

## How our operating environment influences what we do



### Regulatory environment

#### Regulatory framework

United Utilities Water Limited (UUW) is the regulated water and wastewater business. It is the second largest of 11 such businesses in England and Wales, and is subject to regulation of price, performance and compliance by various bodies, including Ofwat, the Environment Agency, the Drinking Water Inspectorate and the Consumer Council for Water. These bodies exist to help protect the interests of customers and the environment, and to assess whether companies are meeting their obligations.

Water companies are required to prepare and maintain long-term plans for managing water resources, resilience, drinking water quality, and drainage and wastewater. The majority of programmes set out in these plans are statutory requirements and, as part of the optioneering process, we appraise and select best-value investments for customers and the environment.

The Water Industry National Environment Programme (WINEP) is developed by the Environment Agency, Defra, and Natural England, in consultation with water companies and other stakeholders. It sets out the environmental improvement actions that water companies are required to deliver. The Drinking Water Inspectorate similarly specifies programmes of work to improve drinking water quality.

These plans feed into business plans for the price review, where Ofwat evaluates our proposed solutions. Following its assessment, Ofwat then sets a final determination (FD) detailing allowed revenue, required service levels, and the incentive package for the five-year period. Companies may either accept the FD or appeal to the Competition and Markets Authority. Companies report on progress and performance against the FD through an annual performance report published each July.

### Competitive retail market

Since April 2017, non-household retail activities have been open to competition, meaning businesses can choose who provides their retail services. Our non-household retail activities do not sit within UUW, but via a joint venture known as Water Plus.

### Developments in the regulatory environment

This year, the Government published its white paper, 'A new vision for water', in response to the Independent Water Commission's final report. The white paper outlines the Government's commitment to reforming the water sector and the wider water system to deliver safe and secure water supplies, a protected and enhanced environment, fair outcomes for customers and investors, and create a more efficient and integrated planning system.

Defra plans to publish a transition plan in 2026, providing a roadmap for transformation of the water industry. During 2025/26, we engaged with Defra and regulators in the development of the plan through structured working groups. The plan will be supported by the interim strategic policy statement for Ofwat and ministerial direction to the Environment Agency, ensuring regulators have the direction and clarity they need during the transition. In addition, Defra plans to introduce a new Water Reform Bill in 2026 or 2027 to implement its long-term vision for water.

### Natural environment

#### Climate change

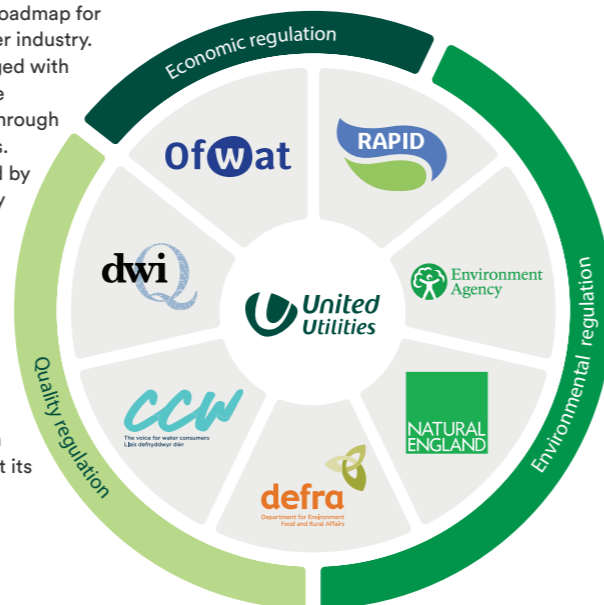
We are already experiencing more extreme rainfall events, freezing temperatures followed by rapid thawing, and prolonged dry periods. This increases the level of risk for water availability, flooding, and network damage. We have detailed plans for both adaptation (building resilience against these changes) and mitigation (reducing our emissions).

#### Population growth

The North West population is already increasing and is forecast to grow by around a million by 2050. We plan well into the future and continually adapt to strengthen our long-term operational resilience. Our Water Resources Management Plan, for instance, considers consumption forecasts out to 2080.

#### Protecting and restoring ecosystems

Much of the landscape in our region is legally protected for its environmental or cultural significance, including national parks and sites of special scientific interest (SSSI), and we play a role in conserving and restoring healthy, resilient ecosystems.



RAPID is a partnership made up of Ofwat, the Environment Agency and the Drinking Water Inspectorate.

### Economic environment

#### Market rate movements

The impacts on our business of movements, such as interest rates and inflation, are complex. Cost increases are partly offset by increased allowances under the regulatory mechanism. £4.5 billion of our debt is index-linked; therefore, it is impacted by inflation. Our regulatory capital value (RCV) also rises with inflation, and our £6.1 billion of fixed-rate debt increases in benefit as interest rates rise. Unlike many companies, our low dependency pension schemes are protected from market rate movements.

#### Customer affordability

The economic environment also impacts customers, with the most deprived, typically, hit the hardest. The North West has 47% of the most deprived neighbourhoods, more than any other region, making the industry-leading affordability support we provide even more critical. We have doubled our support in AMP8, helping one in six households in the region by 2030, and we remain strong supporters of the Consumer Council for Water's call for a national social tariff, pooling funds to help those in most need.

### Political environment

#### Engagement and adaptability

Political decisions have the potential to impact on our operations, including changes to legislative obligations under environmental and competition law. We engage with regional and national politicians, and other policymakers, to understand developments and key issues, improving policy development where possible, and stay flexible to adapt as needed.

#### Environment Act 2021

The Government set out an ambitious plan for reducing spills from storm overflows, as well as obligations to reduce phosphorus and address nutrient imbalance. We have already invested significant amounts to improve the quality of rivers and seas in the North West, and AMP8 will see our biggest ever environmental investment programme.

#### Water (Special Measures) Act

Passed in 2025, this act strengthens the power of regulators to impose special measures on failing water companies, including blocking executive bonuses, imposing penalties and potential criminal charges for law breaking.

### Technology and innovation

#### Developments

New technology and innovation can create opportunities for improvements in service and efficiency. The use of artificial intelligence and machine learning helps us to improve performance, and is central to our dynamic network management approach. We work closely with suppliers and innovators from around the world to maximise the opportunities presented by new technology and ideas.

#### Customer interaction

In an increasingly digital world, we must evolve our services to ensure we meet changing customer expectations. We have modernised the methods and channels through which customers can get in touch to access their bills, update their information, and receive updates on services and support.

#### Cyber and data security

Technology can give rise to risks, such as the threat of cyber attacks, which has increased in recent years. Protecting infrastructure, customer information and commercial data from malicious activity is a key priority, as set out on page 52.

### Indicative regulatory timeline

