

UUW response to consultation on Ofwat’s draft decisions on the accelerated infrastructure delivery project

United Utilities Water is pleased to have the opportunity to comment on Ofwat’s draft decisions on the accelerated infrastructure delivery project.

UUW welcomes Ofwat’s decisions in relation to:

- ENV2- Accelerating habitats improvements in the Eden catchment
- ENV3 - Accelerating storm overflow improvements to reduce discharges
- ENV4 - Reducing the frequency of storm overflow discharges in Lake Windermere catchment
- ENV10 - Reducing the frequency of storm overflow discharges into bathing waters

We agree that these schemes meet the relevant criteria for inclusion in the programme. We also welcome Ofwat’s proposal to allow a time value of money adjustment in relation to the expenditure and agree with its view that this is appropriate in order to ensure that companies are not disincentivised from early delivery.

We have the following observations in relation to the published draft decision:

1. Scope and Costs

In relation to the proposed Price Control Deliverables (PCDs) for ENV3, ENV4 and ENV10 we have reviewed and acknowledge the list of interventions that have been itemised in Ofwat’s draft decision. These are different from those initially submitted in 2022, but are consistent with the updated list that was provided both through the 24 January 2023 WINEP submission and also in the summary spreadsheet that was provided to Ofwat by email on 10 February 2023¹. The maximum amount of spend being accelerated into AMP7 is also consistent with the approach outlined at that time at £197.05m, in FY2020-21 prices.

We do note, however, that the total value of the relevant programmes as cited in the main publication document and Appendix 1 is based on our October 2022 submission and therefore, although the list of projects has been updated to reflect the WINEP submission, the total costs associated with these has not been updated to reflect the latest information that was provided. We recognise that the accelerated investment programme does not provide approvals for efficient cost and that enhancement allowances are determined through the PR24 process. However, as the differences in cost are material, we do wish to re-emphasise that UUW’s best view of the costs of the schemes are as previously provided in the spreadsheet on 10 February 2023 and the 24 January 2023 WINEP submission and that any decision to proceed is being made in that context. In summary:

Scheme	Total cost £m (Ofwat Appx 1)	Total cost £m (UUW submitted)
ENV2 – Accelerating habitats improvement in the Eden catchment	£117.6m	£117.7m
ENV3 - Accelerating storm overflow improvements to reduce discharges	£699.6m	£1,171.6m
ENV4 - Reducing the frequency of storm overflow discharges in Lake Windermere catchment	£18.6m	£41.2m
ENV10 - Reducing the frequency of storm overflow discharges into bathing waters	£78.1m	£181.6m
TOTAL	£913.9m	£1,512.1m

¹ Perry Hobbs (UUW) to Matthew Greetham (Ofwat) and Richard Cram (Ofwat)

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We have also reviewed the accelerated infrastructure delivery project with the latest guidance from the Environment Agency and some of the schemes in ENV3, ENV4 and ENV10 have changes to WINEP drivers. Whilst there are changes to some driver codes, the solutions do not fundamentally change. A summary of the changes are in Appendix 1.

2. ENV2 Delivery Profiles and Price Control Deliverables

For ENV2 (Accelerating habitats improvements in the Eden Catchment) we agree with Ofwat’s proposal for separate deliverables for the named projects that make up the programme. The PCD will reconcile the delivery of these schemes across different control periods.

Measurement of the PCD will be subdivided into the schemes that will be separately specified on the WINEP. The current assumed delivery profile is set out below. Each will have its own individual unit rate derived from the forecast cost at the time of the business plan submission, calibrated to the allowances made by Ofwat through cost assessment.

In the event of variations in delivery, the unit rate will also need to be varied. The unit rate associated with each scheme will need to reflect whether nothing had been delivered (in which case it may be appropriate to adjust for the customer share of the full value of the allowance made for the scheme), or whether investment did not fully deliver the anticipated scheme (in which case a partial valuation of the scheme would be required), or if delivery was simply delayed (in which case a time value of money adjustment would be required.)

In reconciling performance, the EA’s ‘Output in use certificate’ (or equivalent documentation once formalised) would be used as appropriate evidence for the PCD that the scheme has been delivered. The delivery of schemes are also reported by the EA on the Defra SharePoint site that is used for WINEP development.

Delivery Profile

Deliverable	Date of Delivery
Appleby WwTW	31 st March 2026
Brampton WwTW (Carlisle)	31 st March 2026
Kirkby Stephen WwTW	31 st March 2026
Warwick Bridge WwTW	31 st March 2026
Carlisle WwTW	31 st March 2028
Penrith WwTW	31 st March 2029

3. ENV2 Conditions on the Schemes

We note Ofwat’s proposal that these habitats improvement schemes are conditional on the provisions relating to nutrient pollution standards in the Levelling-up and Regeneration Bill being enacted, and the Secretary of State designating under those provisions the catchment area into which the WWTWs discharge treated effluent as a phosphorus sensitive catchment area.

Our delivery schedule above reflects an assumed start date of 1 May 2023.

We consider that there are 3 potential options to deal with the uncertainty regarding the enactment of the relevant provisions. These are:

1. As per the proposed condition, we wait for the Levelling-up and Regeneration Bill to be enacted, and the Secretary of State designates under those provisions the catchment area into which the WWTWs discharge treated effluent as a phosphorus sensitive catchment area. At this point we will re-submit

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the revised and final delivery schedule for ENV2 to Ofwat. The delivery schedule will need to be revised to reflect any delays in the enactment and designation date and the consequential delay on commencing work in support of the projects. Whilst we would endeavour to ensure that the durations required for delivery will remain and would work so far as possible to retain the existing delivery schedule, depending on when the Levelling-up and Regeneration Bill is enacted there may be programme considerations and seasonal restrictions that could alter achievable timeframes. These will be described in full if there are changes to the delivery timescales.

2. The conditionality set out in the draft decision is removed and the projects start on 1st May 2023.
3. Design and preliminary work, which is lower cost work, can start ahead of the Levelling-up and Regeneration Bill being enacted, subject to agreement that this work will be funded. More costly construction work not being initiated until after the Levelling-up and Regeneration Bill being enacted. This will reduce, but not eliminate, the likelihood of needing to extend the delivery date once the Levelling-up and Regeneration Bill is enacted.

Given the nature of the accelerated programme, the objective of delivering environmental and customer benefits sooner and the categorisation of the projects as “uncontroversial”, we would prefer to proceed as per recommendation 2 or 3 above. However, if the conditionality reflected in the draft decision is retained, then we would expect to proceed on the basis of 1 above.

4. ENV3, ENV4, ENV10 (Storm Overflows) Delivery Profiles and Price Control Deliverables

ENV3, ENV4 and ENV10 cover improvements to storm overflows, storm overflows specifically in the Windermere catchment and storm overflows into bathing waters, respectively. We have provided an annual delivery profile of the modelled spill reduction and the number of storm overflows improved for each of the programmes below.

The modelled spill reduction profile, in-line with the delivery schedule, is built up from the hydraulic models used in the design process. These hydraulic models and delivery of the modelled spill reduction remain central to the programme. Measured spills from event duration monitors (EDM) can vary year to year dependent on weather conditions, and regulatory reporting of EDM data is completed annually to the Environment Agency. Therefore, observable benefits from the regulatory report will be well after the scheme is delivered and the benefits being realised.

We support use of the modelled spill reduction as the measure of success for the outcome as this allows for flexibility in programme optimisation whilst maintaining a focus on delivery and ensuring customers are protected from non-delivery of schemes and associated benefits.

We propose a separate PCD for each of these three programmes (ENV3, ENV4 and ENV10) and that each PCD tracks the delivery of the annualised modelled spill reduction profile. This will be as per the delivery schedules outlined below. We propose a unit rate based on the total cost of the programme divided by the total modelled annualised spill reduction. This unit rate will be derived from the forecast cost at the time of the business plan submission, calibrated to the allowances made by Ofwat through cost assessment. Completion will be measured based on improvement as reflected in the modelled spill reduction achieved. If modelled spill reductions are achieved later than scheduled, recovery of costs would also occur later.

Our revised profiles, as outlined below for the three storm overflow programmes, reflect the time passed while the programme was under consideration and our latest view of the programme and delivery profile. This has matured in the 6 months since submission with more information now available for each of the projects that comprise the programmes.

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In reconciling performance, the EA's 'Output in use certificate' (or equivalent documentation once formalised) would be used as appropriate evidence for the PCD that the scheme has been delivered. The delivery of schemes are also reported by the EA on the Defra SharePoint site that is used for WINEP development.

ENV3: Accelerating storm overflow improvements to reduce discharges

Deliverable	ENV3 Forecast Deliverables						
	AMP7		AMP8				
	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
Scheme Percentage Delivered (cumulative)	0%	3%	10%	23%	77%	96%	100%
Total Storm Overflows Improved (cumulative)	0	5	15	32	101	128	135
Modelled Reduction in Storm Overflow Spills (cumulative)	0	276	881	1943	6443	8043	8406

ENV4: Reducing the frequency of storm overflow discharges in Lake Windermere catchment

Deliverable	ENV4 Forecast Deliverables						
	AMP7		AMP8				
	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
Scheme Percentage Delivered (cumulative)	0%	0%	0%	0%	51%	70%	100%
Total Storm Overflows Improved (cumulative)	0	0	0	0	2	3	4
Modelled Reduction in Storm Overflow Spills (cumulative)	0	0	0	0	51	70	100

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ENV10: Reducing the frequency of storm overflow discharges into bathing waters

Deliverable	ENV10 Forecast Deliverables						
	AMP7		AMP8				
	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
Scheme Percentage Delivered (cumulative)	0%	0%	0%	0%	39%	100%	100%
Total Storm Overflows Improved (cumulative)	0	0	0	0	8	15	15
Modelled Reduction in Storm Overflow Spills (cumulative)	0	0	0	0	328	834	834

5. ENV3, ENV4, ENV10 (Storm Overflows) Conditions on the Schemes

We note Ofwat’s conditions that additional funding is provided for additional enhancement works to storm overflows, and not to meet needs already provided for through base allowances. On this basis, UW will seek to demonstrate:

- **Assets are operating in compliance with their permits.** For this requirement, we note the expectation companies will appoint an independent third party (with a duty of care to Ofwat) to assure this evidence to Ofwat’s satisfaction. We will work with external assurance providers to establish how assurance can be provided with this duty of care.
- **Spills are not due to maintenance issues.** We recognise the requirement from Ofwat for companies to demonstrate that spills are not due to insufficient maintenance. We also recognise that Ofwat will accept the results from a stage 1 SOAF or equivalent as evidence of meeting this condition.

We acknowledge these conditions and expect to be able to meet them based on the approaches set out above and consistent with the approach we outlined to Ofwat and the Environment Agency during the development of the acceleration proposals on storm overflows. We also acknowledge the need to set out how we have assessed and appraised nature-based solutions. Both of these processes have already had third party assurance through the work undertaken for the development of these schemes through the WINEP process for the Environment Agency.

Whilst the process we have been through, and the investment needs identified for accelerated investment, cover enhancement needs only, if maintenance investment arises as part of delivering this programme, we expect to identify this and meet the costs through base allowances.

6. ENV3, ENV4, ENV10 (Storm Overflows) Exchange mechanism

We note Ofwat’s proposal that under further investigation and design work that alternative sites may be swapped with the approval of the Environment Agency and Ofwat up until the submission of the PR24 business plan. Whilst this is welcome as a process to exchange more beneficial schemes into the programme we believe this is a process that should function beyond submission of the PR24 business plan and into AMP8.

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We propose that the mechanism Ofwat recommends to manage change up until the business plan submission extends beyond October 2023, and through into AMP8. A robust and assured exchange process would protect customers from continuing delivery of schemes with comparably lower environmental and customer benefits as the programme matures. We would be keen to discuss how such a scheme could operate or, at least, reach agreement in principle that Ofwat would consider such evidence in assessing whether outputs have been delivered.

Appendix 1 – Driver Code Changes

APPENDIX 1: Changes to Driver Codes

We have also reviewed the accelerated infrastructure delivery project with the latest guidance from the Environment Agency and some of the schemes in ENV3, ENV4 and ENV10 have changes to WINEP drivers. Whilst there are changes to some driver codes, the solutions do not fundamentally change. The detail of the changes in drivers is provided below.

ENV3 - Accelerating storm overflow improvements to reduce discharges

The following schemes have the EnvAct_IMP3 and EnvAct_IMP4 drivers to be removed as the solution is only targeting WFD compliance (EnvAct_IMP2). These changes have no impact on the solutions or outcomes.

Discharge Reference	Overflow Name or Location	Primary Driver code	Driver code removed	Outcome
017060019S T	Longton WwTW	EnvAct_IMP2	EnvAct_IMP3	Water Framework Directive
ROC0018SO	Boothroyden Road CSO	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
ROS0001SO	Bank Street CSO	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
STK0049SO	Cheadle Golf Course CSO	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
STK0123SO	Briarlands Close CSO (formerly known as Rear of 40 Ack Lane CSO)	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
TAM0040SO	Wharf Street CSO	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
TAM0171SO	Broomstair Road CSO	EnvAct_IMP2	EnvAct_IMP4	Water Framework Directive
WIG0095SO	Templeton Road PS	WFD_IMP_MOD	EnvAct_IMP4	Water Framework Directive

ENV4 - Reducing the frequency of storm overflow discharges in Lake Windermere catchment

The EnvAct_IMP3 driver is to be removed from Ambleside storm tanks. This change has no impact on scope as the solution has been designed to the 10 spills standard. The remainder of this programme is in line with the WINEP.

Discharge Reference	Overflow Name or Location	Driver Code Change	Impact of Driver Code Change	Outcome
017370024S T	AMBLESIDE WwTW	EnvAct_IMP3 driver to be removed as the discharge is >5km from bathing water	None	10 spills per annum

Appendix 1 – Driver Code Changes

ENV10 - Reducing the frequency of storm overflow discharges into bathing waters

The Environment Agency through the WINEP review process has asked for 13 of the 15 bathing water drivers BW_IMP1/2 for 3 spills per bathing season to be removed. All overflows still require improvements to meet the EnvAct_IMP4 driver of 10 spills per annum and therefore the scope for these projects remains the same. Therefore we propose these schemes still progress to reduce spills and to deliver the benefits to these coastal locations and the customers who enjoy them. For Maryport Sewage PS following the removal of the bathing water driver there is a small impact to the solution storage size – reducing from 2200m³ to 1900m³ of storage.

Discharge Reference	Overflow Name or Location	Driver Code Change	Impact of Driver Code Change	Outcome
017570066SO	BOTHEL	Bathing water driver to be removed	None	10 spills per annum
017570068SO	Dearham WwTW	Bathing water driver to be removed	None	10 spills per annum
017570069ST	GILCRUX WwTW	Bathing water driver to be removed	None	10 spills per annum
017570072ST	Plumbland	Bathing water driver to be removed	None	10 spills per annum
017570073SO	Prospect Oughterside	Bathing water driver to be removed	None	10 spills per annum
017570082ST	ALLERBY	Bathing water driver to be removed	None	10 spills per annum
017570086ST	CROSSCANONBY WwTW	Bathing water driver to be removed	None	10 spills per annum
ALL0122SO	Maryport Sewage PS	Bathing water driver to be removed	Solution reduced from 2200m ³ to 1900m ³	10 spills per annum
BRW0005SO	Haverigg PS	Bathing water driver remains	NA	3 spills per bathing season, 10 spills per annum
BRW0040SO	31 Abbotsmead Approach CSO	Bathing water driver to be removed	None	10 spills per annum
BRW0099SO	Ferry PS	Bathing water driver to be removed	None	10 spills per annum
BRW0100SO	Graving Dock Pumping Station (Site ID 04525) (BRW0100)	Bathing water driver to be removed	None	10 spills per annum
BRW0101SO	Harbour Yard Pumping Station (Site ID 04524) (BRW0101)	Bathing water driver to be removed	None	10 spills per annum
COP0097SO	St Bees PS	Bathing water driver to be removed	None	10 spills per annum
WYR0076SO	Skippool PS (Poulton PS)	Bathing water driver remains	NA	3 spills per bathing season, 10 spills per annum