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Reasons for designating United Utilities Water's Haweswater Aqueduct Resilience Programme as a DPC Delivered Project

Contents

1. About this document	2
2. Background	3
3. Haweswater Aqueduct Resilience Programme.....	4
4. Reasons for issuing a designation notice.....	4
5. Conclusion and next steps	5

Direct Procurement for Customers (DPC) – Reasons for designating United Utilities Water's Haweswater Aqueduct Resilience Programme as a DPC Delivered Project

1. About this document

At the 2019 Price Review (PR19), we introduced a new delivery model – Direct Procurement for Customers (DPC) – to introduce greater competition into the delivery, financing, ownership, and operations of large infrastructure projects. Where projects are suitable for delivery under DPC, we are able, with the agreement of the relevant water or sewerage company, to designate the project as one that must be delivered via the DPC mechanisms. Once designated, the project must be competitively tendered by the relevant water or sewerage company.

In February 2021, we amended United Utilities Water's conditions of appointment (licence) to regulate delivery of infrastructure projects via DPC. Amongst other things, a new condition U sets out the process and requirements for designating a project for delivery by DPC and changes to condition B allow a company to apply for an interim determination if a designation is revoked or modified.

A designation notice must set out the scope of the project that must be put out to tender. At PR19, we considered that United Utilities Water's Haweswater Aqueduct Resilience Programme should be delivered via DPC.

This document is a notice under section 195A of the Water Industry Act 1991 (the Act), setting out our reasons for our decision to designate the Haweswater Aqueduct Resilience Programme as a project to be delivered via DPC.

The [notice](#) designating the Haweswater Aqueduct Resilience Programme, is on our website.

2. Background

At the 2019 Price Review (PR19) we introduced Direct Procurement for Customers (DPC) to introduce competition into the delivery of large infrastructure projects. The approach requires companies to put out to competitive tender large infrastructure projects where delivery by a third party is likely to offer better value for money for customers. A Competitively Appointed Provider (the CAP) may be appointed to design, build, finance, operate and maintain the relevant infrastructure. We set out in our 2019 price review methodology that we expected water company business plans to consider DPC for the delivery of large projects against the following three eligibility criteria:

- Size (approximately £100m or more whole life totex);
- Discreteness of the project; and
- Value for money for customers.

At PR19, five projects were identified where DPC is likely to offer better value for money for customers. Three projects are currently being developed for delivery via DPC, namely:

- Anglian Water: Middlegate (formerly Elsham) Transfer and Treatment scheme
- Dŵr Cymru: Cwm Taf Water Treatment Works
- United Utilities: Haweswater Aqueduct Resilience Programme (formerly the Manchester and Pennines Resilience scheme).

In February 2021, we modified five companies' licenses to give effect to the DPC delivery model, establishing the framework for the regulation of DPC projects and allowing Ofwat, with the agreement of the water company, to designate a project as a DPC Delivered Project and require the company to deliver the project via DPC.

In order to be delivered as DPC projects, these three projects will need to be designated by us under these new licence conditions.

We have also [published separate guidance](#) on the process companies should follow to develop and deliver DPC projects. The guidance sets out the various stages and control points companies must pass through before procuring the project and awarding a contract to the CAP.

3. Haweswater Aqueduct Resilience Programme

At PR19, United Utilities Water requested funding for the Haweswater Aqueduct Resilience Programme, which will comprise the replacement of six tunnel sections of the existing Haweswater Aqueduct, connections to existing multiline siphons between the tunnel sections and associated facilities. It also includes the commissioning and ongoing maintenance of those works for a period of approximately 25 years after completion.

At PR19, we accepted the need for the scheme and determined that it was suitable to be delivered via DPC. We therefore did not provide an allowance for the company to deliver the scheme itself but instead required the company to put the project out to competitive tender for a third party to design, build, finance, operate and maintain the scheme. We allowed £57m for United Utilities Water to design the project and to put it out to tender.

We have issued a designation notice designating United Utilities Water's Haweswater Aqueduct Resilience Programme as a DPC Delivered Project under condition U1 of United Utilities Water's licence. In accordance with section 195A of the Act, this document sets out the reasons for issuing the notice.

4. Reasons for issuing a designation notice

Following engagement with United Utilities Water on the Haweswater Aqueduct Resilience Programme, we are designating it a DPC Delivered Project under licence condition U1 for the following reasons:

1. **Size:** United Utilities Water has provided sufficient evidence that the project is of a size that means the increased costs of the DPC procurement process are likely to be offset by the benefits from DPC. At PR19, we advised companies to use a threshold of £100m whole life totex to identify projects that may be suitable for DPC. While not a hard threshold, the value of the total Haweswater Aqueduct Resilience Programme met this threshold.
2. **Discreteness:** While the project is complex with multiple interfaces, United Utilities Water's PR19 Business Plan submissions provided

sufficient evidence that the project is of a suitable level of technical discreteness to allow it to be delivered, owned, and operated by a CAP.

3. Value for Money: United Utilities Water provided evidence that delivery via DPC was likely to offer better value for money for customers compared to delivery by United Utilities Water. Its value for money assessment of the DPC route compared to the in-house counterfactual identified that DPC could provide potential benefits to customers compared to delivery by United Utilities Water.

5. Conclusion and next steps

We have issued to United Utilities Water a designation notice for the Haweswater Aqueduct Resilience Programme and have published on our website a copy of the notice which, for reasons of national security and public safety, includes several redactions concerning specific asset locations.

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