WSX30 - Direct Procurement for Customers assessment

Business plan
2025-2030

Wessex Water
YTL GROUP

FOR YOU. FOR LIFE.

WSX30- Direct Procurement for Customers assessment

CONTENTS

Annexes - None

This supporting document is part of Wessex Water's business plan for 2025-2030.

Please see 'WSX00 – Navigation document' for where this document sits within our business plan submission.

More information can be found at wessexwater.co.uk.

Executive summary

Summary of assessment

This document explains the process Wessex Water has followed to assess whether projects or programmes meet the criteria set out in Ofwat's guidance documents.

The strategic resource options being developed in conjunction with South West Water through the Regulators' Alliance for Progressing Infrastructure Development (RAPID) gated process have all been assessed for DPC and have scope that meets the definition. We have not carried out any further analysis and the appropriate information from that separate assessment has been included in the SUP12 table commentary.

In addition, the assessment of the AMP8 investment plan has not identified any individual driver for a project that meets the requirements, but in taking a programme and multi-AMP assessment the Poole Nutrients programme does meet the £200m whole life totex criteria. However, in our assessment, due to the integrated nature of existing treatment works and new processes as well as uncertainties around land and planning conflicting with already extended regulatory target dates, it does not meet the other tests. On this basis we are not proposing this programme as a DPC project.

1. Strategic Resource Options (SRO)

1.1. SRO process

The default RAPID assumption is that SROs will be delivered via DPC, unless there are clear reasons for delivery to take place in-house. The links below set out the strategy that has been proposed for each SRO, following the Ofwat assessment criteria for DPC. The conclusions are that all three SROs are potentially suitable for DPC procurement, but some elements of the schemes are proposed to be delivered in-house due to the Discreteness test.

The option to deliver each SRO by DPC will be reviewed at Gate 3 of the RAPID gated process and Stage 2 of the DPC process entered into.

Below are three web links to the procurement strategy proposed for the delivery of the in-region SROs for the South West region.

Poole Effluent Recycling SRO Gate Two - Annex 8: Procurement wcwrg.org)

Cheddar SRO Gate Two - Annex 8: Procurement (wcwrg.org)

Mendip Quarries SRO Gate Two – Annex E: Procurement and Commercial Strategy (wcwrg.org)

The relevant details regarding the DPC information for these three SRO projects are included in the SUP12 data table commentary file.

2. DPC assessment process

2.1. Applying Ofwat guidance

2.1.1. Application of Ofwat tests

We have assessed the projects and programmes within our investment plan several times to reflect updated guidance from Ofwat and also the changing requirements on us from Defra and regulators.

We have followed the Ofwat guidance and carried out the three tests as defined.

2.1.2. Programme scalability test

We have applied the Project Scalability Test: For individual projects or assets, is the sum of the whole life totex for the single project or combined projects / assets proposed by a water company over one or more successive control periods less than £200m?

There are no individual driver / asset projects that meet the £200m threshold or were even close to it.

Following the guidance, we have also assessed programmes of work or groupings of similar activities across multiple AMP periods. In June 2023 we identified a small number of programmes of large volume, relatively small value or short-life assets that would trigger the £200m threshold. These included continuous water quality monitoring and smart metering.

Further guidance provided by Ofwat in their July additional guidance letter provided additional criteria to exclude programmes made up of an amalgamation of individual projects that are less than £5-10m each and also excluded programmes where the average asset life of a programme is substantially less than the expected asset life of 25 years for a CAP agreement. Having applied these criteria, the potential programmes of work are now discounted from DPC assessment. Given the rural nature of our region and the distributed nature of our assets our programmes typically consist of schemes of less than £5-10m.

We had calculated the whole life totex using the longest asset life of assts being created, annual opex and asset replacement costs for assets with asset lives shorter than the longest asset life.

Following application of the guidance, there remains one combined programme over multi-AMPs, which is the combined programme at our Poole Water Recycling Centre (WRC) to reduce phosphorus and nitrogen nutrients which has commenced and will continue into AMP9. The next largest project or programme had a whole life totex value of £170m.

The summary outcome of the Programme scalability test is as follows:

Programme scalability test	**Poole Nutrients programme**	**No,** whole life totex is greater than £200 million. **Conclusion:** ***Suitable for DPC***

2.1.3. Construction Risk test

The assessment of DPC for the Poole Effluent recycling and transfers Strategic Resource Option included options that involve the construction of assets at our Poole WRC site and these were discounted as not meeting Ofwat's discreteness test. These assets predominantly related to the construction of a pumping station on the site to transfer the effluent for use by the SRO. Specific points made in the RAPID Gate 2 proposal that were agreed formed part of the independent third-party report by Stantec. They carried out a 6-point option assessment that resulted in the Poole WRC assets involved in the Effluent recycling and transfers project being assessed as not suitable for DPC due to:

- The works required at Poole STW being highly integrated with the existing assets and needing to be undertaken without disruption to day-to-day operations at the site.
- The scheme being expected to include physical interfaces with existing assets, depending on the preferred option being considered.
- Combined telemetry and control being required to manage information interfaces and coordinate works with other Wessex Water's assets.
- Expected high levels of interaction with the WRC.

These assets were determined to be best delivered by Wessex Water outside of the DPC scope but incorporated within the SRO and are now included in the Poole Nutrients programme which has a delivery dependency to be completed in time for when it is required by the Poole Effluent recycling and transfers SRO.

The Poole Nutrients programme involves major improvements to the treatment process at Poole WRC to ensure the quality of effluent discharged meets significantly tightened permit requirements. A feasibility study has been completed in AMP7 to identify a preferred option to be delivered to enable phosphorus to be reduced to 0.25mg/l (currently no limit) and nitrogen to 5mg/l (from the existing 10mg/l). The project also includes the assets excluded from the DPC assessment but required for the Poole Effluent recycling and transfers SRO as highlighted above.

In addition, our Lytchett Minster WRC also has Nitrogen & Phosphorus (N&P) reduction drivers related to the same catchment. This existing site will be converted to a sewerage pumping station and the existing permit pass forward

flow will be pumped to Poole WRC, where the enhanced treatment facilities will be sized to accommodate the additional loads. This means there are two significant dependencies on the Poole Nutrients programme.

In terms of the construction risk test, the current site is effectively land-locked, it is not possible to enhance the existing 3 treatment streams (BAFF Plant, Eastern and Western Works) and there is no free space for an additional stream. Additional land will be required outside the site boundary and due to the scale and complexity of the proposals, requiring land purchase, consideration of environmental and third-party issues (e.g. planning), forthcoming legislation etc, the scheme cannot be delivered in a single AMP and is due to be completed by March 2033 (this date is currently being discussed with Defra).

These site-specific issues place restrictive risks on the construction programme as the work cannot be carried out on a discrete location on the site, in fact the programme will hold high construction risk as every treatment stream requires works with significant interfaces with existing operational assets (and resulting risk to compliance) which make this programme particularly and unusually challenging. Figure 1 below illustrates the issues with the confined nature of the site.

Figure 1 – Aerial view of Poole WRC

The specific challenges at the site result in this programme being more expensive to deliver, thereby triggering the programme scalability test, and more challenging to coordinate, making it not viable as a DPC project from a construction risk test point of view. To add more challenges, this site is also a bioresources site with a significant investment project on-going under restrictive DSEAR process and health and safety controls which would make it prohibitive for a third-party to be established on the same site constructing a project which also impacts on the bioresources capacity and assets. These risks are not possible to be transferred to the CAP in any way that would provide an appropriate balance of risk for that party.

As detailed by Ofwat, the existing assets cause significant interface issues which cannot be overcome by contract or mitigated through other means. These would result in significant additional costs for a third-party over and

above those incurred by our own delivery teams and would impact the operability of the existing assets. In addition, the complex nature of the programme has already resulted in the project completion date being extended and there is now significant pressure to complete the project in order to meet the separate requirements of the Poole Effluent recycling and transfers SRO and the transfer of the flows from Lytchett Minster WRC there is insufficient time to also introduce DPC arrangements within this timeframe.

In summary, the Poole Nutrients programme, is a particularly challenging construction project and shares many of the issues identified in the site 1 case study within Ofwat's technical discreteness guidance as follows:

Due to the lack of available land at or near the existing site (it is surrounded by light industrial and commercial premises), we will have to build many of the new assets in close proximity to the existing, operational assets. The treatment works require continuous operation during the construction period which is expected to be 5-6 years in length. This will have several impacts on the project:

- construction would need to be carried out in conjunction with BAU operations on the existing treatment works site. This would make it difficult to construct the new assets in close proximity with existing, operational assets and will impact the ability for a third-party to take on risks around costs and time.
- the limited space for construction storage and logistics on the site creates issues around lack of storage solutions for plant and materials which would rely on just-in-time deliveries and complicated interdependencies between the DPC CAP's construction activities, and the treatment works site operations.

In addition:

- There is significant uncertainty over the progressing of land purchase and planning approval and is a particular constraint that will not be determined at a sufficiently early stage to adequately quantify the construction risk as the need to deliver to the timeframe means that other elements of the programme will be progressing in the meantime, creating both a scope, time and risk constraint that a third-party would be required to adopt.
- the timeframe has to be met, not only to achieve the regulatory outputs for the site (which will carry penalties for Wessex Water if not met) but also to ensure the integration with both the Poole Effluent recycling and transfers SRO and the transfer scheme from Lytchett Minster WRC.

The integrated nature of the site and the construction required means it is not possible to reduce the scope of the programme to define a more discrete DPC project and therefore all of the Poole Nutrients programme is deemed unsuitable for DPC.

Construction risk test	**Poole Nutrients programme**	**Yes,** construction risk is not able to be transferred. It is not possible to descope, and the project cannot meet programme scalability test. **Conclusion: Not suitable for DPC**

2.1.4. Operations and Maintenance risk test

The description of the construction challenges and the integrated nature of the site processes and of the additional assets being constructed in close proximity to the existing assets in every process stage also mean that it is not possible to separate out these assets in order to transfer the maintenance and/or/operation of them to a third-party.

A particular operation and maintenance challenge at this site is the sensitive nature of the receiving Poole Harbour (the effluent is disinfected using UV) which is why the nutrient removal targets are so tight. This means the Poole WRC site will need to operate at tighter quality standards across all of its processes, and that operation and maintenance will have to coordinate in the most precise way in order for the site not to fail it's new (or even existing)

permit. This site will be particularly challenging and risky to operate and maintain being the largest WRC discharging to the Poole Harbour, and these risks would make it particularly challenging given the process constraints for a third party to accept these risks.

Operations & maintenance risk test	**Poole Nutrients programme**	**Yes.** Based on the difficulty of operating and maintaining the new assets that are in close proximity to our existing operational assets; and that the whole process needs to be managed in the most precise way to achieve the very high-quality standards required due to the environmentally sensitive Poole Harbour. These complexities of integrated assets and high precision and coordinated operation and maintenance mean it would not be possible to disentangle the new assets through commercial and contractual means in such a way that would allow these assets to be transferred to a third-party. **Conclusion:** ***Not suitable for DPC***

2.2. Assessment outcome

2.2.1. Outcome of the assessment

Following the assessment, the outcome of applying the three tests is as follows:

Programme scalability test	**Poole Nutrients programme**	**No,** whole life totex is greater than £200 million. **Conclusion:** ***Suitable for DPC***
Construction risk test	**Poole Nutrients programme**	**Yes,** construction risk is not able to be transferred. It is not possible to descope, and the project cannot meet programme scalability test. **Conclusion: Not suitable for DPC**
Operations & maintenance risk test	**Poole Nutrients programme**	**Yes.** Based on the difficulty of operating and maintaining the new assets that are in close proximity to our existing operational assets and that the whole process needs to be managed in the most precise way to achieve the very high-quality standards required due to the environmental sensitive Poole Harbour. These complexities of integrated assets and high precision and coordinated operation and maintenance mean it would not be possible to

		disentangle through commercial and contractual means the new assets in such a way that would allow these assets to be transferred to a third-party. **Conclusion:** ***Not suitable for DPC***

On this basis we are not proposing that the Poole Nutrients programme should be progressed as a DPC project.