Our competitive advantages

Our pioneering Systems Thinking approach and prudent financial risk management give us a clear competitive advantage

Systems Thinking improves efficiency and operational resilience. Prudent financial risk management delivers long-term predictability and resilience to financial shocks. These competitive advantages help us to deliver sustainable long-term value for stakeholders.

Systems Thinking

What do we do?

Systems Thinking looks at how each individual element interacts with the other constituents of the system in which it operates. Instead of isolating smaller and smaller elements of the system, Systems Thinking expands its view to consider larger and larger numbers of interactions over time as a particular issue is being studied.

We use this pioneering approach to operate our business. For a water and wastewater company this means, rather than assessing and operating each asset or individual treatment works in isolation, we use all the data from the telemetry backbone we have installed across our network to analyse the entire system and all its linkages, enabling us to find the best overall long-term solutions.

Our field engineers across the region are linked by an Integrated Control Centre (ICC) at head office, from which we plan, monitor and control our operations. We process enormous amounts of real-time data in the ICC from right across our network, as well as factoring in other source data such as weather forecasts, and we have begun using artificial intelligence and machine-learning to process this data and spot issues so that we can work to resolve them before they impact customers. We allocate resources to production teams with full accountability for asset and system performance, helping to embed this way of thinking within our operational teams.

Read more about the rollout of artificial intelligence across our water network on page 35 — just one example of Systems Thinking in action.

Why is this a differentiator?

The water industry was consolidated into its current regions in 1973 and a lot of our assets were originally built a long time ago when water and wastewater services were managed by local authorities with little coordination at a regional or national level.

It takes considerable time and investment to install the telemetry and interconnections across a water and wastewater network to enable a Systems Thinking approach to be used. No other UK water company does this at the holistic level we do, and we are continuing to extend our lead, with new developments and further rollouts in the pipeline.

What value does it create?

Using network-wide real-time data and operating our network in this way enables us to optimise cost and service performance.

Systems Thinking is improving the reliability and resilience of our assets, reducing unplanned service interruptions, and helping us move away from the traditional reactive approach to address problems proactively before they affect customers.

This approach is helping us deliver operational improvements and £100 million cost savings versus our original business plan for the current regulatory period. Further development of Systems Thinking is embedded into our business plan submission for the 2020–25 period. It is part of our long-term strategy to continue delivering benefits for customers and other stakeholders well into the future.

Prudent financial risk management

What do we do?

Inflation — we maintain around half our debt in index-linked form, offering good relative value and hedging the impact of inflation on a portion of our regulatory capital value (RCV) and revenue. Most of this is RPI-linked, reflecting the current regulatory model. From 2020 Ofwat will transition towards consumer price inflation including owner occupiers' housing costs (CPIH), so we will gradually increase our CPI exposure, subject to cost and availability, as CPI is the best available proxy for CPIH in the absence of a CPIH debt capital market.

Interest rates — we fix the underlying interest cost on our remaining nominal debt out to ten years, on a reducing balance basis. We have previously supplemented this by substantively fixing interest rates for each forthcoming regulatory period when Ofwat publishes the final determination, including the cost of debt allowance. From 2020 Ofwat will apply debt indexation to the portion of debt assumed to be new debt, so this supplement will not be necessary for the 2020–25 period.

Pensions — we adopt an asset-liability matching approach for our defined benefit pension schemes by investing in assets, such as corporate bonds and gilts and the use of interest rate swaps, that perform in line with the liabilities, providing a hedge against changes in swap and gilt yields and therefore stability in our pensions position. The schemes have hedged inflation exposure through RPI gilts and swaps, and in April 2019 we prepaid all remaining deficit repair contributions meaning the schemes are now self-sufficient.

Why is this a differentiator?

Different companies have different levels of risk exposure as a result of preference and/or analysis of the costs and benefits of moving away from a historically different approach. Our prudent approach offers a lower risk exposure than many other companies.

What value does it create?

Effective financial risk management delivers long-term resilience and our clearly articulated policies, covering a variety of market risks, help us reduce our exposure to the economic and regulatory environment, providing more predictable returns to investors.

Our approach to debt financing and interest rate risk management enables us to consistently lock in long-term debt at good relative value, manage uncertainty in Ofwat's approach to setting the cost of debt at each price review, and maintain resilience to financial shocks. Our asset-liability matching approach reduces the volatility of the required funding level of our defined benefit pension schemes, and self-sufficiency means our employees and pensioners are in a very secure position and shareholders are well protected.

All of this underpins our target to maintain gearing (measured as net debt to RCV) within a range of 55 to 65 per cent, which supports a solid A3 credit rating with Moody's for United Utilities Water Limited, and enables us to maintain efficient access to the debt capital markets across the economic cycle.