

April 2019

Trust in water

**PR19 draft determinations:
United Utilities – Targeted controls,
markets and innovation actions
and interventions**

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PR19 draft determinations: United Utilities - Targeted controls, markets and innovation 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 'U 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 'U 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
Targeted controls, markets and innovation	U UW.CMI.A1	Required	The company should provide a commitment to provide a detailed work programme by end August 2019 to assure us that the company will deliver appropriate drainage and wastewater management plans. The programme should ensure that the company can prepare and consult on its first drainage and wastewater management plan no later than the summer of 2022 to enable revised plans to be prepared in early 2023 to inform PR24 business plans.	10am 11 February 2019 for the commitment	United Utilities provided a detailed work programme to assure us that they will deliver their drainage and wastewater management plans to the required timescales.	No intervention required. The company has complied with the action. We can confirm that we do not expect any further information from United Utilities in relation to this action.	N/A
	U UW.CMI.A2	Required	The company business plan sets out that economic valuation approach could derive an allocation to the water	10am 11 February 2019	United Utilities have maintained that a 14% is appropriate. They say that the allocation will not have an	Intervention required.	We are proposing to intervene to increase United Utilities' RCV allocation for water resources to

Test area	Action reference	Action type	Action	Date required	Summary of the company's response to the action	Our assessment and rationale	Interventions
			resources control of 26% in certain circumstances yet the company has proposed an RCV allocation of only 14%. The company should make a change to allocate a higher proportion of the RCV to water resources or clearly explain why the proposed allocation is more appropriate. In doing so the company should provide information on how it could mitigate the bill disruption to larger water users.	for the commitment	adverse effect on competition and that this allocation is the best way to manage incidence effects.	We are not satisfied with the evidence United Utilities has provided. We remain concerned about the implications of a low RCV allocation to the potential for Water Resources trading. To promote confidence in the development of a Water Resources market we are making an intervention.	20%. This allocation is similar to other companies operating in the north of England with similar characteristics (that is, significant long life, high value reservoir assets and aqueducts).
	UUW.CMI.A3	Required	The proposed split of fixed and variable revenues for the bio-resources revenue control has not been sufficiently evidenced and the business plan suggests that judgment has been exercised to determine the proposed split. We are intervening to ensure that the bioresources revenue adjustment is set on a broadly comparable basis across companies based on information set out in the business plan tables.	24 May 2019	N/A	Intervention required. We are intervening because our initial assessment of the companies' business plans revealed an inconsistent approach between companies in their calculation of the bioresources revenue requirements to recover fixed and variable costs. This resulted in a wide range of suggested splits between fixed and variable revenue component. A consistent approach to the fixed/variable split is essential to ensure that the company is correctly remunerated by our modified average revenue control for outturn sludge volumes that differ from its original forecasts.	We are intervening to determine the methodology and the level of the split between fixed and variable costs. Our detailed approach is set out in 'Our methodology for the classification of bioresources costs'.

Table 2: Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
No 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.

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