

**PR24**

# **Review of the bioresources market - consultation**

**July 2021**

United Utilities response to Ofwat's May 2021 consultation on the bioresources market

## Introduction

We welcome the opportunity to respond to this consultation and the collaborative nature of discussion to date. That discussion includes the contribution we have made to the future ideas lab, “A review of options for further market participation in bioresources” and we are pleased to see that this paper was thoughtfully considered and referenced within this consultation. Given the developing nature of a market for Bioresources all stakeholders will need to maintain an open and engaged approach if the potential changes detailed within this consultation are to be successfully introduced.

The Jacobs report that accompanied this consultation is a positive and well considered examination of the barriers and potential solutions to support a bioresources market. We have reviewed the recommendations and provide a view on each recommendation within the appendix below. We also broadly welcome the proposals set out within this consultation. However, it would have been valuable to see more quantification of the expected value (financial and non-financial, e.g. carbon etc.) and how this will be delivered through the opening of the market for Bioresources. The consultation identifies the benefits expected to have arisen from changes at PR19. A similar cost benefit assessment should be undertaken and the detail provided for PR24. We share the belief that in the right conditions market forces could help to create greater economic and environmental value within the provision of Bioresources. The right condition for a market to develop being that there is long term certainty of policy and regulation for both providers of a service and the WASCs purchasing that service. The potential opportunities for these benefits should increase over time as assets age, require replacement and additional capacity is needed.

There is recognition, both by Jacobs and Ofwat, of barriers to market development. This includes the ongoing uncertainty relating to environmental regulation which, if anything, is increasing following recent developments.

We share the view, which Jacobs set out within their paper, as to the relative scale of the barriers to realising the potential of Bioresources. We believe that UU and other companies are engaged in trying to realise the potential benefits of the market and that cultural and organisational constraints are lesser than other constraints. We are currently engaged in trying to determine how best to utilise market forces in the northern part of our area of appointment to meet our treatment needs. The challenges we are experiencing in relation to this activity broadly align with the relative materiality of the constraints identified by Jacobs. Regulatory (and knowledge) constraints, including the uncertainty relating to environmental regulations, act as a substantial obstacle, whilst addressing activities relating to being a first mover in a market that is not mature, inclusive of technical and physical as well as cultural and organisational constraints, are time consuming but lesser.

The Jacobs report is clear, and we suspect correct, in the conclusion that a failure to address the wider barriers to the bioresources market will very likely lead to further disappointment as to the impact of market forces on Bioresources. To fully realise the potential benefits of engagement of market forces for bioresources it will be necessary to attract treatment providers who are not WaSCs. The current regulations and uncertainty reduce the potential for this engagement. In addition the potential identified by Jacobs for headroom trades being low seems a reasonable conclusion.

# View on the proposals set out within the review of bioresources market consultation

## 1 Market models

- We agree a bidding market will provide confidence and clarity to 3rd party providers of Bioresources treatment. We have provided a more detailed response to the proposals in section B below.

## 2 Improving cost allocation between controls

- We support moves to drive consistency in reporting and believe that significant steps have already been taken to resolve the most significant potential inconsistencies.

## 3 Approach to assessing costs.

- We recognise the potential benefits associated with a cost assessment that considers all companies Bioresources costs.
- We expect historic RCV to be protected, in line with the clear previous commitments made by Ofwat to RCV protection. Asset stranding and softening of the protection of pre-2020 RCV could undermine confidence in consistency of regulation and at worst lead to a higher cost of capital and/or undermine confidence in future investment of what is an essential part of the value chain.
- We consider that the proposals for potential supplementary approaches to inform cost assessment including sludge trading prices and a comparison with gate prices in the wider waste sector are likely to be premature for AMP8. Sludge trade prices and OOW gate prices are not comparable with the costs of operating a Bioresources function.
- We have provided a more detailed response to the cost assessment proposals in sections C and D below.

## 4 Planning and collaboration

- Given the complexities involved and potential for benefit in relation to joint capacity the necessity for greater levels of collaboration is clear. We will be looking to support this activity as it progresses.
- We support efforts to, where appropriate, undertake research on a sector wide basis, as this can help support innovation and drive efficiencies. A key part of this is collaborating with other WASCs and organisations on innovation projects. For example we are leading and involved in a range of projects and current bids for innovation projects through the Innovation Fund being led by Ofwat. These include a collaborative industry research project to assess and evaluate of the impact of a potential loss of the biosolids to agricultural land recycling outlet. This is especially important and urgent given the current regulatory uncertainty in relation to Farming Rules for Water.
- For long term contracts to work, the specification of the sludge quality is critical but challenging. We recognise the difficulties with establishing a sludge quality metric, but would look to support efforts and believe that the industry should be able to collectively agree a metric. Our experience of treating varying qualities of sludge highlights the importance of having measures that quantify the relative difficulty of treating different sludge. This is particularly the case if imported biosolids contain significant levels of grit or rags. A key aspect of this work will be striking the right balance, encouraging the exporter to deliver a quality feedstock, but having measures that are pragmatic so they do not result in excessive upstream investment.

## 5 Information remedies

- We welcome steps taken to date by Ofwat and will look to support Ofwat in the further development of the market monitoring data. These publications provide useful detail including the visualisation of the STC and WWTW for all companies.

## 6 Outcomes

- We agree that option 3 provides the best solution allowing bespoke performance commitments and exploring the potential for common performance commitments.
- The quality of sludge entering Bioresources, concentration (%ds), level of inert material, quality of screening, nutrient content and other factors have a significant impact on the cost of treatment and opportunities to address other factors. Within the “Bioresources Market Review” published alongside this consultation Jacobs make recommendation 19 “Invest in improvements to sludge quality within Network+”. Given the impact that Network plus can have on Bioresources operation creating the correct incentives on sludge quality can have benefits to deliver the most efficient overall service. This incentivisation could in part be achieved through performance commitments.

## 7 Trading incentives

- We believe that trading incentives could play a role in incentivising headroom trading, but believe that if other barriers are effectively removed then the absence of a trading incentive need not block trading.
- The strategic risks relating to substantial uncertainties can have a material impact on the potential for alternative solutions. In many cases the risks associated with more extreme resilience issues may best sit with an incumbent, and that this should be reflected within the offering of third parties.

## 8 Other issues

- Double funding. We concur with the conclusion reached by Ofwat that at present this is not a concern requiring further action.
- Pricing of trades. We agree that the pricing of trades is a complex area and the interaction of transfer pricing, competition law and other factors adds to that complication. We provide further commentary on this in Section E below.
- In establishing a "gate fee" model for Bioresources we believe the models which define this need to be developed in collaboration with the sector. The proposals and actions to get more consistent cost allocation will support this along with specific parameters that influence the work done within the Bioresources price control; revenue streams; and recharge costs for liquors.

## More detailed responses

### A. Constraints to Market Development: Uncertainty in environmental regulation

Potential changes to regulation including Farming Rules for Water (FRfW), Industrial Emissions Directive (IED) and the EA Sludge Strategy create substantial cost and activity uncertainties in Bioresources. The uncertainty around these issues create significant barriers to the further development of markets. Anyone providing a market solution to sludge treatment would have to account for these unknown costs within any bid. Alternatively the risks, and therefore potential costs, could sit with the incumbent, but the very significant uncertainty about key regulatory requirements acts to impede our scope to plan and deliver efficient investments.

A particular interpretation of the FRfW Rule 1 would remove much of the agricultural land as a biosolids recycling route. This would cause very significant cost increases and require an alternative disposal route to be found. Any third party taking on responsibility for disposal will need to factor this into consideration and this may well be a risk beyond anything they would be willing to accept. This leaves third parties unable to commit to providing a disposal service and incumbents unable to rely on third parties for robust service provision.

The implementation of IED has resulted in new environmental obligations which are determined by site specific permitting. The combined result of decisions taken by the EA, the CMA and Ofwat means that different water companies have received different treatment in relation to the costs of meeting these obligations. The EA only confirmed that IED permits would be required for the biological treatment of sewage sludge in July 2019 and have set out a schedule to obtain permits that runs to July 2022. The timing means that plans to invest to meet IED were not included in 2020-25 business plans or final determinations. It is also worth noting that during that period waste operators, who have had a four year allowance to comply with IED, have also had the opportunity to recover the cost of meeting their IED obligations through price changes to customers. Ofwat's Green Recovery draft decision implies that some appointees (of which U UW is one) will not be able to recover such costs from customers. However, it is not unreasonable for us to have a mechanism to recover costs to meet our IED obligations so as to enable a level playing field for our future participation in the Bioresources market both opposite other appointed companies and other waste operators.

The timing of these changes may limit the potential to identify alternative approaches to meeting the challenges facing Bioresources. There is in effect a first mover disadvantage in that the process by which to engage 3rd parties in delivery of elements of the Bioresources service needs to be developed, whilst the traditional route for providing Bioresources services are well understood. Given the regulatory changes detailed above the timing of changes give very little scope for developing alternative approaches.

The sooner clarity can be provided as to the timing and outcomes of the regulatory changes the easier it will be for alternative providers of bioresources services to factor those changes into offerings. The uncertainty related to regulatory change is making long term investment decisions significantly more difficult. The unintended consequences could lead to locking in higher carbon emissions for decades through the construction and operation of incineration facilities. In addition the pace of change risks the need for significant customer bill increases to meet statutory environmental obligations. We support activity to remove, or reduce, the uncertainty associated with the environmental regulatory framework for Bioresources. We encourage the development of a stable, long term, regulatory framework that will provide sufficient clarity and time to enable a smooth and planned transition towards a clearly defined vision for the sector.

We are working closely to support each regulator through separate processes to understand and implement regulatory changes affecting Bioresources. This includes participation in workshops, working groups, sharing technical papers and responding to consultations. We are keen to support the development of a pragmatic approach to setting timescales and securing the resources for capital investment related to permit improvement conditions. Effective co-ordination between regulators, supported by the industry, is essential to align the introduction of environmental regulatory obligations with the price review process.

We consider the way to do this is for the next publication of the Water Industry Strategic Environmental Requirements (WISER) to explicitly include waste and Bioresources to communicate regulatory requirements to

the water industry. This would provide a mechanism by which the water industry could plan to meet existing and future regulatory requirements.

Any resulting investment requirements will then be submitted into the next available price control process, to ensure that the company has sufficient resources to meet the requirements. In this case that would mean PR24, for investment to be delivered during AMP8.

## B. Market models. Consideration of the bidding market.

Within the UU future ideas lab publication “a review of options for further market participation in bioresources” we reached the same positive conclusion, as has been proposed within this consultation, in relation to a bidding market. A Bid Assessment Framework (BAF) sets out the process by which third parties can look to offer Bioresources services. Incumbents can produce a bid assessment framework that shows a clear commitment to the three key principles of transparency, equal treatment/non-discrimination and proportionality.

The purpose of the BAF is to ensure that there is a clear mechanism for approaching companies to provide Bioresources Services and there is clarity of expectations as to how any proposal would be considered. This is key as many potential providers of bioresources services may be discouraged to engage if not confident of fair treatment, or that the costs to engage in a bid are excessive. Any BAF must be able to demonstrate that there is a level playing field for in-house and 3rd party provision of services.

Given the particular circumstances of each water company and the time remaining we would recommend that each company publish their own approach based upon their current Water Resources Bid Assessment Framework. Whilst providing guidance as to what each company’s BAF must be able to deliver is useful we would caution an overly prescriptive set of guidance, or trying to establish a standard industry BAF. Different companies have different procurement approaches and excessive standardisation may inhibit potential innovative approaches within this market. We are in the process of developing our approach to trying to engage third party providers in relation to the provision of Bioresources treatment. In August 2020 we published a PIN relating to the provision of Bioresources in the North of our region and the potential creation of a Northern Hub. This work has the potential to substantially increase the proportion of sludge being treated by 3rd parties. There are number of learnings we can already identify that we will take into building a Bid Assessment Framework.

## C. Cost assessment. The potential for asset stranding within the proposed cost assessment model would not be appropriate.

If a portion of bioresources treatment activity were to transfer away from an incumbent, and this leads to stranded or underutilised assets, there is potential to increase the overall cost of undertaking bioresources activity.

In Appendix 2 of its Water 2020 publications Ofwat states **“We would not expect that any sludge trades will be entered into if these result in customers being worse off. This means that we expect that appointees will consider the benefits (cost reduction and savings) for customers as well as the costs to customers from any trade. The costs of a trade will include the returns on pre-2020 RCV which may become underutilised as a result of the trade.”**

The stranding or underutilisation of assets is particularly unwelcome from an overall system efficiency perspective. We therefore support the rationale for Ofwat’s position, i.e. that trading should not leave customers worse off overall – therefore this would only support trades that are, including the costs associated with the underutilised assets, more efficient. This approach may limit the scope for competitive entry, but to the benefit of customers. However any move away from this approach to extend the potential scope for competition (despite the impact on customers) would require a mechanism to fulfil the clear commitment from Ofwat that regulatory commitments to remunerate pre-2020 RCV would be honoured. In Appendix 2 of its Water 2020 publications Ofwat states **“In our December consultation we stated that we will protect the RCV allocated to sludge services at 31st March 2020, so that RCV allocated to sludge would have the same protection as the RCV of network**

**plus.”** We welcome the reiteration of this statement to protect companies’ pre 2020 RCV set out within the consultation, however without clarity as to how this protection is to be provided uncertainty remains. At most sites, there is no clear way to divide operations between pre-2020 and post-2020 assets. Therefore a compensation mechanism might have to apply in most cases of competitive entry.

#### **D. Cost assessment. The price of trades and OOW would not make suitable comparators in price comparison.**

On page 19 of the consultation it is stated that supplementary approaches to inform our assessment of allowed revenue could be used. For example, modelling of the bioresources market (e.g. sludge trade prices), or comparison with gate prices in the wider waste sector. Within the activity as it currently stands we do not believe it would be appropriate to use either sludge trade prices, or OOW gate fees as a comparator.

There is very little alignment between the treatment of sludge and other organic waste. The materials being treated pose completely different challenges and opportunities. As the regulations currently stand acting as a barrier to co-digestion there is little cross over and therefore the gate fee for OOW is a price for a different service. Added to this the geographic obligations for water companies we cannot see it being appropriate or useful to compare these activities. If at some point in the future, when there is an active market for co-digestion and there is a gate fee price for sewage sludge to be co-digested, then this comparison may be appropriate.

The suggestion that comparison could be made between Bioresources costs and sludge trade prices we believe would not be appropriate. Trade prices are set dependent on the particular circumstances of the site importing the sludge with particular restrictions and caveats. Most sludge trades do not provide a guaranteed service and therefore do not remove the need for resilience to be covered off by the exporter. To be comparable to Bioresources costs, the price offered must reflect guaranteed availability of capacity to take the supply. Also, the pricing of short term trades, allows (per RAG5) for only a portion of average costs to be recovered. Therefore, this too would not be an appropriate comparison to the full costs of providing a Bioresources service.

#### **E. Transfer pricing. Consideration of the factors influencing the pricing of trades.**

Within the Jacobs report market constraint G points to the potential for double charging of overhead. This depends on how the exporter applies corporate overheads. The focus of this constraint being a concern that overcharging of gate fees acts as a barrier to choosing to export. The proposal that Jacobs make is that importing companies look to minimise the price to encourage trades only looking to recoup marginal costs. The suggestion being that capital costs should not be recovered and overheads only recovered where the trade causes a demonstrable increase in overhead costs.

On page 32 of the consultation Ofwat highlights issues raised by companies in relation to the pricing of trades, particularly in relation to long term trades. Despite the concerns raised there are no proposals to amend or provide further guidance on transfer pricing. The recommendation, outlined by Jacobs, to charge only the incremental costs potentially ignores additional complexities.

Companies are responsible for ensuring that not only transfer pricing obligations are met, but also that competition law is complied with. Consideration needs to be given to both the potential for excessive pricing and predatory pricing. RAG5.07 separates out the difference between transfer price and market price. Whilst a transfer price may, under particular circumstances, be able to dismiss all but incremental cost a competition law compliant market price may not. RAG 5.07 also requires that there is no cross subsidy between appointed and non-appointed activity. One area of focus has been the recoupment of capital costs for headroom trades. It is for each company to determine what proportion of capital costs to recover within a transfer price.

An additional factor when considering transfer prices is the consideration of in-house provision against export options. The form of the sludge trade has a substantial impact on the price. Factors include length of contract, rights of the importer to refuse to take sludge, seasonal factors, transport costs, quality of sludge accepted and the presence of termination clauses. In some cases sludge trade terms include a right for an importer to cancel a

delivery with 2 hours' notice. This cannot be seen as a resilient option for sludge treatment. These variations between in-house offering and exporting sludge when factored into any decisions can mean that exports may be on the face of it cheaper, but when considering resilience and risk an in-house option may be better value. Within the cost assessment section of the consultation the potential for comparing Bioresources costs against trade prices is limited. With incremental transfer prices and variance in terms, any comparison between trade prices and Bioresources costs would be inappropriate.

We do not think that further transfer pricing guidance would substantially change the development of sludge trading. It is for each company to consider the relevant laws and guidance when undertaking pricing activity. An area where additional guidance could be beneficial would be in relation to where the risks emanating from future environmental regulation sit within any trade. In commenting on market constraint E in the Jacobs report it is stated that: **“The point has also been made there is a risk that accounting rules or environmental regulations could change part-way through an agreement, changing the cost base. This could be managed contractually with a force majeure clause re-opening the gate fee in such events, as all water and sewerage companies would be exposed to the same cost change.”** This seems like a sensible approach given the level of current uncertainty, however this would have to be taken into account when considering in-house and 3rd party offerings.

When considering the potential for headroom trades it is worth factoring in the optimisation that already goes on within areas of appointment. If a company has spare capacity within an efficient sludge treatment centre, and that sludge treatment centre is not too isolated it makes sense for that capacity to be fully utilised. Therefore only those centres where transport costs are a significant factor, or are the least efficient should have spare capacity. For this and other reasons we concur with the findings of the Jacobs report, that joint capacity and other opportunities have greater potential than headroom trades.

## F. Outcomes. Consideration of performance commitments.

We agree that option 3 provides the best solution allowing bespoke performance commitments and exploring the potential for common performance commitments. Common performance commitments could cover satisfactory sludge use and waste permit compliance, factors that apply across all companies, these are being developed by companies and the EA as part of the EA sludge strategy implementation.

Across all performance commitments the impact on incentivisation of 3rd party options will need to be considered to ensure a level playing field is created. Trading sludge to another WASC, or having a third party treat and dispose of sludge, should not exclude that sludge from any incentive created by a performance commitment. In addition imported non-appointed sludge treatment and disposal should not be considered within the performance commitment calculations. Incorrect focussed incentives would have the potential to disincentivise alternative solutions leading to a less efficient service being provided to customers.

When examining the level of 3rd party engagement in Bioresources any measure should not just include where a 3rd party is providing all aspects of a service, but also include in any calculation where a third party is providing an aspect of the service. A failure to recognise this wider definition risks creating pressures to walk away from 3rd party engagement for an element of a service in preference to 3rd party engagement for an entire element of a service. This could lead to less efficient solutions being sought to meet reporting definitions.

Whilst there are opportunities to develop common performance commitments the potential for inclusion of bespoke performance commitments remains key. Bespoke performance commitments allow companies to reflect their particular circumstances and customer wishes. In AMP7 we developed our innovative Better Air Quality ODI. This responded to customers concerns about NOx emissions and provides an incentive to invest to reduce our emissions.

Bespoke performance commitments for AMP8 could include resource recovery, air quality or carbon emissions. These can provide incentives to innovate and address issues particular to an individual company's asset base, sludge characteristics, or geographic and environmental circumstances.



## Appendix A. View on each Jacobs recommendation set out within the Bioresources Market Review.

#	Recommendation	Comment
R1	Continue to research the safety of biosolids. A programme of chemical investigations which will help to address this is ongoing. Future research should include mixed feedstocks to support future co-digestion.	We agree that research into safety and benefits of biosolids and other recoverable resources from bioresources should be part of a collaborative research programme. This should inform policy and regulation, as well as investment strategies. We are looking to raise, lead and support research in this area.
R2	Deliver the Environment Agency sludge strategy. The sludge strategy is due to be implemented in 2023.	We recognise the potential opportunity to reduce barriers between waste and bioresources management through this sludge strategy. However, this may result in increased cost of biosolids to agriculture. Therefore, the timing of new requirements needs to align with PR24 in order for companies to secure resources to deliver these obligations.
R3	Resolve uncertainty around farming rules for water.	We consider this to be a significant environmental regulatory barrier and agree that resolving the uncertainty is a priority. However, this may lead to an immediate severe landbank restrictions and the urgent need for destruction technologies. The timing of any new requirements may not align with PR24. Ideally new requirements need to align with PR24 in order for companies to secure resources to deliver these obligations.
R4	Sectoral innovation in advanced thermal treatment technologies. Collaborative industry effort to accelerate projects in the pilot phase (or alternative technologies) to meet the requirements of the sector in the next decade.	We recognise and support the importance, and necessity for prompt action, in developing viable alternatives to current biosolids to agriculture options. However, an immediate severe restriction of the agricultural outlet resulting from Farming Rules for Water may lead to mature destruction technologies such as incineration being the only practicable solution.
R5	Form regional planning partnerships. We recommend that incentivisation of market engagement and joint planning should be used at the price review; and companies should form regional planning partnerships now to help manage the impacts of IED.	We agree with the concept of forming regional planning partnerships. This requires a stable long term environmental regulatory framework to enable effective long term planning. However a stable environmental regulatory framework is not in place and the uncertainty makes long term planning very difficult. In relation to IED, the very short implementation timelines to deliver IED compliance in AMP7, means the opportunity to form regional planning partnerships now to help manage the impacts of IED is very significantly reduced.

R6	<p>Take cross-border rationalisation into consideration as a possible justification for IED compliance deadline exceptions. Companies may be able to show that rationalising sites across company borders has commercial and/or environmental benefits, and that this will necessarily require more time for planning. In these cases an exception to the compliance deadline may be reasonable.</p>	<p>We agree in principle that, given more time and a stable long term regulatory framework, the industry could have developed better value solutions to meet IED requirements through rationalisation within a region and through cross border joint planning. However given the very short implementation timelines to deliver IED compliance in AMP7, the opportunity to rationalise sites and jointly plan treatment capacity to help manage the impacts of IED is very significantly reduced.</p>
R7	<p>Simplify permitting requirements by demonstrating safety and reliability of specific mixed waste streams via the Environment Agency's assessment framework and working with stakeholders to have these accredited for spreading biosolids to land. The sludge strategy should allow light-touch permitting for low-risk mixed feedstocks.</p>	<p>We have already been progressing this recommendation in collaboration with Assured Biosolids Limited, WaterUK and the EA through the EA sludge strategy. The proposal consists of a light touch earned recognition approach to managing biosolids to agriculture through a modified Biosolids Assurance Scheme. This could also enable co-treatment along similar lines to the recommendation.</p>
R8	<p>Review energy generation incentive scheme rules. Experience from the other organic waste sector and at least one water and sewerage company shows that accepting multiple or mixed waste feedstocks need not jeopardise existing accreditations.</p>	<p>As far as we are aware in general it is only where you introduce materials other than wastes, products such as crops, at a substantial level that any incentive could be affected.</p>
R9	<p>Create a framework to assess third party capacity efficiency. The demonstration of the third-party solution's efficiency as compared to in-house provision would be an enabler to a revenue pass-through.</p> <p>In our opinion third party solution efficiency should be tested against "real" alternative scenarios. For example, if the capacity is dealing with growth, alternative scenarios including the cost of exporting sludge "out of system" should be explored where in-house capacity construction is unaffordable.</p>	<p>We agree that comparing in-house and third party solutions does provide assurance as to the efficiency of the provision. However if this comparison is not between equivalent provision this is a false and potentially misleading comparison.</p>
R10	<p>Align revenue risk between in-house and external capacity. Our recommendation is to guarantee revenues for the duration of third-party contracts which can be demonstrated as efficient against the above frameworks.</p>	<p>We welcome steps that provide surety of revenues relating to long term contracts that have been entered into through an efficient process.</p>

R11	Create a bid assessment framework. This would support long-term capacity contracts as a viable alternative to in-house provision by ensuring companies use best tendering practice to compare bids to in-house options.	We agree that creating clarity of transparency, and fairness between alternative solutions should be welcomed.
R12	Change approach to pricing “headroom” trades. This potential constraint will be resolved if companies charge only the incremental cost for the trade, in accordance with RAG 5.07 section 11. This would include overheads only where the trade caused a demonstrable increase in the overhead costs.	In relation to headroom trades companies will need to consider both the RAG5.07 guidance but also competition law.
R13	Demonstration of resilience within assessment of market options. As a part of the assessment of the viability of a 3rd party trade option (See R7 and R8), analysis of resilience of the overall portfolio of treatment and recycling routes should be undertaken. To include diversification and emergency options.	To enable the fair comparison between third party and in-house options clarity is required as to where risks sit. It may be that some of the more consequential risks that impact on resilience may be best remaining with the incumbent company. If this is the case to ensure fair comparison this provision would need to be included in any comparison of relative efficiency.
R14	Expansion of market information. An expansion of the market information would be an appropriate development of the price control at this point, because it would reduce uncertainty about other companies’ plans without much additional cost.	We welcome the steps already taken to expand the visibility of bioresources plans to identify opportunities. There may in future be benefit in expanding this view to include a wider market.
R15	Consider more prescriptive accounting rules. More prescriptive guidance on how overhead, shared asset and labour costs should be allocated to Bioresources.	Whilst clearer guidance is welcomed great care is needed to ensure that in setting prescriptive accounting rules unintended consequences are not created.
R16	Specific guidance on shared assets and services. We also consider that in the short term, updating the Regulatory Accounting Guidelines to specify how odour control should be allocated by (e.g. airflow) and reviewing and possibly amending further how energy costs and revenues are allocated would resolve part of this issue.	We note the separate consultation on this and will be responding to that consultation.

R17	<p>Require companies to undertake open procurement for new capacity. This would be similar to a bidding market but fall short of requiring capacity and demand forecasts with the shortfall being put to market.</p> <p>This recommendation would work together with putting treatment decision-making authority with Network+, which would have to select the best option from multiple parties.</p>	<p>Whilst this could be an option that would need to be considered carefully in the future, we do not believe that this is the best way to progress at this stage. Within our future ideas lab publication we set out our thinking as to the alternative market options.</p>
R18	<p>Improve understanding of end to end treatment cost and internal gate fees. In order to make improvements, water companies need to understand the transport and treatment costs at each entry point into the Bioresources price control. With this information, companies could choose to implement internal gate fee and/or service level agreement mechanisms based upon site-by-site cost to treat and using operational accounts.</p>	<p>Greater understanding of the relative costs of each activity undertaken is to be welcomed.</p>
R19	<p>Invest in improvements to sludge quality within Network+.</p>	<p>We think that Network plus business units should be incentivised to provide good quality sludge to ensure the most appropriate investment across the end to end value chain. This could be in relation to dry solids and volumes but also contaminants such as grit, rags and emerging issues for example microplastics. This could be addressed in part through performance commitments.</p>
R20	<p>Develop sector level measures for sludge quality. This would enable the industry and regulator to have a shared understanding of sludge quality so that quality can be considered at future price reviews. Undertaking this at a sector level will improve the common understanding of sludge quality measurements for trades and will enable a more rapid development of headroom trade prices and service level agreements for all capacity provision.</p>	<p>We agree that measures for sludge quality are best developed by a collaborative industry approach and we would like to be involved closely in that development.</p>

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