

Regulators' Alliance for Progressing  
Infrastructure Development

September 2021



# Strategic regional water resource solutions: Standard gate one draft decision for Vyrnwy Aqueduct



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## 1. Introduction

The purpose of this publication is to set out our draft decision in respect of the Vyrnwy Aqueduct strategic regional water resource solution submitted for the standard gate one assessment by solution sponsor United Utilities<sup>1</sup>. The solution includes two options to maintain supply to customers whilst Lake Vyrnwy supports the River Severn to River Thames transfer. Option A involves reversing flow through Vyrnwy Aqueduct from Norton to Oswestry and has four sub-options of different capacities. Option B involves linking Huntington water treatment works to Cotebrook via the aqueduct. Further information concerning the background and context of the United Utilities Vyrnwy Aqueduct can be found in the Vyrnwy Aqueduct publication document on the United Utilities website<sup>2</sup>.

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](mailto: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](http://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unless you indicate that you would like your representation to remain unpublished.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](#).

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<sup>1</sup> Referred to in PR19 final determination as “Vyrnwy aqueduct”

<sup>2</sup> [https://www.unitedutilities.com/globalassets/z\\_corporate-site/about-us-pdfs/vyrnwy-aqueduct-sros/va0002---preliminary-feasibility-assessment.pdf](https://www.unitedutilities.com/globalassets/z_corporate-site/about-us-pdfs/vyrnwy-aqueduct-sros/va0002---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 3.1 Draft decision summary

Recommendation item	Vyrnwy Aqueduct
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 United Utilities Sources solution as proposed by United Utilities to enable efficiencies in work and reporting. This solution's total allowance and gate allowances has 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.

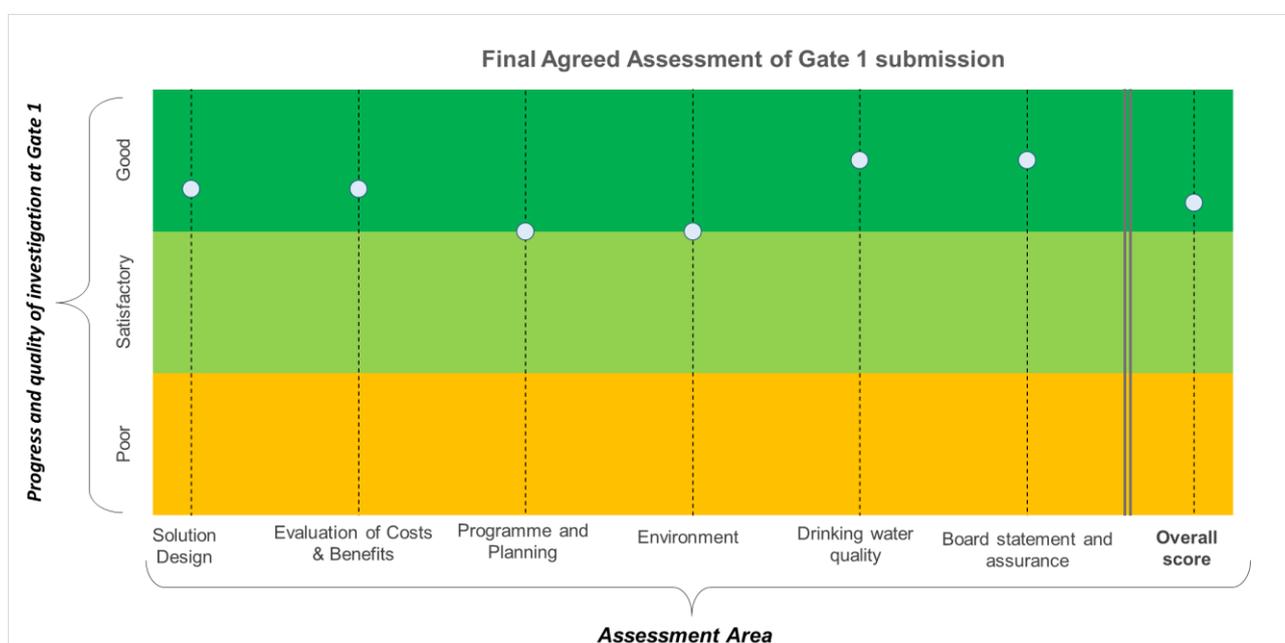
Our assessment of the efficient costs as spent on gate one activities results in an allowance for this solution of £1.09m (of £1.09m claimed).

## 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 2021](#). We also assessed the Board assurance provided.

**Figure 1. Submission assessment**



Our overall assessment for the solution submission is that it is good (meets expectations). However, there remain some specific assessment elements where the submission fell short of expectations, which are detailed in the remainder of Section 2.

### 2.3.1 Solution Design

Our assessment of the solution design considered the quality of the evidence provided on the initial solution and 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 fell short of expectations in some areas, including the need for a more detailed understanding of utilisation of the solution. As a key theme for gate two, the solution should also progress engagement with specific solution-related stakeholders, beyond those associated with the Regional Groups.

### **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 United Utilities' evaluation of the costs and benefits of the solution for gate one has been good. The submission still fell short of expectations on some specific elements, including the development of a best value discussion comparing the options of this solution.

### **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 that United Utilities' evaluation of the programme and planning of the solution for gate one has been satisfactory. The submission falls short of expectations in some areas, including a need to provide more detailed evidence to support the programme plans and identified milestones. Additionally, in the assessment of procurement model, given the range of options, the submission should have more clearly evidenced how the Direct Procurement for Customers (DPC) assessment may be affected and whether some options may be more suitable for DPC than others.

### **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 United Utilities' evaluation of the environmental elements of the solution for gate one has been satisfactory. The submission falls short of expectations in some areas due to the level of detail on some environmental risks associated with the solution. Key themes for gate two should be to further identify and understand environmental risks, along with associated mitigation measures, and to work with the National Appraisal Unit to develop a more detailed environmental assessment programme.

### **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 Vyrnwy Aqueduct solution with the United Utilities Sources 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 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 Vyrnwy Aqueduct, 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 [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](mailto: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

<b>Actions – to be addressed in gate two submission</b>		
<b>Number</b>	<b>Section</b>	<b>Detail</b>
1	Solution Design	Ensure that further detailed utilisation calculations are undertaken early in gate two in order to feed into the Environmental Impact Assessment (EIA).
2	Programme and Planning	Provide further detailed evidence to support programme plans and identify key milestones.
3	Programme and Planning	Continue to develop assessment of Direct Procurement for Customers (DPC), including detailed assessment of suitability against technical criteria. More clearly evidence the suitability and impact of the solution on DPC assessment.
<b>Recommendations</b>		
<b>Number</b>	<b>Section</b>	<b>Detail</b>
1	Solution Design	Develop and align utilisation with other strategic resource solutions (especially River Severn to River Thames transfer options) and with Water Resources South East modelling outputs.
2	Solution Design	For the gate two stakeholder plan, ensure those that live around Lake Vyrnwy are included in the engagement process.
3	Evaluation of Costs and Benefits	Develop the best value assessment between solutions' sub-options, and link into discussions of best value of this and other enabling solutions for dependant solutions (particularly Severn Thames Transfer).
4	Programme and Planning	Develop the programme plan to demonstrate management of interactions with other solutions (particularly River Severn to River Thames transfer options)
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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