

UUW50

Ensuring value for customers through use of markets

October 2023

Chapter 8 supplementary document

This document demonstrates how United Utilities actively participates in, supports and promotes competitive markets as part of its culture, activity and service, going beyond expectation into proactive and innovative delivery to ensure best value for customers.

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1. Introduction

1.1 Key Messages

- By working within, and responding to, the markets we operate in we ensure we promote healthy, robust and open competition while delivering an effective, efficient and competitive service United Utilities has evolved its approach to effective use of markets since PR19:
- We have also demonstrated that United Utilities has gone further to leverage the marketplace and unlock value through effective relationships with our supply chain despite the market volatility experienced in AMP7 thus far.
- United Utilities continues to embed a best practice approach in developing an enhanced Market Assessment Framework to continually challenge the status quo and maximise our value proposition. Through both 'top down' (A&M Review) and bottom up (Project Crystallise) programmes we have demonstrated a commitment to continuous improvement and embedded valuable expertise and knowledge from outside of our sector.
- This supplementary robustly demonstrates United Utilities strong multi-faceted approach to both market participation and effective use of markets to maintain a leading service and deliver best value to customers.
- Our broader, evolving approach to sourcing and contract approaches and our make vs buy position is evidence of constantly challenging ourselves to drive more efficient cost-effective outcomes means we continue to remain in a strong position to mitigate risks, manage our supply chain and maintain competitive advantage.
- United Utilities is a capable and ready organisation to deliver our AMP 8 ambition and we are confident we can challenge ourselves to deliver efficiencies of 4 per cent against the AMP8 3rd party cost base.

1.2 Structure

- 1.2.1 This document presents a capability narrative. It provides an overview of the United Utilities journey in regard to enhanced market participation, interaction and response, and how that will continue to deliver continued service improvements and benefits to customers as we move into AMP8 and beyond.
- 1.2.2 This narrative can be summarised via:
- **Section 2** - A look back on our capability journey since PR19 and a presentation of the market headwinds we have responded to.
 - **Section 3** - How we have evolved our approach to PR24 to ensure effective use of and participation in markets.
 - **Section 4** - The multi-faceted approach we have taken in effectively using and promoting markets in AMP7.
 - **Section 5** – Our capability journey and what it means for our submission and AMP8 delivery.
 - Other documents that are relevant to our AMP8 procurement and delivery strategy are *UUW47 – Deliverability*, *UUW51 – Bid Assessment Framework* and *UUW49 – Innovation framework and strategy*.

1.3 Overview

- 1.3.1 This document presents how United Utilities, as part of its day-to-day engagement with the global market place, provides an industry leading service at the best cost possible.
- 1.3.2 Ofwat attests that:

“Competition and markets can deliver significant benefits not only for customers, society and environment, but also for incumbent companies by bringing cost efficiencies, encouraging higher service levels and incentivising innovation. In doing this they help the sector meet its strategic challenges associated with climate change, population growth, affordability and changing customer expectations”.

- 1.3.3 This document demonstrates how United Utilities actively participates in, supports and promotes competitive markets as part of its culture, activity and service, going beyond expectation into proactive and innovative delivery. Specific focus is given to how we are consistently challenging the boundaries of our organisation and not relying on the size and scale of our internal capability to drive high performance. This includes our work in Developer Services, Non-Household Retail and Bioresources in this regard, with additional connectivity to the Bid Assessment Framework and Direct Procurement for Customers, which have their own dedicated supplementary documents for Chapter 8.
- 1.3.4 In addition, the document dives further into how as part of United Utilities day to day activities, it maximises the use of markets to deliver a competitive service for customers. Going into detail in areas such as dedicated efficiency / savings programmes, our Capital Delivery strategies and sourcing and contract strategies from a ‘bottom up’ approach in Project Crystallise, to our work with expert third parties to challenge our approaches in a ‘top down’ manner.
- 1.3.5 Collectively these approaches present how United Utilities objectively, rigorously and repetitively demonstrates that it is an effective market participant, removing waste in service delivery and promoting better outcomes for customers in everything we do. As a result of our demonstrable capability in AMP7 to date (April 2020 – March 2023), United Utilities has demonstrated a cumulative saving of £154 million which is circa 4 per cent against our third party cost base. This is explained further in section 4.

1.4 Assurance of this submission

- 1.4.1 This document references use of third parties as we have engaged with a variety of organisations in delivery of a competitive commercial service. For example,
- (a) Alvarez and Marsal have taken a zero-based budgeting approach to identify further cost improvement opportunities and savings.
 - (b) Barkers Commercial Consultancy have acted as delivery support partner for our Crystallise Savings Delivery programme.
 - (c) ARUP have been appointed as the mobilisation sprint partner for our AMP7 into AMP8 change & strategy work.
 - (d) Baringa have played a key role in the evolution of our market engagement approach.
- 1.4.2 This constant strive for objectivity and challenge in our day to day decision making ensures that both our plans are robust and cognisant of the latest thinking and innovations, but also demonstrates a best practice approach to outcomes for customers, focusing on the service they receive, and ensuring that it is market driven and provided at the best cost.

2. Interaction with Markets

2.1 Introduction

- 2.1.1 United Utilities has taken a proactive, considered and extensive approach towards improving its participation in and promotion of markets. It has also gone further to ensure that customers benefit from our practices and our leverage in the marketplace and we are protected from market conditions where possible through effective relationships with our supply chain.
- 2.1.2 Ensuring that this is an ever-evolving approach to the delivery of market leading capability, we have initiated a variety of change initiatives, but with specific focus on markets and change, we can track a thread of this journey back to 2011.

2.2 Enhancing Engagement, a Capability Journey

- 2.2.1 Following procurement of our AMP6 Capital and Engineering partners which represented a significant step change in approach from AMP5 (and a move away from heavily in house led solutions to ones developed in tandem with the market place), United Utilities looked to deploy a more holistic approach to change across its range of commercial relationships and this took the form of the Market Engagement Methodology (MEM) in AMP7.
- 2.2.2 The MEM is a systematic approach that challenges existing buying behaviours and, through evidence-based market testing, challenges accepted delivery routes and procurement methods to drive procurement innovation. The MEM was deployed at a time when United Utilities was working through a variety of change opportunities, and the objective and challenging nature of the MEM, co-developed with PwC and the University of Salford, allowed United Utilities to find a number of initiatives that could be implemented as we moved through AMP6 and across AMP7 to deliver efficiencies and a market leading service to customers.
- 2.2.3 A description of the key improvement initiatives identified by the MEM and a summary of the activities delivered in AMP7 is provided in Table 1 below, demonstrating United Utilities ongoing review of its engagement with and participation in markets. In many cases this is an ever-evolving review of strategic priorities to continue to maximise value and improve the core service offering.

Table 1: Market Engagement Methodology Outcomes Summary

MEM Focus Area	Activity
Network repair and maintenance	In Nov 2020 the core Frameworks evolved to a single contractor model for each work stream (Clean Water and Wastewater) generating savings of £8.89 million in the initial 12 months period.
Capital Delivery Regional Approach	Successful deployment of a regional approach delivered over £45 million of efficiency on the awarded AMP7 programme (to March 2023).
Wastewater	Significant changes to delivery model in capital, networks and maintenance have created significant operational improvement outcomes across the wastewater function
Bioresources	Significant review of the Bioresources Strategy culminating a market leading procurement strategy in respect of 20 per cent of United Utilities sludge capacity (detailed in section 4)
Asset and Site Maintenance	An evolving review of maintenance provision focussed on delivering an efficient service by allocating the most appropriate delivery route promoting greater cost transparency and control, a more engaged supply chain producing more competition and maximising value for money (see section 4)
IT	The Digital Service function was restructured around a revised delivery model at the start of AMP7 and is now undergoing further review under the scope of the A&M review

MEM Focus Area	Activity
Property	Reviewed FM scope & costs continuously including specifically the extension in 2020 which realised 5 per cent annual savings but subject to continuous strategic review to unlock further value through disaggregation and engagement with tier 2 contractors (as detailed in section 4).
MRO (indirect)	As part of Crystallise UUW are Transforming MRO from a transactional service to a strategic, value for money model, including use of modern MRO practices such as systems, data analytics and logistics. New agreement is expected in April 2024 bringing increased stakeholder engagement and improved governance
Meter Installation	New joined up approach with Site/Network Maintenance including Meter Supply, Automated Meter Reading Connectivity and Meter Installation
Operational Technology	Retendering of Operational Technology Design and Build framework to utilise NEC3, supported by post contract management via stringent use of CEMAR. Greater competitive tension introduced through mini tenders and effective use of framework type.
Gas & Power	Implemented more robust risk management processes that enable UUW to create smarter purchasing decisions, create accountability and protect UUW from market volatility.
Samplers	Sample courier services now under scope of wider fleet and logistics services strategy review, anticipated that future model will be deployed prior to commencement of AMP8 to deliver maximum benefit.
Sludge to Energy (CHP)	UUW has insourced provision of CHP activity utilising comparative 3rd Party cost to maximise value for money.

- 2.2.4 The initial expectation was to deploy the MEM as a periodic and repetitive tool, but once embedded within our ‘business as usual’ approach and operating culture we determined we needed to continuously challenge ourselves and our approaches to deliver best value for customers. This culminated in a further review of our market engagement strategy and a piece of work supported by Baringa, which is further discussed in section 3.
- 2.2.5 At the same time, it became ever more difficult to assess future market conditions due to the impact of global socio-political and economic issues. This meant that United Utilities needed a new more agile and holistic approach to decision making. This change in conditions we refer to as ‘Market headwinds’.

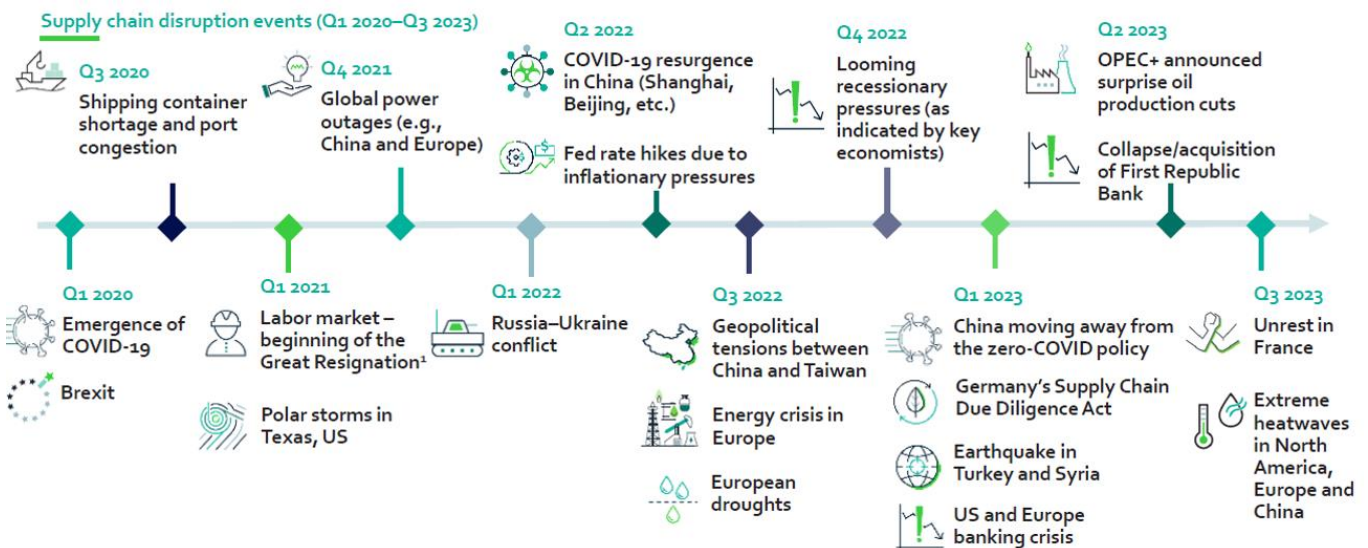
2.3 Market risks and volatility

- 2.3.1 As expected from any market driven organisation, we assess risks and challenges at a corporate and functional level to ensure we take appropriate remedies and form targeted strategies to mitigate and manage risk, protect stakeholders and create value for customers.
- 2.3.2 The Business Risk Management Framework (BURA) ensures risk is managed in a structured, consistent and integrated way across United Utilities. It considers all types of risk events, (strategic, financial, operational, compliance and hazard) with a focus on both financial and reputational outcomes. The aim is to proactively manage uncertainty to protect both customers and our organisation. It also creates value by establishing and maintaining competitive advantage and stakeholder confidence, not just in the prevention of potential events, but also by being capable and prepared to respond when ever things go wrong.
- 2.3.3 From a Commercial perspective we have identified 6 commercial risks as part of the BURA process which are all managed at a corporate board level. These are Price Volatility, Security of Supply, Supply Chain Viability, Supplier Failure, Construction Delivery Partner Failure and Procurement Compliance. Management of these risks has been ever more critical during AMP 7 in light of macro-economic factors impacting our core operations.
- 2.3.4 Since 2019 there has been an unprecedented amount of change in the global marketplace, and United Utilities has worked tirelessly to mitigate those impacts to our operations and ultimately customers where possible. The BURA process ensures this risk mitigation is made in a strategic and well-balanced

manner. However, in recent years due to the overpowering nature of global social political and economic issues our ability to mitigate those risks has been severely impacted.

- 2.3.5 United Utilities regularly seeks information from market and Industry experts to inform our decision making and ensure we continue to deliver the best possible service to customers by remaining in a strong position to mitigate risks, manage our supply chain, deliver cost savings and maintain competitive advantage. An example of this is the use of Smart Cube (and other similar organisations such as GEP and Turner & Townsend) to provide critical market trends, intelligence and analysis, and give confidence that our use of, and participation in, markets still presents the best value approach for customers.
- 2.3.6 We have utilised Smartcube to demonstrate the impact of the socio-political and economic factors across our key category areas. Since 2019 global markets have seen unprecedented volatility as a result of Brexit, the COVID-19 pandemic, escalating energy and inflation impacts and the conflict between Russia and Ukraine.
- 2.3.7 The many and varied market events that have impacted United Utilities' global supply chains since 2020 are highlighted in the timeline in Figure 1 below;

Figure 1: Market Intelligence overview



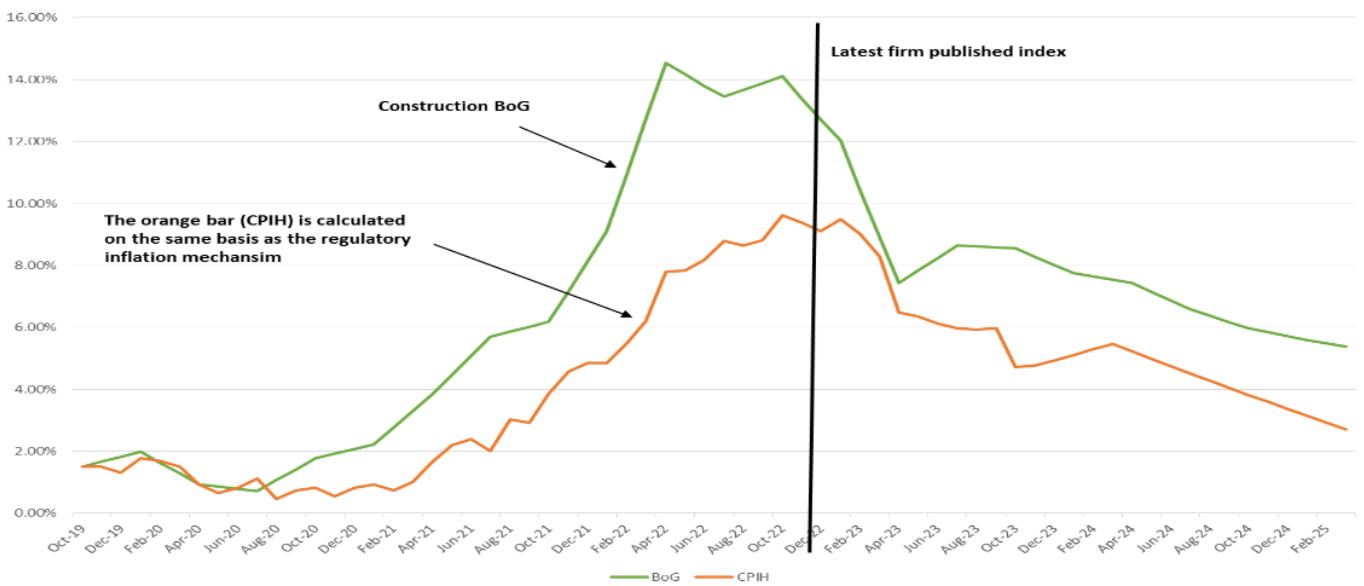
- 2.3.8 As the data shows we have seen significant volatility across all aspects of the supply market and this uncertainty is expected to continue for the remainder of AMP7 and AMP8. As such, we have provided a more in-depth analysis of some of our critical and high spend category areas in the sections 2.4 and section 2.5.

2.4 Capital Markets

- 2.4.1 Global market conditions have presented significant challenges for the Construction sector in particular. As United Utilities capital delivery costs represent approximately a third of our supply chain costs in AMP7, and are expected to increase significantly in AMP8, it is useful to provide further insights into the costs and pressures in this area.
- 2.4.2 At the point the AMP7 model was designed and deployed there had been very stable inflation over a 20-year period, during which the average annual growth in the Consumer Prices Index for Housing (CPIH) index was 1.95 per cent. However, in the period following Brexit, the COVID-19 pandemic and more latterly the conflict in Ukraine we have seen significant levels of volatility in global markets driving extraordinary levels of inflation. By December 2022 the annual growth in CPIH had reached 9.4 per cent.

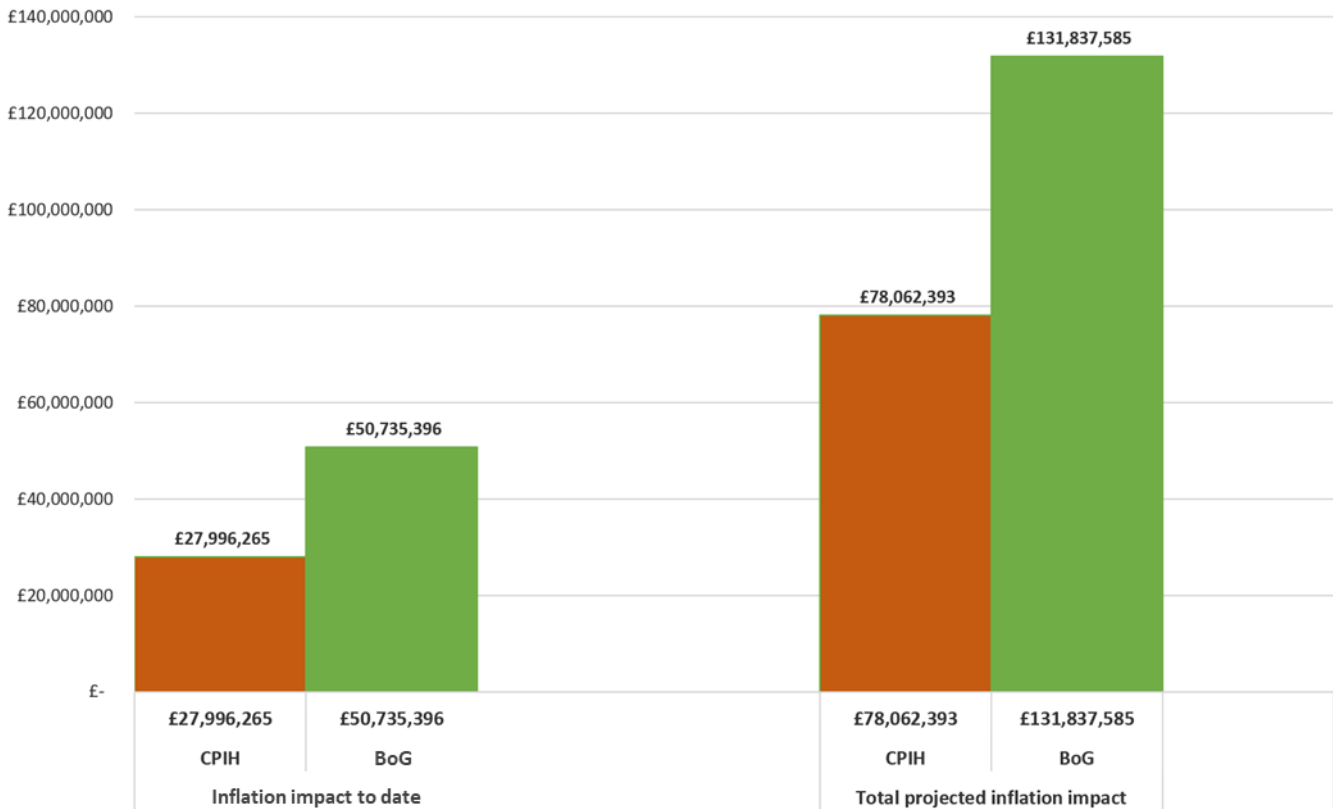
- 2.4.3 This volatility has impacted the price of delivering construction projects to an even greater extent than the growth in CPIH due to the reliance on key materials which have seen price impacts far greater than average. For example, the cost of steel increased by 64 per cent in the 6 months following the start of the conflict in Ukraine, fuel costs increased by 43 per cent, the cost of concrete/plastic products increased by 17 per cent and timber by 23 per cent.
- 2.4.4 When we measure the impact of inflation on United Utilities Construction “Basket of Goods” (a blended index made up of 49 weighted separate indices which track growth in the elements which make up a ‘typical’ UU construction project), construction price growth for UUW reached 14.2 per cent in December 2022. This is compared to the CPIH growth of 9.4 per cent in the same period representing an almost 50 per cent greater increase than standard CPIH impacts.
- 2.4.5 Figure 2 below compares the growth in the Construction Basket of Goods (BoG) index with CPIH, clearly demonstrating how the impact of inflation on construction significantly exceeded CPIH.

Figure 2: 12-month growth for the Construction BoG indices compared to CPIH, versus the contractual inflation mechanism



2.4.6 Figure 3 below shows the impact of inflation on the awarded capital programme as at March 2023, as measured firstly by CPIH (orange bar) compared to the actual impact of inflation measured in accordance with the construction Basket of Goods blended index (green bar). The left hand bars show the impact on costs incurred to-date, whereas the right hand bars show the projected total impact based on future forecasts for both CPIH and the construction BoG through to the end of AMP7. This demonstrates that construction inflation has, and will continue to significantly impact the cost of delivering the capital programme, over and above CPIH.

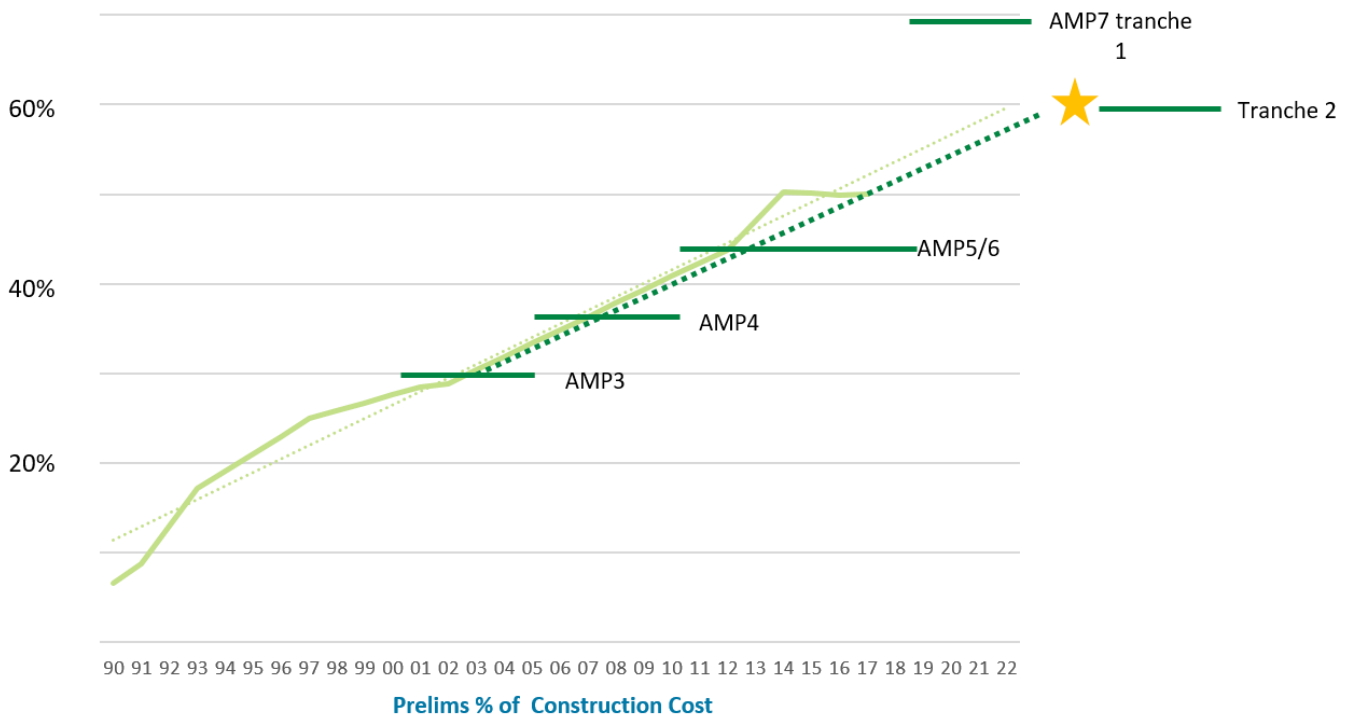
Figure 3: Impact of inflation on the combined CDP programme, using Construction BoG (Green) compared to CPIH indices (Orange) on actual costs as at March 23 (left) and the projected total impact at the end of AMP7 (right)



Source: UUW analysis using CPIH and construction basket of goods.

2.4.7 We are also seeing a changing and more bullish appetite to risk transfer from the supply chain, particularly post-Carillion. This is coupled with a buoyant construction market bolstered by a multitude of competing infrastructure programmes which offer a more attractive risk profile. As such, Contractors are either choosing not to bid for work in the water sector, or they are pricing risk with an unaffordable premium. We have seen this manifest in escalating Tier 1 contractor indirect costs steadily over time, as is shown in Figure 4 below.

Figure 4: Analysis of Prelim 'creep' over 30 years from the Transport Sector



Source: UK Transport Sector Prelims % Costs 1990 - 2017

2.4.8 To balance our risk in this area United Utilities has continually utilised our extensive market analysis to continuously review and revise our capital delivery for the remaining AMP7 capital projects and to create a significantly different operating model and demonstrate better engagement with our supply chain in AMP8. This approach is covered at section four of this report.

2.5 Energy Markets

2.5.1 Given United Utilities reliance on energy to maintain core operations, and the volatility of the energy markets particularly since the start of AMP7, we have taken significant steps to mitigate the impacts of market forces. We recognise that electricity commodity prices can be volatile and have had an active risk management strategy in place for over 15 years.

2.5.2 We purchase power in the physical and financial markets reviewing both types of pricing on a daily basis. We do not consider ourselves as 'traders' nor do we take an approach whereby we aim to 'beat' the market. Instead, we look to reduce the commodity risk so that we can better manage and predict our energy costs, which remain one of the largest costs for the operation of the business.

2.5.3 United Utilities receives daily external market intelligence to support our decisions on when and what volume to purchase. This includes day to day macro-economic price drivers as well as longer term price forecasts. We monitor energy markets on a daily basis, and ensure we are aware of policy and regulatory change which could affect the business.

2.5.4 Energy markets have been particularly volatile during AMP7. Firstly, the reduction of electricity demand from COVID-19 lockdowns reduced wholesale prices significantly below market norms. During this period, United Utilities was able to utilise our strong risk management approach to maximise cost savings by delaying purchasing some of our energy volumes via day ahead trades, which were trading at a lower cost than our typical month ahead, quarterly or seasonal trading.

- 2.5.5 Post COVID-19, the energy markets were put into further turmoil as a result of the Russian invasion of Ukraine which resulted in rapidly escalating prices within the energy market. United Utilities was able to in part mitigate the impact of such increases via the robustness of its risk management and hedging strategy, via the two mitigation strategies set out below.
- 2.5.6 Firstly, our robust energy governance strategy meant the majority of our volume was purchased prior to the start of AMP7, allowing us to go into the particularly challenging Winter 22 season with around 60 per cent of our volume already purchased at around £50/MWh.
- 2.5.7 Secondly, as the market began to increase in early 2022, we implemented our policy of ‘averaging in’ (e.g., buying relatively little and often) for the remaining forecast volume. This has meant that overall, our weighted average commodity price for this year has been around £100/MWh. Whilst this does represent a 30 per cent increase on our total retail energy costs compared to previous years, it has significantly reduced United Utilities exposure to exponential market increases in the retail energy markets where there have been market highs of over £600/MWh and average prices have increased by more than 200 per cent.
- 2.5.8 We can further maximise our management of the energy portfolio by enabling functionality such as ‘sell back’. This would allow United Utilities to ‘sell back’ to the market a trade which has already been completed. This would only be deployed in certain circumstances and only where we are confident that there would be no negative impact to the cost-base. To date, we have not had reason to utilise this option, but its existence demonstrates our strong commitment to energy risk management and portfolio maximisation.

2.6 Conclusion

- 2.6.1 United Utilities has a strong track record of effectively utilising and participating in markets to maximise value to customers. The deployment of the MEM at PR19 was a strong indicator of our capability, however It is clear from the market headwinds and associated volatility across all, but especially key, category areas that in order to demonstrate capability in maintaining the best service to customers United Utilities needed to evolve its approach to effective use of markets throughout AMP7 and in readiness for AMP8. This is evidenced through a review of our market assessment strategy (as outlined in section 3) and the subsequent pursuance of a multitude of different approaches to maximise value and improve service to customers (as detailed in section 4).

3. Evolution of our Approach - From PR19 to now

3.1 Introduction

“We use markets where they help provide good outcomes for customers, society and the environment at a reasonable cost. We use markets to improve environmental outcomes. Competitive pressures can improve efficiency, which in turn helps with affordability.”

Ofwat PR24 Draft Methodology.

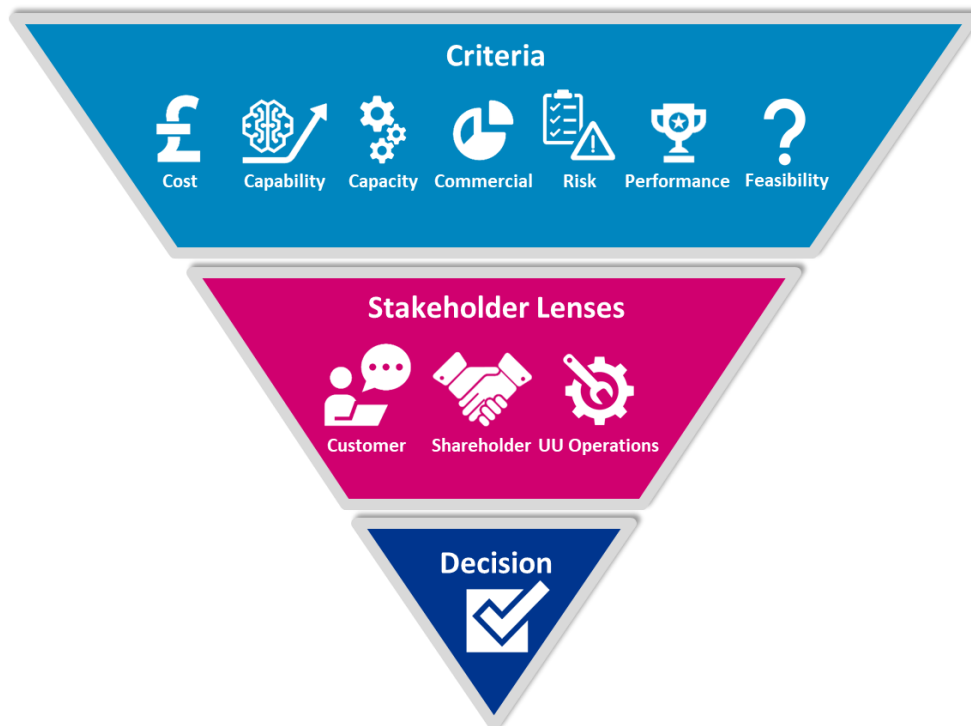
- 3.1.1 This section summarises the evolution of our approach to participation, promotion and use of markets since PR19.
- 3.1.2 Markets can be characterized across a spectrum of scope, ranging from narrow focus, such as the procurement of goods to a much broader definition, where entire services are taken to market. Increasing costs due to a challenging economic climate and market headwinds mean U UW must consider new ways of utilising markets in order to drive efficiencies.
- 3.1.3 In order to consider this broad area U UW has taken a varied approach to assessing capability. To ensure that we evolved our approach to engaging markets, but also prepared ourselves as much as possible for the future environment without simply building in contingency for unforeseeable circumstances, we ventured on an evolution of our approach to market testing and strategy formation.
- 3.1.4 Our strategy demonstrates that we are aware of both the obligations on us to not impede the development of competitive markets, and the opportunities these markets provide to support our delivery. It also considers how, once we have identified a market as the best possible delivery route, we effectively and efficiently engage with those markets to deliver the best value service for customers. The strategy we have developed to assess our strategic decision making and readiness for AMP8 is called the Market Assessment Framework.

3.2 Market Assessment Framework

- 3.2.1 Through engagement with the market, U UW can identify solutions to business problems and robustly evidence that we are delivering value for money. It is imperative that use of markets delivers benefits to customers, and as such in partnership with Baringa we have developed our capability to deploy a new Market Assessment Framework in readiness for AMP8.
- 3.2.2 U UW has deployed the Market Assessment Framework and an associated strategic decision-making process to identify the areas of focus in terms of both a top down and bottom-up review of United Utilities ‘use of markets’. The Market Assessment Framework identified an initial long list of 40 market topics across all business areas. This was developed through collaboration across the U UW organisation and operational teams and utilised Baringa expertise and market knowledge to capture and challenge existing markets opportunities.
- 3.2.3 The Market Assessment framework is depicted in Figure 5 below.

Figure 5: Market Assessment Framework

Market Assessment Framework Illustration



Source: Baringa

- 3.2.4 The long list was compiled through careful prioritisation of focus across Finance, Commercial, PR24 and individual operational teams. The list of opportunities was then assessed against the framework to create a chosen set of priority market focus opportunities anticipated to deliver maximum value across the lenses of Customer, Shareholder and UUW operations.
- 3.2.5 The assessment framework identified seven criteria for assessing opportunities – Cost, Capability, Capacity, Commercial, Risk, Performance and Feasibility. Articulation of benefits for the different stakeholder groups supported strategic decision making, however the framework is intentionally not an algorithmic tool and therefore deliberately requires leadership consideration and support to create an agreed strategic delivery approach.
- 3.2.6 The application of the Market Assessment Framework filtered the initial list of opportunities into (1) 16 core business areas such as Non Household, Networks, Bioresources, Water Resources (2) 40 market topics such as Water/ Waste Water Networks Operating Model, Bio Solids, Capital W and Sourcing, Water Trading, Fleet Operating Model (incl. green fleet transition) (3) 71 Potential market opportunities that include Chemicals, Fleet, Smart Metering and Data As A Service (DAAS).
- 3.2.7 In the next phase, a four-stage engagement process, was undertaken whereby the customer, shareholder and operational lenses of the Baringa Assessment Model were applied, namely:
- Focus on definition of benefit and alignment of resource against potential ROI to ensure prioritisation was given to the business areas likely to release most value.
 - Business units prioritised areas for success and ability to realise value when considered against other ongoing, planned or realised activity to date.
 - Focus on those opportunities that maximised efforts, avoided duplication of potential benefit and allowed focus on deliverable outcomes and stepped beyond planning only.

- Outcome from the Alignment Review was overlaid with a full view of organisational priority, not removing items, but prioritising those that must not be discounted in the future.
- 3.2.8 This review resulted in the shortlisting of a number of key initiatives to be investigated further which went beyond Business as Usual (BAU) delivery. All of these benchmark United Utilities performance and focus in bring in leading industry best practice ways of working to deliver reduced cost and improved value for UUW customers as detailed in section 4 of this report.

3.3 Conclusion

- 3.3.1 We consider our extensive strategic work in preparation for AMP8, and our delivery work for the remainder of AMP7 to be critical elements of our broader market engagement capability. We have challenged ourselves to deliver improved service outcomes through optimum use of the supply chain, and robust analysis of delivery models, make vs buy assessments and sourcing and contract approaches.
- 3.3.2 What this section highlights is the extent to which United Utilities has intentionally challenged its market engagement activities, grown as an organisation beyond the MEM of PR19, and focused on the adoption of ever innovative and market driven delivery solutions for customers. What the following section then reviews is the multi-faceted way in which United Utilities has demonstrated its leading capability in effective use of markets and how we are continuously challenging ourselves to deliver the best outcome for customers in everything we do.

4. Demonstrating a leading approach

4.1 Introduction

- 4.1.1 This section details the extensive and multi-faceted approach undertaken by United Utilities as part of its engagement with markets and the delivery of an effective service. The examples provided are indicators of the opportunities identified through the RISE report, the Market Assessment Framework and our own innovation which demonstrates United Utilities leading approach to engaging, participating and supporting effective markets to unlock improved service/efficiencies and cost reduction.

4.2 Bid Assessment Framework

- 4.2.1 In September 2022 UUW deployed a new Bid Assessment Framework (BAF) for Bioresources and a revised BAF for Water. Historically third parties may have been deterred from offering potential solutions to Bioresources and Water Resources due to lack of information and perceived Utilities bias towards their own in-house solutions. The BAF provides the basis and mechanism for inviting and considering third party bids and comparing them against potential in house solutions and builds upon existing processes and obligations with a focus on ensuring consistency and transparency throughout the process.
- 4.2.2 Since the BAF process was launched we have received a total of five submissions: two for Water Resources and three for Bioresources. Three Bioresources submissions and one Water Resources submission are ongoing and currently following the BAF process, the other Water Resources submission was unsuccessful. The unsuccessful bid on initial assessment showed potential, however following engagement with the Environment Agency it became clear that the transfer of the abstraction licence was not possible. We have issued two PINS to the market to gather information and have increased overall exposure to the BAF process through Commercial briefings information sharing. All information is available on our website¹ including the process, evaluation criteria, worked examples and frequently asked questions.
- 4.2.3 UUW is actively looking to engage with markets to determine how best to meet our obligations and we proactively utilise the BAF process to open up new opportunities for market participation. Our proactive use of the BAF demonstrates United Utilities positive engagement in developing and willingness to utilise a bidding market for Water Resources and Bioresources. Much more information about our Bid Assessment Framework is available in supplementary document *UUW51 – Bid Assessment Framework*.

4.3 Direct Procurement for Customers

- 4.3.1 In the document "Creating Tomorrow Together: Our final methodology for PR24", OFWAT continues to encourage consideration of Direct Procurement for Customers (DPC) for projects that are expected to cost more than £200 million over their entire lifecycle (based on Totex). This applies particularly to projects that are large-scale and have distinct enhancements.
- 4.3.2 By instilling a greater focus on the needs of customers, the central driver for DPC is the delivery of best value. United Utilities understands the optimal approach to identifying further innovative opportunities and benefits on high value projects is via competitive tender in the marketplace. As a current leader in the implementation of DPC in the industry, UUW believes that its approach further showcases its commitment and ambitious nature of our plans in expanding the use of DPC throughout its capital delivery portfolio.
- 4.3.3 After receiving consent from Ofwat, the tender process for the Haweswater Aqueduct Resilience Programme (HARP) is currently underway, with three consortia invited to participate in the next stage of

¹ unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/bid-assessment-framework/

the process and contract award anticipated by summer 2024. It is the first time that the Direct Procurement for Customers model has been used in the UK water sector, following three years of planning and commercial development by UUW including extensive engagement with the market and Ofwat to formalise the new approach.

- 4.3.4 Into AMP8 UUW is taking a proactive and ambitious approach in the consideration of DPC as an effective means to drive value in the delivery of large-scale capital delivery projects. In accordance with Ofwat guidelines, we have developed a Direct Procurement strategy which includes the basis of selection and evaluation of two schemes, (Manchester Ship Canal and Wigan and Skelmersdale Wastewater Treatment Works) appropriate projects for DPC implementation, as well as an assessment of their cost-effectiveness for customers. There are also a potential three elements of the water trading schemes that may be suitable for DPC (see section 4.5.13 for further detail).
- 4.3.5 The supplementary document *UUW52 - Direct Procurement Overview* outlines how United Utilities has undertaken a proactive, thorough and ambitious approach towards assessing DPC eligibility of all relevant projects.

4.4 Competitive Markets

Outcomes from the RISE report

- 4.4.1 The Review of Incumbent Company Support from Effective Markets (referred to as the RISE Report) published By Ofwat in 2020, clearly set out the expectation for water companies to demonstrate a commitment to competitive markets. United Utilities was seen in many ways as demonstrating a leading approach to market participation and this narrative will evidence UUW continued progress and increased capability and performance in market participation post publication.

- 4.4.2 That said, UUW was not without areas for improvement:

“It is clear from your response that United Utilities is performing as a strong supporter of effective markets. While there is room for improvement, you have an opportunity to play a key role in leading the industry in how it can embrace markets to deliver sustained and meaningful benefits for customers”. United Utilities Executive team embraced the principles of the RISE report and endorsed 35 separate to address the key findings and increase our capability in this area. The actions were across key themes such as leadership and culture, collaboration and competition law, policy and tariff harmonisation, engagement and dispute resolution, and improved focus on customer and retailer needs.

- 4.4.3 The observations made by Ofwat were also reflected in the BURA process with the existing ‘Competition, related licence condition and level playing field compliance’ risk updated to reflect changes to the level of exposure and or effectiveness of controls. This demonstrates the Executive commitment to not just delivering on the fundamentals of the RISE report, but in ensuring that United Utilities embeds those principles as part of its business-as-usual activities and that the Executive plays a key part in driving that agenda. In the sections below we provide several examples of where we have continually challenged ourselves to deliver service improvements through market participation.

Developer Services

- 4.4.4 The Northwest continues to benefit from competitive markets for developer services including the vibrant and well-established self-lay provision as well as the rapidly maturing New Appointment and Variation (NAV) market. Across the United Utilities region there are highly active markets where alternative providers provide a significant proportion of the activity, providing developers with choice. We engage with these markets and provide a competitive service to developers. As the supplier of last resort much of the activity we undertake is of a more complex and or costly nature as is the case with many universal service offerings.
- 4.4.5 This approach has led to SLPs being the dominant service provider for new mains and connections within the North West. We believe that this level of competition for new mains and services has been a significant contributor to recent growth of NAV activity providing developer with further choice, not just

for the construction of assets but also the asset adoption. SLPs have been able to establish new relationships with NAVs on the basis of their track record of delivering mains and services.

- 4.4.6 Following a series of engagements stemming from the project RISE activity further action is underway to standardise the requirements for qualification between the incumbent provider and self-lay providers. United Utilities will ensure that all our contracted operatives working on developer services' activity will have the NCO (water) qualification by 2025 meaning that we are able to see a mobile workforce that does not hinder growth SLPs entering the market. We would note that across the North West SLP activity is already very high and there is no evidence that staff interoperability was hampering competition.
- 4.4.7 Competition and customer choice is also supported through our charging arrangements which provides customers with choice and clarity on their options for delivery of new infrastructure. These options mean less non-contestable activity and reliance on the water company for delivery of infrastructure and facilitates the growth of the SLP and NAV sector, thereby creating opportunities for further value for the developer customer. In 2022 we extended our developer services contract and used the opportunity to incorporate changes that drive improved performance', clearer costs for individual activities and introduced opportunities for more collaborative working that further increases the developer's opportunity for control and value. Further detailed information on our approach to Developer Services can be found in supplementary document *UUW54 – Developer Services Business Plan*.

Non-Household Market Services

- 4.4.8 We have demonstrated our commitment to promoting the success of the non-household retail market both through our work prior to market opening, via our leading role on the creation of MOSL, and our support for the development of the market thereafter. In the RISE report, Ofwat recognised the contribution being made by UUW to support the development of the business retail market:

“United Utilities has been a class leader in terms of its support for effective functioning of the business retail market, particularly in terms of its engagement and contributions to the industry-led approach to market governance and Trading Party cooperation.”

- 4.4.9 We collaborated with UK Water Retail Council to set up a series of joint retailer and wholesaler PR24 workshops. This encouraged support from retailers to generate further benefit, for example, the vacancy incentive and gap site incentive payment have proved valuable to retailers to identify and rectify both gap sites and incorrectly identified vacant properties. We are investing in improved address and premises data will enable retailers to identify and bill customers effectively, support effective switching for customers and contribute to a more active and efficient market.
- 4.4.10 We recognise that market efficiencies and great service for customers is often only achieved by focusing on the effectiveness and consistency of processes at a market level. We are one of the most active companies with regards to the submission of code change proposals seeking market level solutions to problems that we may experience locally. We are actively involved in the Retail Wholesaler Group (RWG) group, which is focused on improving settlement processes, one of the strategic market priorities, to help improve retailer refunds and cash flow. In the meantime, we are developing our own settlement engine to improve the speed and accuracy of refund payments to retailers. We also have market leading credit solutions that other wholesalers have adopted.
- 4.4.11 We have been working hard to develop meaningful water efficiency offerings for retailers and customers. Working alongside retailers we plan to introduce water efficiency visits for business customers as these have been seen to drive significant reductions in leakage and consumption. Our trials with schools to date have provided some excellent results. Our plans are being informed by customer research and retailer engagement sessions as well as building close working relationships with those retailers already making great progress in this space. Further detailed information on the Non-Household Retail Market approach can be found in supplementary document *UUW59 – Supporting the NHH Retail Market*.

4.5 New Market Opportunities

Bioresources

- 4.5.1 Participation and support of markets is one of the strategic principles we have adopted to deliver our overarching vision of a competitive, agile and resilient Bioresources service. Our plan combines the following elements which align with our Long-Term Delivery Strategy (LTDS):
- Engaging with the market to identify and develop effective sludge treatment services, including the provision of new sludge treatment capacity.
 - Driving value from mature service offerings, e.g., transport
 - Enabling market development for emerging service needs, e.g., alternative outlets for bio solids.
- 4.5.2 In the short term we are engaging with the market for sludge treatment capacity to support AMP8 service delivery whilst we progress our long-term capacity procurement. We issued a PIN and followed up directly with suppliers that responded, as well as continuing to have bilateral discussions with adjacent WaSCs. Whilst three of our neighbouring WASCs (Severn Trent, Welsh Water, Northumbrian Water) published data indicating tradeable sludge capacity (i.e., for imports to their regions), agreements for significant guaranteed trade volumes would only be available with a long-term commitment.
- 4.5.3 United Utilities has also published a Bioresources Bid Assessment Framework (BAF), supported by a PIN and one to one engagement with potential market participants. The additional engagement we completed demonstrates that the BAF encourages and supports a streamlined pathway for organisations to partner with us, with three bids being received via the BAF channel. One of these approaches was for sludge treatment services, and we have taken the opportunity to encourage that participant to engage with the procurement for long term treatment capacity. We have also completed enabling activities, including investing circa £100,000 in testing to define sludge quality, which is a critical requirement to support successful and efficient market led service delivery.
- 4.5.4 United Utilities experience of seeking short term Bioresources capacity is that even when the reported information identifies tradable capacity, significant operational caveats undermine the potential usefulness and value of that capacity, and for some the capacity does not appear to be available. The caveats include restrictions as to the quality of the sludge and the capacity not being guaranteed. In reality the potential for sludge trading without new capacity being specifically built appears extremely limited. United Utilities has therefore focussed on supporting the development of markets that have greater potential to realise significant benefit.
- 4.5.5 Developing effective markets for sludge treatment is a cornerstone of United Utilities future plan and we have already completed a range of activities to engage with the market. Progress has been challenging due to regulatory uncertainty, particularly the future availability of land bank for bio solids recycling, however we have invested significantly in market engagement activity, and this has given us a great deal of insight to inform our strategy. It has developed our understanding of the capability and capacity of markets to provide sludge treatment services and sludge trading, as well as the requirements of service providers that will enable them to provide effective and competitive services.
- 4.5.6 United Utilities has pioneered industry-level knowledge sharing through the Futures Ideas Lab and publication of papers, “A review of options for further market participation in Bioresources²” and “Unlocking greater value through a national Bioresources strategy³”. Both papers have been well received and have led to continued sector leadership on determining the future of the Bioresources

² <https://www.ofwat.gov.uk/wp-content/uploads/2021/01/UUW-A-review-of-options-for-further-market-participation-in-bioresources-Dec-2020.pdf>

³ <https://www.ofwat.gov.uk/wp-content/uploads/2021/11/United-Utilities-Unlocking-greater-value-through-a-national-bioresources-strategy.pdf>

business. United Utilities also commissioned the “Long term strategy for Bioresources in England⁴” (which was disseminated in May 2023) providing advanced the thinking around long term outcomes, strategic pathway and considerations on how to navigate through uncertainty to build a more resilient, efficient and low carbon future for the Bioresources sector.

- 4.5.7 We have undertaken extensive engagement with market participants to develop a procurement model for delivery of new long term treatment capacity. We issued a Prior Information Notice (PIN) and followed up with multiple rounds of engagement with the service providers that responded. Our conclusions, which are supported by the external report on sludge treatment capacity across all WASCs from Atkins, are that new capacity is needed to meet our requirement and that there are capable and interested suppliers in the market. We have therefore decided to procure this new sludge treatment capacity from the market rather than using an insource or traditional design and build model. This procurement will be the first of its kind in our sector and indeed the wider industry.
- 4.5.8 UUW continues to demonstrate leadership in creating opportunities for development of a new sludge trading market with the intent that this will deliver value in terms of both cost and service improvements as opposed to more traditional methods. In terms of scale, this is a significant opportunity as treatment of circa 20 per cent of our total regional sludge production (45,000 tDS/pa) will be open for market participation. Throughout the procurement process we will continue to assess value for UUW against any potential market offering to ensure we deliver the best possible outcome for customers.
- 4.5.9 The Bioresources services market of the future will need to evolve to comply with regulatory change. For example, the challenges facing the sector on continuing to recycle bio-solids to land as cake will require new solutions. UUW sees this as an opportunity for markets to deliver these new services and are therefore proposing to undertake a detailed programme of work to define how we will procure future services which will include extensive market engagement and participation.
- 4.5.10 A further area of market development we are leading on is collaborative innovation, sharing knowledge across the sector to support new market entry for service providers and creating markets for new products. Through AMP7 we have secured circa £16 million of external funding to progress innovation opportunities in the following areas: Collaboration in electric HGV trials with other sectors; commercial trial for a new sludge dewatering technology; commercial trial for optimising existing digestion; production of new products from biogas (graphene, hydrogen); production of new products from raw sludge (biopolymers and cellulose recovery); and participation in the net zero future industries programme. We see stimulating and supporting innovation as a critical part of our overall approach to developing markets. For more information on United Utilities Bioresources strategy please see supplementary document *UUW58 - Bioresources Business Plan*.

Trading Opportunities – Water Resources

- 4.5.11 UUW is an active participant in Ofwat’s Strategic Resource Option (SRO) programme to develop solutions to address projected water shortages due to climate change and population growth. Water trading has been a significant element of the Water Resource Regional Plan and Water Resource Management Plan, and UUW has provided trade prices to a number of water companies as part of this exercise.
- 4.5.12 We are developing the North West Transfer SRO (NWT SRO) to facilitate the trading of water both within and beyond the Water Resources West region, and it is anticipated that the NWT SRO will be selected for future trades with both Severn Trent Water and a number of companies in the Water Resources South East (WRSE) region, including Thames Water and Southern Water.
- 4.5.13 We are proud of our role in the Severn to Thames Transfer SRO (STT SRO) and working collaboratively with Severn Trent Water and Thames Water to develop a water transmission system from the North West to the South East of England. This transmission system creates a significant market for water to be

⁴ [water.org.uk/sites/default/files/2023-09/WaterUK_BioresourceStrategy_FullReport_V2_15.08.23.pdf](https://www.water.org.uk/sites/default/files/2023-09/WaterUK_BioresourceStrategy_FullReport_V2_15.08.23.pdf)

traded between water companies and third parties. We have worked in collaboration with Severn Trent and Thames to procure work packages for the STT SRO and this has enabled us to procure from a wider range of suppliers and drive greater efficiencies than if we had worked independently.

- 4.5.14 Ernst & Young provided support on the STT SRO Commercial Strategy, identifying a range of commercial models for system operation based upon both precedents in the water industry (such as bulk supply agreements) and insights from other sectors – including energy - which have more mature trading markets. We have proactively presented these findings to regulators and other companies with the aim of providing common frameworks that will support future trading markets.
- 4.5.15 In AMP8 we will continue to progress the SRO's to support the Regional Planning and WRMP processes. We are also seeking to develop a 25 Ml/d 'Early Trade' with Severn Trent as a pathfinder project to test the regulatory and commercial models required for future trades from the Vyrnwy system, in addition to a separate trade in Chester where we would provide a resilience supply to Severn Trent in the event of operational issues with their treatment works. We continue to explore new import trading opportunities with other water companies, including a potential import from Kielder Reservoir (Northumbrian Water). Through the BAF United Utilities did receive a bid that could have provided a new supply of water from an alternative supplier, however utilisation or transfer of the abstraction licences was not viable.
- 4.5.16 Finally, UUW will also continue to actively participate in RAPID Steering and Task & Finish Groups to develop consistent commercial and operational models to enable a growing market for national water trading. We have led the way as a key potential water exporter by establishing trading principles proving that exporting companies can play an active role in supporting the wider national needs while managing risks to donor regions.

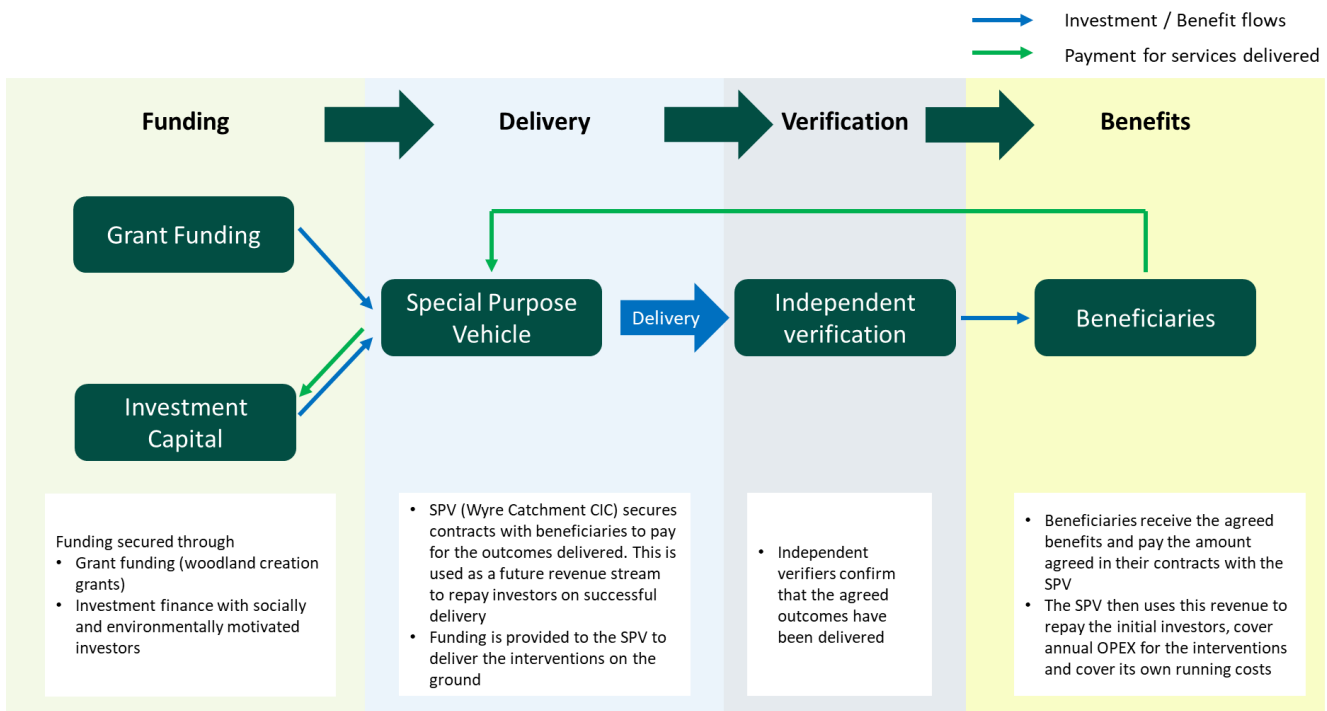
Partnerships and Green Markets

- 4.5.17 Through our extensive experience of working in partnership to co-create, co-finance and co-deliver, we know that we deliver greater value for customers and the environment than we could achieve working alone. Working collaboratively, we can achieve multiple benefits for a range of stakeholders as part of a joined-up approach. In developing our partnership approach and consideration of partnerships in the widest context, we have identified partnerships across the whole of our business and have challenged ourselves to think about partnership opportunities in the broadest sense, particularly in relation to the Advanced WINEP which highlights partnerships as a fundamental principle of the delivery of this strategy.
- 4.5.18 An example of two existing innovative partnership approaches is detailed below.

Wyre – Natural Flood Management

- 4.5.19 UUW identified with partners a mutual need to develop mechanisms that would enable greater applications of Natural Flood Management (NFM) interventions. It was recognised that a conventional approach to this challenge was not sustainable – both from an economic and environmental perspective, and recognised that a nature based, collaborative solution had the potential to deliver the greatest efficiencies and opportunities to maximise additional ecosystem services. This concept aligned with our systems thinking approach, delivering multi-functional and multi-stakeholder solutions.
- 4.5.20 Through engagement with other partners, it came to light that the greatest opportunity to enable NFM to be delivered was to develop an approach collaboratively. United Utilities encouraged the formation of a consortium that included Rivers Trust, Environment Agency as well as other key stakeholders. UUW and Rivers Trust jointly developed a project and secured external funding from the Esme Fairbairn foundation. The details of the mechanism are outlined in Figure 6 below:

Figure 6: Wyre Natural Flood Management contracting mechanism]



4.5.21 In order to ensure that UUW investment into the project was founded on genuine payment for the ecosystem service provided by the interventions, we undertook further innovative modelling to identify the flood risk reduction benefits that could be possible for our assets. From this modelling we identified circa 30 sites and assets within the pilot area that could benefit from enhanced flood risk resilience and, utilising multiple data sets, were able to determine an appropriate investment to the project, meaning we did not invest beyond the modelled benefit.

4.5.22 In addition, key aspects of the Wyre NFM project and the commercial mechanism developed through the project include: (1) the opportunity to fund the interventions based on the results and share the risk with the investors (2) To reduce payments if the NFM does not deliver the expected results (3) Construction and operational risk transferred to a Community Investment Committee (CIC) where operational risks are mitigated through performance assessment and (4) Reduction in risk exposure combined with sharing cost with others is key to getting innovative approaches established, particularly when confidence is being built in benefit realisation.

4.5.23 Going forward, we will focus on how we can learn from the project and scale the approach – including sharing appropriate learning with applicable projects. We also want to improve our understanding of NFM and look to ways of linking the catchment measures into network performance to understand what this could deliver and assess our assets to identify other opportunities which this approach may be applicable to.

Natural Environment Investment Readiness Fund

4.5.24 This proposal will aim to accelerate circa £10 million of private investment into delivery of nature-based solutions into the Eden catchment over the next 5 years. It will do this by applying a commercial governance structure to the existing and highly successful Landscape Enterprise Networks (LENS) approach currently operating within the Eden catchment (in the River Patteril), thereby maximising the scale, and accelerating the rate of ecosystems service trading opportunities.

4.5.25 The LENS model generates cost savings for the buyers through a combination of (1) cost avoidance, e.g. through increased resilience of supply chains (2) reduced costs by aggregating buyers (3) nature-based solutions implemented are more cost effective than equivalent hard engineered solutions (4) increased efficiencies, by brokerage through the LENS aggregator (the new commercial governance structure).

- 4.5.26 Cumbria LENS has resulted so far in a series of ecosystem function trades, involving increasing scale and complexity:
- an initial unilateral trade between United Utilities and farmers around Calthwaite Beck, co-ordinated by the Eden Rivers Trust;
 - a collaborative trade where Nestle and United Utilities are procuring common interest nature-based solutions from farmers around the River Petteril, co-ordinated by First Milk, and,
 - a ‘multifunctional’ trade around Greystoke in the upper Petteril, where Cumbria County Council and Environment Agency are contributing flood management funds, and United Utilities are contributing phosphorus management funds to a set of common interest nature-based solutions, identified and coordinated by Eden Rivers Trust, and linked to the local Catchment Sensitive Framing (CSF) programme.
- 4.5.27 In contrast to other commercial models, such as the trading platforms and debt finance models, a huge advantage to this commercial model is its flexibility to facilitate a range of trading mechanisms. This enables the catchment market to be agile and expand in to trading additional ecosystem services as new buyers and sellers are identified. The flexibility of the proposed commercial governance model will allow it to be replicated across the country. It is sensitive to the needs communities of buyers and sellers, can build from existing partnerships and is not restricted to specific transactions or ecosystem services.
- 4.5.28 Along with the key strategic partnerships we hold, we are involved in over 100 tactical partnerships with a task and finish approach to enable speed and scale of delivery. Examples of two of our key strategic relationships include our ground-breaking strategic partnership with The Rivers Trust which aims to tackle the big challenges facing rivers in the region. It is the first time a partnership has set about designing a framework to bring together everyone with an interest in the health of rivers from source to sea and a new shared vision, agreed to in 2021, with the Royal Society for the Protection of Birds (RSPB) building on award winning joint work over the past ten years. Together we intend to tap into natural capital markets including green finance initiatives and the Environmental Land Management scheme to fund beneficial land management projects.
- 4.5.29 We have a bold plan to further grow partnership value in AMP8. Incorporated into this is an element of flexibility providing us with the opportunity to adapt to the unique nature of individual partnerships, partners and changing needs of our communities. We aim to invest £344 million of our AMP8 plan in pursuing partnership solutions, leveraging £95 million of co-funding from other sources to directly support our core services and has enabled us to benefit bills, and an additional £172 million to deliver additional value to support wider environmental and social benefits for the North West. Our investment will have a strong focus on resilience, nature based, local and catchment solutions and CSO spill reduction.
- 4.5.30 Further detailed information with regards to our Partnership strategy and investments plans can be found in supplementary document *UUW38 - Working in partnership*.

4.6 Benchmarking and best practice

Alvarez & Marsal (A&M)

- 4.6.1 Working with A&M, we have conducted a rigorous review of the areas where we spend the highest amounts, including our capital delivery programme, engineering and commercial, to ensure we get the very best value for money in these material areas, as well as other areas of focus, including digital services, fleet and property.
- 4.6.2 This readiness review looked to: refine the operating model around key assets; improve capital project design, budgeting and delivery; remove duplication, improve governance and drive accountability; and release funds to invest in planned maintenance, reducing reactive spend. We worked closely with A&M to review our processes and behaviours and identify the building blocks needed to drive further value

and efficiency for the remainder of AMP7. This includes further standardisation, additional rationalisation and cost reduction opportunities through third parties.

- 4.6.3 We have identified specific areas where we have an opportunity to tighten our costs in AMP7 without compromising on service levels, enabling us to offset some of the cost increases during AMP7 and achieve further savings during AMP8 as we enter the period at this higher level of efficiency.
- 4.6.4 The A&M review provided an important organisational top-down efficiency review, the market related opportunities aligned with the findings of the Market Assessment Framework and further strengthened the focus of the Commercial 'bottom up' review undertaken by Project Crystallise. This enabled United Utilities to take a targeted and structured approach to reviewing sourcing and contract strategies and supply chain relationships to deliver maximum value and service for customers as outlined in the sections below.

Project Crystallise

- 4.6.5 Project Crystallise represents the formation of a bottom up build of initiatives aligned to our market engagement ambitions that go beyond the normal procurement cycle of spend and renew by combining a series of learnings, studies and outcomes from the Baringa Market Assessment Framework. A key aspect of the work was to move beyond assessment and into delivery. Our commitment to this delivery then took the form of a benefits driven outcome programme, supported by a third-party consultancy, Barkers Commercial Consultancy (BCC), to act as delivery partner and ensure the outcomes were achieved.
- 4.6.6 While aligning to the Market Assessment Framework, the top-down A&M work and United Utilities own Commercial expertise and identification of opportunities, Project Crystallise identified 46 projects for delivery in AMP. The aim being to derive maximum value through effective engagement and use of the supply chain in areas such as Facilities Management, Fleet, Grounds Maintenance, Maintenance Sourcing and Supply Chain Management improvement projects (such as SRM, Business Partnering, Precedent Library refresh work, Procurement Process Reform and Commercial Performance Dashboards among others).
- 4.6.7 The whole programme has a targeted in AMP benefit of £33.6 million, with a stretch target of £42.8 million if initial projections can be surpassed and certain market conditions remain favourable. This supports our need to address the significant financial challenges during the current AMP and to focus on immediate benefit realisation and readiness for AMP8. In detail the savings attributed to the specific market testing activities are shown in Table 2 below.

Table 2: Value savings per Type of Market Testing

Type of Market Testing	Value of saving
Strategy Review	£325,000
Benchmarking	£4,000,000
Claims	£1,750,000
Competitive Sourcing (Under Threshold)	£300,000
Contract Terms Review	£600,000
Cost Avoidance (rate negotiation)	£4,590,000
Full Competitive OJEU + Rationalisation	£9,330,000
Increased MI	£2,250,000
In-Sourcing	£250,000
Low cost country sourcing	£160,000
Make or Buy decision	£1,000,000
Market Tested Hybrid Solution	£200,000
Demand/rate reduction/tighter controls	£3,300,000
Optimised Procurement window	£8,150,000
Optimised Scope	£1,300,000
Policy Review	£225,000
Process Review - New ways of working	£700,000
Re-Negotiation	£2,300,000
Service Fee reduction	£370,000
Supplier rationalisation	£1,600,000
Total	£42,700,000

Source: Project Crystallise

- 4.6.8 Project Crystallise demonstrates United Utilities commitment to continuous improvement and delivering value for customers by mitigating cost impacts and constantly challenging ourselves to drive more efficient cost-effective outcomes. The use of BCC also demonstrates United Utilities best practice approach and ‘bringing the outside in’ in terms of valuable expertise and knowledge from outside of organisation and indeed our sector. By March 2023 savings of £500,000 had been delivered under the Crystallise programme with the remainder of the efficiencies to be delivered in 2023 and 2024.

4.7 Optimal Use of the Supply Chain

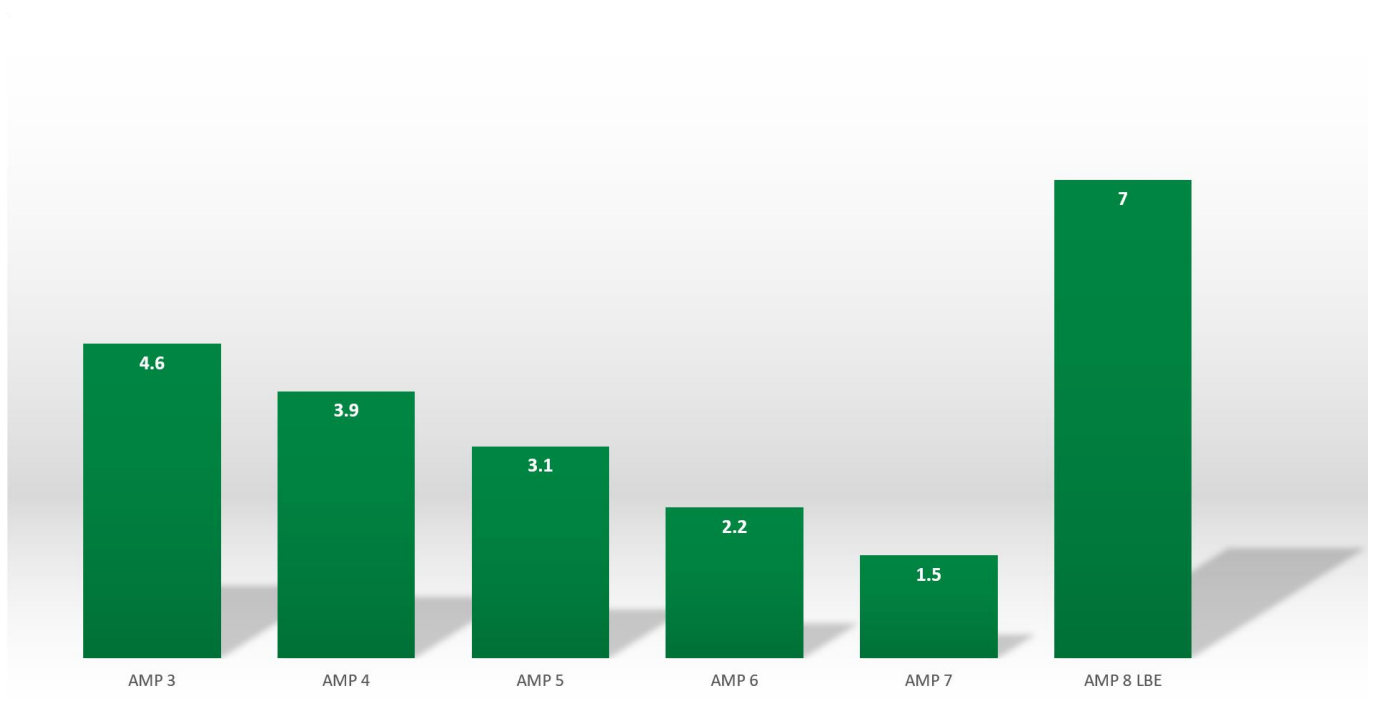
- 4.7.1 We are facing significant challenges due to macro socio-political and economic events affecting our core operations which has resulted in cost and wage inflation and left many of customers facing financial hardship. This is coupled with the environmental and regulatory pressures facing the water sector at a time when there is increased media and political scrutiny. As such, we have had to strive harder to continue to extract value from an increasingly volatile market, and the below provides examples of how United Utilities continuously strives to deliver best value approaches in our engagement with and management of our supply chain. The examples provided below also include detail of some of the key initiatives identified as part of the A&M and Crystallise programmes.

AMP6 - AMP8 Capital Delivery Model

- 4.7.2 The AMP6 and AMP7 Construction model was to adopt a Design & Build approach across the entirety of the capital programme (grouping projects into batches where possible), for allocation to large scale Construction Delivery Partners (CDP’s). Under this model the contractor assumes both the design responsibility for determining the best value solution, and the risk that the solution will function as intended to meet the specified requirements.

- 4.7.3 As AMP6 transitioned into AMP7, there was an acknowledgement that with a smaller programme to deliver, the level of workload would be insufficient to efficiently sustain all four Tier 1 delivery partners. This coupled with a desire to evolve to a more collaborative, co-located regional hub delivery model resulted in a change in strategy to select (through competition) two preferred delivery partners from the four CDPs. One each of successful contractors were appointed as the preferred co-located delivery partners into the North and South regional delivery hubs respectively, with the presumption that each would deliver all of the major capital projects in their region (assuming expectations on price and value continued to be met).
- 4.7.4 The intent was to aggregate projects into large tranches for programmatic procurement and delivery, leveraging benefits from having a visible long term stable work bank, programmatic efficiencies through procurement and delivery, subcontractor, labour and equipment usage, standardisation, collaborative behaviours and continuous improvement. The 1st tranche of the AMP7 capital programme – 62 projects of aggregated value £300 million which was grouped together and procured in a single event in 2019 realised savings at award of £36 million.
- 4.7.5 Over the course of AMP7 we have seen unprecedented levels of volatility and inflation in the market (as evidenced in section 2 of this report). This has led us to a further evolution to create a model which can adapt to the challenges of AMP8. The new AMP8 delivery model will allow for greater flexibility and agility, allowing U UW to step into defining solutions where we have good capability, assuming more risk where it is appropriate to do so, challenging asset standards, and utilising the Tier 2, 3 and 4 contractor market in an effort to address the affordability challenge and successfully deliver the remainder of AMP7 programme within budget. The optimisation of our approach is yielding good results (for example reducing indirect costs from 80 per cent to 55 per cent on T2) and has reinforced our strategy for AMP8.
- 4.7.6 The strategy for AMP8 is very different, based on our experiences from AMP7 and because a change is needed to react to the challenges of the market, but also due to the scale of the challenge in AMP8 as seen below in Figure 7.

Figure 7: Programme capacity through the AMPs (£ billion)

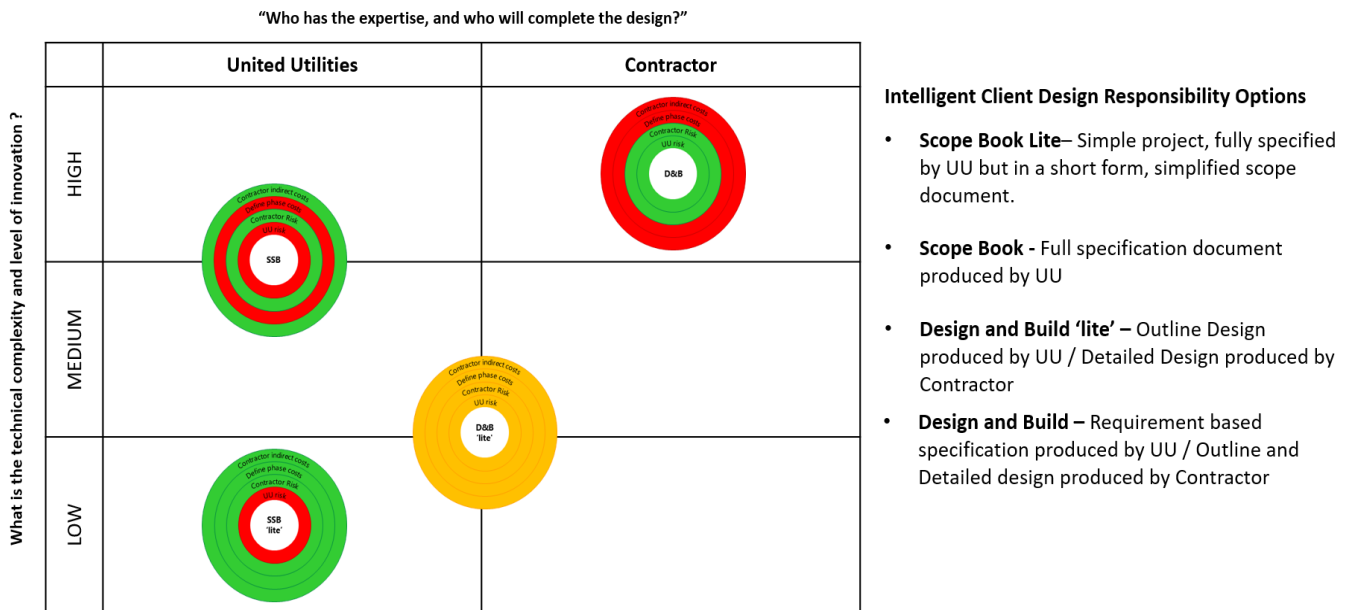


- 4.7.7 In AMP8 there will be a far more flexible approach to design responsibility, with U UW producing the design and specifying solutions where it has good internal knowledge and capability, and only transferring design risk to the supply chain on highly complex projects where it doesn't have the capability. This is intended to reduce indirect costs through limited risk transfer and increase the options

to utilise smaller more agile contractors on a “build-only” basis. The reduced scope of work will create access to new supply chain entrants and create greater levels of competition by allowing smaller contractors (without the design capability) to compete for United Utilities programme of less complex capital works.

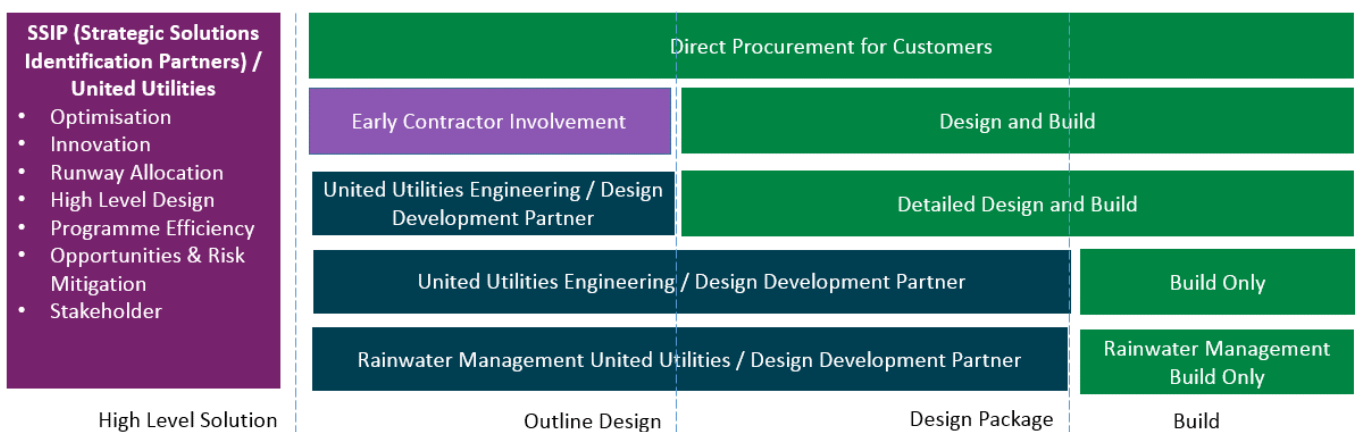
4.7.8 Figure 8 below demonstrates the design responsibilities undertaken by UUW as the ‘intelligent client’ or the Contractor based on the relative risk profile of the requirement.

Figure 8: AMP8: “Intelligent Client” Design Responsibility



4.7.9 This approach will allow UUW to adopt a “delivery runway” model in which different types of contractors can be selected to deliver projects of various levels of complexity based on the projects own requirements, and the contractors’ particular capabilities, with the risk profile being agreed per project accordingly and proportionately. This is shown in Figure 9 below.

Figure 9: AMP8 Strategy – Runway Delivery model



4.7.10 We have tested this approach with potential suppliers for AMP8 and feedback sought from the supply chain (supported by the Water Industry Forum’s report entitled ‘The Optimal Delivery Model for AMP8 - A View from the Supply Chain’) indicates that suppliers are seeking more collaborative commercial models, with equitable allocations of risk which limit their exposure. These principles are supported by Project 13 and feature heavily in UU’s model for AMP8 where we are taking an enterprise approach to delivery in two of the largest elements of the model. The ‘enterprise’ model will include two of the most

complex elements of the AMP8 deliver model, the Strategic Solutions Implementation Partner and the Capital Delivery Partners (large scale Design and Build contractors).

- 4.7.11 In acknowledgement of the significant scale-up and diversity of the AMP8 programme (which includes not only significantly greater volumes of work to deliver, but also including large volumes of work types that UU has limited experience of delivering such as Nature Based Solutions), UU has appointed a Mobilisation Partner, ARUP, with experience of guiding organisations through similarly large transition programmes. This work is intended to ensure that UU has the people, culture, skills and capability necessary to successfully deliver its AMP8 programme.
- 4.7.12 United Utilities has engaged specialist support from across the industry to take a market leading approach to the AMP8 strategy. We have engaged Avista Strategy to assist with development of the collaborative model required to support AMP8 and Barkers Commercial Consultancy have provided assurance of our proposed AMP8 delivery model and procurement strategy. As part of the A&M review the AMP8 model was fully endorsed, and a recommendation made this should be implemented as soon as possible to any remaining AMP7 projects.
- 4.7.13 In order to maximise opportunities presented by an evolved delivery model United Utilities is now reviewing procurement strategies and applying the principles of value engineering to its remaining AMP7 programme. This culture of continuous improvement is enabling us to challenge our standards, specifications and processes to be as lean and efficient as possible, optimising solutions and allocating risk to the party best able to manage it, and utilising smaller, more agile contractors where possible to reduce indirect cost. Accelerated AMP8 has also presented opportunities to further deploy our AMP8 thinking and runway approach to delivery, at scale. To date a total of circa £117 million in efficiencies have been delivered against the AMP7 Capital programme including £72 million achieved through value engineering. Much more information about how we are preparing for capital delivery, engineering and supply chain deliverability is set out in supplementary document *UUW47 – Deliverability*.

4.8 Make vs Buy

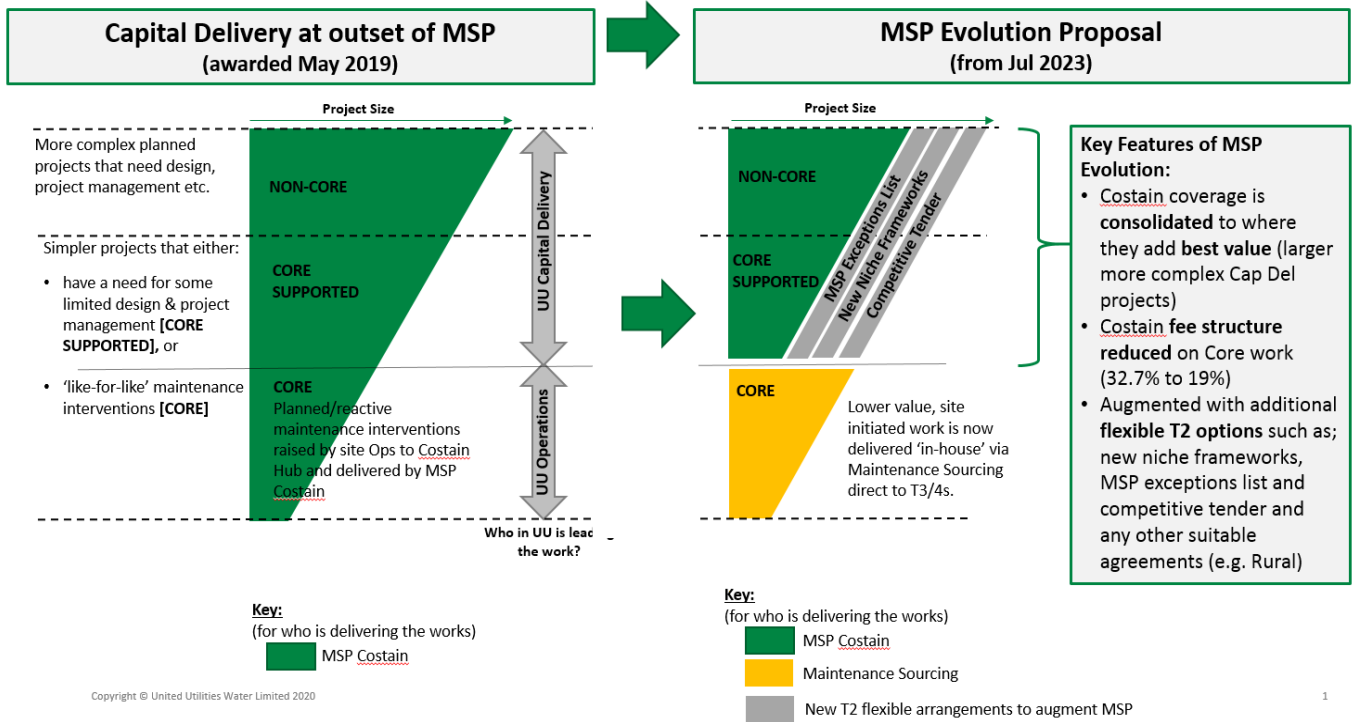
Maintenance Sourcing

- 4.8.1 **Outsourcing** - We continually refresh our existing contract approaches to ensure we continue to deliver best value for customers. An example of this has been a review sourcing model for operations and maintenance activities – assessing options for sourcing and opportunities to group services in different or innovative ways. This was structured into two workstreams, an evolution of the Managed Service Provider (MSP) contract approach (this is detailed in section 4.9 below) and a new approach to sourcing some of those requirements, effectively removing scope from the existing MSP agreement into an alternative sourcing approach.
- 4.8.2 At the start of AMP7 United Utilities contracted with a single Managed Service Provider (MSP), however in order to maximise use of the wider supply chain a United Utilities decided to disaggregate management of our high-volume low value maintenance activities. This decision was taken based on benchmarking data which indicated that we could deliver a more effective and competitive service rather than through the managed service approach. This resulted in several new work packages being issued to the supply market focussing on utilising a greater number of SME's (c.85 per cent of awarded suppliers), as part of a new Maintenance Sourcing Strategy.
- 4.8.3 The Maintenance Sourcing strategy set out to achieve a number of key objectives: Reduce management cost (12 per cent vs 32.7 per cent), increase asset availability (through optimising maintenance activities, following root cause analysis), reduced repair cycle times (target 30 days) Via this approach we have made 76 separate awards, generating savings of circa £5 million since June 2021 and asset return to service times have been reduced by circa 50 per cent thereby maximising asset value and service delivery.
- 4.8.4 This effectively changes the boundary of our relationship with the supply chain for a significant proportion of our lower value, high volume maintenance requirements. In this new model shown in

Figure 10 United Utilities takes the responsibility for the management of the contractors, allocation of work etc. that was previously delivered by the MSP.

Figure 10: Diagram showing MSP Strategy Evolution and New Contract Model

Maintenance Strategy- Works



Fleet

- 4.8.5 **Strategic Review** - Where market services are mature, United Utilities proactively and periodically reviews its current service quality and efficiency. A key area of focus for AMP8 is the current Fleet service model where we are undertaking a full lifecycle review to optimise efficiency. This includes the procurement and maintenance model for all vehicle types within the fleet. We have conducted extensive market engagement to assess the whole life cost model with the intent of delivering an outcome that will deliver best value and improve our service to customers.
- 4.8.6 A key element is United Utilities current fleet procurement model for Light Commercial Vehicles (LCV). We are assessing whether a change to a leasing model could potentially deliver benefits in terms of reduction in overhead costs, costs of undertaking repairs, optimisation of the fleet (greater control of the assets) and reduced time where vehicles (and drivers) are ‘off the road’. We are conducting a full test of the market via a procurement exercise and expect this to be completed in the next 12 months in readiness to implement any new model ahead of AMP8 delivery.
- 4.8.7 The review also presents a significant opportunity for United Utilities to accelerate delivery of its carbon pledges in terms of delivering 100 per cent green fleet by 2028 by accessing the market for new vehicles and emerging technologies. It also allows United Utilities to be more agile and responsive in terms of our future green fleet strategy and future fuel usage.
- 4.8.8 United Utilities Fleet maintenance and fit out requirements are currently provided through a hybrid model of internal garages and use of the external suppliers. It’s essential we keep our teams mobile and on the road, and we are therefore reviewing our end-to-end service model and the pro’s and cons of a suite of options to assess the optimal model for the future, balancing efficiency, service, compliance and innovation.
- 4.8.9 Such a review also brings significant opportunity for United Utilities to embrace new and emerging technologies and innovations, particularly in relation to green fleet. It also means that our fleet strategy can be agile enough to meet the changing operational demands needed to support AMP8 delivery in key

areas such as our HGV fleet including Bioresources and Alternative Supply Vehicle (ASV's). The life cycle review is likely to present opportunities for increased/enhanced supply chain service offerings where we can identify outsourcing is best value.

- 4.8.10 United Utilities is constantly challenging its fleet needs and as such we are targeting a reduction in fleet assets across operational sites. Currently there are circa 2800 vehicles/vans with an aim to reduce this by the end of AMP7 using telematics which is now installed across the entire UUW owned fleet. The fleet telematics is also driving operational performance through monitoring fleet usage, provision of proactive maintenance and optimising safety and efficiency of our drivers.
- 4.8.11 A new Fleet Steering Group will govern the requirements for future fleet on a case-by-case basis, allowing for greater governance, a strategic asset strategy (including increasing green fleet), and centralisation of third party spend which will in turn provide greater demand management and increase United Utilities market leverage.

Estates and Facilities Management

- 4.8.12 **Disaggregation** - United Utilities third party spend in this area is circa £22 million per annum with a single Facilities Management (FM) provider. This is split 50 per cent on core facilities management service with the remainder related to ad hoc small scale works projects (roof repairs etc.). As part of our AMP8 delivery strategy we are currently undertaking an extensive market test of our service offering in this area, initially reviewing where works can potentially be de-scoped or procured differently, thereby challenging standards and volumes of the current FM provision going forward.
- 4.8.13 The core FM service offering has been the subject of a strategic review, understanding how we can provide a level of service that meets requirements but drives efficiencies in terms of standardisation of scope and benchmarking maintenance, security and landscaping standards to drive down costs from the core service. We have disaggregated the current FM contract in key areas such as catering, document storage and stationery where our market analysis identified we could be paying a premium for a fee-on-fee model, and there is an opportunity to deliver value through contracting directly with a tier 2 provider. For discreet work packages such as stationery and document storage there are competitive disaggregated markets so this will provide an opportunity for new, potentially SME suppliers to become direct suppliers to UUW. We are targeting AMP7 efficiencies of circa £6.8 million via this new model.
- 4.8.14 In terms of the small scale works which represent circa 50 per cent of third-party FM spend we are also investigating the opportunity to decouple this from the future operating model. In the current FM model, the provider sub contracts this element of project work as it is not a part of their core service offering. Our analysis has identified that this existing model has the potential to increase risk and cost in delivery (for example 'man marking' with both UUW and the FM suppliers having teams to manage project work), and as such we plan to utilise the tender process to test the market capability in this space.
- 4.8.15 Our intent is to appoint a supplier who can undertake both core and project works, however if during the tender process we do not find a supplier with the service capabilities required and at an appropriate cost, we have included a right to withdraw this element and appoint a supplier for core FM works only, thereby providing a 'fail safe' opportunity to pivot to a different service model for small scale works. In parallel the strategic review is undertaking a rationalisation of projects and capacity within United Utilities own estates/capital markets teams. This the first phase of an FM/Estates strategic review and we expect this strategy to continue to evolve and deliver further benefit throughout AMP8.

Grounds Maintenance

- 4.8.16 **Outsourcing** - United Utilities currently has an insourced capability for grounds maintenance services equating to circa 130 FTE across the UU geographical area. There is a current market test to review the service offering and evaluate the service's value for money using the current model, as well as to test whether different or blended models including third parties undertaking specialist, core, or emerging services on our behalf would deliver additional benefits. We recognise there are existing market

challenges in this area due to availability of the labour force within the North West region for this type of service, particularly in remote geographical areas such as Cumbria.

- 4.8.17 The grounds maintenance team is also an essential service in terms of meeting our 'land bank' environmental and regulatory commitments and in the past the workforce has been utilised to support UU response to critical/emergency events without the need to incur premium costs of sourcing contingent labour. In the past our grounds maintenance team have also provided opportunities for employment for some of the more disadvantaged members of our community, such as our work with 'Recycling Lives'. Therefore, whilst the market test must involve a best value approach to the service offering, costs and service provision will be benchmarked against market rates.

Smart Metering

- 4.8.18 **Outsourcing** - United Utilities recognises that Smart Meters are a matter of national priority for the water industry and in response we have developed an ambitious Smart Meter strategy inclusive of roll out and installation plan. In total 921,000 meters will be fitted in AMP8 (500,000 new household meters and 421,000 upgraded meters) utilising AMI (Automated Metering Infrastructure) technology. The billions of meter reads we can expect to receive from AMI meters is a material step up from the millions we receive from AMR and legacy visual meters today. This requires significant investment in infrastructure as well as the external communications network to collect and transmit reads from the new meters.
- 4.8.19 That said, the innovative and large-scale nature of this programme has allowed United Utilities to consider alternative opportunities for delivery maximising supply chain capacity and capability. We are considering two possible contracting options to maximise value and capability from the market. One is a 'bundling' of the requirement for sourcing of meters, installation and network provision by a single provider. Market intelligence indicates this approach could attract a larger telecommunications provider who could bring United Utilities the benefit of its aggregated buying power and existing sub-contracting relationships to deliver a cost effective and high-quality service.
- 4.8.20 The second option is to disaggregate the requirements into separate agreements for meter sourcing and installation and network provision. This strategy could also deliver benefits through closer relationships with a direct supply chain and access to specialist market capabilities. We are currently undertaking extensive optioneering, market analysis and benchmarking (supported by Baringa) to determine the most advantageous contracting option.
- 4.8.21 In both scenarios UUW demonstrates effective use of the market in terms of utilising the procurement process to determine the best communication network solution, contracting for the data service provided, rather than installing a UUW proprietary network. This is particularly relevant given the rapid evolution of communications network technology, and it allows United Utilities to remain agile in continuously accessing the most up to date technological capabilities to further enhance the smart metering programme.
- 4.8.22 We fully recognise that the value of smart metering lies in the availability and usability of the data and information and not in the asset itself. We are committed to ensuring that in future granular consumption data from smart meters can easily be made available to retailers and visible to customers in a way which will allow them to manage their water usage. In this way we can look to utilise retailers to help meet our obligations in relation to water efficiency and leakage.

4.9 Sourcing and Contract Approaches

- 4.9.1 Our varied approach to sourcing and contract approaches demonstrates how United Utilities effectively manages its engagement with the supply chain to deliver a best-in-class service. United Utilities supply chain includes over 1,700 suppliers from major corporations to sole traders. Suppliers are split across six primary spend categories of Capital Delivery, Digital Services, Network Maintenance, Site Maintenance, Energy and Corporate & Technical Services.

- 4.9.2 We currently manage circa 740 live frameworks, with approximately 2,660 purchase orders raised per month, taking 11 days on average to pay suppliers. Payment practices are critical to United Utilities and our 934 SME suppliers and for a second year running we received a 'Good Business Pays' Award. In March 2023 we partook in a cross-sector Industry Leaders Advisory Group with Liz Barclay of the Small Business Commissioner to discuss the importance of the Prompt Payment Code in supply chain management.
- 4.9.3 United Utilities works constantly to improve our processes, procurement routes and overall market engagement to ensure that our core service delivers maximum value to internal stakeholders, key suppliers, our broader supply chain and ultimately, customers. In May 2023 we were awarded the Procurement Skills Accord Award by the Energy and Utilities Skills Partnership. United Utilities also won a specific award in respect of excellence in Supplier Engagement. This is in recognition of our investment in creating a sustainably skilled workforce within the sector and our approach to our supply chain in implementing the same.
- 4.9.4 Across our procurement and commercial sphere in AMP7, and in a clear demonstration of the MEM principles and the Market Assessment Framework, we have delivered 49 open market agreements between April 2020 and March 2023 with a total value of £203 million. This equates to 18 per cent of our total annual spend. Across these procurements and in efficiencies delivered through changes to our sourcing and contract approaches and supply chain relationships we have delivered over £38 million of efficiencies within AMP7.
- 4.9.5 Of those procurements we have awarded contracts to 46 SMEs and reduced our procurement timescales with the fastest sourcing activity completed in nine weeks using the open procedure. Of those 49 procurements, only 7 represent a 'like for like' replacement, whilst the rest represent a change to the original contracting model. 10 of these agreements were 'new' procurements with no previous reference point. This can be seen in Figure 11 below.

Figure 11: Sourcing activity in AMP including changes to delivery route

Route	No.	What is the new Procurement like?				
		AMP7	Change	Innovation	Like for like	New
Achilles UVDB	3	0	3	0	0	0
Direct Award - AMP 7	5	5	0	0	0	0
DPS	2	0	0	0	0	2
Negotiated Procedure	30	0	18	0	7	5
Open Procedure	3	0	1	0	0	2
RFP - Light touch	1	0	1	0	0	0
Innovation	4	0	0	3	0	1
Mini Competition	1	0	1	0	0	0
Total	49	5	24	3	7	10

- 4.9.6 Importantly, UUW has deployed a variety of procurement methods in this time to ensure we deploy a 'fit for purpose' approach to everything we buy, targeting the right suppliers and ensuring effective outcomes. These routes include our first Dynamic Purchasing System, expanded use of Open Procedure, and deployment of e-auctions alongside use of the light touch regime.

Ferric Sulphate

- 4.9.7 As an example, we have taken a new approach to sourcing Ferric Sulphate which is a critical chemical used to reduce phosphorus in water treatment. We introduced a fast-track process using Achilles to procure a contract (rather than a framework) and for the first time UUW will guarantee annual minimum volumes. The contract will run for up to 15 years, and this approach will help the manufacturers obtain funding to build the additional production capacity required in AMP8. In order to

build resilience in security of supply United Utilities has now awarded this contract to 3 suppliers and it is due to commence on 1 September 2023. It is anticipated that this will deliver circa £1.5 million over the term and create a resilient and secure supply of a critical chemical.

Vyrnwy Aqueduct Maintenance Programme

- 4.9.8 United Utilities has engaged a large-scale contractor for delivery of the Vyrnwy Aqueduct Maintenance Programme. The scope of this works initially included both the construction element and the purchase of a total of 38km section of pipe needed to complete the works. Within development of the procurement strategy UUW weighed up the relative risks and opportunities of direct purchase of the quantity of pipe as opposed to contractor purchasing the pipe under the scope of the project. There were two primary factors which influenced UUW's decision, ultimately leading to UUW's decision to purchase the pipe directly.
- 4.9.9 UUW recognised that given the substantial quantity of the pipe and the suppliers manufacturing capacity to meet the forecast contract award date, that advance ordering would secure supply chain manufacturing capacity and therefore reduce the risk to programme timescales. The secondary driver was that by purchasing directly UUW could secure favourable commercial terms on the pipe supply rate (including the polymer material), taking account of current market volatility. This would also reduce any risk of incurring higher 'fee on fee' costs by including purchase of the pipe under the scope of the capital partner.
- 4.9.10 This approach was not without risk and UUW recognised that by directly procuring the pipe we would assume risks in relation to programme, material quality and potential storage costs. Upon careful consideration we mitigated these risks by developing a clear process and resources to co-ordinate the deliveries and inspection the pipe for quality control. In purchasing the quantity of pipe directly from the supplier UUW was able to secure savings of £1.1 million and maintain the project timeline. We are also looking to maintain the same approach for the remaining phases of the project to mitigate risk and minimise delivery costs.

Managed Service Provider Evolution

- 4.9.11 As part of a strategic review to determine the potential to extend/replace the existing Managed Service Provider (MSP) which commenced in July 2019 and with the initial term until May 2024, some significant findings were made, namely that the current model was performing well and was preferred against other delivery models (such as contracting directly with tier 2 suppliers which would require much more internal UUW resource to support). Retendering a minor works framework to replace the MSP at the end of the initial term was not considered to be cost effective due to market conditions and the likelihood that retendering could lead to a reduction in contractor risk. That said there was significant opportunities to reduce waste and reduce cost.
- 4.9.12 To address this UUW negotiated a 2-year extension to the initial period which resulted in overall cost reduction of 4 per cent at a framework level. This included the introduction of an AI solution for the provision of initial quotes, realignment of resources across the service to increase capacity and reduce cost and introduction of a variable charging mechanism for operational costs to increase visibility of project specific costs. This model also further supported the Maintenance Sourcing project by encouraging small works to be undertaken by tier 2 contractors.

Network Maintenance Services Evolution

- 4.9.13 The Network Maintenance Services Framework came into effect on the 1 April 2019 (Lot 7 was deferred and awarded on 21 July 2021). The Framework is divided into our core activity (reactive and maintenance) and non-core (planned programmes/projects) across multiple lots and contractors. In November 2020 the core Frameworks went through an evolution from two clean water and two wastewater contractors to one contractor for each workstreams. This was to increase efficiency, remove duplication in terms of management of multiple contractors and drive efficiency through aggregation of works and batching of projects. This change to the contract strategy delivered efficiencies totalling almost £9 million in a 12 month period and is the first step in an evolution of the Network strategy.

Innovation

- 4.9.14 We incentivise and embrace innovation from our supply chain, our key supplier contracts include a demand to continually innovate during the life of the contract – improving products and services to make sure that we enjoy access to the best practice in the market. We encourage new entrants to avoid complacency and our drive to support fledgling business of start-ups and small to medium enterprises. Our flagship innovation programme, The Innovation Lab has awarded long term contracts to nine suppliers, of which six are new to the UK water sector, further information can be found on our website⁵ and in *UUW49 – Innovation framework and strategy*.
- 4.9.15 When tendering for major contracts, we encourage the suppliers to suggest the best solutions in their bids, however we recognise the bidding process can require significant upfront investment and effort by each supplier. In traditional procurement, this effort is unrecoverable and can lead to suppliers under-investing in the best ideas when bidding. For our Vyrnwy capital project, we adopted an approach piloted by the Crossrail project, which provides an opportunity to capture and explore pioneering ideas by paying suppliers for the ideas provided at tendering stage regardless of whether they were successful in the overall bid. We publicised this at the outset and had higher quality tender submissions as a result.

Procurement Reform

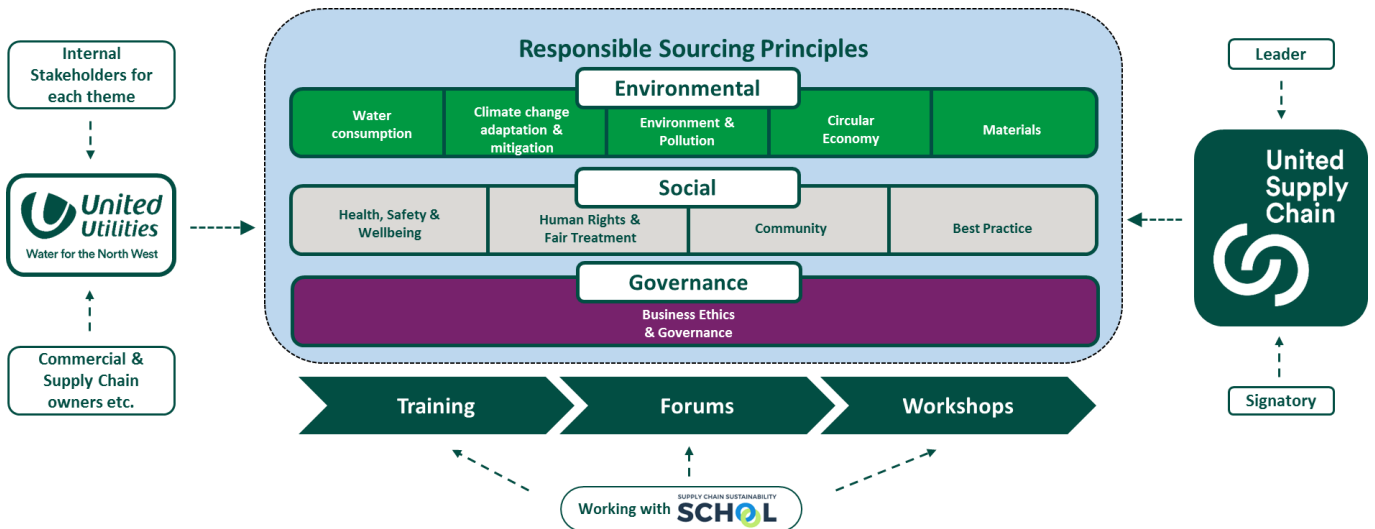
- 4.9.16 In March 2021, UUW issued a response to the government’s consultation on the December 2020 Green Paper, “Transforming Public Procurement”. The consultation was prompted by the UK’s exit from the European Union, with the aim of providing a simplified, single procurement regime. UUW, through its previous and existing engagement with Water UK, formed part of the Water UK Green Paper response paper, UUW issued its own response which sat both alongside and in addition to that response.
- 4.9.17 UUW formed part of the steering group led by Cabinet Office which allows for continued engagement in relation to the planned reforms, this has allowed United Utilities to propose changes to the reforms which would be to the benefit of Utility Companies and their customers and to undertake various levels of training as part of the planned launch of the reforms in 2023. United Utilities views the reforms as a significant opportunity to shift the focus of procurement regulation so that it ceases to drive cautious behaviours that limit transformation, and instead encourages innovation and value while increasing the scale of competition and opportunities for SME’s and UK based start-ups.
- 4.9.18 There is no doubt that UUW constantly evolving approach to delivering and managing its supply chain requirements, whether that be through new tendering approaches, innovative solutions or continuous appraisal of our contracting models, demonstrates a commitment to best practice and evidences maximum use of markets to deliver a competitive and best value service to customers.

4.10 Responsible Sourcing

- 4.10.1 UUW also understands that ‘how’ we engage with markets is equally important as ‘what’ we achieve, and our purpose and strategic themes drive us to deliver services in an environmentally sustainable, economically beneficial and socially responsible manner. This aspect of our market focused service is critical to ensuring our plans are delivered alongside our supply chain partners. We see our role in the North West economy as crucial to prosperity in the region and want to ensure that the Local Economic Multiplier benefit of our investment is felt in every household. We have also recently started work on understanding how to measure social value outcomes within our normal procurement processes.
- 4.10.2 United Supply Chain (USC) is our strategic supplier engagement strategy and is an effective means to generate collaborative, responsible supply chain management and deliver our Environmental, Social and Governance (ESG) principles effectively throughout our supply chain (Figure 12). USC plays a fundamental part in our engagement with the supply chain to achieve our purpose as it seeks to mitigate risk, build resilience, improve compliance, assurance and ultimately deliver better value within a high-quality supply chain.

⁵ unitedutilities.com/corporate/about-us/innovation/

Figure 12: United supply chain model, showing 10 responsible sourcing principles



Source: UUW United supply chain model

- 4.10.3 In 2022 UUW were shortlisted for 2 CIPS Award for this approach, demonstrating how it remains at the forefront of industry thought leadership on collaboration with supply partners. More information can be found on our website⁶
- 4.10.4 UUW provides access to our supply chain in how potential suppliers can win business and how we can do business better. Our website⁷ is an active resource for suppliers to find upcoming opportunities, whether that is through the BAF, our tendering opportunities or an innovative idea.
- 4.10.5 We encourage our supply chain to work with us to improve our ways of working, become more efficient and identify opportunities to collaborate⁸.
- 4.10.6 Key focus areas across the USC programme across AMP7 and embedded into AMP8 strategies include:
 - (a) **Carbon** – USC is critical in setting and engaging our supply chain as part of our Scope 3 Science-based targets, especially in critical areas such as Chemical and Capital Delivery. To meet our scope 3 emissions targets, we will collaborate with our suppliers to measure, manage and reduce the greenhouse gases emitted in their provision of goods or services. We are consistently looking to maintain our thought leadership in this area and are currently in discussions with other water companies, the Environment Agency and the Supply Chain Sustainability School to create a collaborative approach to tackling scope 3 reduction.
 - (b) **Modern Slavery** – Working with industry peers in the Utilities Against Slavery Group to mitigate risk of modern slavery across our supply chains. We have identified opportunities for improvement in our internal practices through a benchmarking exercise with Slave Free Alliance⁹ and will continue to raise awareness with annual events and mandatory training.
 - (c) **Enhanced Due Diligence** audits on suppliers where we have identified a potential high risk of modern slavery within the supply chain. We assess all responsible sourcing risks as an integral element of our Supplier Relationship Management approach. We recently selected 13 suppliers to conduct enhanced due diligence audits with (predominantly chemicals and gases suppliers). Taking a proactive approach to risk identification and risk mitigation is a key part of our management of our supply chain.

⁶ unitedutilities.com/corporate/about-us/governance/supplier
⁷ unitedutilities.com/corporate/about-us/governance/suppliers/about-our-service/how-to-win-business/
⁸ unitedutilities.com/corporate/about-us/governance/suppliers/about-our-service/contact-commercial/
⁹ slavefreealliance.org/success-stories/collaborative-groups/

- (d) **Circular Economy** engagement with partners in 2022 led to productive outputs with suppliers, including Xylem, EMCOR, Solenis, Mott McDonald and others. Key themes included (1) Design out waste, emissions & losses, (2) Regenerate natural systems, and (3) Keep products & materials in use. Through USC the Supply Chain Sustainability School (SCSS) have delivered an introduction to Circular Economy for both suppliers and internal stakeholders to attend.
- (e) **Industrial Symbiosis** - United Utilities led a pilot project in partnership with Dŵr Cymru (Welsh Water), Jacobs, Severn Trent Water and International Synergies Ltd to identify opportunities for the supply and demand of reused and repurposed materials to create and test a new market. Benefits include using fewer virgin materials, which in turn will help reduce emissions and ultimately pollution, lowering the environmental impact of the industry and developing a new, inclusive relationship across the sector and supply chain. More information on United Utilities Industrial Symbiosis project (published by Ofwat) can be found here¹⁰.
- (f) **Supply Chain Sustainability School (SCSS) Engagement** –We have achieved the maximum SCSS “Gold” status in 2022, due largely in part to our continued commitment through USC. We have created tailored learning pathways for over 70 of our key suppliers aligned to our responsible sourcing principles and have held several sponsored workshops. Training and events delivered by SCSS are free to our supply chain and in 2021-2022 the value of these free resources equated to circa £400 thousand. In 2023 we are working in conjunction with Seven Trent (another Partner to the school) to identify ways we can collaborate with our respective supply chains to create a bigger impact.
- (g) United Utilities has now engaged over 150 suppliers through our forums, SCSS events and activities. The aim for USC is to reach all of our supply chain which covers not only our 5,800 employees in the North West but reaches over 21,300 in terms of our entire supply chain. Further collaboration with suppliers will be reflected in case studies on our USC website¹¹:
- (h) As part of a revised supplier collaboration strategy United Utilities is developing a new Supplier onboarding / induction process which will bring responsible sourcing, cyber security and Health Safety & Wellbeing approach into our relationships with our suppliers from the outset.

4.10.7 The broader value of our responsible sourcing ethos is almost immeasurable to our delivery environment and United Utilities strives to embed USC in everything we do with our suppliers. Key additional benefits in addition to those above include;

- (a) Almost 90 per cent of identified suppliers are signed up to our Responsible Sourcing Principles providing greater reach across the entire supply chain with 3 suppliers receiving awards in respect of leading performance under the USC banner.
- (b) Engagement with Australian water companies on our approach to tackling Modern Slavery. Australia is in the process of implementing modern slavery legislation and the SCSS presented us a standout organisation in this area to share knowledge.
- (c) Demonstrable track record across our positive global ESG ratings, indices and frameworks that benchmark our approach with best practice such as with the Dow Jones Sustainability Index, Workforce Disclosure Initiative (WDI), Stonewall and Sustainalytics.
- (d) Continued improvement focus for AMP8 as we look to enhance in key areas such as (1) Collaboration, (2) Increasing / Demonstrating Value, (3) Demonstrable Assurance, (4) Risk Reduction, and (5) Continuous improvement and value add for stakeholders.

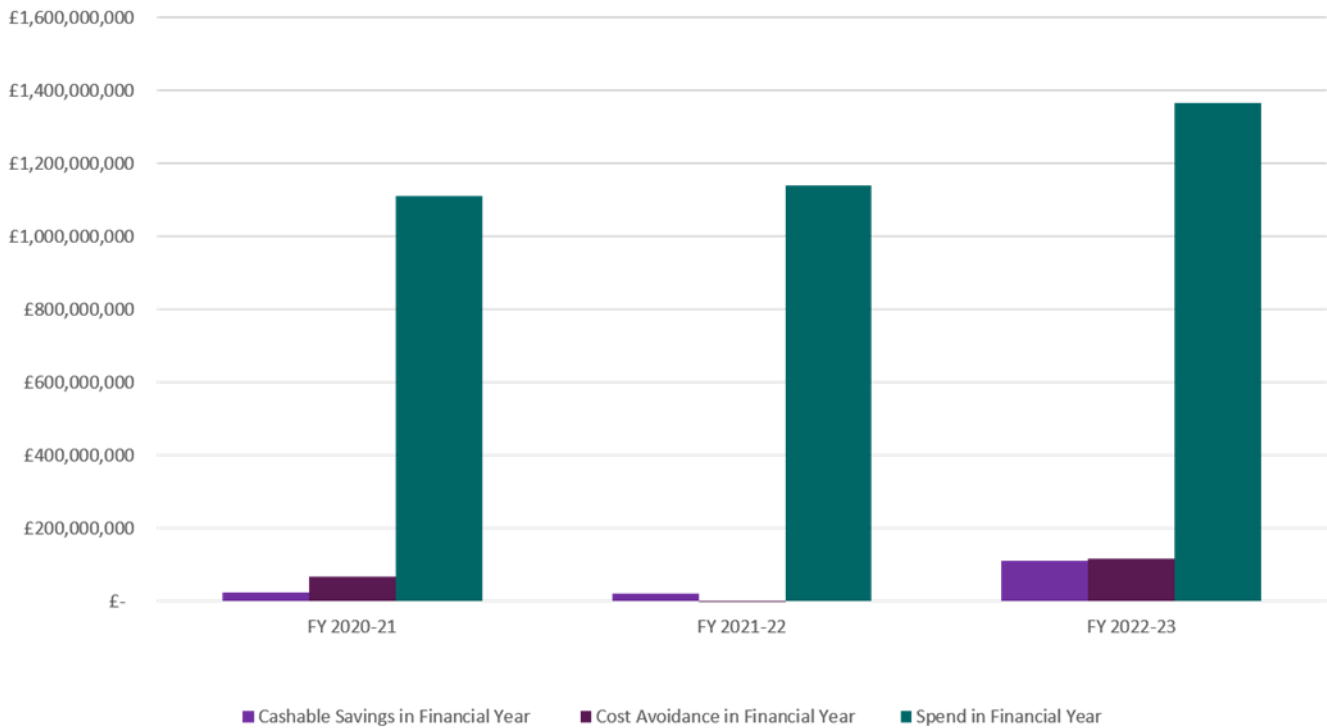
¹⁰ waterinnovation.challenges.org/case-studies/community-creatives-championed/

¹¹ unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/united-supply-chain/case-studies/

4.11 Conclusion

- 4.11.1 Through its approach to both participating in and utilising markets United Utilities consistently and rigorously challenges ourselves to deliver best value to customers. Despite the market headwinds and volatility that has impacted our organisation and our supply chain, we have utilised our own internal capability and, where required, leveraged expertise of other industry experts to drive efficiency in everything we do through innovative use of the supply chain, and consistently and continuously challenging our organisational boundaries.
- 4.11.2 The culmination of our efforts has meant that in AMP7 to March 2023 (2020 - 2023) we have demonstrated a cumulative saving of £154 million which is 4 per cent of our third party cost base. We have also mitigated additional costs that would have been incurred by United Utilities if it was not for our leverage in the market place and effective relationships with our supply chain.

Figure 13: Annual Commercial saving vs spend in AMP7 (April 2020 to March 2023)



Source: UUW comparison calculated utilising spend data vs savings data for April 2020 to March 2023

5. Our Capability Journey into AMP8

5.1 Our Direction in AMP8

- 5.1.1 The scale of AMP8 is unprecedented, our enhancement programme represents the largest ever multi-AMP environmental improvement programme, delivering a substantial WINEP programme to achieve significant enhancements to the natural environment across the North West. Further regulatory obligations, long-term resource and supply needs have also been identified through our Water Resources Management Plan (WRMP) and Drainage and Wastewater Management Plan (DWMP).
- 5.1.2 United Utilities must also adapt to new technologies, climate change, and expand our network and production capacity to accommodate a growing population. We need to adapt to these trends and ensure our services remain resilient and fit for this changing environment. Customer priorities and service level expectations change over time, and we must respond to these in order to continue providing a great service. Spending Customers money wisely is ever more important particularly given the affordability challenges for many customers across the North West, and demonstrating we achieve not only value for money, but high service levels and additional environmental and social benefits though effective use of markets is a critical enabler for the AMP8 delivery plan.

5.2 Our Journey





- 5.2.1 Despite a period of unprecedented market volatility, United Utilities has shown it has not only embedded the best practice approach of the MEM into business as usual but has gone further in developing an enhanced Market Assessment Framework to continually challenge the status quo and maximise our value proposition. Through both 'top down' (A&M Review) and bottom up (Project Crystallise) programmes we have demonstrated a commitment to continuous improvement and embedded valuable expertise and knowledge from outside of our sector.
- 5.2.2 UUW has keenly taken lessons from the RISE report and continued to enhance market participation in key markets such as Developer Services and Non-Household Retail. In Bioresources and with our Bid Assessment Framework, we have continued to adapt to a changing market, continually seeking new ways to encourage new market entrants and to create new opportunities for suppliers to engage. Our approach to Partnerships and Green Markets demonstrates a continued commitment to innovation, collaboration and agility and this is anticipated to mature and develop in AMP8. Our performance leads to the conclusion that United Utilities will continue to provide an industry leading service at the best cost possible, while promoting effective competitive market places for alternate providers throughout AMP8.
- 5.2.3 Innovative approaches in delivery of the capital programme have resulted in improved service delivery, innovation and cost savings despite global market pressures. In AMP7 we have successfully progressed the first Direct Procurement for Customers project and we are committed to identifying further candidate DPC projects for delivery in AMP8. Our broader, evolving approach to sourcing and contract approaches and our make vs buy strategies are evidence of constantly challenging ourselves to drive more efficient cost-effective outcomes. It also means we continue to remain in a strong position to mitigate risks, manage our supply chain and maintain competitive advantage.
- 5.2.4 Alongside this, we have undertaken extensive work in the enhancement of how our supply chain management service interfaces with the marketplace, reduces procurement timescales, promotes the involvement of small businesses and augments our approaches on standards. Our purpose drives us to deliver services in an environmentally sustainable, economically beneficial and socially responsible manner and we are facing the strategic challenges associated with climate change, population growth, affordability and changing customer expectations through United Supply Chain and our responsible sourcing strategy.

5.2.5 Collectively these approaches present how United Utilities objectively, rigorously and repetitively demonstrates that it is an effective market participant, removing waste in service delivery and promoting better outcomes for customers in everything we do. This has culminated in a demonstrable saving of 4 per cent as a proportion of our 3rd party spend in AMP7 to date. This compelling, evidence based, and mature approach presents UUW as capable and ready for the challenges ahead in AMP8. More about our approach to securing the deliverability our AMP8 plan is provided in supplementary document *UUW47 – Deliverability*.

5.3 AMP8 Market Risks

5.3.1 UUW regularly seeks information from market and Industry experts to inform our decision making and ensure we continue to deliver the best possible service to customers by remaining in a strong position to mitigate risks, manage our supply chain, deliver cost savings and maintain competitive advantage. Smart Cube also predicts that the market uncertainty experienced in AMP7 is due to continue for the remainder of AMP7 and AMP8, shown in Figure 14.

Figure 14: Cost changes - key spend areas

Key spend area	Key risks	Cost impact range (%)			
		2019–2022 (CAGR)	2023 (Y-o-Y)	2024 ³ (Y-o-Y)	2025–2030 ³ (CAGR)
Materials, plant and equipment 	<ul style="list-style-type: none"> Supply chain disruptions Trade restrictions Volatile energy prices in Europe 	3–4	5.97	3.66	3.40–3.45
Chemicals 	<ul style="list-style-type: none"> Supply-chain disruptions Shortage of labour Stringent regulations Volatility in energy prices in Europe 	5–6	5.15	4.45	3.45–3.55
Energy 	<ul style="list-style-type: none"> Financial uncertainty Fluctuation in crude oil prices Cost-of-living crisis in the UK 	22.0–22.2	2.7–4	NA ¹	NA
Labour 	<ul style="list-style-type: none"> Supply chain disruptions Shortage of skilled labour Cost-of-living crisis in the UK 	4.4–4.5	5.19–5.23	3.18–3.22	3.77–3.82
Other ² 	<ul style="list-style-type: none"> Supply chain disruptions High inflation 	0.3	-0.6	0.9	2.75–3.25

Source: Smartcube

5.3.2 There will also undoubtedly be continued social-economic and political factors which can and will impact on market behaviours in the remainder of AMP7 and into AMP8. Given UUW performance in AMP7 against the significant challenges experienced with a pandemic, war in Ukraine and inflation, clearly demonstrates we are a capable and ready organisation with robust risk management strategies to face the challenges ahead and as such can be confident in our ability to mitigate the impacts of any such ‘black swan’ market events on or costs base.

5.4 AMP8 Opportunities

5.4.1 With such a large programme to deliver, we have applied immense scrutiny to ensure our use of, and participation in markets is effective. Many of the examples provided in section 4 are the first iterations of an evolution of our supplier, sourcing and contract approaches and we have already started to build a robust plan to further strengthen our demonstrable capability into AMP8.

5.4.2 With a significant increase in capital spend due to WINEP and other commitments, the Capital Programme is a substantial area of opportunity, and we are confident that our new AMP8 capital delivery model (involving contractors at varying levels throughout the design process to ensure risk is priced in at the most efficient rate) will deliver significant benefits. We are adopting the strategy of ‘Build Nothing, Build Less’ and will deploy nature-based solutions where possible to reduce costs but also maximise the environmental and social benefits of our investment. We will continue to challenge the size and scope of the programme and defer elements where possible to protect customer

- affordability. Optioneering and the use of a PR24 value tool will ensure we are finding and selecting the best value solutions innovative solutions and we are sourcing the right capital delivery partners ready to meet the challenges of the AMP8 capital programme.
- 5.4.3 Across our network we are also deploying value engineering approaches and applying standardisation principles to improve efficiency and drive down costs. In the next iteration of the network strategy, we are looking to deploy Dynamic Network Metering into the water network to maximise the benefits of proactive management of leakage and network issues through data and AI. Other opportunities include aggregation of works across reactive maintenance and the opportunity to revise the network contracting approach into a single framework servicing both water and waste water which could unlock significant benefits through economies of scale and strategic supplier collaboration.
- 5.4.4 UUW also recognises that taking a more programmatic approach to non-core works in terms of bundling of projects by asset types, geography and types of works could also deliver significant benefits. We are also reviewing the possibility of hedging purchases of high value, high volume products to ensure we receive the best possible price. This is likely to ensure that we purchase items outside of peak price hikes, and that we leverage the market through increased buying power. We will conduct appropriate market engagement and costs benchmarking as we continue to mature and evolve the future networks strategy.
- 5.4.5 United Utilities maintenance approach is also undergoing a significant strategic review as both a direct delivery route (thought asset maintenance) and as a key enabler for AMP8 for provision of critical spares, materials and services (Kit frameworks, MRO and Logistic etc.). Having delivered significant savings through the evolution of the current maintenance sourcing review in AMP7 we will continue to drive further value led initiatives in this area. The strategy is focussed on standardisation with key initiatives such as the potential for modular asset builds, rationalisation of spares and product selection, virtual warehousing, and service optimisation. All of these initiatives will deliver value through maximising our assets and reducing the costs associated with proving the core service. It will also encourage new market entrants to United Utilities particularly in areas such as modular asset builds which is market, we have not previously utilised.
- 5.4.6 The positive outcomes already identified through initial phases of the Estates and Fleet management reviews will be further developed as we prepare for AMP8. We will continue to develop a holistic estates management strategy, review our current standards and look at opportunities for self-serve property management to drive down costs. In terms of Fleet rationalisation, vehicle usage is a priority as is the use of green fleet to ensure we are also maximising carbon reduction opportunities through deployment of this strategy. A key area of focus in this space is the logistics strategy which has relevance across the entire UUW estate. This service is currently delivered by in house resources, and we are assessing the market to understand the capabilities of an expanded logistics service which may offer opportunities for the supply chain.
- 5.4.7 UUW is committed to acting in a responsible manner and our United Supply Chain strategy continues to be at the forefront our engagement with the supply chain. We are working closely with our supply chain to understand scope 3 carbon emissions across the capital and supply chain arena and will continue to investigate opportunities to act across the water sector to target reduction in carbon emissions. This is particularly relevant in areas such as chemicals where there is a relatively limited supply chain and significant commonality in the supply chain across the industry. Circular economy and reuse of materials not just within UUW but also with other organisations across the geographical region is expected to unlock cost and carbon benefits and we are building on the Industrial Symbiosis pilot to develop our capability in this area.
- 5.4.8 We will also continue to maintain high levels of due diligence in relation to modern slavery in high-risk areas of our supply chain, given the scale of AMP8 this is ever more important. Water consumption, biodiversity net again and innovation present both risk and opportunities and will continue to engage the supply chain to maximise our impacts in this area via the United Supply Chain approach.

- 5.4.9 Procurement reforms, partnerships, Bid Assessment Framework and other new and emerging markets present significant opportunities for UUW to engage the market differently and to maximise our impacts and value in doing so. New forms of commercial models and agreements will be necessary to facilitate the level of partnership investment required for AMP8 and will continuously challenge ourselves to find ways in which we can access and promote use of new opportunities.

5.5 Conclusion

- 5.5.1 In conclusion, this document robustly demonstrates United Utilities strong multi-faceted approach to both market participation and effective use of markets to maintain a leading service and deliver best value to customers. By working within, and responding to, the markets we operate in we ensure we promote healthy, robust and open competition while delivering an effective, efficient and competitive service. We have also demonstrated that UUW has gone further to leverage the market and unlock value through effective relationships with our supply chain despite the market events of the last three years.
- 5.5.2 UUW has continuously strived for objectivity and through engagement with third parties has demonstrated that our plans are robust and cognisant of the latest thinking and innovations. We also demonstrate a best practice approach to outcomes for customers, focusing on the service they receive, and ensuring that it is market driven and provided at the best cost.
- 5.5.3 Having provided significant examples of our forward-thinking approach in AMP7 the regulator, customers and shareholders can trust that our market leading performance can, and will be, continued into AMP8 and as such Utilities is confident in targeting a similar 4 per cent saving (against third party costs) in AMP8. We are capable and ready for the challenge, but also the opportunity AMP8 will bring for UUW and our supply chain to maximise value and service delivery for the customers we serve.

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