specific discount factor based on the real allowed return for the wholesale controls that applied at PR19. Finally it calculates the net present value adjustment to deduct from the RCV to apply at PR24.

[16] PR19 Reconciliation submission

4.17.4 Disposals of interest in land include the complete disposal of land as well as the (rental income) creation of an interest or right in or over land - for example the granting of leases and wayleaves. Proceeds from all such transactions are included within the model.

4.17.5 United Utilities note that the value of the adjustment to the RCV is a pre-tax value adjustment, which whilst this is not a current issue given United Utilities wider tax position into AMP8; we request Ofwat to review this adjustment to be a post-tax value.

Assumptions and method

4.17.6 Actual input data for FY21-24 is aligned to submissions made within Table 2L of the Regulatory Reporting process (APR) and has been assured by both internal and external governing processes.

4.17.7 Forward forecast data for FY25 is based upon a forward forecast aligned to our internal business plan, based upon outturn (inflated) values. Values can differ year upon year and are largely dependent upon the mix of complete property disposals, as well as clawback from a related party where Ofwat has previously invoked a clawback mechanism under Condition K of UUW's licence.

Value of adjustment

4.17.8 There have been five disposals in 2023/24, one of which was above the Condition K materiality threshold. In addition, there has been receipt from an enfranchisement and six grants of easement. The rental portfolio managed by an external agent comprised of 707 individual income streams.

4.17.9 There are a number of proposed disposals in 2024/25, with none of these expected to be above the materiality threshold of £0.5 million; we also expect not all of these to complete given challenges faced within the property market and to ensure we obtain best value for customers, but a mix of those achieved are expected to meet our £ disposal forecast provided for FY25. Again, the rental portfolio managed by an external agent is expected to remain relatively consistent to FY24.

4.17.10 The forward forecast assumes a reduced level of complete disposals of land and buildings compared to historic values. This is based upon the expectation to provide increased levels of investment (and associated land requirements) in enhancement schemes required to meet the company's regulatory and environmental obligations, hence restricting the company's ability to dispose of existing land stock. The forecast of rental income (and associated costs) assumes broadly consistent levels with that of historic values, adjusted for one-offs.

4.17.11 The values assumed for all land sales within the PR19 Final Determination are zero throughout the period. Therefore, all actual and forecast values represent a differential to the assumptions set as part of the PR19 process. Following the population of the model on the above basis, the total adjustment to the RCV adjustment will be -£6.98 million. The annual breakdown of this value is shown in Table 18 below.

Table 18: NPV effect of customers' share of net proceeds from disposals of interest in land per price control per year (2017/18 prices), £m

Price Control	2020/21	2021/22	2022/23	2023/24	2024/25
Water Resources	1.17	0.67	1.77	0.73	0.83
Water Network	0.02	0.17	0.09	0.03	0.07
Wastewater	0.23	0.84	0.14	0.12	0.10
Total	**1.42**	**1.68**	**2.00**	**0.88**	**1.00**

Source: Data taken from land sales reconciliation models

4.18 Strategic regional water resources

Background and nature of the reconciliation

4.18.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[17].

4.18.2 At PR19 Ofwat provided funding allowance for the development during AMP7 of 17 strategic resource option projects and set up a gated process (administered by RAPID) to assess the efficiency of expenditure and manage project progress. UUW have been allocated funds for 2 projects; North West Transfer (NWT) and Severn to Thames Transfer (STT), which is jointly managed with Severn Trent and Thames Water.

4.18.3 This data request is not part of the formal gated process but looks to reconcile the costs incurred and current forecast for delivery of the elements of the strategic regional water resource options that were selected in the WRMP preferred pathway in AMP7 for NWT & STT.

Value of adjustment

4.18.4 For NWT a sum of £6.11 million is to be returned. This is in line with our expectations.

4.18.5 For STT sum of £21.88 million is to be returned. This is not in line with our expectations. Please see below for what we believe the model should output.

UUW identified errors in the model

4.18.6 The SRWR reconciliation model provided by Ofwat as part of its draft determination continues to contain errors which will need to be fixed for the final determinations. In particular, Ofwat should correct the formulas where multi-company SRO's have a change in the proportions, specifically when the proportion is reduced.

4.18.7 The accuracy of this model is an ongoing issue that we have raised repeatedly with RAPID. In November 2023 we completed the reconciliation model. This template had a series of errors in it, the most fundamental of which was the fact that it didn't recognise that the Vyrnwy and UU Sources SROs were merged to form NWT SRO at Gate 1. We highlighted these issues to Ofwat in August 2023.

4.18.8 After this, we received a revised reconciliation template from RAPID in February 2024 which resolved the issue above, but also introduced some new errors affecting the outcome. We returned this to RAPID in March making them aware of the errors. In May another version was circulated by RAPID for SROs to use. Again, this looked to resolve the issues in the previous version, but introduced further errors which were confirmed via the All Company Working Group (ACWG) to Ofwat on 17th June. A further model was issued by RAPID in July 2024 which still contained errors, the ACWG highlighted this to RAPID and a session was organised with RAPID/Ofwat on July 30th to address these. Subsequent to the meeting the ACWG issued comments to Ofwat on 2nd August.

4.18.9 The errors that we have identified in the model at present are as follows:

- STT is split by 33% instead of 1/3.
- Due to the negative change in proportions for SVT and UUW in STT, the model tries to claw back the additional Gate 3 funding multiple times resulting in the Ofwat model looking for UUW to return an additional £5.08M in the STT model.
- For STT this results in a sum of £21.89M due to be returned (-£16.97 revenue and -£4.92 RCV), this is not in line with our expectations (the sum of G3 underspend and G4 unused allowance less the efficiency of G1&2 with a factor for the time UUW has had the money). Please see below for what we believe the model should output and the variance.

[17] PR19 Reconciliation submission

Table 19: Errors in the Strategic Regional Water Resources Model vs our proposed figures

Outputs from Model	NWT	Ofwat STT	Ofwat Total	NWT	UUW STT	UUW Total	Variance
revenue adjustment incl. financing adjustment (17-18 FYA CPIH deflated prices)	-£4.73	-£16.97	-£21.7	-£4.73	-£13.14	-£17.87	£3.83
RCV adjustment (17-18 FYA CPIH deflated prices)	-£1.37	-£4.92	-£6.29	-£1.37	-£3.67	-£5.04	£1.25
Total to be returned	**-£6.1**	**-£21.89**	**-£27.99**	**-£6.1**	**-£16.81**	**-£22.91**	**£5.08**

4.19 Green recovery cost allowance adjustment

4.19.1 In July 2020, Defra, Ofwat, the Environment Agency (EA), the Drinking Water Inspectorate (DWI) and the Consumer Council for Water (CCW) invited water companies to identify ways to support the country's green economic recovery from the COVID-19 pandemic. They set out an ambition to build back greener from the pandemic: delivering lasting environmental improvements for current and future generations, whilst meeting the economic and social challenges England faces - known as 'Green recovery'. Water companies were asked to bring forward new proposals and accelerate existing ones to deliver an innovative and more resilient future for customers, society and the environment. Following submissions from companies in January 2021, Ofwat issued its final decisions in July 2021. We received endorsement to progress with a total allowance of £64.402 million additional allocation on top of our existing PR19 final determination.

4.19.2 This allocation focussed on three specific schemes:

- Accelerating partnerships to deliver natural solutions;
- AMP8 WINEP investments at Bury; and
- Tackling storm overflows.

4.19.3 This submission sets out all changes from UUW's PR24 business plan submission. Full details of our Green Recovery programme can be found in our Annual Performance Report[18].

Accelerating partnerships to deliver natural solutions

4.19.4 Within our DD submission, we report activity relating to Eden catchment phosphorous management as 23 per cent complete. This compares to our business plan forecast that it would be 100 per cent complete.

4.19.5 This has happened due to the EA's update on its interpretation of Farming Rules for Water (FRfW). This meant that several water company interventions that were previously deemed allowed under catchment nutrient balancing were no longer permitted as they deemed them to be part of farmers' basic compliance. This effectively meant that the interventions we had used for unit cost pricing and had assumed would deliver C.135kg only delivered 35kg of reduction. This meant that the unit cost increased significantly.

4.19.6 As we set out in our Green Recovery submission, we capped intervention delivery as £1,100/kg as at the time of submission, this was considered an efficient unit cost. We also noted that we would not deliver any solutions that had a cost above this rate to protect customers:

[18] UUW (2024) *Green Recovery Annual Progress Report*. Available here

"In order to protect customers we will cap interventions delivered at these costs so whilst we will endeavour to deliver to the targets set out if there are insufficient interventions at an efficient cost we will not deliver and customers will not pay."[19]

4.19.7 The updated interpretation of FRfW has increased the unit cost of our proposed Green Recovery interventions in the Eden catchment above the cap we proposed within our Green Recovery submission. As such, we have ceased associated activity and will only carry out the equivalent of 23 per cent of the work reflected in the allowance for the scheme.

4.19.8 All other projects within 'accelerating partnerships to deliver natural solutions' are expected to be 100 per cent complete in the final year of AMP7.

AMP8 WINEP investment at Bury

4.19.9 In its DD, Ofwat provided a full allowance (pre-efficiency) relating to AMP8 WINEP investment at Bury. This is in recognition that this scheme will complete in AMP8. It noted that it intends to reject our Green Recovery enhancement claim of £24 million, which will prevent double counting.

4.19.10 We accept Ofwat's DD position. As such, we report AMP8 WINEP investment at Bury as zero per cent complete. This is because we expect to receive the associated allowance through the AMP8 price control.

4.19.11 We note that the driver for this project is '*WFD 99%ile intermittent standards for Dissolved Oxygen and Ammonia*' and is unrelated to the Storm Overflow Discharge Reduction Plan (SODRP). The ten-spill driver did not exist when these schemes were created. As such, it is likely that we will need to revisit these sites in future to meet the new ten spill driver.

Tackling storm overflows

4.19.12 Within our DD submission, we report activity relating to Storm Overflow Assessment Framework (SOAF) investigations as 27 per cent complete. This compares to our business plan forecast that it would be 100 per cent complete.

4.19.13 This is due to update to the SOAF guidance from the Environment Agency. Water companies are now required to undertake a 'light touch' cost benefit assessment, therefore removing the need to undertake stage 3b/4 of the SOAF investigation. As a result of the updated EA guidance, completing all obligations results in a change to the delivery profile and therefore a reduction in our forecast delivery to 87 per cent against the initial target. In summary, the reduction from 100 per cent to 87 per cent delivery reflects the avoided need to undertake stage 3b/4 SOAF investigation.

4.19.14 All other projects within 'tackling storm overflows' are expected to be 100 per cent complete in the final year of AMP7.

Ofwat's DD position

4.19.15 We accept Ofwat's approach to this reconciliation model, however we think it should be profiled 100% in year 1. Please see our Cost and PCD representation for further details on this (ADD LINK).

4.20 Green recovery time value of money adjustment

Background and nature of the reconciliation

4.20.1 For a background to this reconciliation mechanism please see our 2023 Reconciliation submission[20].

[19] UUW (2021) GR002, section 11.3.2. Available here

[20] PR19 Reconciliation submission

Value of adjustment

4.20.2 We have inputted our green recovery info into this model. After populating the model, the total value of the adjustment across the price controls is £0.62m.

4.21 Regulatory Capital Value (RCV) feeder model

4.21.1 We have populated Ofwat's version of the RCV feeder model, however, we have maintained our approach to ODI payments as set out in paragraph 5.22.3 of our PR19 reconciliation document submitted alongside our PR24 business plan[21]

4.22 Revenue feeder model

4.22.1 We have populated Ofwat's revenue feeder model.

[21] PR19 Reconciliation submission

Appendix A AMP7 performance commitments

The table below shows the reported performance levels for each of our performance commitments with financial incentives for the first four years of AMP7. Performance numbers highlighted in green are where we have passed our annual performance target, whilst those highlighted in red are where we missed the target.

Table 14: Overview of performance against performance commitments 2020-2024

Performance Commitment	Unique reference	2020/21	2021/22	2022/23	2023/24
Water quality compliance (CRI)	PR19UUW_A01-CF	2.58	3.02	3.67	5.92
Reducing water quality contacts due to taste, smell and appearance	PR19UUW_A02-WN	17.7	17.9	14.1	13.2
Number of properties with lead risk reduced	PR19UUW_A03-WN	0	3,525	3,487	3,842
Helping customers look after water in their home	PR19UUW_A04-WN	13.8%	23.8%	31.6%	34.3%
Reducing discolouration from the Vyrnwy treated water aqueduct	PR19UUW_A05-WN	0.0	0.0	0.0	35.19
Leakage	PR19UUW_B01-WN	1.9%	4.7%	5.9%	7.1
Mains repairs	PR19UUW_B02-WN	106.6[22]	96.0	111.6	105.7
Water supply interruptions	PR19UUW_B03-WN	00:04:46[23]	00:08:01[24]	00:38:45	00:09:39
Unplanned outage	PR19UUW_B04-CF	1.88%	2.07%	1.73%	2.05%
Per capita consumption	PR19UUW_B05-WN	1.7%	1.5%	0.5%	-2.5%
Reducing areas of low water pressure	PR19UUW_B07-WN	1.114[25]	0.513	0.462	0.361
Water service resilience	PR19UUW_B08-WN	106	915	2,198	3,249
Manchester and Pennine resilience	PR19UUW_B09-DP	Achieved	Achieved	Achieved	Not achieved
Keeping reservoirs resilient	PR19UUW_B10-WR	0.000	0.000	1.200	3.619
Thirlmere transfer into West Cumbria (AMP7)	PR19UUW_B11-WN	99%	99%	100%	100%
Pollution incidents	PR19UUW_C01-WWN	18.10	17.71	16.29	27.93
Treatment works compliance	PR19UUW_C02-CF	99.75%	98.98%	98.45%	98.97
Abstraction incentive mechanism	PR19UUW_C03-WR	-695.9	-134.4	0.00	0.00
Improving the water environment	PR19UUW_C04-WR	0	62	80	102
Improving river water quality	PR19UUW_C05-WWN	0	0	0	0
Protecting the environment from the impact of growth & new development	PR19UUW_C06-WWN	0	94	6,979	55,135
Enhancing natural capital value for customers	PR19UUW_C08-CF	0.00	2.508	0.000	0.778
Recycling biosolids	PR19UUW_C09-BR	99.87%	100%	100%	100%
Better air quality	PR19UUW_C10-BR	1.30	1.19	1.07	0.960
Number of customers lifted out of water poverty	PR19UUW_E01-HH	71,057	77,312	84,002	84,060
Non-household vacancy incentive scheme	PR19UUW_E03-CF	7,940	14,519	6,022	7,109
Gap sites (Wholesale)	PR19UUW_E04-CF	949	1,912	1,339	1,144
Gap sites (Retail)	PR19UUW_E05-HH	6,349	7,455	8,986	6,528
Successful delivery of direct procurement of Manchester & Pennine resilience	PR19UUW_E07-DP	On track	On track	On track	Delivery delayed
Voids	PR19UUW_E10-HH	6.01%	4.51%	4.45%	3.7
Sewer collapse	PR19UUW_F01-WWN	14.77	14.01	14.27	13.01
Sewer blockages	PR19UUW_F02-WWN	22,674	20,765[26]	20,318	17,986
Internal flooding Incidents	PR19UUW_G02-WWN	4.55[27]	3.03[11]	2.36[11]	4.35

[22] Updated following 2020/21 in-period determination

[23] Number updated following query (APR-IP-010).

[24] Number updated following resolution of customer query

[25] Revised performance to comply with Ofwat reporting clarification associated with total connected properties reporting.

[26] Restated following November 2022 Final determination of United Utilities' in-period outcome delivery incentives for 2021/22.

[27] Number updated following restatements in 2023/24 APR.

Performance Commitment	Unique reference	2020/21	2021/22	2022/23	2023/24
External flooding Incidents	PR19UUW_G03-WWN	6,990	6,320	6,057	7,063
Raising customer awareness to reduce the risk of flooding	PR19UUW_G04-WWN	4.1%	17.4%	39.0%	48.1
Hydraulic internal flood risk resilience	PR19UUW_G06-WWN	41.84	40.61	38.49	39.57
Hydraulic external flood risk resilience	PR19UUW_G06-WWN	179.84	184.04	173.30	177.47