

Regulators' Alliance for Progressing
Infrastructure Development

September 2021



Strategic regional water resource solutions: Standard gate one draft decision for United Utilities Sources



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1. Introduction

The purpose of this publication is to set out our draft decision in respect of the United Utilities sources strategic regional water resource solution submitted for the standard gate one assessment by solution sponsor United Utilities¹. The solution includes 27 varied source options within it, across United Utilities Water Resource Zones, that will offset supply from Lake Vyrnwy that will instead be used to support the River Severn to River Thames transfer. A preferred portfolio of source options will be selected at gate two to contribute to supply volumes of 50, 75, 135, 150 and 180 Ml/d. Further information concerning the background and context of the United Utilities United Utilities sources can be found in the United Utilities sources publication document on the [United Utilities website](#)².

This publication should be read in conjunction with the draft decision letter issued to the solution sponsor. Both this document and draft decision letter have been published on our website today.

The assessment process is overseen by RAPID, with input from the partner regulators Ofwat, the Environment Agency and the Drinking Water Inspectorate. The Environment Agency together with Natural England and, where a solution impacts Wales, Natural Resources Wales, have reviewed the environmental sections of the submissions, and provided feedback to RAPID. The Consumer Council for Water provided input to the assessment on customer engagement.

The solution sponsors and other interested parties can now respond to the draft decision. Representations are invited by email to rapid@ofwat.gov.uk and the representation period will close at 5pm on 8 October 2021. All representations will be considered before our final decision is published on 16 November 2021.

We will publish representations on our website at www.ofwat.gov.uk/regulated-companies/rapid, unless you indicate that you would like your representation to remain unpublished. We will also share representations with our partner regulators, Ofwat, the Environment Agency and the Drinking Water Inspectorate and with Natural England and Natural Resources Wales. Information provided as representations, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

¹ Referred to in PR19 final determination as “United Utilities sources”

² https://www.unitedutilities.com/globalassets/z_corporate-site/about-us-pdfs/uu-sources/uus0002---preliminary-feasibility-assessment.pdf

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

We would like to thank United Utilities for the level of engagement, collaboration and innovation that they have exhibited during this stage in the gated process.

2. Solution assessment summary

Table 1 Draft decision summary

| Recommendation item | United Utilities sources |
|---|--------------------------|
| Solution sponsors | United Utilities |
| Should further funding be allowed for the solution to progress to gate two? | Yes |
| Is there evidence all expenditure is efficient and should be allowed? | Yes |
| Delivery incentive penalty? | No |
| Is there any change to partner arrangements? | Yes |
| Is there a need for a remediation action plan? | No |
| Changes to partner arrangements are detailed in Section 3. | |

2.1 Solution progression and funding to gate two

The evidence suggests that the solution is a potentially valuable way of supplying water to customers. Based on our assessment of the potential solution costs and benefits we have concluded that the solution should progress through the gated process to gate two, and that further funding should be allowed.

We are combining the funding of this solution with the Vyrnwy Aqueduct solution as proposed by United Utilities to enable efficiencies in work and reporting. This solution's total allowance and gate allowances have been amended from the final determination. The total allowance for the new combined solution will be £3,285,000.

2.2 Evidence of efficient expenditure

The PR19 final determination specified that any expenditure on activities outside the gate activities for the identified solutions (or solutions that transfer in) will be considered as inefficient and be returned to customers. We will consider whether gate activity is efficient by considering the relevance, timeliness, completeness, and quality of the submission which should be supported by benchmarking and assurance.

Our assessment of the efficient costs as spent on gate one activities results in an allowance for this solution of £668,000 (of £668,000 claimed).

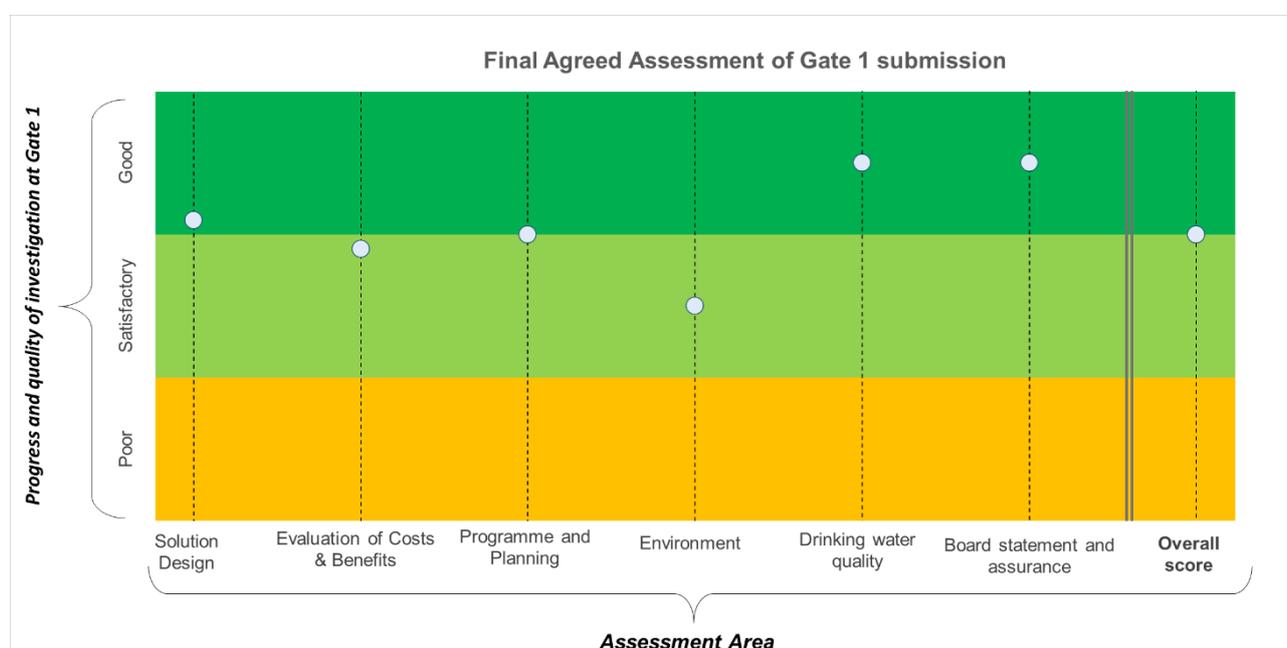
We have made no adjustments to the costs claimed.

2.3 Quality of submission

The aim of the assessment was to determine whether appropriate progress has been made towards delivery of the solution. We recognise at this stage solutions may be at different development points and the assessment takes this into account.

Figure 1 shows our assessment of the work completed on the solution, which was presented in the submission. Our assessment was made against the criteria of robustness, consistency and uncertainty to grade each area of the submission as good, satisfactory or poor in accordance with [our guidance published on 22 February 2021³](#). We also assess the Board assurance provided.

Figure 1 – Solution Assessment



Our overall assessment for the solution submission is that it is satisfactory (falls short of meeting expectations in some areas).

We have decided not to impose a potential delivery incentive penalty. This reflects that progress on this solution falls short of meeting expectations in some isolated areas, that are best addressed by completion of actions and recommendations in gate two, see further in section 4. We will monitor incorporation of these actions into the solutions forward programme through regular checkpoint meetings.

³ [RAPID: Strategic regional water resource solutions guidance for 2021 - Ofwat](#)

2.3.1 Solution Design

Our assessment of the solution design considered the quality of the evidence provided on the initial solution and sub-options; the anticipated operational utilisation of solutions; the interaction of the solution with other proposed water resource solutions and stakeholder and customer engagement. The assessment also considered whether information was provided on the context of the solution's place within company, regional and national plans.

We consider that the progress and quality of the investigation completed by United Utilities in developing the solution design at gate one has been good. The submission evidence still fell short of expectations for some specific elements of solution design, including the depth of detail that has been investigated, or presented, given there are 27 options. We recognise that preferred portfolios are to be developed at gate two, which will comprise the yield for the 5 different supply volume options being developed – we consider this grouping has considerable merit as a way of developing source diversity which improves resilience for customers. Nevertheless, as a key theme for gate two, a decision on the preferred suite of options should be made as early as possible in the process. The solution should also further develop understanding of utilisation. We acknowledge that the submission highlights additional work to be undertaken in both these areas for gate two; actions and recommendations have been provided to help guide this.

2.3.2 Evaluation of Costs & Benefits

Our assessment of the evaluation of costs and benefits considered the quality of the information provided on initial solution costs; the societal, environmental and economic cost and benefits, water resource benefits and wider resilience benefits. The assessment also considered whether evidence was provided on how the solution delivers a best value outcome for customers and the environment.

We consider that the progress and quality of the investigation completed by United Utilities in evaluating the costs & benefits at gate one has been satisfactory. The submission evidence fell short of expectations in some areas, including lacking a detailed understanding of water resource benefits of each of the options, and wider resilience opportunities specific to each of the options. We acknowledge that the opportunity for wider resilience beyond the resilience of the solution itself may be limited.

A key focus for gate two will be to prepare an assessment of costs & benefits that adheres to Welsh legislative requirements on ecosystem resilience, and the Well-being of Future Generations Act.

2.3.3 Programme and Planning

Our assessment of the programme and planning considered whether United Utilities presented a programme with key milestones and whether its delivery is on track. The assessment also considered the quality of the information provided on risks and issues to solution progression, the procurement and planning route strategy and subsequent gate activities with outcomes, penalty assessment criteria and incentives.

We consider the evidence provided by United Utilities' regarding the programme and planning, risks and issues and the procurement and planning route strategy for the solution to be satisfactory. The submission evidence falls short of expectations in some areas, including a need to provide more detailed evidence to support the programme plans and identified milestones included. Additionally, in the assessment of procurement model, given the range of options, the submission should more clearly evidence the sift of which sources may be more suitable for Direct Procurement for Customers and other competitive delivery models.

2.3.4 Environment

Our assessment of environment considered the initial environmental assessment; the identification of environmental risks and an outline of potential mitigation measures; the detailed programme of work used to address environmental assessment requirements and the initial outline of how the solution will take into account the carbon commitments.

We consider that the progress and quality of the work presented in the gate one submission in this area was satisfactory. The submission evidence falls short of expectations in some areas, including requiring a more detailed understanding of specific environmental risks that will come with a smaller preferred suite of options. The solution should also focus environmental assessments towards options that concern Water Industry National Environment Programme (WINEP) studies and Special Area of Conservation sites.

As a key theme for gate two, United Utilities should also develop and undertake monitoring programmes to fill in data gaps and modelling to inform the impact assessments.

2.3.5 Drinking water quality

Our assessment of drinking water quality considered drinking water quality and risk assessments; evidence that the solution has been discussed with the drinking water quality team and a plan for future work to develop Drinking Water Safety Plans (DWSPs).

We consider that the information provided in this submission on drinking water quality risks, stakeholder engagement and DWSPs for gate one was good. We expect to see further development of DWSPs, water quality monitoring, including for emerging contaminants, and wider stakeholder engagement with ongoing dialogue with the respective water quality teams in gate two.

2.3.6 Board Statement and assurance

The evidence provided relating to assurance has been assessed as good. United Utilities has provided a Board statement that indicates:

- its support of submission recommendations for solution / option progression;
- it is satisfied that progress on the solution is commensurate with the solution being construction ready for 2025–30;
- it is satisfied the work carried out to date is of sufficient scope, detail and quality as would be expected for a large infrastructure project of this nature at this stage; and
- that expenditure has been incurred on activities that are appropriate for gate one and is efficient.

This statement is accompanied by an explanation of the approach to assurance and a description of the evidence and information that the Board has relied on in giving the statement.

3. Proposed changes to partner arrangements

United Utilities propose to amalgamate the United Utilities Sources solution with the Vyrnwy Aqueduct solution to form a new single solution. This is due to the two solutions being intrinsically interdependent, with either solution becoming unfeasible if they both do not progress. The amalgamation will also bring working and reporting efficiencies.

The solutions both have one sole solution sponsor, United Utilities, under which the same team works on both solutions. Therefore, the proposal reflects a simple combining of work programmes under this team and solution sponsor.

The new solution's total allowance and gate allowances will be formed by combining the two solutions' total allowances and gate allowances from the Final Determination. The Final Determination's total allowance and gate allowances have been amended to reflect this.

We accept the reasoning behind the proposal to amalgamate the two solutions and agree that this takes place for gate two. The total allowance for the new combined solution will be £3,285,000 for gate two (and £21,900,000 across all gates).

4. Actions and recommendations

Where the submission has not been assessed as ‘meeting expectations’ we have provided feedback on where we will seek remediation of the issues. We have also identified specific steps that solution owners should take in preparing for gate two.

We have categorised these remediation issues and steps into priority actions, actions and recommendations.

Priority actions are those that should have been completed at gate one and must now be addressed on a short timescale in order to make sure the solutions stay on track. They require urgent remediation in full and for this reason directly relate to the assessment of delivery incentives set out in this publication. The response to the priority actions will determine whether a delivery incentive is imposed; and the extent to which the delivery incentives can be mitigated by the solution sponsors. If all priority actions are satisfactorily completed then the penalty will not be imposed. If one or more of the priority actions are not satisfactorily completed then the whole of the penalty will be imposed.

We have also identified actions that should be addressed in full in the gate two submission. The response to these actions will influence the assessment of the gate two submission.

Recommendations are issues where additional information or clarification could improve the quality of future submissions.

No priority actions have been identified for United Utilities Sources, therefore we do not require the solution sponsors to provide us with a remediation action plan. The full list of other actions and recommendations can be found in the appendix.

5. Gate two activities

The solution will continue to be funded to gate two as part of the standard gate track.

For its gate two submission, we expect United Utilities to complete the activities listed in the [PR19 final determinations: strategic regional water resources solutions appendix](#) as expanded on in Section 15 of its gate one submission.

6. Next steps

Following publication of this gate one draft decision solution sponsors and other interested parties are invited to respond to the draft decision. Representations can be made by email to rapid@ofwat.gov.uk and will close at 5pm on 8 October 2021. All representations will be considered before our final decision is published on 16 November 2021.

Appendix: Actions and Recommendations

| Actions – to be addressed in gate two submission | | |
|--|------------------------|--|
| Number | Section | Detail |
| 1 | Solution Design | Refine the list of source options down to a preferred suite early in the gate two process, combining in portfolios as necessary for supply capacities. A manageable suite will allow for a full and detailed assessment to be completed during gate two. Progress and decisions on this action, including manageable numbers of preferred supply options, should be shared with regulators during checkpoint meetings. |
| 2 | Solution Design | Ensure that further detailed utilisation calculations are undertaken early in gate two in order to feed into the Environmental Impact Assessment (EIA). |
| 3 | Solution Design | Ensure Welsh stakeholders and customers are included in solution specific engagement. |
| 4 | Costs and Benefits | Further work is required on elements of the solution which impact on Welsh ecosystem resilience. This will achieve sustainable management of natural resources as well as helping to achieve goals set out in the Well-being of future Generations Act. Any proposal which has implications for Wales must meet the requirements of this Act and the Environment (Wales) Act. This is in addition to the natural capital and biodiversity net gain requirements for England. |
| 5 | Costs and Benefits | Priority modelling and investigations should be carried out in relation to the 10 source options that concern Water Industry National Environment Programme (WINEP) studies and those source options with an impact on the River Dee SAC. |
| 6 | Programme and Planning | Provide further detailed evidence to support the programme plans and identify key milestones. |
| 7 | Programme and Planning | Continue to develop assessment of Direct Procurement for Customers (DPC), including detailed assessment of suitability against technical criteria. The submission should consider whether elements of the system are suited to DPC, for example specific sources or bundles/phases of delivery. |
| 8 | Environment | Initial environmental assessment should prioritise the 10 source options that concern Water Industry National Environment Programme (WINEP) studies and those source options with an impact on the River Dee SAC. |

| 9 | Environment | Identify the specific environmental risks of preferred supply options. Ensure issues and mitigation measures are well understood. |
|------------------------|------------------------|---|
| Recommendations | | |
| Number | Section | Detail |
| 1 | Solution Design | Stakeholder engagement at gate two should further explore customer acceptability into change of supply source |
| 2 | Costs and Benefit | Studies should update all source option yields and model Deployable Output values from these yields, using WRMP19 figures. This work should be completed prior to the conclusion of the best value portfolios of source options. This work should be completed, as planned, during gate two. |
| 3 | Costs and Benefits | Investigate source option-specific wider resilience opportunities at gate two. This will form part of the environmental resilience work planned for gate two. |
| 4 | Programme and Planning | Include how interaction with other strategic solutions (particularly the River Severn to River Thames transfer) will be managed in the programme plan, including any key check-ins and alignment and sharing of key investigation outcomes. |
| 5 | Environment | The main submission document needs to be clear on the methodologies and/or frameworks used to calculate, manage and mitigate GHG emissions. Clearly state how approach to carbon management is helping to deliver on WaterUK 2030 net zero route map and is aligned with the sector's ambition on carbon. |



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