

April 2019

Trust in water

**PR19 draft determinations:
United Utilities – Securing confidence
and assurance actions and interventions**

PR19 draft determinations: United Utilities - Securing confidence and assurance actions and interventions

Following our initial assessment of plans, we categorised two types of actions for fast-track companies:

- agreed actions that fast-track companies committed to implement to ensure that their plans meet the threshold for fast-track status; and
- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery).

Table 1 below sets out the agreed and required actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'UW' denotes the company United Utilities Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key of these acronyms. Actions whose numbers are preceded with an 'A' denote agreed or required actions.

Table 2 below sets out any further interventions that are not resulting from an action, which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix 'UW' denotes the company United Utilities Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key of these acronyms. Intervention numbers are preceded with a 'C'.

For all other documents related to the United Utilities Water draft determination, please see the [draft determinations webpage](#).

Table 1: United Utilities' response to required actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
Securing confidence and assurance	UW.CA.A1	Agreed	The company has not included the gearing outperformance benefit sharing mechanism in its plan. Although the company does not forecast gearing to exceed 70%, the company should confirm it will apply the default sharing mechanism from 'Putting the sector in balance' into its published business plan, so that customers will receive bill reductions if gearing in any year is above the 70% threshold.	10am, 11 February 2019	United Utilities confirms that it is committed to applying a sharing mechanism during AMP7 in line with 'Putting the sector in balance.'	No intervention required. United Utilities has complied with the action. We agree that it would be appropriate for any sharing payments to be allocated based on consultation with customers.	N/A

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
	UUW.CA.A2	Agreed	<p>On dividend policy the company should confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include clear Board commitment to signal changes to stakeholders.</p> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our 'Putting the sector in balance' position statement.</p>	10am, 11 February 2019	<p>United Utilities confirms that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include clear Board commitment to signal changes to stakeholders.</p> <p>United Utilities refers to previously submitted information and clarifies that changes to the dividend policy in AMP7 will be clearly signalled to stakeholders in its Annual Performance Reports.</p>	<p>No intervention required.</p> <p>United Utilities has complied with the action.</p>	N/A
	UUW.CA.A3	Agreed	<p>On executive pay the company should confirm it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <ul style="list-style-type: none"> • Commitment to report how changes, including the underlying reasons, are signalled to customers. • Commitment to publish the executive pay policy for 2020-25 once it has been finalised. <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our 'Putting the sector in balance' position statement.</p>	10am, 11 February 2019	<p>United Utilities' response confirms that it is committed to publishing details of the executive pay policy for AMP7 and any changes that occur to customers.</p> <p>In addition United Utilities is reviewing its annual incentive and is in consultation with shareholders to increase the weighting of customer focused performance in its long term bonus from 33.3% to 50% with the remaining 50% weighting on RoRE. Formal shareholder approval at an AGM would be required to implement this change.</p>	<p>No intervention required.</p> <p>United Utilities' proposed policy demonstrates the company's commitment to move in the direction of the expectations set out in 'Putting the sector in balance'</p> <p>We expect United Utilities to show that its policy demonstrates a substantial link to stretching performance delivery for customers through 2020-25. Also that the company is transparent about further updates to the development of its policy that will apply in 2020-25.</p>	<p>There remain a number of details to be finalised, for example the exact structure and weightings of the annual bonus scheme, approval of the long term incentive plan.</p> <p>We expect the company and its remuneration committee to ensure executives continue to have stretching targets linked to performance delivery for customers. We expect the company to be transparent about further updates to the development of its policy that will apply in 2020-25.</p>

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
No further intervention required for United Utilities.		

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

April 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

