

UUW51

# Bid Assessment Framework

**October 2023**

Chapter 8 supplementary document

The document outlines the steps taken to create a new Bioresources BAF and amend the existing water resources BAF ensuring they meet the principles set out by Ofwat of transparency, equality/non-discrimination and proportionality, and enable third parties to successfully offer services to United Utilities.

## Contents

<b>1.</b>	<b>Bid Assessment Framework .....</b>	<b>3</b>
1.1	Key Messages .....	3
1.2	Overview of document.....	3
1.3	Structure this document .....	3
<b>2.</b>	<b>Future capacity requirements .....</b>	<b>4</b>
2.1	Introduction .....	4
2.2	Water Resources requirements .....	4
2.3	Bioresources requirements.....	4
2.4	Conclusion .....	4
<b>3.</b>	<b>Creating the United Utilities Water BAF's .....</b>	<b>5</b>
3.1	Introduction .....	5
3.2	Structure of this section.....	5
3.3	Design of the BAF .....	5
3.4	Conclusion .....	5
<b>4.</b>	<b>Alignment to Ofwat BAF principles .....</b>	<b>6</b>
4.1	Introduction .....	6
4.2	Structure of this section.....	6
4.3	Commitment to deliver on the set principles .....	6
4.4	Conclusion .....	8
<b>5.</b>	<b>Use of the Bid Assessment Frameworks.....</b>	<b>9</b>
5.1	Introduction .....	9
5.2	Structure of this section.....	9
5.3	Water Resources .....	9
5.4	Bioresources.....	9
5.5	Assessment of options .....	9

# 1. Bid Assessment Framework

## 1.1 Key Messages

- Following consultation with potential bidders, a new UUW Bioresources Bid Assessment Framework was developed and published September 2022.
- The existing Water Resources, Demand Management and Leakages Services Bid Assessment Framework has been revised to better support potential bids.
- As of September 2023 six bids have been received covering both Water Resources and Bioresources.
- These six bids have been progressed through the Bid Assessment Framework process with one bid showing significant potential.

## 1.2 Overview of document

- 1.2.1 This document provides evidence of UUW's positive engagement in developing - and its willingness to utilise - a bidding market for Water Resources and Bioresources. References to a Water Resources BAF include within that BAF demand management and leakage detection alongside water resources.
- 1.2.2 This document shows the steps taken to support positive market engagement to seek out the most efficient solutions to meet the needs of UUW. It further demonstrates how the published BAFs meet the requirements of a BAF including that they are transparent, show equal treatment / non-discrimination and are proportionate.

## 1.3 Structure this document

- 1.3.1 The structure of this chapter is as follows:
- Section 2 provides detail as to the future capacity needs of UUW for both Water Resources and Bioresources treatment and disposal.
  - Section 3 provides an insight into the steps taken to establish the new Bioresources BAF and amend the existing Water Resources BAF.
  - Section 4 provides a summary of how the UUW BAFs reflect the best practice principles set out within the Ofwat guidance.
  - Section 5 provides high level details as to bids received, how they have progressed and what we can learn from those bids to improve the framework.

## 2. Future capacity requirements

### 2.1 Introduction

2.1.1 The purpose of the BAF is to engage potential 3<sup>rd</sup> party providers to support UUW in meeting the requirements for Water Resources and Bioresources activity within the area of appointment. These requirements include a shortfall in Bioresources sludge treatment capacity.

### 2.2 Water Resources requirements

2.2.1 The North West is the UK's third most populous region. Over 7 million people rely on United Utilities Water every day to provide great water services. The population has grown by 8.6 per cent since 2002 and projections forecast around an additional 1 million people by 2050, increasing demand for water services. Additional demands on water infrastructure are expected to be concentrated in certain areas, such as Manchester and Carlisle. Water efficiency is consequently a key priority in the 2025-2030 period, and longer term.

2.2.2 Additionally, we support around 200,000 businesses (non-household customers) across the region that have a range of needs in-terms of scale and complexity of their water supply. The region is home to the largest proportion of manufacturing industry in the UK, with 13 per cent of UK manufacturing industry located in North West England. These businesses require robust continuity of water supply and quality as changes in pressure and quality can impact their products.

2.2.3 Many of the expected solutions to address the issues stemming from increasing population will focus on reducing demand and further addressing leakage. The Water Resources BAF includes - in addition to water resources - demand management and leakage services. UUW will continue to see the BAF as a route for solutions to help reduce demand and leakage.

### 2.3 Bioresources requirements

2.3.1 The United Utilities sludge forecast is showing year on year increases in sludge produced. This is primarily due to wastewater quality requirements, particularly phosphorus removal, which is increasing sludge volumes. By the end of AMP7 UUW is expected to have a capacity deficit, i.e. the sludge treatment capacity UUW have is not sufficient to treat all of the sludge produced by UUW.

2.3.2 UUW will be seeking guaranteed treatment and disposal capacity to meet this shortfall in the long term. This capacity will include new capacity of c. 45k tonnes of dry solids (tDS) per year to address issues in the northern portion of the region. This is c. 20 per cent of our total sludge production. UUW is engaging with 3<sup>rd</sup> party providers, including bids into the BAF, to provide this capacity shortfall.

2.3.3 Given the timescales for securing the long term sludge treatment capacity UUW are also planning to undertake procurement(s) to secure short term outlets for raw sludge. This could be to sludge treatment outlets and/or restoration outlets.

### 2.4 Conclusion

2.4.1 UUW is actively looking to engage with markets to determine how best to meet our obligations. Given the shortfall in capacity for Bioresources treatment and disposal the potential in this arena would likely be greater.

## 3. Creating the United Utilities Water BAF's

### 3.1 Introduction

- 3.1.1 Ahead of PR24, alongside the creation of a Bioresources BAF, UUW has reviewed the Water Resources BAF and taken steps to ensure the information contained within the BAF is accurate, useful and up to date.
- 3.1.2 Steps were taken, building on experience of operating the Water Resources BAF and feedback from consultation with potential bidders, to ensure the BAFs are bidder friendly and proportionate.

### 3.2 Structure of this section

- 3.2.1 The steps taken to develop the Bioresources BAF and refine the Water Resources BAF are detailed below.

### 3.3 Design of the BAF

- 3.3.1 UUW provided feedback into the consultation process to support the development of the BAF guidance.
- 3.3.2 Both the Water Resources and Bioresources BAF were produced to comply with the guidance and deliver a process that met with the principles.
- 3.3.3 UU issued a PIN on 9 June 2022 as a consultation on BAF – Bioresources services<sup>1</sup>. UUW invited stakeholders to comment on the draft bioresources services bid assessment framework.
- 3.3.4 Following the publication of the PIN individual structured conversations were held with 8 potential bidders who responded. The purpose of these conversations was to understand how the BAF would work for potential bidders. This feedback led to amendments to the Bioresources BAF, included:
- The potential bidders in general expressed a preference for the Bioresources and Water Resources to be part of separate BAF documentation, rather than a single BAF. UUW has separated the Bioresources BAF from the Water Resource BAF and have two separate BAFs on the United Utilities website.
  - Segmentation of the individual elements of Bioresources services ensuring that bidders can bid for small elements, scope and scale, of the Bioresources services and are not excluded. The bidding process and evaluation criteria were amended to support bids of smaller scope and scale.
  - Other changes made to the Bioresources BAF following consultation including providing worked examples and references to the Ofwat Bioresources market information portal. In addition testing was undertaken to ensure the usability and functionality of the BAF process prior to launch.

### 3.4 Conclusion

- 3.4.1 The UU Bioresources BAF went live on 29 September 2022 alongside an updated version of the Water Resources BAF.
- 3.4.2 Both BAFs are available online both through the United Utilities website<sup>2</sup> and via links on the Ofwat website<sup>3</sup>.

<sup>1</sup> <https://bidstats.uk/tenders/2022/W23/776405327>

<sup>2</sup> <https://www.unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/bid-assessment-framework/>

<sup>3</sup> <https://www.ofwat.gov.uk/regulated-companies/markets/water-bidding-market/company-bid-assessment-frameworks/>

## 4. Alignment to Ofwat BAF principles

### 4.1 Introduction

- 4.1.1 The Bioresources BAF – final guidance (published by Ofwat February 2022) set a clear expectation that companies should produce a bid assessment framework that shows a clear commitment to three key principles; transparency, equal treatment/non-discrimination and proportionality. These three principles are also expected in relation to the Water Resources BAF.
- 4.1.2 In addition to the BAF guidance and principles United Utilities were cognizant of obligations relating to the licence, procurement rules and competition law.

### 4.2 Structure of this section

- 4.2.1 This section covers the operation of the BAFs and outlines how United Utilities Water has produced bid assessment frameworks that demonstrates a clear commitment to the key procurement principles of transparency, equality/non-discrimination and proportionality and the best practice recommendations and other obligations.

### 4.3 Commitment to deliver on the set principles

- 4.3.1 UUW's Bid Assessment Framework (BAF) meets all the best-practice recommendations and reflects the key principles. The framework sets out evidence of how UUW has adopted a transparent, proportionate and non-discriminatory BAF.

#### Transparency

- 4.3.2 The principle of transparency requires the process for the selection of third parties and award criteria to be transparent to all bidders. Transparent rules-based decision making is important to show that UUW are following the principle of equal treatment and non-discrimination in each step of the procurement process. More transparency in the process ensures confidence that UUW will not favour an in-house solution or allow unfair advantage to other bidders. Above all else, enhanced confidence in the procurement process will help to stimulate market engagement. The UUW BAFs promote transparency primarily by setting out the process by which any bids will be assessed in a clear fashion. The BAFs guide potential market participants as to the type of information that must be provided, including having worked examples published alongside the BAFs. In terms of how bids will be evaluated the UUW BAFs offer detail of the evaluation criteria that will be used along with a commitment to include more detailed criteria when running a procurement process. The clear evaluation criteria therefore provide clarity as to the basis for assessment of bids. This in turn affords the bidder the opportunity to consider if their bid may be successful before committing to engage in the process.
- 4.3.3 To provide further confidence that the BAF process is transparent, in developing the Bioresources BAF views were sought from potential market participants and their feedback was incorporated into the final BAF product. Indeed, UUW is open to receiving feedback from market participants throughout the process and are committed to periodically reviewing the BAF process where any relevant feedback can be incorporated into further iterations of the BAF. To promote further transparency, UUW will periodically publish a market review of third-party activity which will include a high-level view of bids received via the BAF and their outcome.
- 4.3.4 To promote transparency, UUW has a dedicated BAF webpage<sup>4</sup>. This advertises and directs bidders to the relevant information hosted on the page that third parties may find useful. The key elements of the website include:

<sup>4</sup> [unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/bid-assessment-framework/](https://unitedutilities.com/corporate/about-us/governance/suppliers/delivering-value/bid-assessment-framework/).

- Links to the two Bid Assessment Frameworks for Bioresources and Water Resources/Demand management;
- Guides to submitting a bid (including worked examples, evaluation criteria and information of confidentiality procedures);
- Overview of the BAF process (including procurement action routes);
- Overview of governance mechanisms within the BAF;
- Link to the UU Innovation Lab; and,
- Links to potential bidding opportunities.

### Equality/non-discrimination

4.3.5 Equal treatment requires that all potential bidders must have:

- An equal opportunity to compete for the contract (unless a difference in treatment can be objectively justified): and,
- There is an objective comparison of all tenders.

4.3.6 This applies to the consideration of bids against an in-house solution helping avoid discrimination.

4.3.7 In terms of ensuring equal treatment following standard procurement practices, for example providing all potential suppliers with consistent information at the same time, provides equal opportunity to compete. These standard procurement practices are embodied within the BAF process. Further to this, the UUW BAF applies the same process and evaluation criteria and framework with all market participants. This includes any in-house bids and ensures all bids are assessed objectively.

4.3.8 To further support the principle of equal treatment and non-discrimination, all bidders need to be assured of the independence of those assessing bids and the processes by which commercially sensitive information is handled.

### Independence of assessment team

4.3.9 Where a procurement is required, an assessment will be made to determine if there is risk that a conflict of interest may be inherent within the proposed process. Where the risk of a conflict of interest is low, then UUW will lead the BAF process. However, where a conflict of interest is identified that a mitigation plan cannot reasonably satisfy, then UU would engage an independent 3rd party to lead the procurement process.

### Data Confidentiality

4.3.10 United Utilities takes confidentiality very seriously and has a range of processes and procedures to ensure the submissions to the Bid Assessment Framework are only available to those who have a legitimate need to see them. As part of the BAF process, and where there is potentially an in-house proposal, UUW will ensure that separate teams are responsible for the preparation and assessment of an in-house solution and that appropriate 'ethical walls' including information barriers are in place. The team responsible for the preparation of an in-house solution would at no time have access to a third-party bid. Only the UU procurement team and/or Sourcing team (or independent 3rd party) leading the procurement and the team responsible for assessment would be able to access third party bid information. All information submitted as part of any procurement process shall be confidential and subject to individual confidentiality provisions within the applicable tender documentation. Information will only be circulated within UUW to the extent it is required for the procurement process and the assessment of any submission provided. All information is retained and managed by the UU procurement team and/or Sourcing Team or independent third party to lead the procurement process and will be stored on the Electronic Procurement Portal and restricted shared drive.

### Proportionality

- 4.3.11 The principle of proportionality means that the buyer has an obligation to strike a balance between the need to ensure that an appropriate level of evaluation and scrutiny is carried out and the interests of any third party wishing to submit a bid. For the principle of proportionality to be met, the way in which they assess bids must be proportional to the service that is being procured. If the requirements imposed are disproportionate and are considered too onerous, then this could act to stifle market activity.
- 4.3.12 To mitigate this risk the BAF:
- Has different action routes depending on the solution proposed. This includes an ‘early BAF’ which takes a proportionate approach where a proposal has significant potential to deliver benefit for customers and is ready to implement;
  - Includes a prequalification (gateway criteria) with the aim of reducing bidder time and resources. The prequalification section provides potential bidders with clarity as to what may be successful and therefore if a bid is worthwhile; and,
  - Includes a commitment to ensure published tender specifications will be proportional to the outcome being sought.

### Additional considerations

- 4.3.13 The Ofwat guidance highlights the need to consider bids to provide Bioresources services in the context of overall company operational resilience. United Utilities therefore must consider these operational resilience risks when assessing bids. To embody the principle of transparency the UU BAF includes examples of risk and assessment criteria to support bidders.
- 4.3.14 The BAF guidance identifies a need to consider environmental regulations when assessing bids, in particular UUW is subject to regulations such as s34 of the EPA1990 and UWWT regulations. Details as to the information required from bidders and how that information would be considered are included within the BAF.

### Innovation Partnership

- 4.3.15 From time to time it is anticipated that third parties will have proposals which are out of scope of the BAF process, or are in to early a stage of development to be relevant where the procurement burden may be disproportionate. Where this occurs, UUW may recommend the proposal is directed to towards the United Utilities Innovation Team and their ideas process. The Innovation Team is well placed to work with third parties who have ideas which have significant potential to benefit customers.

## 4.4 Conclusion

- 4.4.1 At PR19 UUW scored a grade B assessment (see Test CMI6<sup>5</sup>)
- 4.4.2 Ofwat graded companies highly when they addressed all the relevant criteria. At this time the maximum grade possible for this question is a B as Ofwat cited the BAF concerns compliance with procurement principles and applicable legislation, and so does not require innovation or ambition.
- 4.4.3 At PR19 Ofwat cited ‘United Utilities has provided a bid assessment framework (BAF) that meets all the best-practice recommendations and reflects the key principles’. At PR24 the guidance relating to the three core principles of transparency, equal treatment and proportionality is unchanged and in developing the Bioresources BAF (and refreshing the Water Resources BAF) UUW have replicated and built upon the PR19 experience. Therefore United Utilities are confident that the principles outlined have been demonstrated through the BAF to a greater extent than when assessed at PR19.

<sup>5</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2019/01/United-Utilities-Test-question-assessment.pdf>

## 5. Use of the Bid Assessment Frameworks

### 5.1 Introduction

5.1.1 Ofwat expects companies should where possible make use of their bid assessment frameworks to inform their PR24 business plans. This was specifically referenced within Ofwat's final Bioresources BAF guidance (Feb-22).

### 5.2 Structure of this section

5.2.1 This section provides an overview of bid activity in the two BAF focus areas i) Water Resources and ii) Bioresources.

### 5.3 Water Resources

5.3.1 The water BAF provides the basis and process for inviting and considering third party bids and comparing them against potential in-house solutions for water resources, demand management and leakage services requirements.

5.3.2 Water resources related bids have been received through the BAF process. The first bid received offered to transfer abstraction licences from another party to UUW. Consideration of this bid was undertaken in line with the criteria set out within the BAF. Despite initial assessment of the bid showing great potential, following engagement with the Environment Agency it became clear that transfer of the abstraction licence was not possible. Therefore there was no way for UUW to procure additional water resources through this route.

5.3.3 An additional Water Resources bid was received, focussing on the optimisation of water abstraction and distribution, an activity that is already subject to a trail and previous procurement and is not being progressed at this time.

### 5.4 Bioresources

5.4.1 Four bids in relation to Bioresources Services have been received. These bids have been progressed through the BAF process. One of the bids is showing significant potential and UUW is confident that this bid will be able to be taken forward.

5.4.2 United Utilities Water has used the bids submitted into the Bioresources BAF to inform its business plan, including the intension to launch a procurement in AMP7 to secure guaranteed sludge treatment capacity by the end of AMP8. The proposed bid could deliver up to 20,000 tonnes of dry solids of treatment capacity out of an anticipated additional requirement of 45,000 tonnes of dry solids of treatment capacity.

### 5.5 Assessment of options

5.5.1 Although bids have been received through both the Water Resources and Bioresources BAFs, the volume of bids has been limited. Particularly bids offering either new Water Resource or Bioresources treatment capacity. There are number of reasons for this that should be considered when developing further the BAF process.

5.5.2 For a bid to be made a bidder may need to have access to spare resource or treatment capacity. For both water resources and Bioresources treatment in particular these resources are very limited. The structure of the bioresources market does not fully support the potential for bids to provide bioresources

treatment. (See the United Utilities submission to the future idea lab<sup>6</sup>, page 16, detailing the barriers that exist to greater levels of competition). Low levels of bids via the Bioresources BAF are to a great extent not a function of the process being disproportionate and inaccessible, but more that other factors limit the potential.

- 5.5.3 If there are steps taken to enable access to further resources, particularly co-digestion then there will be greater potential for bids into the BAF in future. UUW will continue to take steps to ensure that potential bidders are aware of the opportunity and that the bidding process is as simple as possible.
- 5.5.4 Separate to bids received through the BAF discussions are ongoing with other water companies to look to develop trades. It is hoped that these discussions can progress to a point that these opportunities can be used to help meet the capacity needs across the North West (and elsewhere).
- 5.5.5 UUWs experience to date has been that bids have focussed on both directly providing additional bioresources treatment capacity or new water resource and the provision of tools aimed at optimising current operations. It had originally been assumed that bids would focus primarily on directly providing additional capacity and undertake all activities relating to either Bioresources or Water Resources. The received bids highlight the potential for bidders to focus on an element of the service provision, be it transport, treatment or disposal, rather than a holistic solution. The initial consultation undertaken ahead of publishing the Bioresources BAF highlighted this and the design of the UUW BAF has enabled this wider consideration of solutions.

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<sup>6</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2021/01/UUW-A-review-of-options-for-further-market-participation-in-bioresources-Dec-2020.pdf>

**United Utilities Water Limited**  
Haweswater House  
Lingley Mere Business Park  
Lingley Green Avenue  
Great Sankey  
Warrington  
WA5 3LP  
[unitedutilities.com](http://unitedutilities.com)



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