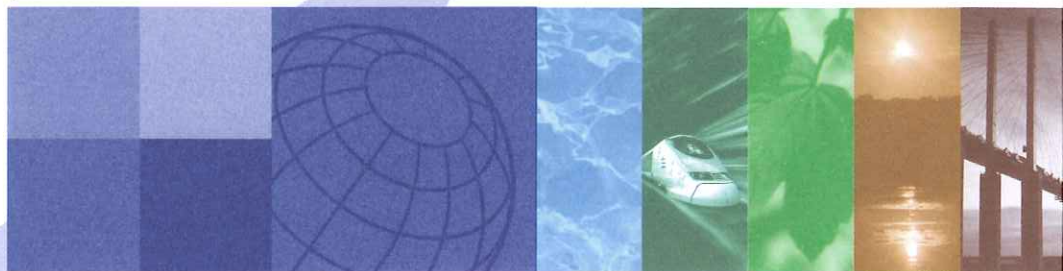


United Utilities Water Plc
PR09 Draft Business Plan
Reporter's Single Page Summary



Reporter's Submission

By

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PR09 Draft Business Plan
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Introduction

United Utilities (UUV) has prepared a Public Summary of its Draft Business Plan (DBP) in line with Ofwat's requirements as part of a series of submissions for the PR09 price-setting process. The purpose of the DBP is to inform stakeholders of proposed future service standards and to set out a supported and costed business case with associated costs, benefits and price impacts. The DBP will be used by Government Bodies and Regulators to make strategic decisions with regard to the provision of water and sewerage services and prices between 2010 and 2015. Ofwat will determine prices using the Company's Final Business Plan (FBP) to be submitted in April 2009 which will incorporate feedback on the DBP.

Reporter's Role

The Reporter's role is to provide independent opinion to Ofwat on the Company's regulatory submissions by checking compliance with regulatory requirements and advising Ofwat of material discrepancies. Ofwat approves Reporter appointments and regulates their activities through an agreed protocol.

The purpose of the Reporter's Summary is to provide independent commentary on the processes established by UUV which ensure that their public summary is adequately and accurately supported by the other components of their DBP submission to Ofwat dated 11th August 2008. The Reporter is also required to confirm or otherwise whether the Company has facilitated sufficient and timely access to their supporting information to allow the Reporter's team to scrutinise and challenge the underlying data, assumptions, methodologies, processes and proposals and investment requirements.

Based upon Ofwat Reporting Requirements, an audit plan was prepared and approved. This set out our approach to the scrutiny of each chapter of UUV's DBP submission. We have followed this approach, varying the level of audit according to complexity and materiality of emerging issues.

We have audited all the principal underlying studies and processes which support their DBP and have, on a sample basis, tested the application of assumptions and methodologies into representative schemes within each investment programme.

We have provided commentaries on each section of the Company's DBP and have identified areas where we believe that further development or detail is required and on issues which still need to be resolved in time for the FBP.

Background

In autumn 2007, UUV published its Strategic Direction Statement '*Where we are heading*' which set out their plans to 2035.

Substantial customer surveys have also been commissioned to determine both residential and business customer's priorities for service enhancements and the scale of price changes that customers would expect if service levels were altered. UUV has utilised this information to help determine which service enhancements would be supported and the degree to which their proposals would be considered to be cost beneficial.

Over the past five years, the Company has continued to develop its Common Framework tool, 'Pioneer'. For the 2009 Periodic Review, Pioneer is being employed to optimise interventions to maintain stable serviceability for both infrastructure and non-infrastructure assets.

Cooperation from the Company

Despite the very tight timescales, we have enjoyed good co-operation from the Company and the required access to appropriate staff. Audits have been carried out in a helpful and constructive environment and information has been made available when requested and in a timely manner. We have been provided with draft versions of the various sections and tables upon request and a complete version was provided immediately following the Company's submission of the Draft Plan. We can also confirm that the Company has endeavoured to proactively address any concerns or issues raised both prior to and following the submission of their DBP, which has helped to minimise any areas of uncertainty.

During the formative stages of the development of some of the key business planning processes, we have been invited to attend a sample of workshops in which expert views and/or current practical operational experience was elicited for use in developing appropriate approaches. As the DBP was consolidating, we engaged with the Company in regular high-level meetings which provided indications of emerging issues and those of greatest materiality which helped to steer the focus of our audits.

We have provided feedback to the Company's management, latterly liaising with their DBP leadership team on a daily basis. We also presented our findings to the Board of Directors on the 6th August 2008, prior to their endorsement of the Company's submission.

Reporter's Opinion

We have audited and reviewed all elements of the Draft Business Plan and confirm that UUV has prepared and presented a well structured and carefully considered Plan, that

- addresses the regulatory targets and requirements which are more certain;
- identifies the needs of their changing asset base;
- embraces the forecast variations in supply and demand arising from growth/movements in the customer base and the potential impacts of climate change; and
- incorporates the views of customers on priorities and willingness to pay criteria for service improvements.

The numerical information and assumptions for the Public Summary are drawn from and are representative of the DBP.

We have reviewed UUV's proposed efficiency initiatives and believe they are reasonably based.

Maintenance spend on the water and wastewater service is forecast to increase significantly. We have sampled inputs, outputs and calculations within 'Pioneer' and consider it to be robust.

UUV has undertaken a comprehensive review of their asset base in accordance with the Reporting Requirements and RD12/07. This has created changes in the Company's stock assessments and significantly revised the gross MEAV's from those submitted in PR04. There are some unresolved issues surrounding the calculation of GMEAV and residual asset lives which may impact on the depreciation forecasts.

The Company has established robust carbon accounting tools for calculating operational and embedded carbon. These provide a reliable assessment of the GHG impact of UUV's proposals.

UUV's assessment of its water and sewerage supply/demand balances has been developed in accordance with best practice.

The AMP5 flooding programme has been well considered but it may be subject to significant change for FBP.

Capital programmes have been scoped and costed using standard Company processes which have been well scrutinised and challenged. For the DBP, the solutions and cost estimates still tend to be of a generic nature which we believe leads to conservatism. For the FBP, UUV proposes to develop their methodologies, with updated costs and enhanced scheme solutions.

We believe that the Company has made best endeavours to address the issues required and to present a strategy which combines good future stewardship of the regulated functions with the known obligations and customer expectations. Apart from several identified areas of uncertainty, we believe it to be well founded, reasonably costed and adequately financed.