

# UUWR\_41

## PR24 Draft Determination: UUW Representation

# Area of representation: Cost and PCD - AWINEP

**August 2024**

This document outlines UUW's representations for the Advanced WINEP Price Control Deliverable.

Reference to draft determination documents:

PR24 draft determinations: Expenditure allowances, page 82, section 3.3.5

PR24 draft determinations: Price control deliverables appendix, page 165, section 11.2.2 (measurement and reporting)

## 1. Key points

- **UW A-WINEP cost allowance accepted:** Ofwat's support for UWs Advanced WINEP leading to allocation of the full cost allowance is welcomed.
- **Reporting method for PCD:** The design of the PCD removes the agility we need to work effectively with partners as it requires us to run hydraulic models for 'non storage solutions' which is time consuming, costly and resource intensive. This would constrain the areas and interventions that UW could look to co-fund with partners which would reduce the learning from this innovative programme to inform future WINEP approaches. It would also severely impact the £50m co-funding target which is expected to be generated by the 'agile opportunity' schemes that senior stakeholders have committed to work in partnership with us in delivering

## 2. UW's PR24 proposal

The Advanced Water Industry National Environmental Programme (A-WINEP) is an Environment Agency (EA) and Ofwat initiative to enable water companies to develop proposals to implement in AMP8 which would unlock greater value than what the standard WINEP allows. UW developed our A-WINEP proposal working closely with Ofwat's advisory group which included representatives from EA, Ofwat and environmental NGOs. A key aim of the programme is to break down some of the existing barriers to partnership working that exist within the existing format of the WINEP in order to enable us to align with partners plans to deliver rainwater management solutions rather than expecting them to align with us. By doing this we believe we can attract co-funding that would otherwise not be possible for statutory WINEP schemes thereby enabling delivery of solutions that deliver wider value.

UW submitted an Advanced WINEP proposal in August 2023 which was approved to progress into the October PR24 submission (Decision on stage 1 progression letter, 6<sup>th</sup> September 2023). The proposal is an innovative approach to WINEP investment for storm overflows and aims to deliver rainwater management solutions whilst unlocking greater value and partnership working. It will enable us to get a head start on future phases of storm overflow action plan delivery and go beyond the scope of the AMP8 named WINEP schemes. The programme aims to invest in 'best value' and 'least regret' actions in the catchment areas upfront of the storm overflows WINEP improvements planned from 2030. This aims to reduce or eliminate the future requirement of investing in grey storage to meet government targets (see 'Advanced WINEP (Rainwater Management)', August 2023).

## 3. Draft determination position

UW's Advanced WINEP proposal has been accepted and the full cost allowance of £231m to deliver 57,796m<sup>3</sup> of equivalent storage has been approved.

**Location in Ofwat's DD:** PR24 draft determinations: Expenditure allowances<sup>1</sup>

Ofwat has shared for the first time it's approach to the PCD reporting as stated in the Price Control Deliverable Appendix.

*'Using traditional storage calculation methods company should measure equivalent storage as the volume of storage spilt on the nth+1 event, where n is the target spill frequency, and all annual storm overflow spills are ranked by spill volume. When developing non storage solutions, equivalent storage should be calculated by running a hydraulic model with the alternative solution included within the model, and assessing the extent to which the storage requirement is reduced.'*

<sup>1</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2024/07/PR24-draft-determinations-Expenditure-allowances-to-upload.pdf>, page 82, section 3.3.5

The PCD has had no previous consultation or discussion since the A-WINEP submission in August 2023 and this approach has significant implications for the ability to work in an agile way with partners in our region and will undermine the potential of UW's Advanced WINEP and the benefits. Further details of the challenges and implications are in section 4 below.

**Location in Ofwat's DD:** PR24 draft determinations: Price control deliverables appendix<sup>2</sup>

## 4. Issues and implications

There are two issues that have been observed in the 'Price Control Deliverables appendix' page 165, section 11.2.2:

- UW should run hydraulic models when developing 'non storage solutions' to assess to which the storage requirement is reduced
- UW should apply the nth +1 method for calculating conventional storage avoided

The below two sections go into more detail of the issues.

### 4.1 UW should run hydraulic models when developing 'non storage solutions'

UW recognises that hydraulic modelling to calculate avoided conventional storage offers value and provides useful information. We took this approach for the 7 'named' schemes, which accounts for 39% of the total A-WINEP cost allowance. We also intend to take this approach for any 'agile opportunities' that require a full best value assessment ( see 'Advanced WINEP (Rainwater Management)', August 2023, section 2.2.2, Figure 2, page 10), where schemes do not meet the recognised Rainwater Management Rate, but still represent best value for the specific overflow.

However, to run the 'agile opportunities' that comply with the Rainwater Management Rate through a hydraulic model would be inappropriate, time consuming, costly and resource intensive for very little benefit to customers. This is because the Rainwater Management Rate has been developed with an efficient storage cost compared to the industry norm to further protect customers (PR24-DD-WW-Storm-Overflows, tab 'Allowance – Green'). The Rainwater Management Rate for the 'Agile Opportunities' will enable us to work in an agile way with partners where there are 'low regrets' cost effective opportunities to deliver rainwater management. To enable this agility and efficiency we therefore wanted to remove the need for hydraulic modelling, to maximise the chance of aligning with partners, achieving partnership funding and accelerating the pace of nature based solutions.

The implications that arise from running hydraulic models for 'agile opportunities' are:

- UW anticipates that the 'agile opportunities' will encompass rainwater management interventions that are distributed across the region and would result in numerous model runs for small and dispersed interventions, which is inappropriate. Because the storm overflow catchments which are eligible for A-WINEP are those beyond the AMP8 WINEP programme, it is anticipated that many catchments will require further model detail, such as flow surveys and model verifications, that can take 6 – 12 months, depending on the size of the catchment. Therefore, this would result in higher costs, which may outweigh the cost of the intervention. UW's A-WINEP proposal enables us to start the adaptive plan for overflows programmed for AMP9-12 through least regret solutions working with others. If hydraulic modelling is required, then there is less benefit for the A-WINEP as we become constrained by the traditional WINEP barriers. The UW's Advanced WINEP provides an excellent opportunity to test engagement approaches with customers and businesses to involve them in solutions through delivery of property level rainwater harvesting (e.g. water butts and rain gardens).

<sup>2</sup> [PR24-draft-determinations-Price-control-deliverables-appendix.pdf](#) (ofwat.gov.uk), page 165, section 11.2.2 (measurement and reporting)

However, the need to run a hydraulic model for each property level intervention would be excessive, time consuming and costly.

- A hydraulic modelling approach to the 'agile opportunities' would also lower our agility to work with partners and would reduce the ability to achieve the £50m partnership funding target across the programme. This is because partners would be waiting for UW to model the intervention, which risks missing opportunities due to not being able to align with partners. This will also impact the wider benefits that the A-WINEP could deliver for customers and the environment.
- This would lead to a reduction of learning from this programme, which UW set out to be innovative in providing an alternative approach to traditional WINEP delivery. Estimates commissioned by Defra indicate that there might be £56 billion of investment required by 2050 to meet the targets set out in the SODRP3. As a result, the learning from UW's A-WINEP has national significance and the potential to influence a significant scale up in the use of sustainable drainage solutions which aligns to the government's position that rainwater should be treated as a resource.
- The support from regional leaders and stakeholders (e.g. Greater Manchester Mayor) could become eroded if methods are put in place which limit the ability or pace to deliver and learn from rainwater management interventions. The Mayor of Greater Manchester, Andy Burnham, set out in his letter of support for UW's A-WINEP proposal that he wants to work in partnership to "*accelerate the implementation of sustainable drainage interventions*" as he recognises this proposal can "*translate issues and opportunities into projects that deliver tangible benefits for the environment, people and place*". With deeper devolution in Greater Manchester and other areas, it is essential that our proposal maintains flexibility and agility to meet stakeholder expectations, whilst ensuring that customers do not pay twice in the long term. The addition of a requirement to demonstrate storage saved through hydraulic modelling would introduce significant delays into the process and risk missing opportunities to work in partnership.

## 4.2 Method UW should apply to calculate conventional storage avoided

UW recognises the need for a PCD for this programme of work as documented in the August 2023 submission.

Our proposed PCD metric is the equivalent cubic metres of conventional storage avoided through interventions delivered in AMP8. We will calculate this by adding the "Named" Schemes (modelled cubic metres of storage avoided) together with the "Agile Opportunity" schemes (equivalent conventional storage avoided) ('Advanced WINEP (Rainwater Management)', August 2023).

UW set the target conventional storage avoided prior to the publication of the proposed PCD methodology and the number calculated represents the avoided storage that would need to be built. This includes the volume actively used to prevent spills but also the element of the tanks capacity that is redundant due to space between ground level and the sewer. The proposed PCD methodology which calculates avoided storage based on the difference the green solutions makes to the n+1 spill size only represents the active volume of the tank and not the redundant element of the tank that is also avoided. As a result if this method continues to be used the target would need to be revised.

## 5. Approach for final determination

UW recognises the need for a PCD for this enhancement allowance as documented in UW's PR24 submission and that Ofwat's approach to determine the non delivery payment is appropriate to further protect customers in the event of non-delivery.

UW recommend that Ofwat adopt the proposed approach for calculating the PCD metric of equivalent conventional storage avoided in UW's A-WINEP submission (page 20, section 3.4.3, August 2023).

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<sup>3</sup>[Storm Overflows Discharge Reduction Plan \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

UUW’s proposed PCD metric is the equivalent cubic metres of conventional storage avoided through rainwater management interventions delivered in AMP8. UUW will calculate this by adding the “Named” Schemes (modelled cubic metres of storage avoided) together with the “Agile Opportunity” schemes (equivalent conventional storage avoided). The “Agile Opportunity” schemes equivalent disconnection will be measured in hectares so UUW will convert those to cubic metres using the calculation:

- Equivalent hectares disconnected x the volume that 1 Ha of SuDS saves us from building as conventional storage = equivalent conventional storage avoided

We developed the calculation using the outputs from 177 of our selected best value hybrid AMP8 WINEP schemes at a value of £141,846,349, which had been hydraulically modelled over several months. We have used this large data set of hydraulic modelling outputs to create a relationship between the rainwater solutions of the hybrid schemes and the conventional storage avoided to develop the A-WINEP PCD calculation:

For the 177 schemes, this equates to 44,447m<sup>3</sup> of equivalent built storage avoided as a result of disconnecting 132Ha of impermeable areas of the storm overflow catchment. The 177 schemes were subject to third party assurance and we are therefore confident to use the underlying data within the A-WINEP PCD calculation. The rate is set as a measure to protect customers as an upper limit of what can be invested by UUW.

We have set out the PCD calculation below and provided a worked example of an ‘agile opportunity’ shared by a partner to articulate the UUW PCD reporting approach and the benefits of a real opportunity.

- **Calculation for a ‘agile opportunity’ that meets the RWM rate (£[redacted] per 1 Ha disconnected)**

$$\text{Equivalent hectares disconnected} \times \text{the volume that 1 Ha of SuDS reduces from building as conventional storage} = \text{equivalent conventional storage avoided}$$

- **Worked example for an ‘agile opportunity’ that meets the RWM rate:**

$$3.24 \text{ hectares disconnected} \times 336\text{m}^3 = 1,088.64\text{m}^3 \text{ conventional storage avoided (from AMP11)}$$

- The maximum rainwater management rate that could be applied to this ‘Agile Opportunity’ is:

$$3.24 \text{ hectares} \times \text{£[redacted]} \text{ (RWM rate)} = \text{£[redacted]}$$

In this example a partner has shared an opportunity to fully disconnect a 3.24 hectare impermeable site which is hydraulically connected to an overflow that is programmed for AMP11. The rainwater management interventions include 13,709sqm of blue green roofs, 45 mature SuDS enabled tree pits, 736m<sup>2</sup> of conveyance swales and 719m<sup>2</sup> of permeable paving. The partner will be contributing £[redacted] to the sustainable drainage scheme, that UUW would count towards the £50m partnership funding target and would benefit customers. This opportunity is part of a total £250m regeneration scheme and the A-WINEP programme would enable UUW to co-fund into the scheme to buy the water management outcomes in a fair share approach and reduce the conventional storage requirements in AMP11. If the A-WINEP programme requires a hydraulic model to be run for every intervention, then UUW will lose the ability to align with the timescales of others and miss opportunities which will reduce the value that could be generated for nature and society.

The regeneration scheme is in pre planning application phase, however wider value assessments have identified that the AWINEP co-funding could increase wider benefits:

- Biodiversity
- Water efficiency
- Water quality (sooner than AMP11)
- Health and wellbeing
- Early engagement between stakeholders reducing time/ costs for organisations

For each scheme the proposed AWINEP co-funds, UUW will report the benefitting overflow, in addition to the annual programme metrics (page 9, section 2.1.5, ‘Advanced WINEP (Rainwater Management)’, August 2023) to ensure that the future cost allowance for those overflows does not include the amount drawn from the proposed AWINEP programme This will ensure that customers do not pay twice for the same storage.

If a rainwater management rate is deemed to be unacceptable, we propose that the PCD target would be reduced to reflect the proposed changes.

In light of Ofwat's approach to the PCD reporting only being revealed in the Draft Determination, UUW would welcome a workshop with all interested parties (UUW, Ofwat and Environment Agency) to ensure that we collectively deliver an innovative A-WINEP for customers and the environment.