

March 2023

**Strategic regional water
resource solutions:
standard gate two draft decision
for the Grand Union Canal
Transfer**

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1. Introduction

The purpose of this publication is to set out our draft decision about whether the Grand Union Canal Transfer (GUC)¹ solution should continue to receive development funding². The solution owners Severn Trent Water and Affinity Water submitted their standard gate two reports on 14 November 2022 for assessment. Further information concerning the background and context of the Severn Trent Water and Affinity Water Grand Union Canal Transfer can be found in the Grand Union Canal Transfer publication document on the [Affinity Water](#) website³.

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

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, 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 owners 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 6pm on 11 May 2023. All representations will be considered before our final decision is published at 10am on 28 June 2023.

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at www.ofwat.gov.uk/regulated-companies/rapid, unless you indicate that you would like your representation to remain unpublished.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. Subject to the following exceptions, by providing a representation to this consultation you are deemed to consent to its publication.

If you think that any of the information in your response should not be disclosed (for example, because you consider it to be commercially sensitive), an automatic or generalised confidentiality disclaimer will not, of itself, be regarded as sufficient. You should identify specific information and explain in each case why it should not be disclosed (and provide a redacted version of your response), which we will consider when deciding what information to publish. As minimum, we would expect to publish the name of all organisations that provide a written response, even where there are legitimate reasons why the contents of those written responses remain confidential.

¹ Referred to in PR19 final determination as “Grand Union Canal Transfer”

² [PR19 final determinations: Strategic regional water resource solutions appendix](#)

³ [Strategic Resource Options | Affinity Water Have your say \(engagementhq.com\)](#)

In relation to personal data, you have the right to object to our publication of the personal information that you disclose to us in submitting your response (for example, your name or contact details). If you do not want us to publish specific personal information that would enable you to be identified, our [privacy policy](#) explains the basis on which you can object to its processing and provides further information on how we process personal data.

In addition to our ability to disclose information pursuant to the Water Industry Act 1991, information provided in response to this consultation document, including personal data, may be published or disclosed in accordance with legislation on access to information – primarily the Freedom of Information Act 2000 (FoIA), the Environmental Information Regulations 2004 (EIR) and applicable data protection laws.

Please be aware that, under the FoIA and the EIR, there are statutory Codes of Practice which deal, among other things, with obligations of confidence. If we receive a request for disclosure of information which you have asked us not to disclose, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

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

2. Solution Summary

2.1 Solution summary

The Grand Union Canal Transfer utilises the existing canal and a new pipeline to convey raw water from the Minworth solution in the Severn Trent Water supply area to areas of water deficit in Affinity Water's supply area. Water will be abstracted in the southern section of the GUC at Leighton Buzzard and treated using a multiple-barrier approach and final conditioning prior to distribution to customers.

The solution's deployable output will be 50 Ml/d by 2031/32, with the potential for a further 50 Ml/d by 2040-2050 if required. Flow will be transferred from the Minworth solution via a new pipeline over approximately 20km to a discharge point into the Coventry Canal. For much of its length, the transfer will flow along the existing canal network using gravity, making use of pumping stations and by-passes as necessary. The water will then be abstracted at Leighton Buzzard for treatment.

Figure 1. Grand Union Canal Transfer Solution Schematic



3. Solution assessment summary

Table 1. Draft decision summary

Recommendation item	Grand Union Canal Transfer
Solution owners	Severn Trent Water and Affinity Water
Should further funding be allowed for the solution to progress to gate three?	Yes, subject to any decisions taken at a Conditional Review Point.
Is there evidence all expenditure is efficient and should be allowed?	Yes
Delivery incentive penalty?	No
Is there any change to partner arrangements?	No
Are there priority actions for urgent completion?	No
Are all priority actions and actions from previous gates addressed?	Either complete or partially complete as set out in Section 4.2
Suitable timing for gate three has been proposed	No. RAPID have decided a gate three of September 2024 to align with other solutions.

3.1 Solution progression to standard gate three

The evidence suggests that the solution is a potentially valuable way of supplying water to customers. Based on our assessment of a wide range of areas that could concern the progression of the solution, we have concluded that the solution should progress through the gated process to gate three, subject to the possibility that, if a conditional review point is set for Minworth, we may also decide to set a conditional review point (Conditional Review Point) for the GUC solution as well. If we do so, then at the Conditional Review Point for GUC, we may decide that GUC should not progress beyond the Conditional Review Point or should only progress subject to further priority actions, actions or recommendations. The Minworth solution is reported in its own gate two submission and in our decision on Minworth. Due to the dependency of the GUC solution on Minworth as the source of raw water to support the new GUC abstraction at Leighton Buzzard, any decisions relating to Minworth progression have the potential to knock on to the ability for GUC to progress. Figure 2 below summarises the area of any progression concerns, including indication of the significance. The reasons for this assessment conclusion are set out in table 2 below.

Decisions on funding as a result of this progression decision, are set out in section 3.2.

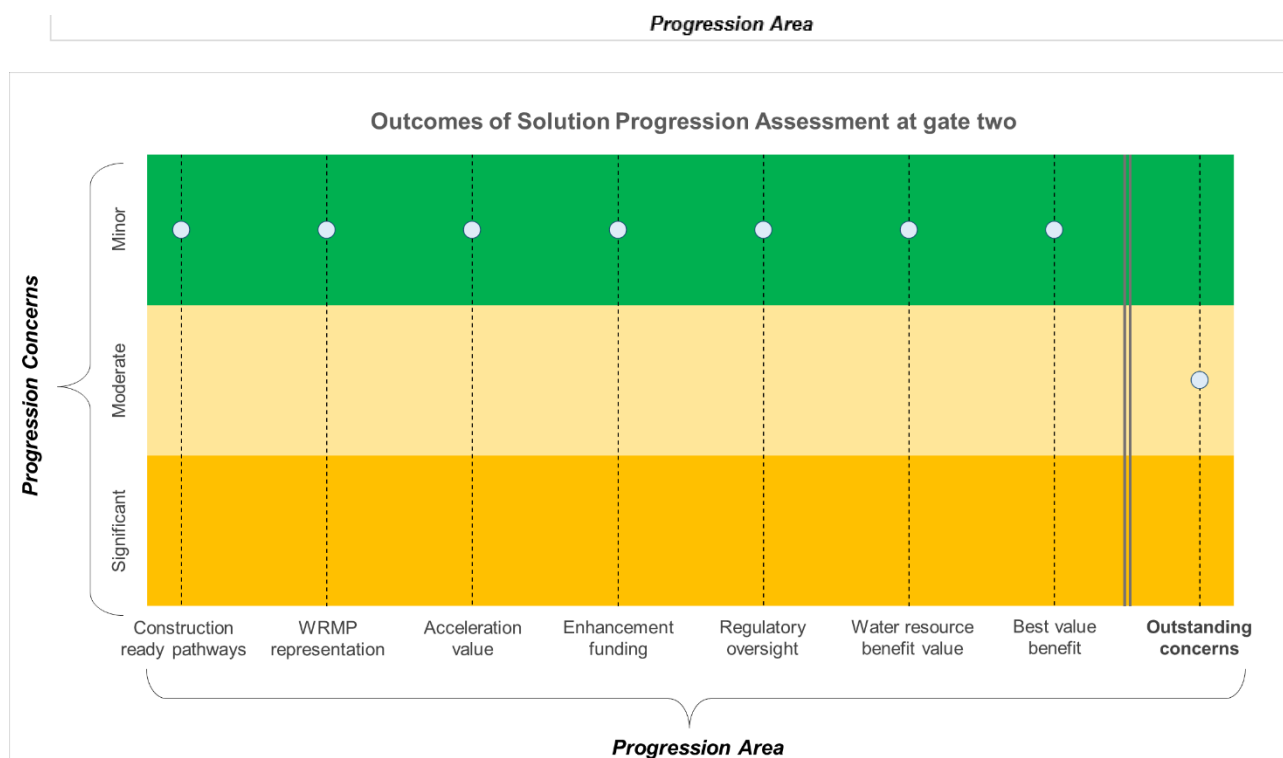


Figure 2. Assessment of solution's progression concerns

Table 2. Draft decision progression criteria

Progression criteria	Grand Union Canal Transfer
Solution owners	Severn Trent Water and Affinity Water
Is the solution in a preferred or alternative pathway in relevant regional plan or WRMP (where applicable) to be construction ready by 2030?	Yes, the solution is chosen in Affinity Water's draft water resource management plan (WRMP24), as a solution on its preferred pathway, which is the relevant plan for the standard track. The solution is also in the WRSE draft regional plan. The solution will be construction ready by 2030. No further action is required on this progression criteria.
Do regulators have any significant concerns with the solution's inclusion or non-inclusion in a WRMP or regional plan or with any aspects that may impact its selection, to a level that they have (or intend to) represent on it when consulted?	No, the regulators do not have concerns on how the solution is represented, or the information about it, in the Affinity Water draft WRMP24, or WRSE draft regional plan. No further action is required on this progression criteria.
Is there value in accelerating the solution's development to meet a company's or region's forecast supply deficit?	Yes. A solution is required to address Affinity Water's forecast deficit. No further action is required on this progression criteria.
Does the solution need continued enhancement funding for investigations and development to progress?	Yes. Continued funding is required to develop a solution to be delivered in time for the planned construction ready date. No further action is required on this progression criteria.

Does the solution need the continued regulatory support and oversight provided by the Ofwat gated process and RAPID?	Yes. The solution will continue to benefit from the regulatory support and oversight provided by being included in the RAPID programme.
	No further action is required on this progression criteria.
Does the solution provide a similar or better cost / water resource benefit ratio compared to other solutions?	Yes. This solution does provide a similar or better cost / water resource benefit ratio compared to other solutions.
	No further action is required on this progression criteria.
Does the solution have the potential to provide similar or better value (environmental, social and economic value – aligned with the Water Resources Planning Guideline) compared to other solutions?	Yes, this solution has the potential to provide similar or better value (environmental, social and economic value – aligned with the Water Resources Planning Guideline) compared to other solutions.
	No further action is required on this progression criteria.
Does a regulator or regulators have outstanding concerns that have not been addressed through the strategic planning processes taking into account proposed mitigation?	Yes. There remains a significant programme of environmental monitoring, assessment and modelling required to determine potential environmental impacts with confidence. Work is also required to develop any necessary mitigation measures. The timescales within which all of the necessary environmental work that will need to be completed are ambitious.
	Additionally, comprehensive water quality monitoring should continue, and both stakeholder and customer engagement needs to be undertaken by gate three.
	This progression concern is addressed in Section 3.4.5 Environmental Assessment and gate two actions 5 to 10 in Appendix A of this document.

3.2 Solution funding to standard gate three

We are changing the funding of this solution. The details of this funding decision are set out in Table 3 below, and details on forward programme in section 7.1.

Table 3. Grand Union Canal Transfer funding allowances

	Gate one	Gate two	Gate three	Gate four	Total
Grand Union Canal Transfer gated allowance	£1.80m	£2.70m	£7.57m	£7.20m	£19.27m
Comment	10% of development allowance calculated as 6% of total solution costs	15% of development allowance calculated as 6% of total solution costs	65% of the forecast overspend has been added on top of the previous allowance determined at PR19	40% of development allowance calculated as 6% of total solution costs	Total development allowance calculated as 6% of total solution costs
Previous Allowance	£1.80m	£2.70m	£6.30m	£7.20m	£18.00m
Change from Previous Allowance	£0.00m	£0.00m	£1.27m	£0.00m	£1.27m

This funding has been revised to account for forecast costs at gate three. We have determined that across all solutions gate three costs have risen due to factors such as increases in solution design costs, changes in scope and additional funding required to develop the environmental impact assessment (EIA), water quality assessments, ground investigations and other environmental field studies and assessments. We determine that providing the original gate three allowance combined with 65% of their projected overspend at gate three is appropriate. We do not feel that it would be appropriate to provide solutions with their complete projected overspend at gate three as these projections are not fully mature, and we want to ensure that solutions are still incentivised to keep costs as low as possible.

In addition, we are changing the cost sharing rate that is applied to the solution. At gate three, the solution owners will be responsible for 80% of any overspend. Furthermore, solution owners will be able to retain 25% of any total underspend at gate three, while the remaining 75% will be returned to customers. This diverges from the 50% cost sharing that was outlined in the [PR19 final determinations: Strategic regional water resources solution appendix](#).

3.3 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.

Grand Union Canal Transfer has carried forward £0.31m underspend from gate one, increasing the allowance available to them at gate two to £3.01m. Any early gate three expenditure will be considered in the allowance for gate three.

Our assessment of the efficient costs as spent on standard gate two activities results in an allowance for this solution of £2.98m (of £2.98m claimed). Grand Union Canal transfer has therefore underspent its combined gates one and two allowance by £0.03m and may take this underspend forward to gate three, increasing the allowance available to them at gate three to £7.60m.

From gate two, we will move to look at the cumulative gate spend against the cumulative total allowance, across all gates consistent with the activities being undertaken. For example, any gate four allowance that is brought forward towards gate three should be for the purpose of early gate four activities. Overspends and underspends are then to be managed through cost sharing between the water company and customers. As the Grand Union Canal Transfer is progressing to gate three, this will apply here.

3.4 Quality of solution development and investigation

The aim of the assessment was to determine whether gate two activities have been progressed to the completion and quality expected, for the continued development of the solution.

Figure 3 shows our assessment of the work completed on the solution, which was presented in the gate two 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 the [standard gate two guidance](#), (updated version published on 12 April 2022). We also assessed the Board assurance provided.

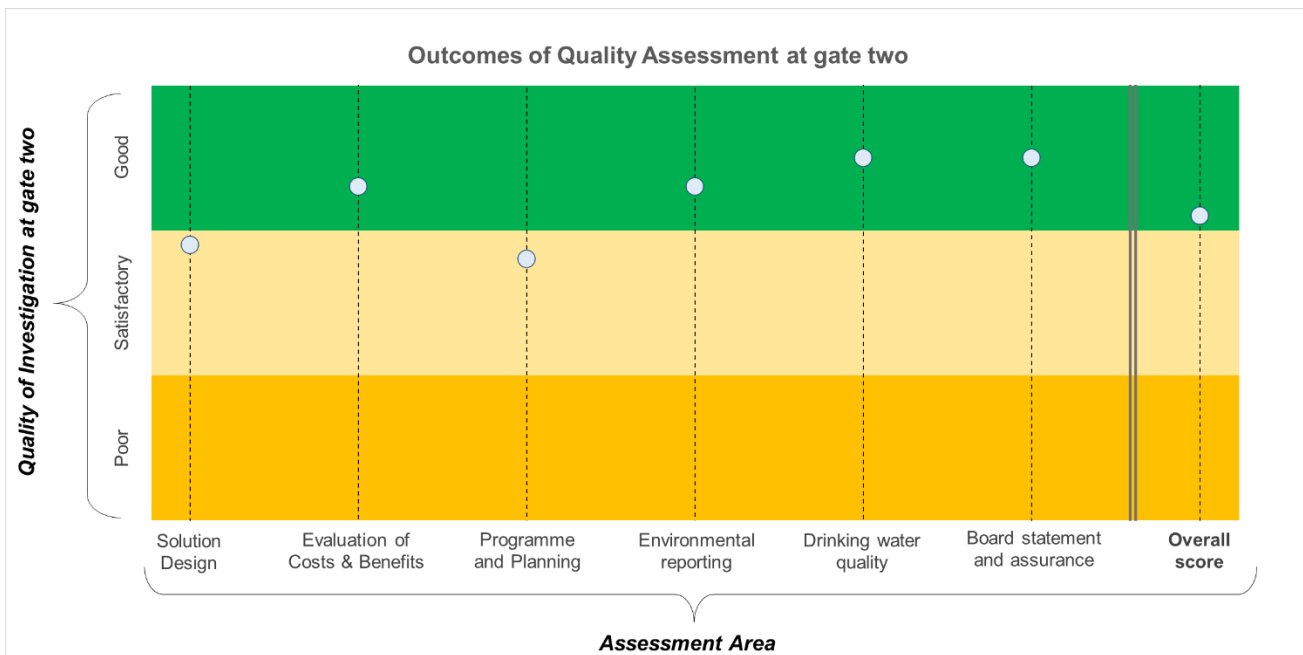


Figure 3. Assessment of quality of investigation

Our overall assessment for the solution submission is that it is a good submission that meets expectations of gate two.

In addition to the overall assessment score, there is some variance in expectations being met across the submission, with Solution Design and Programme and Planning falling short of expectations and not as developed as would be expected at gate two.

We explain our assessment of each individual area, including any shortfalls in expectations, in the sections below. We have not applied any delivery incentive penalties as a result of this assessment of quality, as further detailed in section 4.

3.4.1 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 Affinity Water, Severn Trent Water and the Canal and River Trust to have provided sufficient evidence of progress in developing the solution design for gate two. The solution falls short in some areas as there are uncertainties with utilisation and further stakeholder engagement needed.

3.4.2 Solution costs

Our assessment of the unit costs of delivering the Grand Union Canal Transfer is that they are reasonable at this stage and cost changes from gate one to gate two have been sufficiently explained and are as a result of detailed development of the solution or changing market conditions. For instance, the preferred option has been re-costed using bills of quantities for concept designs. The assessment also considers the use of the solution as a drought resilience asset, and therefore cost per capacity is often a more appropriate metric than cost per projected utilisation. We will continue to scrutinise cost estimate changes from gate two to gate three.

3.4.3 Evaluation of Costs and Benefits

Our assessment of the Evaluation of Costs and Benefits considered the quality of the information provided on initial solution costs; the social, 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 sufficient evidence of evaluating the costs and benefits of the solution has been provided to an appropriate standard for gate two. The solution falls short in some areas as there are uncertainties with the Natural Capital Approach (NCA) assessment. There are also recommendations include relating to solution cost and water resources benefit assessment.

3.4.4 Programme and Planning

Our assessment of the Programme and Planning considered whether Severn Trent Water and Affinity Water 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 Affinity Water, Severn Trent Water and the Canal and River Trust regarding the programme and planning for the Grand Union Canal to be of sufficient detail and quality for gate two. The submission however falls short in relation to risks and issues and the procurement and planning route strategy – actions are included in relation to these.

3.4.5 Environment

Our assessment of Environment considered the initial option-level 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 Affinity Water, Severn Trent Water and the Canal and River Trust to have provided sufficient evidence of progress in the environmental assessment, potential mitigations and future work programmes for gate two. Actions and recommendations have been provided to improve this area of the submission.

We consider Affinity Water, Severn Trent Water and the Canal and River Trust to have fallen short in providing sufficient evidence of embodied and operational carbon commitments for gate two. We provide an action and a recommendation relating to the carbon assessment approach.

3.4.6 Drinking water quality

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

We consider the company has met the requirements of gate two, and has provided sufficient evidence of progress in the water quality and risk assessment, and future work around Drinking Water Safety Plans at this stage. Continued monitoring will help further develop the

WQRA, mitigation of risks and hazards, and inform treatment requirements at the receiving water treatment works.

3.4.7 Board Statement and assurance

The evidence provided relating to assurance is satisfactory for this stage of the gated process.

We consider that the boards of Affinity Water and Severn Trent have provided a comprehensive assurance statement and have clearly explained the evidence, information and external / internal assurance that they have relied on in giving the statement.

4. Actions and recommendations

Where the submission has not been assessed as ‘meeting expectations’ in the quality assessment, or progression concerns have been raised, 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 standard gate three.

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 two 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.

Actions are those that should be addressed in full in the standard gate three submission. The response to these actions will influence the assessment of the gate three submission.

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

We have also assessed progress on actions and recommendations from gate one.

4.1 Actions and recommendations from gate two assessment

No priority actions have been identified for the Grand Union Canal Transfer.

16 actions and recommendations have been identified for the Grand Union Canal Transfer, which should be fully addressed at the gate three submission or at an alternative or earlier date where this has been set in Appendix A. Progress against actions will be tracked as part of regular checkpoints the solution holds with us whilst undertaking gate three activities.

The full list of priority actions, actions and recommendation for the Grand Union Canal Transfer can be found in Appendix A. If solution owners cannot meet action deadlines set, please explain this in the representation.

4.2 Actions and recommendations from gate one assessment

We have assessed whether the Grand Union Canal Transfer has met actions that were set out as a result of our gate one assessment.

No priority actions were identified for the Grand Union Canal Transfer,

Six actions and recommendations were identified for the Grand Union Canal Transfer, which were expected to be fully addressed at the gate two submission.

We have decided that the actions have partially been addressed in the gate two submission. Further detail of our conclusion against each individual action is shown in Appendix B.

There was one action that was only partially complete, this is now linked to a gate two recommendation to ensure it is fully resolved by gate three.

5. Delivery Incentive Penalty

We have not applied delivery incentive penalties to this solution, as a result of the assessment carried out on the gate two submission.

6. Proposed changes to partner arrangements

There are no changes proposed to partner arrangements from gate two.

7. Gate three activities and timing

The solution will continue to be funded to gate three as part of the standard gate track, subject to any decisions at a Conditional Review Point.

For its gate three submission, we expect Severn Trent Water and Affinity Water to complete the activities listed in [PR19 final determinations: strategic regional water resources solutions appendix](#), as expanded on in section 7 of the solutions gate two submission. Activities are expected to be completed in line with delivery incentives and expectations set out in [RAPID's gate three guidance](#). We also expect the actions listed in appendix A to be addressed.

7.1 Gate three timing

Severn Trent Water and Affinity Water have proposed a date for gate three of October 2024. This is proposed alongside a forward programme of gate four in January 2027, proposed planning application submitted in 2025, solution construction ready in 2027, and solution operational in 2032.

We have decided that the Grand Union Canal Transfer gate three should be September 2024. This is to align gate three with solutions on a similar programme, and for RAPID to efficiently assess progress of activities, ahead of the solutions proposed planning application.

We have reviewed your forward programme for gate four. Gate four should be scheduled a minimum of a month after the acceptance of planning applications, so suggest gate four should be November 2025.

The forward programme proposed by the solution is in line with the principles of RAPID's standard programme. Funding arrangements are set out in section 3.2 of this document.

8. Next steps

Following publication of this standard gate two draft decision solution owners and other interested parties are invited to respond to the draft decision. Representations, including evidence from solution owners that priority actions (identified in the Appendix) have been addressed, can be made by email to rapid@ofwat.gov.uk and will close at 6pm on 11 May 2023.

All representations will be considered before our final decision is published at 10am on 28 June 2023.

Appendix A: Gate two actions and recommendations

Actions – to be addressed in standard gate three submission (except where an earlier date is given below)		
Number	Area	Detail
1	Solution Design	Confirm to RAPID that the solution aligns with Severn Trent Water's and Affinity Water's Water Resource Management Plans (WRMP) and relevant Regional Plans at the next available regular checkpoint meeting after the publication of the WRMPs and Regional Plans
2	Solution Design	The scheme must provide updates on solution design to the Environment Agency through the development of design and operation of storage options which are to be incorporated within the scheme.
3	Evaluation of Costs & Benefits	Update the Natural Capital Assessment so that valuation of ecosystem services are comparable and demonstrate benefit to the environment and society. The rationale for scoping out recreation requires additional explanation and amenity enhancement should be assessed quantitatively.
4	Programme and Planning	Risk remains to the solution from the potential impact on water quality and compliance with the Water Framework Directive and environmental standards. Mitigation to reduce this risk is planned in the form of further modelling, monitoring and trial treatment programmes. Delivery of this mitigation should be completed by December 2023. For the treatment programme, this means the bench trial package should be completed by this date, to allow time for unresolved risks to be managed by the end of gate three.
5	Programme and Planning	Further engage with Ofwat on the proposed commercial arrangements – specifically the approach to delivering the required work to the Canal and River Trust's assets. We expect for gate three you will also be carrying out market engagement on this approach and would like you to engage with RAPID on feedback from the market prior to gate three. Review technical discreteness assessment following Ofwat's forthcoming consultation on updated guidance and provide an updated assessment.
6	Environment	Protected species (notably including water voles) surveys to be included within further assessment work. Consultation with the Environment Agency and Natural England on scope of surveys is necessary. Potential impacts on habitats and features of Local Wildlife Sites which the scheme has potential to impact should be investigated in gate three. Develop the Water Framework Directive assessment with further monitoring and updated River Basin Management Plan data.
7	Environment	Further assessment into sediment mobilisation is necessary. Investigate the correlation between sediment mobility with release of contaminant into the water through operation of the transfer scheme causing sediment disturbance.

		<p>Refine hydrological modelling of the Grand Union Canal, as per Final Modelling Report recommendations and through engagement with the Environment Agency, to better understand potential impacts.</p> <p>Refine Water Quality modelling, as per recommendations in the Point of Discharge WQ Assessment and through engagement with the Environment Agency, to better understand potential impacts.</p>
8	Environment	Investigate pollution risk and potential impacts from various scenarios causing pollution events in gate three.
9	Environment	Continue to investigate areas of INNS risk. Engage with the Environment Agency on scope for this work. Provide evidence to confirm treatment process will eliminate INNS from discharge into canal.
10	Environment	Recommendations made by the Environment Agency and Natural England through gate two engagement should be used to inform gate three environmental work.
11	Environment	Improve the carbon assessment through clearer presentation on cost estimation and evidence thereof, and costs being mitigated by focussing on carbon. Uncertainty range, and mitigation, is expected to be presented in future assessments.
Recommendations		
Number	Area	Detail
1	Solution Design	More detailed utilisation profiles should be provided at gate three. Uncertainty and assumptions with utilisation profiles should be made clear.
2	Solution Design	Acknowledgement of Level of Service is recommended for future submissions. The Level of Service against which the water resource benefit is calculated should be explained
3	Solution Design	We would like to see evidence of proactive engagement with the Forestry Commission on solution design and site location.
4	Evaluation of Costs & Benefits	<p>Include descriptions and tables to show how cost estimates, including total planning period indicative option cost (net present value), for the preferred option have changed between each gate.</p> <p>Provide more detail on how uncertainty has been taken into account when calculating deployable output.</p>
5	Environment	Refine pipeline route in gate three to minimise potential impact on sites such as priority habitats and ancient woodland.

		<p>Explore dredging as an alternative to bank raising.</p> <p>Provide more detail on how uncertainty has been taken into account when calculating carbon values.</p>
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Appendix B: Gate one actions and recommendations

Actions – addressed in standard gate two submission			
Number	Area	Detail	RAPID assessment outcome
1	Solution Design	Ensure a percentage utilisation is determined, including uncertainty and sensitivity. Provide a detailed explanation of the methodology for defining utilisation from the regional modelling. Operational utilisation should be reassessed and refined following outputs from regional modelling.	Partially complete – Link to recommendation 1
2	Environment	Provide clarity regarding the framework/s used to determine carbon costs and emissions.	Complete
3	Environment	Investigate Invasive Non-Native Species risks further and the efficiency of proposed treatments / mitigation measures.	Complete
Recommendations			
Number	Area	Detail	RAPID assessment outcome
1	Solution Design	Include potential benefits and issues associated with interactions between the proposed Grand Union Canal route and the Oxford canal scheme.	Complete
2	Evaluation of costs & benefits	Calculate all open water losses. Ensure all possible constraints on Deployable Output are considered such as open water quality such as algal growth in warm weather and hand off flow considerations.	Complete
3	Evaluation of costs & benefits	Include which option is considered best value (rather than just least cost) for customers and the environment and the criteria and method used for best value.	Complete

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