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Only Rainwater into Windermere

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Financial Case Summary

Purpose and scope of the Financial Case. The purpose of the Financial Case is to assess the affordability, financing and funding of the ORiW Programme, from the perspective of United Utilities. The scope of this Financial Case reflects requirements for early-stage Programme development and considers the financial context and requirements based upon assumptions that are to be developed in further stages.

United Utilities' financial position and PR24. United Utilities is in a strong financial position, with stable credit ratings and ability to raise finance through capital markets if a balance sheet funding approach is pursued. Alternative delivery models, including Specified Infrastructure Project Regulations (SIPR) and Direct Procurement for Customers (DPC), are potential alternative options, but require further assessment of financial and delivery implications and value for money. Ofwat's PR24 final determination approves increase in expenditure over AMP8, which will drive an increase in customer bills over the period. Any bill increase from the Programme needs to consider affordability and acceptability in the context of existing and projected bill increases.

Cost estimate of the most preferred option. The most preferred option for this stage of assessment, Ulverston Hybrid, has an estimated undiscounted capital cost of £3.7 billion (real terms, 2025 Q3) with an undiscounted whole life cost over the 100-year appraisal period of £8.5 billion (real terms, 2025 Q3). The discounted value of this whole life cost is £3.9 billion (base year 2026/27) and is reflected in the Economic Case. Presentation of costs in real terms without discounting reflects Ofwat's standard approach to provide transparency of costs before assumptions for discounting or inflation. Estimates of costs after inflation assumptions are also presented in this case.

Resources to fund the Programme. Customer bills are expected to be the primary funding mechanism, subject to Ofwat approval. Given recent bill increases approved under PR24, customer and stakeholder acceptance is important. Early analysis suggests In-House delivery could have the lowest customer bill impact, while DPC delivery could lead to the highest medium-term bill increases and uneven intergenerational distribution of costs. These assumptions will evolve as the scope and commercial arrangements are developed, and are not definitive at this stage of Programme development.

Drivers of value for money. Value for money will be influenced by balancing cost efficiency with risk allocation. All delivery models provide opportunities for competitive tendering. SIPR and DPC models also offer additional flexibility in the allocation of financing, construction and operational risks, creating opportunities to align risks with the parties best placed to manage them. However, the benefits of these arrangements are not guaranteed and need to be considered alongside administrative costs associated with their procurement and delivery.

Financial case development plan. Further work is expected to focus on development of a financial model to compare delivery routes; assessment of impacts to financial statements; and impacts to any internal or external financial performance targets or requirements. Customer willingness to pay studies should be undertaken. Throughout,

1 Financial Case

1.1 Purpose of the Financial Case

The purpose of the Financial Case is to assess the affordability, financing and funding of the ORiW Programme (the Programme), from the perspective of United Utilities. This case identifies the financial resource requirements for the Programme, resources available to meet these requirements, and financial implications of delivery models to meet financing requirements.

The Financial Case supports development of delivery that is affordable to United Utilities, while also considering value for money to customers and risk allocation to parties best placed to manage them.

This approach is aligned with HM Treasury's Green Book (HM Treasury, 2026a) and the Guidance on Developing Business Cases for Projects and Programmes (HM Treasury, 2026b), alongside Ofwat's Price Review 24 (PR24) expectations (Ofwat, 2025a) and relevant guidance on major projects and infrastructure delivery (Ofwat, 2025b).

1.2 Scope of the Financial Case

The scope of this Financial Case reflects the requirements for early-stage Programme development and considers the Programme's financial context and requirements. These considerations are based upon high level assumptions that are to be developed and supported by a financial model in further stages. This case covers:

United Utilities' financial position and PR24. This section outlines the current financial position and credit ratings of the United Utilities Group and United Utilities Water, alongside a statement of support about the ability to deliver the Programme. It also provides context of investment plans agreed through PR24 and associated projected impacts on customer bills through AMP8.

Cost estimates of the most preferred option for this stage of the assessment. This section presents cost estimates of the most preferred option for this stage of the assessment¹ identified in the Economic Case. This provides an early-stage indication of the financial resource requirements that will need to be met.

Resources to fund the Programme. This section identifies potential funding sources and presents estimates of impacts on customer bills split by different delivery models. Estimates are early-stage modelling based on high level assumptions, which will evolve as the scope and commercial arrangements are developed and are not definitive at this stage of Programme development.

Drivers of value for money. This section identifies potential cost drivers associated with different delivery models, and how these might impact the overall cost of the Programme and allocation of risk to different stakeholders.

Financial Case development plan. This section sets out activities required to further develop the Financial Case, including development of a financial model to support delivery model selection, market engagement and feedback, and development of financing strategy.

¹ The most preferred option is a lead option which is identified based on the evidence gathered at this stage of assessment, consistent with the phased development of business cases described in HM Treasury guidance (HM Treasury, 2026b). It is not common to select a singular option at this stage of assessment given the level of uncertainty around key parameters which may impact option preference, or design. A final option will be selected at Outline Business Case stage, after further design, stakeholder engagement and detailed consenting evidence is gathered; all of which would not be proportionate to this stage of assessment.

1.3 United Utilities' financial position and PR24

1.3.1 Financial position of United Utilities

The financial position of United Utilities needs to be suitably strong to deliver the ORiW Programme in construction and operation, while maintaining other financial priorities which could include gearing ratios, profit targets, servicing capital, and debt covenants.

The different delivery models that could be used to finance the Programme would place varying financial demands on United Utilities. A full assessment of United Utilities' financial position will be required when the Programme and delivery model is defined, to validate that the financial impacts are acceptable considering resource requirements for other business needs.

1.3.1.1 Key financial indicators

Based upon a review of publicly available information, there are no financial indicators that the Programme should not be progressed. The primary trading entity United Utilities Water (UUV) and the group United Utilities Group PLC are both going concerns (United Utilities Water Ltd, 2025; United Utilities Group PLC, 2025). Considering assessments by credit rating agencies (Moody's Corporation, 2026; Fitch Ratings Inc, 2026; Standard & Poor's Financial Services LLC, 2025), UUV consistently records positive Earnings Before Interest, Tax and Depreciation and Amortisation (EBITDA) that generates stable cashflows and allows interest costs to be serviced with headroom. Compared to sector peers, interest costs are comparatively low. The gearing ratio per the 2025 audited group accounts is 60% (United Utilities Group PLC, 2025), which is within UU's stated gearing target range of 55-65% (United Utilities Group PLC, 2025).

These metrics indicate that United Utilities' primary trading entity and group could consider additional financial obligations from the Programme within existing constraints, either through a balance sheet funded approach, or alternative third party financed approaches (e.g. SIPR or DPC). Consequently, there is no barrier to progressing to a more detailed assessment. The financial impacts of the preferred delivery approach will need to be assessed for impacts on organisation targets, regulatory constraints and impacts on credit ratings.

1.3.1.2 Credit ratings

The credit ratings for both United Utilities PLC and United Utilities Water Limited are projected to be stable throughout AMP8, with ratings similar to sector peers. Projected organisation performance has headroom on some key ratios (e.g. interest cover) before a debt downgrade would be triggered. However, ratings agencies identify increased perception of risk in the water sector that could impact future credit ratings and influence the future cost and ease of access to debt financing. It should be noted that the procurement of Haweswater Aqueduct Resilience Programme (HARP) through DPC has been considered in Moody's credit ratings of UUV.

Table 1-A - Credit ratings for United Utilities PLC and United Utilities Water Limited - senior unsecured debt

Entity	Moody's (2026)	Standard & Poor's (2025)	Fitch (2026)
United Utilities PLC	Baa2/Stable	BBB-/Stable	BBB+/Stable
United Utilities Water Limited	Baa1/Stable	BBB+/Stable	A-/Stable

Source: United Utilities

1.3.1.3 Statement of support from United Utilities

United Utilities has indicated that it expects that sufficient finance can be raised from capital markets for the Programme, if a balance sheet financing approach is taken. United Utilities support this position with evidence of a strong balance sheet, and the performance of recent equity raises.

United Utilities believe that the company has one of the strongest balance sheets in the sector, supported by strong credit metrics and credit ratings. Gearing is low by industry standards and contrasts to other companies in the sector where high gearing constrains capacity.

United Utilities support their ability to raise finance with evidence from the recent (April-May 2026) successful equity raise by United Utilities PLC to extend its AMP8 programme (United Utilities, 2026a). £800m of new shareholder equity was issued, equivalent to a 9% increase in the company's share capital, in an offer that was 12 times oversubscribed excluding cornerstone commitments. United Utilities was particularly pleased with the high quality of investors attracted to its equity raise. £400m of investment was achieved through the Australian sovereign wealth fund Future Fund, and global infrastructure investor Atlas, representing long-term investors looking for steady and stable returns. The success of the raise demonstrates strong investor appetite both for the company and the sector.

United Utilities is confident that a programme at Windermere, supported by appropriate regulatory backing, could be backed by long term, stable investment.

1.3.2 PR24 – expenditure and customer bill impacts

Ofwat's PR24 final determination for United Utilities (Ofwat, 2025a) approves significant increase in expenditure over AMP8, which will drive an increase in customer bills over the period. Any bill increase from the Programme needs to consider affordability in the context of these existing bill increases and projected future bill increases.

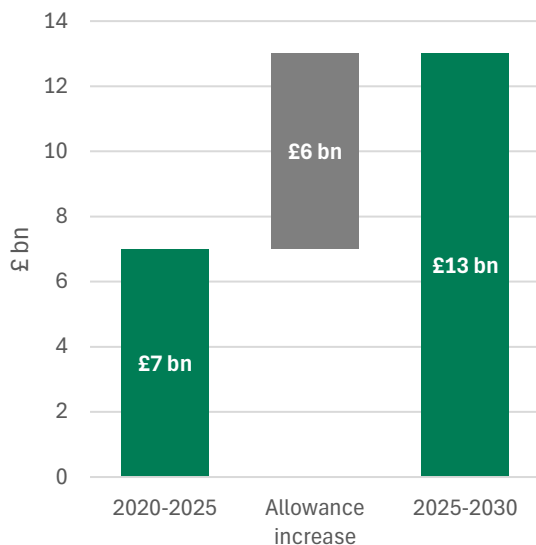
United Utilities' total expenditure allowance for AMP8 (2025-2030), approved by Ofwat through PR24, has nearly doubled compared to AMP7 (2020-2025), from £7 billion to £13 billion. Ofwat has approved this increase in expenditure to allow the organisation to drive performance improvements across their operations. This includes £2.5 billion of allowed expenditure to deliver reduction in spills from storm overflows, alongside expenditure for water supply/demand balance, water quality, improved asset condition, and investment to facilitate residential developments across the region. Of the £13 billion approved total expenditure, £6 billion is for capital projects and enhancement schemes and £7 billion for operating costs, asset operation and maintenance.

Annual average customer combined water and wastewater bills per household are increasing over £143 in real terms by the end of AMP8, reflecting the cost recovery impacts of the PR24 increased total expenditure allowance. Average household customer bills are approved to increase by 32% in real terms over the five-year period to 2030, from £442 to £585.² Actual bill increases to customers (nominal terms) will likely be larger after inflation-linked increases. Any increase in customer bills from the Programme must consider long term affordability for customers, in the context of existing bill increases that are already occurring in the short term.

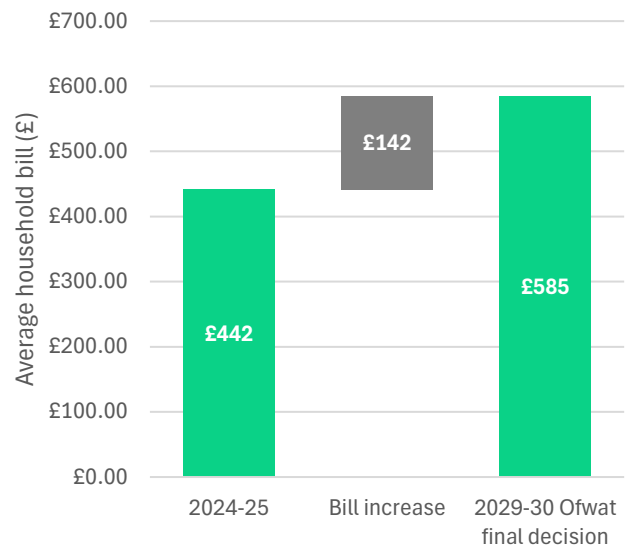
² United Utilities currently operates a range of affordability support measures, including its Low Income Water Discount social tariff and additional bill support schemes for customers experiencing financial hardship, including the WaterSure and WaterSurePlus schemes (United Utilities, 2026b; United Utilities, 2026c, United Utilities, 2026d). These arrangements may provide an important consideration when assessing customer affordability and willingness-to-pay as the Programme develops.

Figure 1-A - PR24 Final Determinations: impact on TOTEX and increase in household customer combined water and wastewater bills

Total expenditure allowance, 2025-2030 vs 2020-2025 real, 2022/23 prices



Increase in average household customer combined waste and wastewater bills, 2024-2025 to 2029-2030, real, 2022/23 prices



Source: Ofwat, 2025a, Overview of United Utilities PR24 final determination

Note: 2029-30 bill increase has a rounding difference

1.3.3 Major projects

Through the PR24 process Ofwat has allocated funding to support the development for thirty major projects across the sector, three of which have United Utilities as a sole or joint owner (Ofwat, 2025b). These three projects are all transfer projects that are proposed to be delivered through the DPC delivery model. Alongside these forthcoming major projects, construction on the Haweswater Aqueduct Resilience Programme (HARP) is due to commence in Autumn 2026, with an estimated construction cost of £3bn in nominal prices. The whole life total expenditure (totex) for all delivery partners is presented in Table 1-B. Where there are multiple owners, United Utilities' share of costs are not confirmed. These will be published through the RAPID or Price Review processes as the projects develop.

These projects demonstrate a current plan for delivery of major projects through DPC and will be a useful reference point to assess DPC delivery in practice when United Utilities are selecting the preferred route for delivery of the Programme. While these reflect United Utilities' current ability to deliver projects of similar scale to the Programme, there could be competing needs for limited internal resources between projects if construction periods significantly overlap. This risk should be assessed as the Programme develops and timing of delivery and resource requirements have more certainty.

Table 1-B - Summary of PR24 major projects to be delivered by United Utilities (real, undiscounted, 2022/23)

Project name	Owners	Project type	Whole life TOTEX (£bn)	Construction start (year)
North West transfer	United Utilities	Transfer	£0.4bn	2027-2030
Severn to Thames Transfer	United Utilities, Thames Water, Severn Trent Water	Transfer	£4.3bn	2030-35
Kielder Transfer SRO	United Utilities, Yorkshire Water, Northumbrian Water	Transfer	£1.1bn	2032

Source: Ofwat, 2025b, *Building a resilient future: a Major Projects Guide for the Supply Chain*

1.4 Cost estimate of the most preferred option for this stage of the assessment

Estimates of the capital and operating cost requirements of the most preferred option inform the indicative financial resource requirements for the Programme, which need to be met either by United Utilities or an external delivery party, depending on the chosen delivery route. If the Programme is delivered in-house, then cost estimates inform the scale of financing requirements and operating cost budget implications. If the Programme is delivered by SIPR, DPC, or other partnership-based delivery arrangements, then the cost estimates indicate the potential scale of a procurement.

The undiscounted capital cost of the most preferred option 'Ulverston hybrid' is £3.7 billion (2025 Q3 real terms, including optimism bias) to the point of operation, with an undiscounted whole life cost over the 100-year appraisal period of £8.5 billion (2025 Q3 real terms, including optimism bias). Applying CPIH inflation forecasts to the real terms base cost for the 100-year appraisal period, the nominal terms whole life cost of the Programme is £26.7 billion. The cost variance from real to nominal terms values is driven by inflation over the long-term increasing the nominal terms value of replacement and maintenance costs. These costs are summarised in Table 1-C. Subsequent development of the Programme must update this cost estimate as the Programme develops, and assess how these costs will be met. This assessment should consider funding streams from water customer bills, government subsidies, or any other sources identified, and any timing gaps between funding and Programme costs that must be met by financing.

Risk is reflected in the estimate through contingency on cost estimates, risk allowances, and addition of optimism bias. Optimism bias applied to capital costs in the Economic Case has been retained within the estimate, given that the Programme is at an early stage of development and programme development could change scope, significantly increasing cost. For identifying early-stage funding requirements, this value of optimism bias is considered materially equivalent to any additional risk allowances at this stage of Programme development.

The cost estimates assume a conventional In-House delivery model. DPC or SIPR-specific overheads, financing and transaction costs have not been separately estimated as the delivery model has not yet been determined, and these costs could be considerable. As an early-stage assessment, customer bill impacts have been estimated with indicative delivery route assumptions. When the Programme is sufficiently developed, the cost impact of delivery routes applying market-informed assumptions should be assessed to compare how options compare for whole life cost and associated repercussion on customer bills.

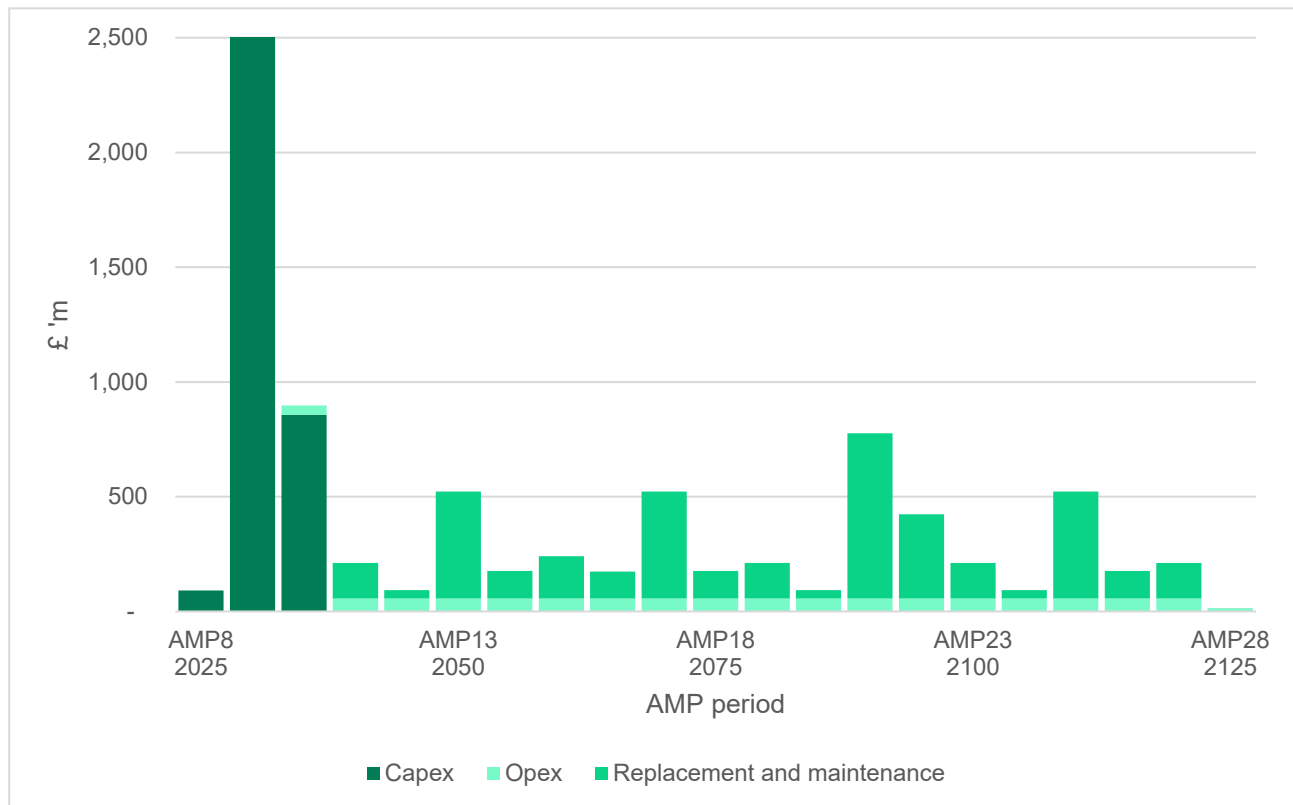
Table 1-C - Cost estimates of Ulverston Hybrid Option over 100-year appraisal period, undiscounted, real and nominal terms

Cost category	Cost estimate, £m Real terms, 2025 Q3	Cost estimate, £m Nominal terms forecast
Costs excluding optimism bias		
Tunnels	902	1,080
Pipework	549	650
Civil	57	66
Mechanical	143	169
Electrical	103	120
Instruments, controls and automation	447	528
Total CAPEX	2,200	2,613
OPEX	1,018	4,516
Replacement and maintenance	2,687	12,377
Total whole life cost excluding optimism bias	5,905	19,507
Optimism bias adjustments		
CAPEX	1,452	1,725
OPEX	0	0
Replacement and maintenance	1,182	5,446
Total optimism bias adjustments	2,634	7,171
Costs including optimism bias		
CAPEX	3,653	4,338
OPEX	1,018	4,516
Replacement and maintenance	3,869	17,823
Total whole life costs including optimism bias	8,539	26,678

Source: Jacobs, Mott MacDonald (JMM)

The timing of costs will depend on the speed of consenting, procurement and construction. An indicative profile applying possible assumptions is presented in Figure 1-B illustrating cost outflows in real terms, assuming an aspirational start of construction in 2030-31 (completing in 2036-37). This is an aspirational assessment assumption rather than a committed or validated programme date. A robust assessment of the pre-construction development programme will be undertaken during the next phase of the project. Capitalisable works, estimated at 2.5% of total capex in real terms, are incurred (e.g. professional fees) prior to the start of construction. Applying this profile, capital expenditure could be incurred in AMPs 8 to 10, after which ongoing operating, maintenance and replacement costs are incurred over the appraisal period.

Figure 1-B - Indicative timing of costs for Ulverston Hybrid Option, real terms, 2025 Q3, £m

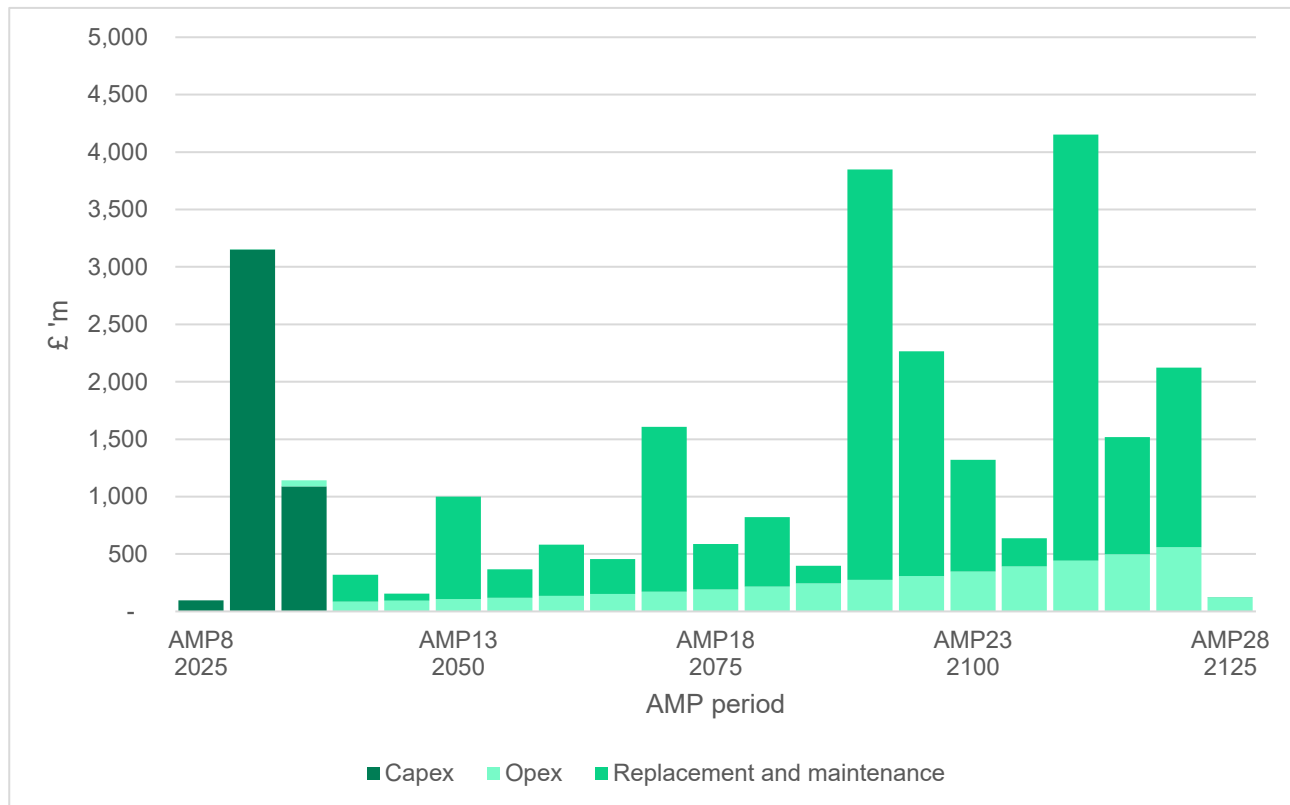


Source: Jacobs, Mott MacDonald (JMM)

Applying long term inflation forecasts (CPIH), the magnitude of later replacement cycles is accentuated due to the compounding effect of annual inflation assumptions and the long-time horizon. The illustrative timing of costs for the Ulverston Hybrid Option in nominal terms (with inflation) is presented in Figure 1-C.

The scale and timing of the estimated Programme costs illustrate the potential financing requirement and budget implications for United Utilities for an In-House delivery model, or the size of procurement if a SIPR or DPC delivery model is chosen. Cost estimates should be updated as the Programme progresses, to refine provisions for uncertainty and develop estimates for inflation that reflect cost drivers specific to the Programme. Under any delivery model, a financial model should be developed to assess the cash impacts for United Utilities, and any funding shortfall that needs to be met by third party finance or internal financial resources.

Figure 1-C - Indicative timing of costs for Ulverston Hybrid Option, nominal terms, CPIH forecast £m



Source: Jacobs, Mott MacDonald (JMM)

1.5 Resources to fund the Programme

The principal method to fund capital investment in water infrastructure projects (repay capital over the asset lifetime) is through water customer bills over the customer base of the water company. Early-stage analysis of bill impacts over the UUW customer base is presented in section 1.5.3.

There are theoretical alternatives for funding through general taxation or recovery through customer bills across a national water customer base. However, there is limited precedent for funding of major water schemes through these alternatives. A government subsidy of South West Water to offset the bill impacts for cleaning up the beaches in the South West ran from 2013 to 2025. Currently, there are no national charging schemes for water customers to fund infrastructure. Should Government put such a scheme in place and apply to ORiW, the indicative bill impacts for each household in England are set out in section 1.5.4.

The ability for the Programme to be funded through United Utilities' customer bills will be dictated by:

- The regulatory framework governing cost recovery, including Ofwat's assessment of efficient Programme costs, financing costs, the cost of capital, and ongoing operation and maintenance expenditure.
- Customer willingness to pay.
- A secure needs case for the project which may need legislative backing and also legislation to ensure customers have to pay.

1.5.1 Regulatory mechanisms to recover Programme costs through customer bills

The mechanisms that allow programmes and projects to be funded through customer bills differ according to the delivery model for the Programme. Further discussion of alternative delivery models, including SIPR and DPC, is provided in the Commercial Case. This includes consideration of the characteristics of the Programme that may influence the applicability of different delivery approaches.

1.5.1.1 In-House delivery

Where projects are delivered in-house, costs are reflected in customer bills as part of regulatory Price Review processes for approving expenditure plans and impacts on customer bills. Ofwat must approve revenues, following regulatory guidelines.

Project costs are pooled with other investments and recovered over AMP periods, with no specific line items on bills for a single project. There is no link of cost recovery from bills to asset build/operation stages for a project, as charges are linked to overall AMP period investment.

1.5.1.2 DPC delivery

Project costs are recovered through customer bills, with the overall value that can be recovered agreed with Ofwat through approval of an Allowed Revenue Direction (ARD). The ARD defines the amount and timing of recovery. This mechanism gives consumer protection through Ofwat approval of revenue recovery, controlling how costs are passed on to customers. Revenues can begin from the start of operation, although under some circumstances revenues can begin during construction.

1.5.1.3 SIPR delivery

Like DPC, project costs are recovered through customer bills through Ofwat-approved Allowed Revenue. This operates like a project-specific price control mechanism, specific to the Infrastructure Provider (IP) that holds the project-specific licence. This mechanism controls how costs are being passed on to customers. Revenues can begin from construction onwards.

1.5.2 Customer willingness-to-pay

Bespoke Windermere 'Willingness-to-pay' studies are recommended to understand customers' ability and appetite to fund the Programme. These must consider movements in the overall size of the customer base, impacts from projected customer bill increases through PR24 and beyond as well as additional inflationary impacts.

Any proposed increase in customer bills must consider that bills are already increasing significantly over AMP8. Any ability to pay by customers must be considered on top of these approved bill increases and in the context of any further bill increases expected in AMP9 and beyond.

The wider context of customer cost pressures should also be considered, to provide context for outputs of willingness-to-pay studies. Residents and businesses across the UK have had to meet rising costs in recent years. Residents have identified cost pressures, in particular for food, fuel and energy, and these pressures reflect the high rates of inflation that have been recorded over the last five years (House of Commons Library, 2026). As a result, real term incomes have fallen over the same period, with effects disproportionately impacting low-income households. If these pressures are sustained, customers might be less able or willing to pay for the Programme than anticipated, compared to earlier willingness-to-pay studies (e.g. McDougall et al, 2020). To counteract this, there may now be greater public awareness and interest in environmental water quality issues, but it is not known whether this might result in greater willingness to pay. We recommend Windermere specific survey work to assess the overall willingness to pay for this Programme.

1.5.3 Indicative customer bill impacts for U UW customer base

Customer bill impacts over the U UW customer base, applying high level delivery model assumptions, are estimated to provide an early-stage view on how different delivery models might affect customer bills. Indicative values have been calculated based upon assumptions derived from Ofwat's PR24 Final Determination (Ofwat, 2025a) and are presented in Table 1-D considering the Programme as a standalone investment.

Table 1-D shows the maximum single year increase in bills, and an illustrative profile of bill increases above the current level over the short to medium term. This profile covers AMP 9, 10, the first 25 years of operation equivalent to a DPC Competitively Appointed Provider (CAP) contract period post-construction, and operational year 26, the first year after the end of a DPC contract period. This short to medium term profile is graphically presented in Figure 1-D. All bill impacts are presented as the absolute in year increase per household above current bills, in real terms Q3 2025 CPIH prices.

A detailed comparison of bill impacts by delivery model applying direct market intelligence and considering the context of other projected AMP investment will be required to assess value for money at later stages of Programme development.

Under any delivery model, United Utilities' customer bills will increase to reflect: the whole life capital and operational costs; capital replacement costs; additional costs from financing; and the duration over which any costs will be recovered. These cost drivers vary between the three delivery models.

1.5.3.1 Summary of customer bill impacts for U UW customer base

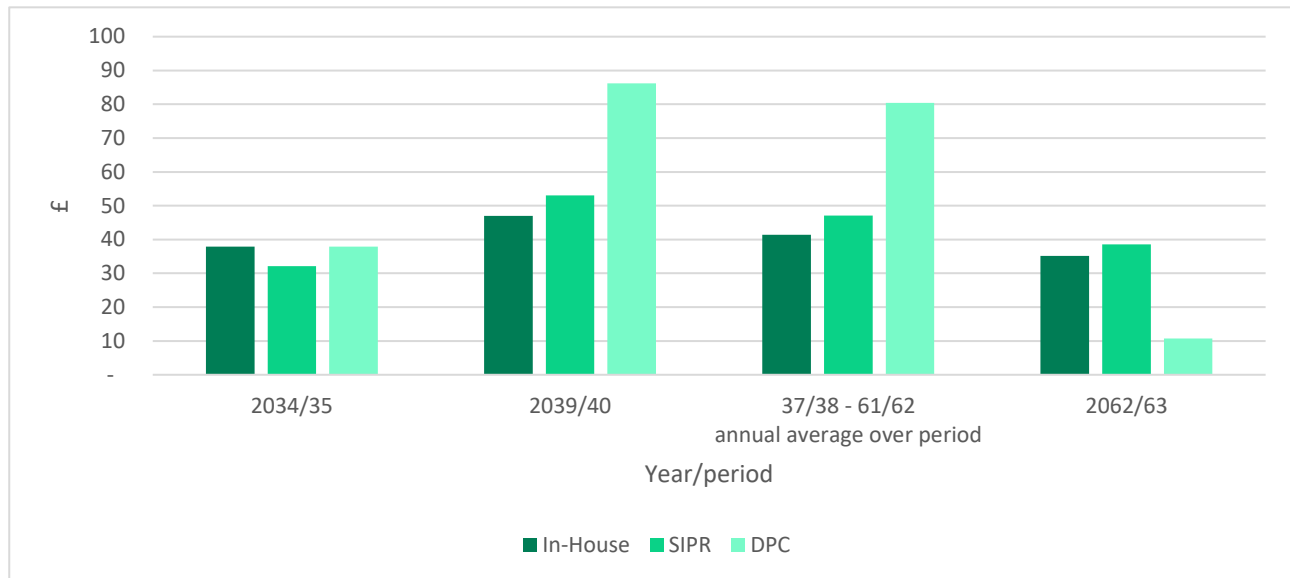
Under an initial set of high-level assumptions, the in-house delivery model has the lowest customer bill impacts, considering average impact over initial 25 years of operation, and maximum in year impacts. In comparison, under current assumptions the DPC model is the most expensive and causes a large increase in customer bills in the medium term compared to the other delivery models. Key metrics from comparative models, based upon current market indications, are presented in Table 1-D and Figure 1-D. Assumptions supporting bill impacts will be updated as the Programme develops, and this could change the outcome of the analysis.

Table 1-D - Indicative annual impact on an average U UW customer bill above current bills, by delivery method, £ real, Q3 2025 CPIH prices

Indicative profile of customer bill impacts in short to medium term U UW customer base					
	Maximum single year impact (£)	2034/35 (AMP9 final year) (£)	2039/40 (AMP10 final year) (£)	2037/38 – 2061/62 average annual impact (First 25 years of operation) (£)	2062/63 Operational year 26 (£)
In-House	£49	£38	£47	£41	£35
SIPR	£55	£32	£53	£47	£39
DPC	£88	£38	£86	£80	£11

Source: United Utilities

Figure 1-D - Short to medium term indicative annual impact on an average U UW customer bill above current bills, by delivery method, £ real, Q3 2025 CPIH prices



Source: United Utilities

1.5.3.2 In-House delivery customer bill impacts

The In-House delivery model assumes that eligible costs (capital) are added to the Regulatory Capital Value (RCV) and recovered over asset lifetimes through bills. Recovery through bills starts from the point that spend starts. Operating and maintenance costs and infrastructure renewals that are eligible to be expensed are expensed as Pay as you Go (PAYG) expenditure, recovered from customers in year.

The In-House delivery model has the lowest single year bill increase, and lowest average bill impact over the first 25 years of operation (equivalent to an indicative CAP contract period). Bills peak at their maximum increase in the second half of the 2030s at the point of asset completion, with a gradual decrease to the end of the asset lifetime. After the first 25 years of operation (e.g. 2062/63 onwards), bill impacts are greater than DPC due to the significant reduction in DPC bills after the CAP contract term.

1.5.3.3 SIPR delivery customer bill impacts

The SIPR delivery model assumes an operating licence over the longest asset lifetime (120 years) and a similar recovery approach to the In-House delivery model. Eligible capital expenditure is added to the RCV and recovered from customers through bills over the asset life. The model assumes recovery of a return on RCV during construction, with depreciation commencing once the asset is commissioned. As with the In-House model, operating costs and defined infrastructure renewals are treated as PAYG expenditure and recovered from customers in the year incurred.

The profile of bill impacts under SIPR are similar to the In-House delivery model. Bills increase to the point of completion of construction, and then gradually decrease over the asset lifetime. Reflecting an assumption of higher cost of capital vs In-House, bill impacts are greater than In-House delivery over all three key metrics, but lower than DPC delivery for maximum in year and 25 year average from construction. Like In-House, after the first 25 years of operation, the bill impacts are greater than DPC due to the significant reduction in DPC bills after the CAP contract term.

1.5.3.4 DPC delivery customer bill impacts

The DPC delivery model assumes Programme costs are recovered from customer bills over a shorter period than other models, reflecting current market positions on contract length and the end of contract payment.

This reflects an assumption of accelerated depreciation of assets, that is aligned to the CAP contract length. Customer bill impacts are therefore assumed to be higher over a shorter recovery period compared to other models. While there may be some scope for this assumption to be moderated, the DPC contract will always be substantially shorter than the asset life and therefore the condensing of customer payments will always be a feature of the DPC model. The format of the DPC contract needs to be tested with the market as the Programme progresses, but variation from this fundamental feature of contract length and end of contract payment that impacts magnitude of bill impacts is not expected.

For the purposes of early-stage modelling, DPC model customer bill impacts are estimated by assuming that a CAP recovers 80% of capital costs over the concession contract period (assumed as 25 years from the point of completion of asset construction). Bill increases over the concession period reflect this 80% recovery and the CAP's assumed target Internal Rate of Return. At the end of the concession, assets are transferred at 20% of cost reflecting their accelerated depreciation over the contract period. These assets are then added to the UUW RCV and recovered through customers' bills in the usual way. These summary assumptions reflect current market indications and previous market engagement. Detailed treatment of asset valuation, depreciation and asset lives through a DPC model should be assessed in subsequent stages.

Maximum in year and average first 25 years of operation bill impacts are much greater under the DPC model compared to other models (over 100% greater increase). This reflects the significantly faster cost recovery implied in the DPC model. From year 2062/63 after the end of the CAP 25-year operational concession period, bill impacts reduce significantly to below In-House and SIPR levels. This uneven profile raises considerations of intergenerational distribution of costs for the Programme. In other words, the generation that pays during the 25-year concession period pays more than future generations after the concession period who have the benefit of the scheme for the remaining and longer lifetime of the assets.

1.5.4 Indicative customer bill impacts for all England customer base

Currently, there are no national charging schemes for water customers to fund infrastructure. Should Government put such a scheme in place and apply to ORiW, the indicative bill impacts for each household in England could be as set out in Table 1-E and Figure 1-E. These indicative bill impacts apply the same methodology for calculation as the bill impacts for the UUW customer base, but with an adjusted volume of customers that estimates an all England customer volume over which the Programme costs are recovered, and a higher bill recovery rate to reflect industry wide metrics.

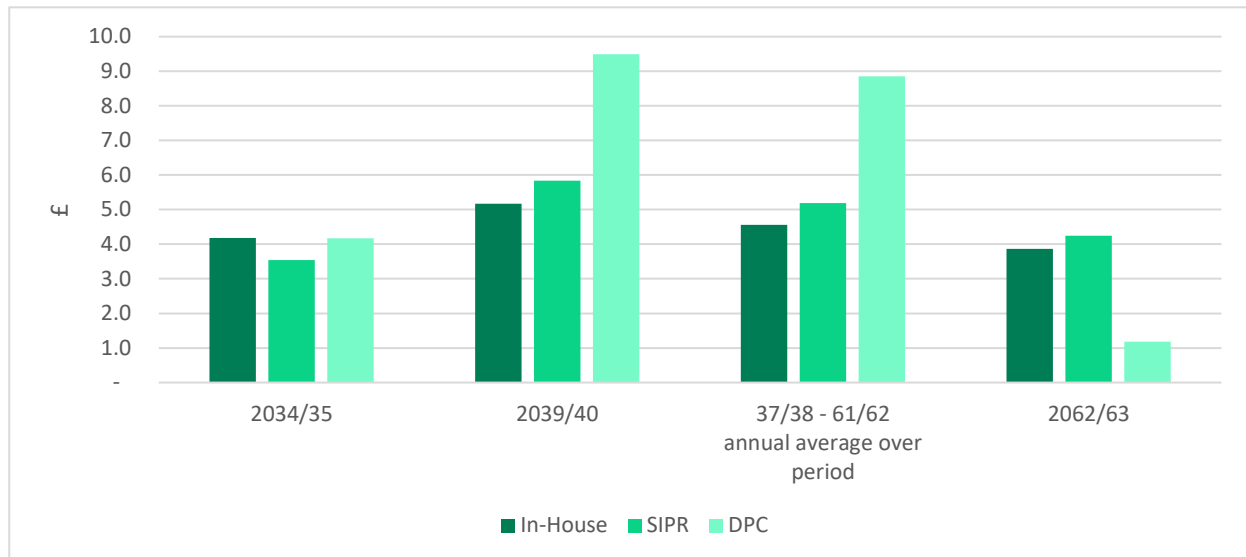
The relative comparison of bill impacts by delivery model is the same as for the UUW customer base analysis. The magnitude of bill impacts per customer is lower across all models compared to the UUW customer base estimates due to the larger population over which Programme costs are recovered.

Table 1-E Indicative annual impact on an average all England customer bill above current bills, by delivery method, £ real, Q3 2025 CPIH prices

Indicative profile of customer bill impacts in short to medium term All England customer base					
	Maximum single year impact (£)	2034/35 (AMP9 final year) (£)	2039/40 (AMP10 final year) (£)	2037/38 – 2061/62 average annual impact (First 25 years of operation) (£)	2062/63 Operational year 26 (£)
In-House	£5.4	£4.2	£5.2	£4.6	£3.9
SIPR	£6.1	£3.5	£5.8	£5.2	£4.2
DPC	£9.6	£4.2	£9.5	£8.9	£1.2

Source: United Utilities

Figure 1-E Short to medium term indicative annual impact on an average all England customer bill above current bills, by delivery method, £ real, Q3 2025 CPIH prices



Source: United Utilities

1.5.4.1 Indicative weighted average cost of capital

For the purposes of calculating customer bill impacts, weighted average costs of capital (WACC) have been derived from Ofwat's Final Determinations for PR24, with broadly indicative figures for SIPR and DPC. United Utilities' In-House WACC is derived from PR24 assumptions for cost of capital, assuming new debt only (i.e. removal of embedded debt). WACC assumptions are presented in Table 1-F.

At this stage of programme development, caution should be used in drawing cost of capital comparisons, given that programme scope and commercial arrangements will change, meaning that the actual cost of capital for each delivery route could change significantly. For example, if more risks are passed onto customers such as 'high impact low probability' risks.

Table 1-F - Indicative Weighted Average Cost of Capital by delivery model used in customer bill impact modelling (CPIH-stripped)

	In-House	DPC	SIPR
Cost of debt (pre-tax)	3.89%	4.17%	4.17%
Cost of equity (post-tax)	4.96%	9.80%	7.84%
Programme Gearing	55.00%	85.00%	75.00%
Programme WACC (vanilla)	4.37%	5.01%	5.09%

Source: United Utilities

Early-stage modelling indicates that In-House delivery has the lowest impact on customer bills compared to other delivery models. DPC delivery is significantly more expensive over the initial operation period (first 25 years) due to the assumed market requirement for greater cost recovery over the CAP contract period. These assumptions are informed by current DPC project delivery of HARP. Affordability of bill increases needs to be considered in the context of the 32% real terms bill increase that customers are already facing in AMP8 and future projected bill increases. Further modelling as the Programme develops should be performed, with WACCs that are Programme specific and informed by market engagement.

1.6 Drivers of value for money

Ofwat provides direction that the Programme delivery model must be selected that delivers the best value for money to customers. Value for money considers, among other factors, the lowest impact on customer bills, which is influenced by:

- **Programme costs** – the lower the programme costs, the lower the value to be recovered on bills. Different delivery models may have different underlying programme costs.
- **Risk allocation** – different delivery models allocate and share risk between customers and stakeholders in different ways. These vary in how they expose customers to potential bill increases if there are variations in programme costs. The pricing of risk to investors in the programme is reflected in the cost of equity, which influences financing costs.

These aspects differ between In-House, SIPR, and DPC models, and the benefits of each model should be appraised in later Programme development stages when there is greater scope definition.

In developing and assessing delivery models, consideration should also be given to Ofwat's Public Value Principles (Ofwat, 2022), including transparency of decision-making, consideration of customer interests and the fair distribution of costs and benefits.

1.6.1 Cost drivers for delivery models

Drivers for overall programme cost vary by delivery model, although SIPR and DPC models have a low body of evidence from completed programmes or projects that prove cost efficiencies when compared to In-House delivery. The potential key differentiators of cost between models are summarised below. The expected cost impact on the total Programme costs by delivery models is indicated on a low/medium/high impact scale of cost impact, based upon qualitative assessment, and would need to be tested as the Programme develops. These cost drivers are summarised in Table 1-G and expanded upon in Table 1-H.

Table 1-G Potential impact of cost drivers on total Programme costs, by delivery model

Cost driver	In-House delivery	DPC delivery	SIPR delivery
Cost of capital	Low	Unknown	Unknown
Procurement and transaction costs	Unknown	High	High
Contractor costs	Medium	Medium	Medium
Cost overruns and risk allocation	High	Unknown	Unknown

Source: Jacobs, Mott MacDonald (JMM)

Table 1-H Detail of cost drivers by delivery model

In-House delivery		
Cost of capital	Expected cost impact: low	The Programme is financed through United Utilities' balance sheet. The actual cost of capital will depend on the market rates available, but the cost to be borne by customers is limited to Ofwat's notional cost of capital. In Ofwat's PR24 final determinations, the allowed return on capital for United Utilities is 4.03% (Ofwat, 2025a), and United Utilities' preliminary modelling uses an In-House Programme financing WACC of 4.37%. This is derived from PR24 assumptions for cost of capital, with removal of embedded debt.
Procurement and transaction costs	Expected cost impact: unknown	Procurement of contractors uses in-house resources, delivery methods, contracts and existing supply chains. There might be established processes that can be used wholly or partially. However, the scale and complexity of the Programme will likely require a tailored approach that could be beyond existing frameworks and processes. These could incur additional cost to deliver a bespoke procurement, e.g. through additional professional fees or outsourced procurement.
Contractor costs	Expected cost impact: medium	Although processes are not mandated by Ofwat to set up competitive tension and innovation in procurement, it can be reasonably assumed that an In-House approach would apply a competitive process that would be comparable to other delivery model procurement approaches.
Cost overruns and risk allocation	Expected cost impact: high	Mechanisms to transfer risk are not built-in to the delivery model, so must be agreed on a bespoke basis with contractors. Depending on contract structure, United Utilities could have higher exposure to cost overruns compared to other delivery models which would then need to be absorbed. Cost sharing arrangements with customers may be similar to those arrangements agreed at PR24.
DPC delivery		
Cost of capital	Expected cost impact: unknown	The cost of capital is the CAP's financing cost, which is reflected in tender prices. This cost of capital does not need to comply with Ofwat's notional cost of capital, and could be higher or lower depending on the risk transfer, level of competitive tension in procurement, market conditions at the time of procurement and credit rating of the CAP. As noted earlier, the procurement of Haweswater Aqueduct Resilience Programme (HARP) through DPC has been considered in Moody's credit ratings of UUW.
Procurement and transaction costs	Expected cost impact: high	Bespoke procurement is required to comply with Ofwat guidance. The process is still relatively new, which could lead to possible inefficiencies in executing the procurement process. The CAP would also have higher overhead costs in delivery and operation than in-house delivery, the requirements of which would need to be reflected in procurement and increase its complexity. However, UUW have undertaken a DPC procurement previously, so have familiarity that might help manage these costs.

Contractor costs	Expected cost impact: medium	The DPC procurement process is designed to promote competitive tension, which should reduce contractor costs and drive innovation and efficiency. However, this might not drive a more competitive process than In-House procurement.
Cost overruns and risk allocation	Expected cost impact: unknown	Construction and operation risks are shared with the CAP, with the extent of transfer defined in contract and dependent on pain/gain share mechanisms and compensation event terms. If high levels of competitive tension and strong scope definition/requirements are well understood, price can be low. However, if there are low levels of competition and weak scope, then uncertainty/risk may be priced in.
SIPR delivery		
Cost of capital	Expected cost impact: unknown	The cost of capital will be bespoke to the Programme and does not need to comply with Ofwat's notional cost of capital. Cost of capital could be higher or lower depending on the risk transfer, level of competitive tension in procurement, market conditions at the time of procurement, and credit rating of the Infrastructure Provider. As a comparison point, Thames Tideway reported a headline cost of capital of 2.497% (Ofwat, 2024), which was achieved through competitive tension in the procurement process and government backing, including financial guarantees, that lowered the cost of finance. Tideway was tendered in 2015 when market conditions were different to those today, and there is no certainty on government backing for future projects.
Procurement and transaction costs	Expected cost impact: high	The delivery model requires establishment of a regulated legal entity, in compliance with legislation and Ofwat regulation. The Infrastructure Provider would also have higher overhead costs in delivery and operation than in-house delivery, the requirements of which would need to be reflected in procurement and increase its complexity. This will require bespoke procurement, and a likely long process to procure and negotiate complex contracts. The process is new, which will likely lead to inefficiencies in executing the procurement process.
Contractor costs	Expected cost impact: medium	The procurement process should promote competitive tension to reduce contractor costs and drive innovation and efficiency. However, this might not drive a more competitive process than In-House procurement.
Cost overruns and risk allocation	Expected cost impact: unknown	Programmes have a defined cost and risk envelope. Meeting overruns is defined in the bespoke arrangements of the programme and are not planned to be government backed.

Source: Jacobs, Mott MacDonald (JMM)

1.6.2 Risk allocation

Value for money for customers will partially be influenced by how much risk they are exposed to if Programme costs increase. The approach to risk allocation varies by delivery model.

- In-House delivery – risk management relies on United Utilities' internal risk management processes. Costs to customers are regulated by Ofwat and can be managed at an aggregated level, e.g. through approved expenditure allowances, or through programme specific price control, cost sharing or enhanced engagement schemes.
- DPC delivery – risk is shared with the CAP for construction and operation. Depending on the cause, the expectation is that most risk of cost increases is transferred to the CAP. However, some risk cannot be controlled by the CAP, (e.g. defined compensation events). The definition of these risks, and the allocation of cost impacts if these risks crystallise, will need to be negotiated through procurement.
- SIPR delivery – customers are protected for pass through of programme risks through programme-specific regulation and price controls, although some exposure will remain. This exposure might be lower than other models but would need to be defined in procurement.

These assumptions are based upon expectations of typical contracting and will need to be market tested throughout phases of procurement as the Programme progresses.

1.7 Financial Case development plan

1.7.1 Priority actions and near-term decisions

The following priority activities and decisions are the key actions required to support the development of the Financial Case. These actions should be progressed by United Utilities to fully assess the affordability, financing and funding of the Programme, with support from technical and financial advisors, and informed by engagement with Ofwat and the supply chain:

- **Conduct willingness to pay studies:** completion of customer willingness to pay studies, to identify willingness to pay through customer bills for the Programme, taking account of wider customer bill impacts, planned investment programmes and affordability considerations.
- **Review of funding streams:** conduct research to identify all possible funding streams for the Programme in addition to customer bills and assess each for viability.
- **Market engagement and feedback:** perform iterative engagement with potential delivery partners, to test and validate assumptions that support development of a financial model for the preferred option.
- **Development of a financial model:** development of a model that assesses the financial implications of different delivery routes for the most preferred option. This should assess the implications for customers, and financial implications for United Utilities including impact on balance sheet, profit and loss accounts and any funding shortfalls to be met by financing activities.
- **Development of financing strategy:** if a delivery model is selected that requires financing activities, a financing strategy must be developed to identify credible sources of finance, with associated actions to raise finance and costs of capital to inform the financial model.

1.7.2 Critical path evidence and development activities

Progression of the Financial Case is dependent on activities that drive the timing and sequencing of key decisions:

- **Programme definition and design maturity:** Further engineering, environmental and economic assessment including surveys and water quality monitoring and modelling is required to reduce uncertainty around cost, schedule and risk, providing the basis for robust financial modelling.

- **Customer and market evidence:** Evidence on customer willingness to pay and market feedback on delivery and financing arrangements is required to inform delivery model selection and financial assessment.
- **Delivery model selection:** Determination of a preferred delivery model is required before the Financial Case can be finalised and financing arrangements progressed. This will be informed by the structured screening and assessment process described in Section 1.4.1 of the Commercial Case.
- **Funding for Programme development:** Funding must be secured to support ongoing development activities, including design, consenting, procurement and business case development.
- **Internal and regulatory approvals:** Progression through governance and regulatory approval processes will be required to secure budgets and enable development and delivery of the preferred approach.

1.7.3 Progression to next stage

The activities outlined above provide the basis for assessing the financial implications of the Programme as it progresses to the next stage.

This includes development of:

- A financial model comparing delivery models for the Programme
- Assessment of impacts to financial statements from preferred delivery model
- A financing strategy, to meet any funding shortfall from the preferred delivery model

This work progresses in parallel with the Strategic, Economic, Commercial and Management Cases, ensuring alignment across all aspects of the business case and supporting the development of a coordinated and deliverable programme.

1.8 Assumptions and Limitations

This Financial Case reflects the current stage of Programme development and a series of assumptions relating to costs, delivery model and financial position of United Utilities.

Key assumptions include:

- The cost of the most preferred option is materially accurate for the stage of business case development. These include uplifts for contingency, risk and optimism bias, that will be refined as the Programme develops.
- Inflation estimates apply general inflation forecasts for CPIH as published by the Office for Budget Responsibility, with a long-term rate of annual inflation of 2.4%.
- Customer bill impact models assume funding through customer bills. Alternative funding sources might be identified as viable as the Programme progresses.
- All delivery models are feasible and are not constrained by customer willingness to pay.
- Financing of the Programme by United Utilities is a feasible option.
- Bill impact estimates are prepared assuming DPC and SIPR delivery is procured under a design, build, finance, operate and maintain model.
- The DPC delivery model assumes costs are recovered from customers on an accelerated basis compared to other models, recovering a high proportion over the initial CAP period. As a result, costs to customers over the CAP contract period of operation (after completion of construction) are assumed to be significantly higher than with other models.

- This uses an assumed aspirational construction start date of 2030; this is an aspirational assessment assumption rather than a committed or validated programme date. A robust assessment of the pre-construction development programme will be undertaken during the next phase of the project.

Key limitations include:

- Bill impacts are indicative based upon modelling performed by United Utilities that considers typical market assumptions and is in line with the current stage of development of the Programme and commercial model. These assumptions should be tested with the market in subsequent stages.
- Cost estimates are early stage, and will continue to evolve as technical, commercial and regulatory development progresses.
- For customer bill modelling, the full scope of costs is assumed to be delivered under one delivery model, except development costs which are assumed to be delivered through in-house cost recovery. This is a simplification to reflect the early stage of the business case. Blended approaches are possible, and should be explored at subsequent stages.
- Inflation remains a key uncertainty given both the long-term nature of the Programme and the potential for short-term economic volatility before construction commences.
- A bespoke financing model informed by market engagement that compares delivery options has not been developed, given the early stage of the Programme.
- The level of development of the Financial Case is proportionate to the level of development of the business case. Consideration and assessment of funding, financing, cash and accounting impacts and value for money will be developed further in the subsequent stages.
- Costs and customer bill impacts are presented in the Financial Case in reference to the most preferred option at this stage of assessment. A final option will be selected at Outline Business Case stage, after detailed design, stakeholder engagement and detailed consenting evidence is gathered. The cost estimates of the final option could be materially different from the most preferred option.
- All options involve asset write off, for example, decommissioning existing wastewater treatment works. How asset write off is treated needs to be agreed with Ofwat. Currently, modelling for customer bill impacts is simplified to assume that assets written off are not reflected in the bill impacts for the Programme, but remain on the regulated asset base and are paid for by customers in the usual way until the regulated asset base value depreciates to zero. The potential impact of write offs will need to be assessed as the Programme develops.
- At this stage of feasibility, detailed tax modelling is not performed. For simplicity, the bill profile in the financial case assumes all profits are taxed (assuming 25% corporation tax with no timing impacts from capital allowances) so that the bill impacts throughout the project life are internally consistent. In practice, it is expected that enhanced capital allowances will be available to reduce the near term bill impacts, which is reflected in the bill impacts in the Feasibility Report.

The considerations of affordability and funding described should therefore be regarded as indicative and subject to refinement as the Programme progresses.

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