



Our Business Plan for 2020 – 2025

Appendix 5 Trading and Procurement Code and Bid Assessment Framework

September 2018

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- 5.2 Affinity Water Bid Assessment Framework**

Overview

This appendix contains the approved Affinity Water Trading and Procurement Code (Appendix 5.1) and our Bid Assessment Framework (Appendix 5.2)

5.1 Affinity Water Trading and Procurement Code

Trading and Procurement Code

APPROVED

August 2018

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1 Introduction

The Affinity Water Limited Trading and Procurement Code (“Code”) sets out the policies, principles and requirements that will apply in respect of trades of water between Affinity Water and third parties including other water companies.

1.1 Why do we issue a Code?

Affinity Water recognises the benefits that water trading can provide for customers and the environment. Water trading can reduce the need for abstraction and can benefit customer bills by providing a more cost-effective solution than developing new sources within our supply area. Trades can be for potable, raw and part-treated water.

Ofwat also recognises the benefits of water trading and offers a water trading incentive to water companies it regulates to encourage water trading to take place. However, it is important that customers and the environment are protected. Our Code ensures that the trades that Affinity Water makes align with the interests of customers, water companies and the environment.

We invite any party that wishes to offer to us a reasonable volume of reliable, sustainable and cost-effective water resources to contact us. We are similarly interested in any opportunities that a party can identify for us to provide water to them. Our Code provides with the information they need to be able to identify water trading opportunities and to understand how we will work with them to realise these opportunities.

Our Code has been prepared in accordance with Ofwat’s Trading and Procurement Codes – Guidance on Requirements and Principles dated May 2018 and has been approved by Ofwat.

<https://www.ofwat.gov.uk/publication/trading-and-procurement-codes-guidance-on-requirements-and-principles/>

1.2 Using the Code

We will keep this Code up to date and publicly available via our website. The approved Code will also be available on the Ofwat website.

1.3 Understanding this document

The document is structured as follows:

- Section 1 introduces the Code;
- Section 2 describes Affinity Water and explains where information regarding our water resources position and our current water trades can be found;
- Section 3 sets out the key principles for water trades;
- Section 4 sets out the requirement that must be met in order for an export or import to qualify for an incentive payment to companies regulated by Ofwat;
- Section 5 contains a glossary of terms; and
- Section 6 provides links to useful supporting reference materials related to water trading.

Specific references are also provided by hyperlinks embedded in the document.

1.4 Contact details

Any queries in relation to this Trading & Procurement Code, Affinity Water's Water Resources Management Plan ("WRMP") or in relation to water trading generally should be directed to:

Mumin Islam
Affinity Water Ltd
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ

Email: mumin.islam@affinitywater.co.uk

- **East**, where we provide water to the Tendering peninsula, north east Essex including the towns of Harwich and Clacton on Sea, with a population of 158,000 people.

Our Central Region does not have a coastline and is surrounded by neighbouring water companies. There is an existing strategic network of pipes across the region which can be utilised to transfer substantial volumes of water. The Affinity Water Central Region shares borders with the following water companies:

- Thames Water
- Anglian Water
- Cambridge Water (South Staffs Water)
- Essex & Suffolk Water (Northumbrian Water)
- Sutton and East Surrey Water
- South East Water

Our Central Region has an inset appointment at Bishops Stortford.

Our Southeast Region shares a company boundary with South East Water and Southern Water, as well as a portion of the Kent coastline. Existing transfers link this region to neighbouring water companies which provide resilience to the region when extra water is required. Our Southeast Region has an inset appointment at Martello Lakes.

Affinity Water East Region is surrounded on its northern and western boundaries by Anglian Water, and a coastline along its eastern and southern sides. There are no strategic imports nor exports in this region. However, water is shared with Anglian Water which provides the operational resilience for this area (Ardleigh Reservoir).

2.2 Water resources

We manage our water resources on the basis of Water Resources Zones (WRZs), each of which is the largest possible area within which all resources, including external transfers, can be shared. Each WRZ represents one of the communities we serve and has been named after the major river serving the zone to reflect our vision to be the UK's leading community-focused water company.

- Affinity WRZ 1 (Central) is also known as Misbourne.
- Affinity WRZ 2 (Central) is also known as Colne.
- Affinity WRZ 3 (Central) is also known as Lee.
- Affinity WRZ 4 (Central) is also known as Pinn.
- Affinity WRZ 5 (Central) is also known as Stort.
- Affinity WRZ 6 (Central) is also known as Wey.
- Affinity WRZ 7 (Southeast) is also known as Dour.
- Affinity WRZ 8 (East) is also known as Brett.

We recommend that parties that are interested in trading with us review our WRMP. This is a statutory plan that sets out how we will manage and develop water resources so as to be able to meet our duty to supply customers with water. We prepare a new WRMP every five years.

Our current WRMP was published in 2014 and covers the period 2015 to 2040. It can be found on our website at <https://stakeholder.affinitywater.co.uk/water-resources.aspx>.

We are currently preparing our WRMP for 2019 which covers the period 2020 to 2080 and information about our proposed new WRMP can be found at <https://stakeholder.affinitywater.co.uk/water-resources.aspx>. We have advertised in OJEU for parties to put forward trades to be considered in our new WRMP.

We also publish key information to support the water resources market in accordance with Ofwat's Water Resources Market Information Guidance dated 11 October 2017. This information can be found on our website at <https://stakeholder.affinitywater.co.uk/water-resources-market-information.aspx>. We published this information alongside our draft WRMP and it will be updated within one month of publication of our final WRMP. We will continue to update this information periodically to ensure it remains up-to-date.

2.3 Water trading

We have a number of trades of water with our neighbouring water companies and with inset appointees. We report on our existing trades to Ofwat and this information is published on Ofwat's website at <https://www.ofwat.gov.uk/water-trading-bulk-supplies-register-2017-18/>.

Regional trading opportunities are considered by the Water Resources South East and the Water Resources East Groups. Affinity Water is uniquely a member of both and is at the forefront of future development of the WRSE Group, believing strongly in the benefits of collaborative working and cross-company and third-party solutions.

Our existing import and export points within our Central Region and our Southeast Region are illustrated in the maps below. We have no imports to or exports from our East Region but we do share the water from Ardleigh Reservoir with Anglian Water.

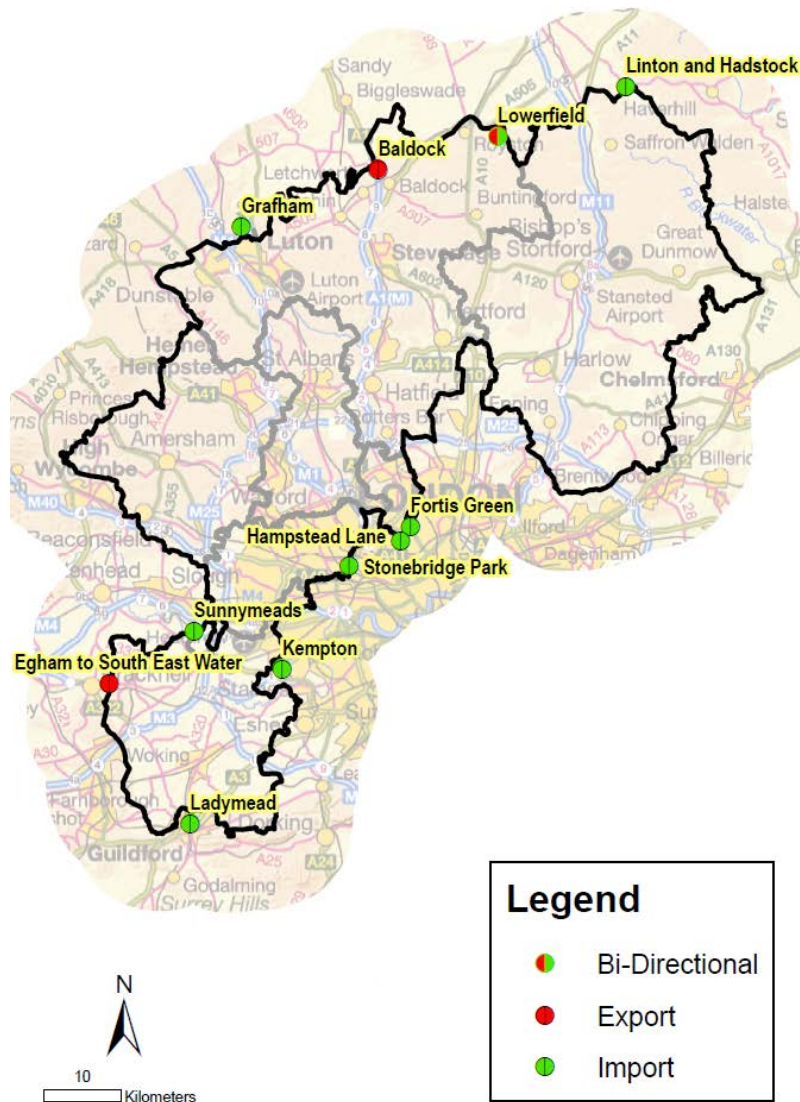


Figure 2. Map of Existing Import/Export Locations (Affinity Water Central Region).

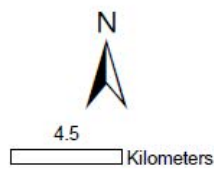
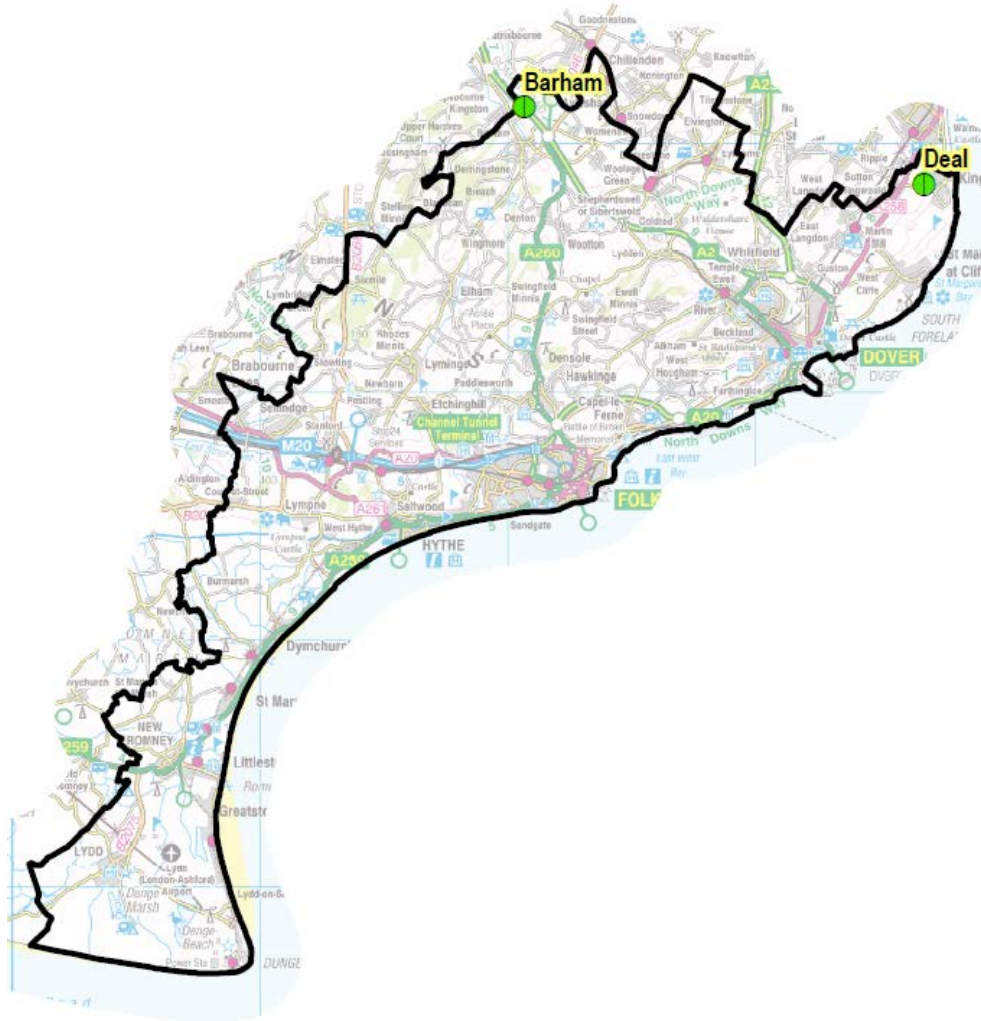


Figure 3. Map of Existing Import/Export Locations (Affinity Water Southeast Region).

3 Principles of the Code

Where trades are proposed between other water companies or third parties and Affinity Water, we are committed to trading in a transparent, sustainable and responsible manner, and to the benefit of our customers and the natural environment.

We are committed to the high-level principles identified by Ofwat and these principles will govern the way in which we negotiate and enter into water trading agreements.

3.1 Imports

3.1.1 Non-discriminatory procurement (Ofwat Principle 1)

We are committed to undertaking new trading discussions on a non-discriminatory basis. We will provide all parties with access to the same information by publishing water resources market information on our website (<https://stakeholder.affinitywater.co.uk/water-resources-market-information.aspx>). We will assess all potential trades against objective criteria set out in our Bid Assessment Framework which when published will be consistent with appendix 8 of Ofwat's PR19 final methodology <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>

3.1.2 Economic purchasing (Ofwat Principle 2)

In contracting for the provision of water resources, Affinity Water will purchase from the most economic sources available, having regard to the quality, quantity and other relevant aspects. We will assess all potential supplies in accordance with our Bid Assessment Framework that will set out all the aspects to be considered and how individual supplies will be evaluated consistent with appendix 8 of Ofwat's PR19 final methodology <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>

3.1.3 Use of competitive processes (Ofwat Principle 3)

Where appropriate, Affinity Water will seek to secure water supplies through an appropriate competitive process. We will invite potential suppliers to submit proposals when we are preparing our WRMP in order that these can be assessed against each other using our Bid Assessment Framework which will be consistent with appendix 8 of Ofwat's PR19 final methodology <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>

3.1.4 Managing Imports

We manage our water supply over eight discrete WRZs. We will work with our trade partners to ensure water imports into Affinity Water are as efficient as possible. Existing assets will be used where possible.

3.2 Exports

3.2.1 Correct Assessment of costs (Ofwat Principle 9)

Affinity Water will ensure that its costs in providing an export are accurately estimated. Any estimate of costs will be based on all the costs of supplying the export including:

- maintenance of and operation of specific infrastructure in place to supply an export; and

- an appropriate share of the cost of abstraction, storage and pumping costs and other infrastructure used in providing the export.

Affinity Water will ensure that its charges under any agreement provide for full recovery of its estimated costs. We will include a price review mechanism within any agreement we enter into to ensure that agreements continue to provide for full cost recovery throughout the term of the agreement.

3.2.2 Managing exports

We will work with our trade partners to ensure our water exports are as efficient as possible, utilising existing assets and infrastructure to ensure costs are minimised where possible.

3.3 Exports and imports

3.3.1 Contract lengths (Ofwat Principle 4)

Affinity Water will ensure that the duration of its agreements for trading water are reasonable taking into account our need to have certainty regarding the resource available to us and the requirements of our trading partners who may have made significant investment to enable a trade to take place and may have their own statutory duties to meet.

We recognise the potential for water resources to change over the life of an agreement and for new trading opportunities to arise. Where appropriate we will include appropriate termination provisions within any agreement to respond to those changes.

Arrangements will be guided by the framework set in the Ofwat's Negotiating Bulk Supplies publication:

https://www.ofwat.gov.uk/wp-content/uploads/2013/08/pap_pos201308bulksupply.pdf

3.3.2 Transparency (Ofwat Principle 5)

Affinity Water is committed to effective provision of information to demonstrate compliance with the provisions of its Code. We will publish a short summary document for each new water trade we make to demonstrate how each trade meets the requirements of our Code. We will also arrange annual external assurance of Code compliance and will provide the results to our Audit Committee and to Ofwat.

We understand that the requirements of transparency must respect the commercial position of parties we are trading with and will not publish any information they provide to us on a confidential basis, except as required by law or a regulatory requirement.

Further information about the markets that Ofwat regulates can be found at <https://www.ofwat.gov.uk/regulated-companies/markets/> and to support the water resources market Ofwat also publishes market information which can be found at <https://www.ofwat.gov.uk/regulated-companies/markets/water-bidding-market/water-resources-market-information/>

3.3.3 Link to WRMP (Ofwat Principle 6)

Affinity Water adopts a single approach to agreeing water trading arrangements and selecting options under its WRMP.

The identification of potential deficits in the supply demand balance within a WRZ will be addressed by the analysis of all available options to provide new supplies and/or reduce demand including new water trading arrangements. Where we identify a surplus of water resources in a WRZ we will explore opportunities for providing water exports to support neighbouring companies.

3.3.4 Environment and Economic rationality (Ofwat Principle 7)

Affinity Water is committed to ensuring that any trades involve economically and environmentally rational flows.

We will assess all options available to us for securing our water resources on the same basis. This ensures that the trades we select are cost effective against all the other options we have available to us.

Where relevant, we will ensure that we only enter into a trade of water where an abstraction licence is in place and the Environment Agency has not indicated any change needs to be made to the relevant abstraction licence to deliver a sustainability reduction or other requirement under the Water Framework Directive.

We are working with Ofwat and the Environment Agency to develop and implement the Abstraction Incentive Mechanism (“AIM”) framework. The AIM will help to protect sources where there is a perceived marginal adverse environmental impact and alternative water sources or some other realistic means of reducing abstraction from the source are available and will not cause detrimental impacts.

3.3.5 No artificial ending of trades (Ofwat Principle 8)

Affinity Water will not artificially end and restart trades to take advantage of changes in incentive arrangements.

3.3.6 Appropriate allocation of incentives (Ofwat Principle 10)

Affinity Water will allocate any incentive payment that it receives to the relevant price control in accordance with the guidelines set out in Ofwat’s Final Methodology for the Price Review. We will allocate any export incentive in a manner consistent with the costs of making a trade and will allocate the import incentive based on the charges paid for the trade.

This will also depend on the types of trade i.e.

- Type 1: Source to source e.g. transfer of raw water from an exporter’s river abstraction source to the importer’s raw water reservoir source.
- Type 2: Source to raw water distribution/storage e.g. transfer from an exporter’s borehole into an importer’s raw water transport network
- Type 3: Treated to distribution network e.g. transfer from and exporter’s treatment works to an importer’s distribution network.

The allocation of the incentives for these types of trades will be consistent with the methodology set out on Ofwat’s website <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-5-Water-resources-FM.pdf> which includes details on the types of trades on pages 55-57.

3.3.7 Consistency with the company's bid assessment framework (Ofwat Principle 11)

This Code is consistent with and complements our Bid Assessment Framework, which will be published no later than 3 September 2018.

Further information can be found in Ofwat's publication <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>

3.3.8 Evidence of assurance processes (Ofwat Principle 12)

We understand the need for robust assurance processes for the agreement of water trade arrangements to ensure decisions have a sound and objective basis and in particular take into account the long-term nature of water trading and supply-demand balances.

As stated in 3.3.2 we will publish a short summary document for each new water trade we make to demonstrate how each trade meets the requirements of our Code. The document will include a review of the processes followed during the trade negotiations. We will also arrange annual external assurance of Code compliance and will provide the results to our Audit Committee and to Ofwat.

Our WRMP is subject to an independent technical audit. The scope of this audit encompasses review of our decision making in selection of options and the robustness of our WRMP in balancing long-term supply and demand.

4 Qualifying Trades

This section explains the requirements that must be met for a trade to qualify for an incentive payment.

4.1 Agreement of trade in July 2013 or later (Requirement 1)

In order to qualify for trade incentives, the qualifying trade must have been agreed no earlier than July 2013. This means we must have signed a contract in relation to water trading arrangement in July 2013 or later.

4.2 The trade must be or have been operating between April 2015 and March 2025 (Requirement 2)

The import and export must have been operating between April 2015 and March 2025. This means the import or export must be operating in practice and revenues must have been generated under the water trading agreement during the price control period (1 April 2015 to 31 March 2020) or the price control period (1 April 2020 to 31 March 2025).

4.3 Trades to be between unrelated parties (Requirement 3)

A qualifying trade must be made between wholly unrelated parties that are not within the same group of companies.

5 Glossary

| Term | Description |
|---|--|
| Abstraction | The process of removing water from the natural environment. |
| Abstraction Licence | The licence required to abstract water from the natural environment. |
| Affinity Water | Affinity Water Limited. |
| DEFRA | Department for Environment, Food and Rural Affairs. |
| Environment Agency (EA) | Regulator for the natural environment in England. |
| Megalitre (MI) | 1 million litres of water. |
| Ofwat | The Water Services Regulation Authority (Ofwat) is a non-ministerial government department; they are the economic regulator for the water and sewerage sectors in England and Wales. |
| Potable | Water supplied for domestic consumption and/or food production purposes, as defined by WIA91. |
| Supply demand balance | A calculation undertaken through the water resources planning process to determine the balance (surplus or deficit) between the demand for water and available supplies. |
| Sustainability Reduction | Reduction in licensed abstraction required by the Environment Agency to ensure abstractions are not having a detrimental impact on the natural environment. |
| Water Resources Management Plan (WRMP) | A statutory plan which water companies use to plan ahead and manage their water resources. |
| Water Resources East (WRE) | The Water Resources East project brings together water companies, the Environment Agency, Ofwat, Consumer Council for Water, Natural England, Defra and other interested parties to consider the management of water resources in the Eastern region. |
| Water Resources South East (WRSE) | The Water Resources in the South East Group is an alliance of the six south east water companies, the Environment Agency, Ofwat, Consumer Council for Water, Natural England and Defra to develop long term plans for securing water supplies in the south east. |
| Water Trade | An agreement between a water undertaker and a third party including another water undertaker to transfer water between them. |

| | |
|----------------------------------|--|
| Water Resource Zone (WRZ) | Water Resource Zone – the largest possible zone in which all resources, including external transfers, can be shared and, hence, the zone in which all customers will experience the same risk of supply failure from a resource shortfall. |
|----------------------------------|--|

6 Useful Reference Materials

The following provides internet hyperlinks to documents relevant to this Code:

1. Water Acts

<http://www.legislation.gov.uk/ukpga/2014/21/contents/enacted>

2. Competition Act

<http://www.legislation.gov.uk/ukpga/1998/41/contents>

3. European Habitats Directive

http://ec.europa.eu/environment/nature/legislation/habitatsdirective/index_en.htm

4. Water Framework Directive

http://ec.europa.eu/environment/water/water-framework/index_en.html

5. Drinking Water Inspectorate

<http://www.dwi.gov.uk>

6. Environment Agency

<https://www.gov.uk/government/organisations/environment-agency>

7. Water for Life: Market Reform Proposals

<https://www.gov.uk/government/publications/water-for-life>

<https://www.gov.uk/government/publications/water-for-life-market-reform-proposals>

8. DEFRA 25 Year Environment Plan

<https://www.gov.uk/government/publications/25-year-environment-plan>

9. National Infrastructure Commission National Strategic Assessment

<https://www.nic.org.uk/assessment/national-infrastructure-assessment/>

10. Water Resources South East

<http://www.wrse.org.uk>

11. Water Resources East

<http://www.waterresourceeast.com>

5.2 Affinity Water Bid Assessment Framework

Bid Assessment Framework

August 2018

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Overview

This document sets out how Affinity Water Limited will support its Water Resources Management Plan (WRMP) by ensuring the appropriate sourcing of water resources, demand management and leakage services. It gives a framework for potential bidders to understand the context, scope, principles and process to supply Affinity Water with these services and to give confidence that third party bids will be assessed fairly against in-house solutions.

The document explains the best practice principles which are already incorporated into Affinity Water's processes and takes this a stage further by documenting and affirming our commitment to these key principles in a more transparent manner. A key element of this is the establishment of a new "Water Trading Portal" on our website to act as a repository of information, publicise opportunities and serve as a single point of reference for potential bidders. We are also seeking to standardise our procurement processes to allow for greater consistency and encourage interest from potential bidders.

We also explain our ambition to be at the frontier in promoting innovative methods and models to drive efficiency in the provision of these services in the increasingly water scarce south-east. These include proposals around non-household demand reduction through the potential incentivisation of the retail market.

Taken together this Framework should increase the ease of engagement with third parties and encourage a more competitive market for water supply, demand management and leakage services. This should in turn lead to better value for money for customers and increased resilience of supply.

1.1 Why do we issue a Framework?

Affinity Water is, in principle, willing to trade with any party that either wishes to take from us, or offer to us, a reasonable volume of reliable, sustainable and cost-effective water resources. It is also willing to trade with third party providers of leakage and other demand management services.

In its PR19 methodology, the Water Services Regulation Authority ("Ofwat") wants to encourage greater water trading between appointed water companies, to benefit customers and promote better, more sustainable use of the natural environment. In its decision document in May 2016 https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20150520w2020.pdf Ofwat signalled that it would require incumbents to publish a Bid Assessment Framework and this has been reaffirmed as a requirement in the PR19 methodology <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>. The purpose of the Bid Assessment Framework is to support the bidding market for water resources, demand management and leakage services by ensuring transparency of our process to identify opportunities for trading and establishing a clear framework through which solutions will be procured for such opportunities. The aim is that this greater transparency and clarity will encourage greater interest in bidding for such opportunities and promote innovation in the identification of opportunities and their resolution.

As part of the PR19 process Affinity Water will submit this Framework together with our Business Plan on or before 3 September 2018. The Framework should be read in conjunction with our WRMP <https://stakeholder.affinitywater.co.uk/water-resources.aspx> and Trading and Procurement Code <https://www.ofwat.gov.uk/wp-content/uploads/2018/08/Affinity-Water-Trading-and-Procurement-Code.pdf>

1.2 Using the Framework

This Framework describes the bid assessment process which will be used when Affinity Water identifies requirements for new water resources, leakage or demand management services. Affinity Water will keep its Bid Assessment Framework up to date and publicly available via its website.

After the final determinations are published we will publish the Bid Assessment Framework alongside the Water Resources Market Information <https://stakeholder.affinitywater.co.uk/water-resources-market-information.aspx> on our website. This will be part of our bespoke Water Trading Portal, described further in Section 2.3

1.3 Assurance

The Bid Assessment Framework forms part of our Business Plan submission and has been reviewed and included within assurance of our Business Plan.

Likewise the assurance processes for the WRMP (and Market Information tables) and Trading and Procurement Code are as set out in those respective documents.

1.4 Contact Details

Any queries in relation to this Bid Assessment Framework can be submitted through our Water Trading Portal or may be submitted directly by post or email using the following contact details:

Chris Offer
Director of Regulation and Corporate Affairs
Affinity Water Ltd
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ
Email: christopher.offer@affinitywater.co.uk

2 Context

2.1 Affinity Water

We are the largest water only supply company in the United Kingdom, owning and managing the water assets and network in an area of approximately 4,515km² split over three supply regions in the South East of England. We supply on average 900 million litres of drinking water every day to approximately 3.6 million people (1.4 million properties).

Our supply area is divided into eight different geographical communities, based on our existing water resource zones and each named after a local river. Moving to this community approach has allowed us to tailor our high quality service to customers at a more local level.

2.2 Relationship between WRMP, TPC and BAF

Figure 1 shows our interpretation of the relationship between the WRMP, Trading and Procurement Code (TPC) and Bid Assessment Framework (BAF) and how both the TPC and BAF support the efficient sourcing of resources to meet the supply demand balance detailed in the WRMP.

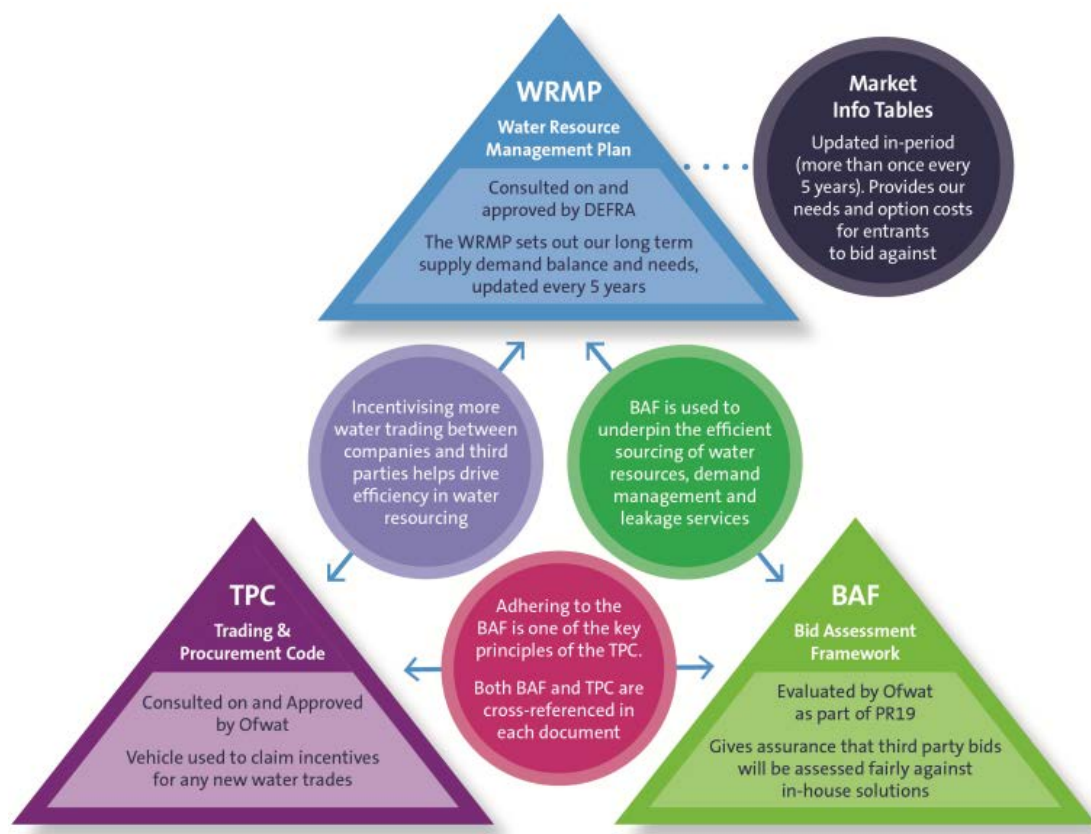


Figure 1 The relationship between the Water Resources Management Plan, Trading & Procurement Code and Bid Assessment Framework

2.3 Affinity Water Trading Portal

To help industry participants understand how the Bid Assessment Framework helps drive lower costs for customers we have developed a schematic flow diagram (Figure 2) to show how the role of our Water Resource Management Plan, Trading and Procurement Code and Bid Assessment Framework link together and interrelate to promote efficiency and drive benefits for customers. This diagram is central to our understanding of the Ofwat methodology to promote water trading through and in-period gateways to WRMP.

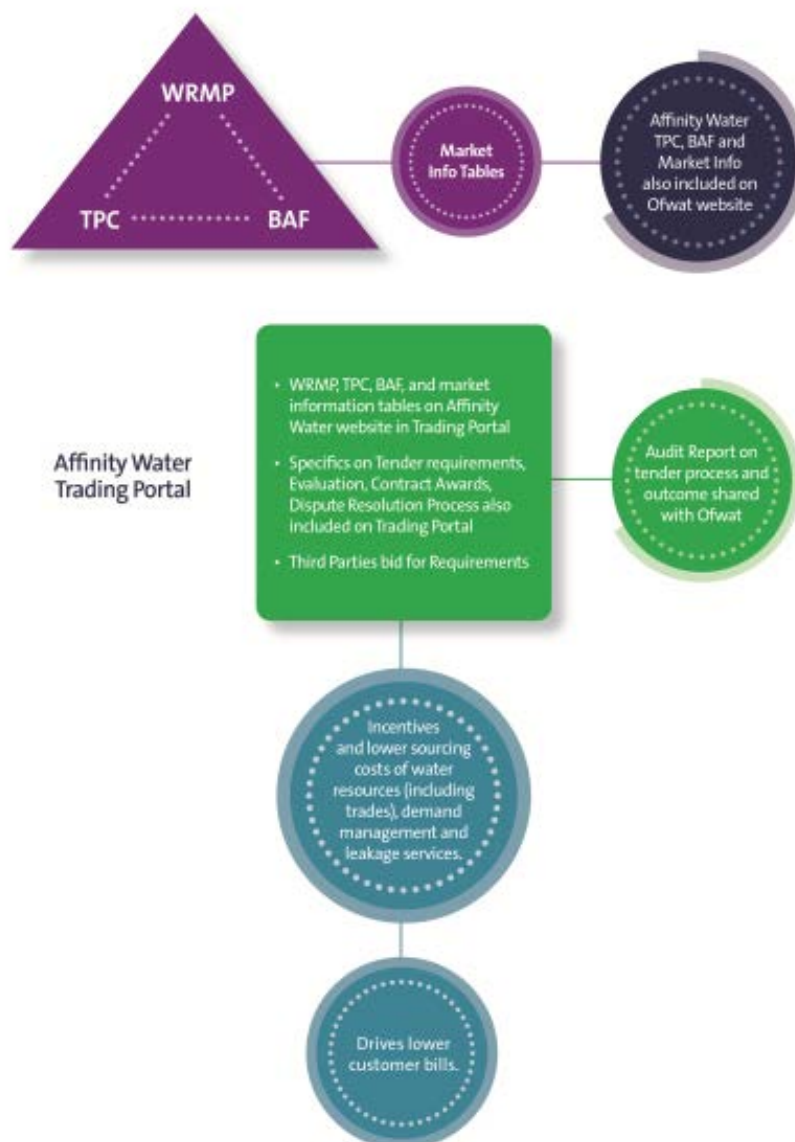


Figure 2 Schematic showing how the bidding process drives lower costs for customers

A key perceived barrier to increased water trading and delivery of demand management and leakage services is a lack of information and a lack of transparency around opportunities and requirements. In order to make the Bid Assessment Framework more accessible we propose to set up an online portal on our website, we will refer to this as our 'Water Trading Portal'. The

Water Trading Portal, as shown on the diagram will contain important information for potential third parties, such as our Trading and Procurement Code, the Bid Assessment Framework, and other information and links (to our Market Information Tables or WRMP Tables). The aim of the Water Trading Portal will be to make it easier for third parties to engage and trade with us. The Water Trading Portal will be used as the focal point for all opportunities in relation to water resources and may also be used for opportunities relating to demand management depending on the nature of that opportunity.

Leakage services and any demand management opportunities which we consider are unsuitable for advertisement via the Water Trading Portal because of the nature of those opportunities, will be publicised through Achilles, our procurement platform, which is described in more detail below.

We anticipate being able to share further information on our Water Trading Portal and how this is to be developed in our revised draft WRMP19.

The diagram also shows that the Affinity Water TPC, BAF and Market Information Tables will be published on the Ofwat website. Audit Reports will be produced in respect of each procurement process undertaken by Affinity Water to assess compliance with the principles of this Framework and these will be made available to Ofwat. These Audit Reports will not be published on the Water Trading Portal.

2.4 Driving Efficiency through Market Innovation

Not only is our ambition to be the leading community focused water company but we also recognise that our geographical location requires us to be at the forefront of water trading in the South East. We have long understood the water scarcity issues in the South East and have required us to operate at the frontier of best practice and promoting development of innovative business models such as System Operator. These business models build on learning from other industries such as the energy sector and utilise increased regional coordination for mutual benefit <https://stakeholder.affinitywater.co.uk/docs/KPMG%20-Water-sector-business-models.pdf>.

We are committed to promoting regional co-ordination as a vehicle for enhancing water trading opportunities and have been instrumental in shaping Water Resources South East (WRSE) into a regional entity that can deliver a regional plan and with sufficient decision-making authority to help unlock trading barriers. This will result in increased water availability from both within and outside the South East. Improvements in regional co-ordination will in turn drive efficiencies and lower costs for our own customers as well as customers in the South East more generally.

We see the potential that WRSE offers for water trading as being aligned with the opportunities offered through WRMP. For example the need for pricing transparency for trades is key in both cases. As the WRSE explores the opportunities that a regional model may offer for enhancing and incentivizing water trading across the region, we will work with the WRSE to help develop methodologies that will promote pricing transparency.

Pricing transparency should be a central principle underpinning the aim of delivering fair pricing for water trading opportunities for all regional participants. We believe that only through a regional approach to pricing transparency can all participants benefit from fair prices, as it is only through regional approaches that the opportunity cost barriers can be removed. Currently this is an issue that is difficult to solve where multiple participants might be involved in a scheme, through each company's WRMP. However, in a regional model the opportunity to

expose potential opportunity costs becomes possible, and then a fairer pricing mechanism could be applied to all transfers across the region.

We believe that other innovations could be facilitated through this process. For instance, in the area of demand management we see a potential role for retailers in helping to reduce the demand of its customers, thereby lowering costs for all customers and improving resilience. We envisage this could be achieved by us, as wholesaler, providing an incentive to retailers in return for their work in supporting their non-household customers in reducing demand.

Figure 3 illustrates how this would work. The left-hand column shows the components of costs to non-household customers: the wholesale cost, the retail cost and the retailer margin. The right-hand column demonstrates the position following a reduction in non-household customer demand. Non-household customers are paying less because they use less water. The retailer's margin, however, is maintained or increased. The increase in the retailer margin results from an incentive payment from the wholesaler that compensates for the reduction in the amount of retailer margin being paid by non-household customers.

Retailers benefit from having helped their non-household customers to reduce demand by seeing an improvement in their margin, which now comprises both a payment from their customers and an incentive payment from the wholesaler. Non-household customers benefit by seeing the amount they spend on water fall. Customers as a whole benefit because if less water is needed the WRMP portfolio cost will fall. At the same time overall resilience of supply will be improved by spreading of reductions in demand across the full range of water users.

The level of the incentive payment will be dependent on the local water resource requirement and marginal cost of supply both internally to the incumbent and trades with near neighbours. This makes it increasingly important to have in place the pricing transparency mentioned previously in this section.

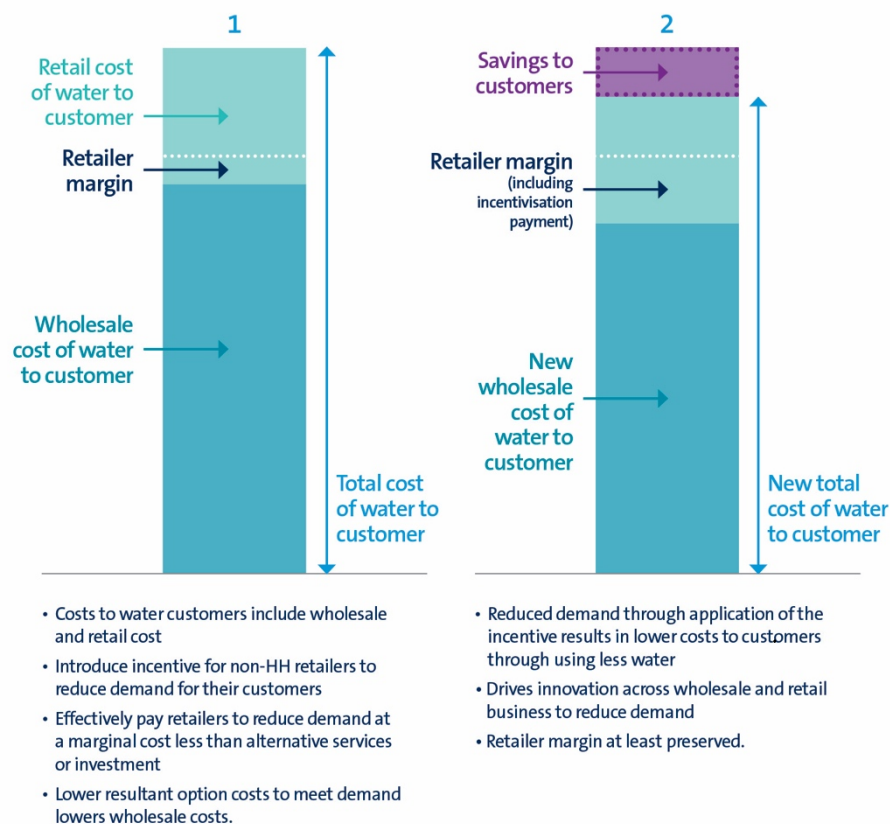


Figure 3 Schematic showing how retailers could be incentivized to provide demand management and leakage services

We believe this type of innovation has wide ranging applicability because of the transferability of the scheme and the access that retailers have to customers nationwide. It could not only apply to demand management but also to management of customer-side leakage and this will potentially drive innovation through both the wholesale and retail markets and allied to the regional coordination mentioned previously could free up water that could be cascaded to areas with scarce resource. We will be actively engaging with potential partner retailers in the non-household market to explore the feasibility of the scheme with a view to introducing pilots in the near future.

2.5 Impact on WRMP19

We are currently revising our draft WRMP in line with the responses to our recent dWRMP19 consultation <https://stakeholder.affinitywater.co.uk/water-resources.aspx> and plan to reconsult on the updated plan in 2019. To demonstrate our commitment to using our Bid Assessment Framework to drive efficiency, we will be using the principles underpinning the Bid Assessment Framework in constructing the revised draft WRMP19. We aim to expand on our intentions to promote water trading within our revised draft WRMP19, and this should help to publicise the Bid Assessment Framework to a wider audience and emphasise our commitment to it.

3 Current position and future need

3.1 Current water trading arrangements

Affinity Water fully supports water trading between companies where it is environmentally and economically rational to do so. Water trading has the potential for a more environmentally friendly approach to using natural resources from areas of surplus into areas of deficit. Trading also has the potential to protect our customers' water bills where a trade is a less expensive alternative to developing a new source of water. We currently have agreements with neighbouring water companies for transfers of raw and potable water.

3.2 Current leakage and demand management services

Finding of leaks is predominately carried out by in-house direct labour with third party support to help manage the seasonal demand. The repair of leaks through digging, fixing and re-instatement is sub-contracted to third party suppliers. We also have a water savings programme that is responsible for the installation of water meters, the education of customers in regards to saving water, provision of water saving devices and the promotion of the benefits of having a water meter. The installation of these water meters and education of customers on their benefits is carried out by a third-party supplier.

For leakage and demand management services, Affinity Water already has agreements in place which were tendered using a pre-qualification system, Achilles Utility Vendor Database, which is open to all suppliers, and advertised bi-annually through OJEU. These contracts will be re-tendered in accordance with obligations under the UCR and under the processes described in this Framework once those contracts expire.

Throughout the term of our current agreements, Affinity Water regularly reviews the market place to investigate options for improving the way its demand management services are delivered.

3.3 Future needs

At the start of the next planning period (2020), we will have a supply deficit in three of our eight water resource zones (WRZs). This rises to deficits in four of our eight WRZs by 2045. Further details can be found in our draft Water Resources Management Plan. Demand management schemes can be found in our WRMP and include leakage management, fitting of smart meters and promotion of reduction in usage.

This anticipated supply deficit emphasises the criticality of developing new methods of maximizing the efficiency of our water supply arrangements. We see water trading and openly competing opportunities for water supply, leakage and demand management services as being key tools to drive value for money and increased resilience for both our water network and the wider region.

The need for this is increased due to the long lead in times for major infrastructure projects meaning that greater efficiencies in water supply and trading will be required to address the deficits that are forecast to occur before these projects can be commissioned.

4 Existing Obligations

Affinity Water is already operating on the basis of a number of principles which share the values of this new Framework. This Framework builds on these principles further to enhance the transparency of opportunities for engagement with third parties and providing a clear process for undertaking such engagement.

4.1 The WRMP Process

Affinity Water already follows the WRMP recommended approaches in identifying and appraising third party options in the following ways:

- **OJEU** – We periodically issue a Prior Information Notice to advertise the potential opportunities for third parties to assist us in meeting our supply/demand requirements.
- **Statement of Need** – we publish our supply/demand balance (including any deficit) to advertise the need for new supply/demand services as part of the development of our WRMP.
- **Advertising** – We advertise potential opportunities on our website and through relevant journals and magazines.
- **WRMP options appraisal** (including review of water abstraction licences)

4.2 Competition Law

We consider our current approach to meeting these requirements and the processes detailed within this Framework to be compliant with requirements under Competition Law. We will continue to review our processes and practices to ensure that they reflect the current requirements under competition law as this may develop over time.

4.3 Procurement Law

As noted in section 5.1 below, we consider the Utilities Contract Regulations 2016 (“UCR”) to apply to the majority of our current procurement processes. This Framework strengthens our commitment to adherence to the core principles of the UCR and the processes which we intend to follow will be compliant with our obligations under the UCR.

We are also committing to apply these UCR compliant processes to all relevant procurements falling within the scope of this Framework, irrespective of whether they would be regulated by the UCR as a matter of law. This demonstrates our continuing commitment to transparency and equal treatment in addressing opportunities relating to water trading, water supply, demand management and leakage services.

4.4 Current and Future Regulatory Framework

At present, there is no regulatory framework for the direct regulation of water supply agreements made between incumbents and unregulated third parties, although this may change through enactment of section 12 of the Water Act 2014. Any concomitant effects will be incorporated in this Bid Assessment Methodology as appropriate.

4.5 Trading and Procurement Codes

As set out in Section 2 there is an interrelationship between the WRMP, Bid Assessment Framework and Trading and Procurement Code, the latter being a necessary requirement should a water company wish to claim water trading incentives in 2015-2020 or 2020-2025. Our Trading and Procurement Code has been approved by Ofwat and is available on our Water Trading Portal and the Ofwat website.

5 Principles

The following Principles will apply as part of this Bid Assessment Framework:

5.1 Utility Contracts Regulations

Affinity Water is subject to the Utility Contracts Regulations 2016 (the “UCR”) and for all procurements that are within the scope of the UCR Affinity Water conducts these procurement in accordance with the relevant requirements set out within the UCR.

Regulation 11 of the UCR makes it clear that the UCR should be applied to procurements relating to:

“(a) the provision or operation of fixed networks intended to provide a service to the public in connection with the production, transport or distribution of drinking water;

(b) the supply of drinking water to such networks”.

Where the relevant value thresholds are met and no exclusions apply, our view is that water trading, leakage and demand management services are highly likely to fall within this scope.

Affinity Water would therefore already conduct procurements for these services in accordance with the requirements of the UCR which include those of Regulation 36 of the UCR:

“(1) Utilities shall treat economic operators equally and without discrimination and shall act in a transparent and proportionate manner.

(2) The design of the procurement shall not be made with the intention of excluding it from the scope of these Regulations or of artificially narrowing competition.”

This Framework is therefore an evolution of our existing practices rather than a step change but our intention is to build on the existing requirements of the UCR and provide more greater transparency of how Affinity Water meets these requirements. This wider publication and commitment to consistency of process should make opportunities more visible to potential third party bidders and give greater confidence in the processes.

We will give regular consideration to updating our Bid Assessment Framework in accordance with any update, amendment or replacement to the UCR or otherwise in accordance with best practice.

5.2 Transparency

Affinity Water's current procurement processes already embraces the principle of transparency as is required to follow best practice for procurements regulated by the UCR.

Affinity Water continues to adopt a clear commitment to transparency through this Framework and associated documents. By providing a clear explanation of the procurement processes that will be adopted as well as a high level overview of the evaluation criteria that will be applied, bidders will be encouraged to participate from a more informed starting position. Applying these processes consistently should also save time and cost for bidder participation.

Going beyond this Framework, Affinity Water will ensure that the procurement opportunities are publicised with an appropriate amount of time to allow for third parties to register their interest. When commencing a procurement process, we will ensure that documentation inviting tenders will be clearly drafted and shall set out the details of how the process will operate, what our requirements for that particular opportunity are and the award criteria to be used to determine the most economically advantageous solution to meet the opportunity in question.

5.3 Equal Treatment/Non-discrimination

Affinity Water's current procurement processes already embrace the principles of equal treatment and non-discrimination as is required to follow best practice for procurements regulated by the UCR.

We will ensure that all third party bidders have an equal opportunity to compete for the published service requirement.

Where Affinity Water considers it appropriate to also consider an in-house solution to the relevant opportunity, a distinct in-house bid team will be established within Affinity Water which shall be independent of the team managing and evaluating the procurement process. This in-house bid team will then be required to participate in the procurement process in the same manner as any third party bidder would be expected to participate and will be assessed against the same evaluation criteria.

This will ensure that an objective assessment of all the tenders is adopted and that where an in house solution is to be awarded the opportunity this will have been verified as being the most economically advantageous solution from all those considered.

5.4 Proportionality

Affinity Water's current procurement processes already adopt a proportionate approach when conducting procurements as this is required in order to follow best practice for procurements regulated by the UCR.

For the purposes of our Framework and all procurements that are subject to it, this will manifest itself in the following ways:

- (a) We will adopt a considered and proportionate approach to specifying the requirements that a solution will need to adhere to. This will avoid artificially narrowing the competition for that opportunity and ensure that the solution adopted is appropriate to meet the requirements whilst avoiding unnecessary "gold plating".
- (b) By adopting a consistent approach to these procurement processes we will allow bidders to become familiar with the approach to be adopted and same time and cost by being able to prepare their bids from a common starting point.

Affinity Water will still update the requirements as and when necessary, for instance as part of the annual review of the WRMP or if there is a material change in the supply demand balance or when new opportunities may arise for third parties.

5.5 Conflicts of Interest

Affinity Water's current procurement processes, where regulated under UCR already take account of the need to prevent conflicts of interest through compliance with Regulation 42 of the UCR. This requires utilities to “*take appropriate measures to effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators*”.

Affinity Water shall enhance this commitment by ensuring that, in circumstances falling under the application of this Framework, no associated company of Affinity Water will be able to take part in the bidding process unless this is treated in the same way as an in house bid and subject to requirements of independence and confidentiality. For the purposes of this Framework therefore, an “in house bid” is any service option or solution which is developed by or at the request of Affinity Water or one of its associated companies. Associated companies, such as Affinity Water's retailer, may be willing to provide demand management services or other forms of support which could result in best value for customers. We would ensure that any such “in house bids” would be treated in the same way as any third party bid with no cross-over of staff or information with the procurement team managing the procurement as a whole.

Wherever an in house bid is considered appropriate, this will be prepared by a separate project team working independently from the procurement team managing the procurement as a whole. This in house bid will be subject to the same requirements as all other third party bids and Affinity Water will ensure that there is no cross over of staff between the two.

Appropriate confidentiality barriers will be put in place to ensure that the in house bid team cannot have access to the work of the procurement team or materials provided by third party bidders.

5.6 Non-Applicability of Utility Contracts Regulations 2016

As noted at Section 5.1 above, it is highly likely that all procurements within the scope of this Framework will be regulated by the UCR however there may be some occasions where they are not.

To emphasise our commitment to the principles of transparency, equal treatment, non-discrimination and proportionality we intend to treat all procurements within the scope of this Framework in the same way and apply procurement procedures which are consistent with the requirements of the UCR.

This commitment should provide potential third party bidders with increased confidence in the framework to stimulate the bidding market.

Please note that this is subject to our comments at Section 5.11 around applicable routes to resolve disputes which will differ depending on whether the procurement process is in fact regulated by the UCR. Where the UCR does not apply, Affinity Water will still ensure that there is a robust and transparent process to allow for bidders to challenge the application of our processes where they consider it appropriate to do so and to have this appropriately scrutinised.

5.7 Confidentiality

Affinity Water's current procurement processes already adhere to principles of confidentiality as part of best practice for procurements regulated by the UCR and as required in order to meet Regulation 39 of the UCR. These obligations will be maintained for procurements under this Framework.

To safeguard against any misuse or perception of misuse commercially sensitive information will be subject to appropriate confidentiality barriers to ensure that confidential information provided by third parties is only accessed by the procurement team (and therefore is not accessible by individuals working on in house bids).

5.8 Governance

To avoid any potential internal conflicts of interest the team managing the procurement process (Affinity Water's Procurement Team) will be separate from the team preparing any in house bid (if any).

Affinity Water's Level Playing Field Committee will act as a project board for all procurement processes undertaken. This Committee will oversee the decision-making process and ensure all bids, including in-house bids, are evaluated using the same criteria and in accordance with level playing field principles. The Level Playing Field Committee reports to Affinity Water's Audit Committee. Our Internal Audit team will undertake audits of compliance from time to time as approved by the Audit Committee.

Affinity Water will also conduct an internal audit of each procurement process including the key decisions made, the conduct of the evaluation process and any decisions to award. A report detailing the findings of this audit process will be made available to Ofwat.

5.9 Dispute Resolution Procedure

Where a procurement process is subject to the UCR, bidders will have remedies available to them pursuant to the terms of the UCR (including potential legal challenge and the remedies which may be determined by a Court, as detailed out in the relevant provisions of the UCR). The use of these remedies will be subject to the time limits and requirements specified under the UCR and generally under applicable law.

Additionally, Affinity Water will have a clear and transparent internal complaints and appeals process. This will be accessible to bidders through our website via the Water Trading Portal.

This will involve in the first instance, contact with the responsible procurement manager leading on the procurement process who will have been identified within the relevant procurement documentation and contact details provided. Where the complaint is unable to be resolved at this level it will be escalated for review and consideration by the Level Playing Field Committee (acting as their role as the project board).

5.10 Periodicity of bids

Where Affinity Water identified a requirement for additional water supply, demand management and/or leakage services it will advertise these opportunities either through the Water Trading Portal (for water supply and applicable demand management services) or via the Achilles procurement platform (for applicable demand management services and leakage services). We anticipate that the majority of water trading opportunities will be identified as part of our WRMP

development process which is likely to result in a more intense period of procurement however other opportunities are likely to arise on a more ad hoc basis.

At the point of advertising an opportunity, bidders will be invited to register their interest in submitting a tender for their proposed solution to meet our requirement. Those interested parties that meet our pre-qualification requirements (as detailed in section 6.2.2 below) will be issued with an invitation to tender. This invitation to tender will include details of the precise timings for the procurement, the specific evaluation criteria that will be applied, as well as an anticipated date of for an award decision.

Where no specific requirement has been identified by Affinity Water, bidders may put forward opportunities for assessment by Affinity Water at any time through contacting us through our Trading Portal. These potential opportunities will be assessed to determine whether they present a valid opportunity, using the same methodology as applied by Affinity Water when producing its WRMP.

These third party proposals will not trigger a formal procurement process unless required pursuant to UCR and will instead be dealt with on a bilateral basis. This approach is considered most appropriate to ensure that potential third party providers are encouraged to come forward with opportunities at any time.

5.11 Changes in requirements

Due to the benefits in maintaining consistency of process and approach we will seek to keep any updated or amendments to our processes to a minimum.

We may however make amendments where these are reasonably necessary, for example where these are to reflect part of the annual review of the WRMP, where there is a material change in the supply demand balance or where innovations result in significant new opportunities or require an evolution in approach to follow best practice.

Where changes are made we will update this Framework document and place notices confirming the details of any changes on our Trading Portal.

6 Process

6.1 Market Engagement

Affinity Water is actively engaging with potential third party bidders and seeking to publicise the opportunities that may be available. This allows us to attract new potential third party water resource providers.

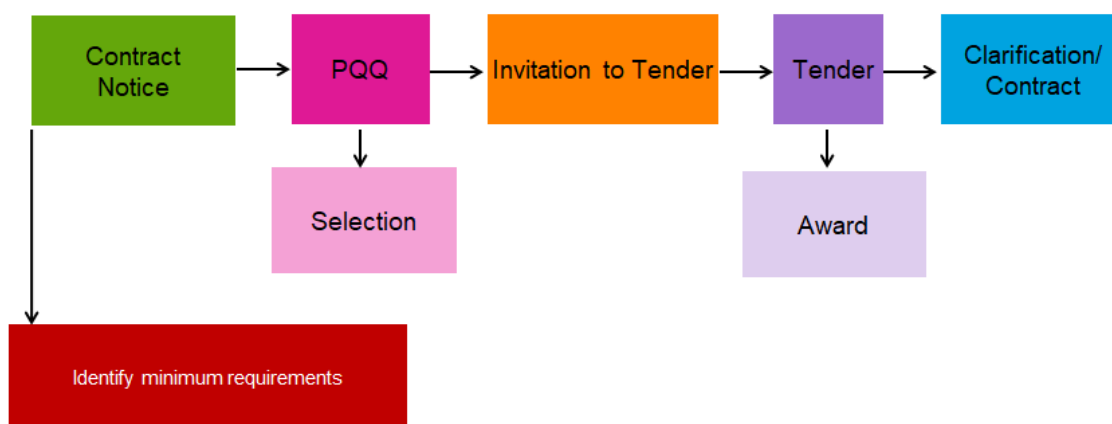
This engagement includes:

- a) publishing market information tables on our web site;
- b) discussing opportunities and best practice with other water companies, local land owners and other relevant third parties; and
- c) issuing notices of any identified opportunities in the Official Journal to the European Union (“OJEU”).

We will increase this activity by making this Framework and information around new opportunities available on the Affinity Water web site (via the Water Trading Portal) to give potential providers confidence around the process for reviewing potential new resources.

6.2 Stages of the procurement

Wherever a requirement has been identified by Affinity Water, a procurement process will be undertaken. This process will follow the process outlined in the figure below. Where an opportunity has been identified independently by a third party and not in response to a requirement of Affinity Water, this will be dealt with in accordance with the process outlined in section 5.10 above.



6.2.1 Expressions of Interest

Where Affinity Water has published a notice (whether through OJEU, Achilles or on the Water Trading Portal) indicating a requirement that third parties may bid to meet, potential bidders should submit expressions of interest via the contact details specified in the relevant notice. For water supply opportunities and certain demand management services this is likely to be via the Water Trading Portal but for other services within the scope of this Framework Achilles will be used to manage this process.

The opportunity to submit an expression of interest is open to all potential suppliers, and pre-qualification documents will be made available to all those expressing an interest. Where appropriate a deadline for submission of expressions of interest will be specified in the relevant notice.

Affinity Water will conduct this initial engagement with potential bidders in accordance with requirements of the UCR.

6.2.2 Pre-qualification

All potential bidders that submit an expression of interest will be provided with a pre-qualification questionnaire which must be completed and submitted within the deadline specified in such pre-qualification questionnaire. This will require provision of information regarding the potential bidder to allow Affinity Water to assess their suitability to progress to the tender stage.

The information required as part of this pre-qualification questionnaire response will continue to evolve over time to ensure it meets best practice for the relevant subject matter but would be expected to include (to a standard proportionate to the subject matter of the procurement in question):

- a) Evidence of compliance with relevant health and safety requirements;
- b) Evidence of compliance with relevant environmental requirements;
- c) Details of quality assurance practices illustrating a best practice approach;
- d) Evidence of technical capability to a standard appropriate to the subject matter of the procurement process in question; and
- e) Financial information (including audited accounts) illustrating the financial viability of the bidder.

Additional criteria, proportionate to the procurement process in question, may be included by Affinity Water where considered appropriate including the objective rules and criteria permitted for exclusion of economic operators pursuant to Regulation 80 of UCR.

Any in-house bid will be assessed against the same criteria. Where a limited number of bidders will be permitted to progress to tender stage, this will be specified in the pre-qualification questionnaire.

For the avoidance of doubt, full details of the minimum requirements for progression to the tender stage of the procurement process will be made clear to all potential bidders in the terms of the pre-qualification questionnaire and a process for clarifying these requirements will be included for use by potential bidders where appropriate.

Pre-qualification questionnaire responses will be evaluated in accordance with the provisions of those documents and in accordance with requirements under the UCR.

6.2.3 Invitation to Tender

Following the pre-qualification stage, all bidders submitting a pre-qualification questionnaire response which meets the relevant requirements (subject to any limit on the number of bidders to progress from that stage in which case the highest ranked bidders up to such limit) will be issued with an invitation to tender by Affinity Water.

This invitation to tender will set out the details of:

- a) Affinity Water's requirements for any solution including the legal terms and conditions that any successful bidder would be required to enter into;
- b) The timescales for submission of a tender;
- c) The approach to clarification which bidders may adopt if appropriate;
- d) Clarity around Affinity Water's liability during the procurement including for provision of any information that may be made available to support production of tenders by bidders;
- e) Details of any opportunities for bidders to attend meetings or receive feedback from Affinity Water (if applicable);

- f) Details of any intention to down-select bidders or operate a phased evaluation process whereby bidders which fail to meet certain criteria will not progress to more detailed/time intensive elements of the evaluation process;
- g) Details of the evaluation criteria which will be used by Affinity Water to determine the most economically advantageous solution; and
- h) The routes available for any challenge to the decision to award or conduct of the procurement process.

Affinity Water will ensure all bids received will be treated equally and in line with the published tender process and evaluation criteria. Throughout this process the Affinity Water will ensure that it maintains the obligations of transparency, equal treatment, non-discrimination, confidentiality and mitigation of conflicts of interests in accordance with its obligations under the UCR.

6.2.4 Evaluation of Tender Submissions

6.2.4.1 Fair and Transparent process

As noted above, all evaluation criteria, including the relative weighting for each of the criteria will be made available to bidders as part of the invitation to tender. This will ensure the process is transparent. Each bid submission will be evaluated in the same way using the published criteria.

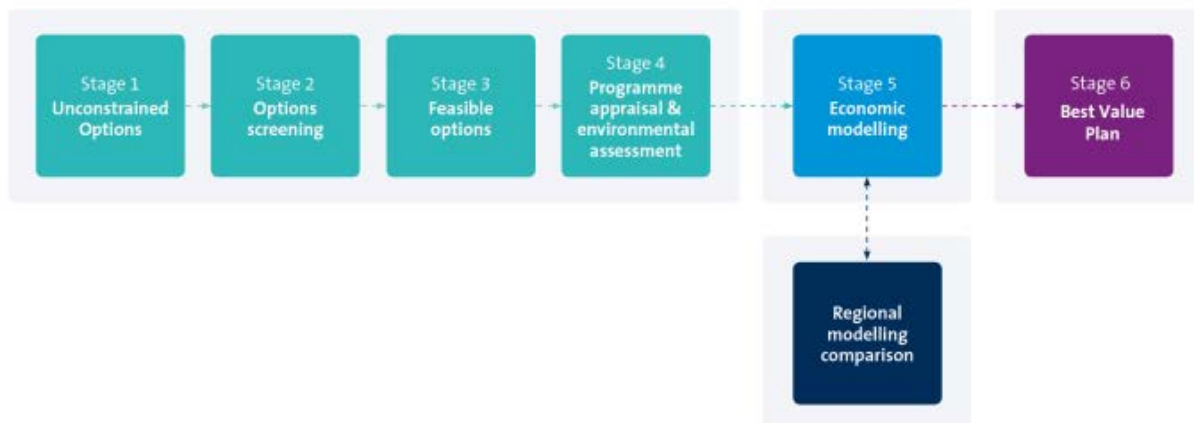
The evaluation criteria will vary depending on the nature of the procurement in question but would be expected to include (as a minimum) an assessment of the cost of the bidder's proposals, the technical feasibility and validity of the bidder's proposed solution and confirmation that the bidder will accept the terms and conditions proposed for any resulting contract to be awarded.

It is our intention to publish standardised evaluation criteria through our Water Trading Portal in due course and this Bid Assessment Framework will be updated accordingly.

6.2.4.2 Water Trading and Demand Management Options

The technical and financial assessment of submissions relating to water trading and demand management options (i.e. where the methodology to be used to achieve the required demand management objectives remains open to bidders to determine) requirements will include a multi-criteria analysis of the bidder's proposals (looking at factors such as environmental, deliverability, risk, resilience and a customer preference comparator)

This assessment will proceed in the manner demonstrated in the figure below which replicates the options assessment and development process which Affinity Water currently undertakes for developing its WRMP and aligns with WRMP guidance.



Stage 2 of the above process includes assessment of the bidder’s proposed solutions against a range of key screening criteria. These are set out at a high level in Appendix 1 to this Framework. It is our intention to publish standardised criteria to be used in the Stage 5 evaluation on our Water Trading Portal in due course.

6.2.4.3 Leakage Services and Demand Management Services

The technical and financial assessment of submissions relating to leakage services and demand management services (i.e. where the method to be used to achieve the required demand management objectives have been pre-defined by Affinity Water) will include an assessment of the commercial viability and the technical feasibility of the bidder’s proposals.

It is our intention to publish standardised evaluation criteria to be used in the procurement of these services on our Water Trading Portal in due course.

6.2.4.4 Treatment of internal bids

Internal proposals to meet Affinity Water’s advertised requirements will be evaluated using the same methodology for assessing third party bids.

6.2.5 Contract Award

Following the tender process and evaluation, a full evaluation report will be produced which includes the process to the award decision, demonstrating value under the evaluation criteria. This report will also include the assessment of any internal bid submitted. This report will be made available to Ofwat for audit purposes.

All bidders involved in the tender processes will be informed of the award decision, including reasons for acceptance or rejection including the characteristics and relative advantages of the successful tender. This will be provided in a manner compliant with Affinity Water’s obligations under Regulation 101 of the UCR.

6.2.6 Dispute Procedure

Where a procurement process is subject to the UCR, bidders will have remedies available to them pursuant to the terms of the UCR (including potential legal challenge and the remedies which may be determined by a Court, as detailed out in the relevant provisions of the UCR).

The use of these remedies will be subject to the time limits and requirements specified under the UCR and generally under applicable law.

Additionally, Affinity Water will have a clear and transparent internal complaints and appeals process. This will be accessible to bidders through our website via the Water Trading Portal.

This will involve in the first instance, contact with the responsible procurement manager leading on the procurement process who will have been identified within the relevant procurement documentation and contact details provided. Where the complaint is unable to be resolved at this level it will be escalated for review and consideration by the Level Playing Field Committee (acting as their role as the project board).

6.2.7 Record Keeping

Affinity Water shall ensure that thorough records are maintained to document each stage of the procurement process including any key decisions. This will ensure compliance with our record keeping obligations under Regulation 99 of the UCR as well as providing a clear audit trail to demonstrate compliance with the principles of this Framework.

Appendix 1

Water Resources and Demand Management Bid Process Option Screening Criteria

Water Resources Bid Process – Demand Management screening

Section 6.7 of the Water Resources Planning Guideline states that companies: *(should identify feasible options from the unconstrained list to investigate further. The feasible list is a subset of the unconstrained list. It is a set of options that you consider to be suitable to take forward for assessment as part of your preferred programme of options. As such, it should not include options with unalterable constraints that make them unsuitable for promotion).*

Demand management options are schemes which have the ability to reduce customer demand (PCC) and/or leakage. Options will be screened first before detailed costing is undertaken to sculpt the high-level understanding and allow it to be used within our WRMP19 modelling.

A set of qualitative criteria has been proposed and agreed with Affinity Water (AFF); these have been applied in order to fully evaluate strategies on different criteria.

The headline criteria used are presented in Table 1 below, with accompanying descriptions.

Table 1 Summary of qualitative screening criteria

| Criteria | Description | For example |
|-----------------------------|---|--|
| Yield uncertainty | What is the risk and uncertainty of the option delivering its estimated yield/water saving? | How assured is the yield? How likely is that the yield estimated for the option is actually achieved? |
| Lead Time | What is the time required to become fully commissioned or to deliver the water savings? | A water efficiency scheme may be delivered within a few months, a compulsory metering programme may require planning over a whole AMP |
| Flexibility | Has the adaptability of an option be reflected? | Can an option be enlarged in the future, or be combined with other schemes |
| Security of Supply | How robust is the overall scheme? | The likelihood of yield / water savings varying over time e.g. reduction efficacy of water efficiency initiatives or 'bounce back' from metering |
| Environmental impact | Will the option result in environmental impacts? | Impacts on biodiversity, landscape, heritage. Use of materials, generation of waste or pollution. |
| Sustainability | What is the impact of the option on wider sustainability? | The scheme's impacts on energy use, social effects, carbon footprint etc. |
| Promotability | Will customers support the option? | Is the option socially acceptable? Will customers think that it's a good idea? |

| | | |
|-----------------------------|---|--|
| Suitability | How well the option meets the assumed planning problem? | Will the option provide the correct amount of water at the right time (in terms of seasonality) |
| Technical difficulty | How difficult the option is to deliver? | To reflect the technical complexity, engineering practicability and difficulty of implementation |

Water Resources Bid Process – Supply Side screening

An overall assessment will be made under each of the broad criteria headings (see table 2) and for the option as a whole.

Table 2 Summary of supply-side screening criteria

| | | |
|-------------------------------------|----------------------------------|---|
| Technical feasibility | Water Availability | Review of the relevant Environment Agency Catchment Management Abstraction Strategy to determine the status of water for licensing |
| | Resource Reliability | The percentage of time that water is available from the relevant part of the catchment. |
| | Environment Agency and Licensing | To determine whether the option is likely to present a significant constraint or if there is a need to identify the potential for a licence trade and acceptability to the Environment Agency under consultation with them. |
| | Land Availability and Ownership | To identify whether there is adequate availability of Affinity Water or third party land on which to construct the necessary components of the proposed option |
| | Source Yield | In Mega-litres per day. |
| | Approximate cost | A profile of the solution cost over 80 years for capex and opex(NPV) |
| | Network Constraints | In Liaison with Affinity Water to identify if there are likely to be any significant constraints associated with utilization of the source – i.e. ability to distribute water to demand centres. |
| | Water Quality | Identify whether there are any known concerns with respect to water quality that would need to be addressed through treatment. |
| | Lead Time | An estimate of the time needed to implement the proposed solution, including the earliest start date |
| Environmental Considerations | Option status with respect to | A review of whether statutory designations of sites such as SACs and SSSI are likely to affect the feasibility of the option. |

| | | |
|--------------------------------|---|---|
| | environmental designations | |
| | Water Framework Directive | River Basin Management plan groundwater body status and any risks to no-deterioration or future objectives |
| | Hydrological impact on low and median flows | Where groundwater option is likely to have some impact on surface water flows based on the known conceptual model for the area. |
| Security and Resilience | Resilience | An assessment of how sustainable the option is and how resilient during times of drought |
| | Flexibility | How flexible the resource is to adapt to changing requirements |
| Risks and uncertainty | | An assessment of the risks and uncertainty associated with the proposed solution. This will include and assessment of the risk around obtaining planning permission, construction, technology and other implementation risks. |
| Financial stability | | The financial stability of the bidder to provide a solution over the long term |
| Business information | | Health and safety assessment; compliance legislation such as Anti-bribery and corruption; Modern Slavery act etc. |