



DŴR CYMRU  
WELSH WATER

## Dŵr Cymru Welsh Water Procurement Plan

Updated – 18 August 2006

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## PREFACE

This updated Procurement Plan sets out the developments that have occurred since April 2003 and outlines our proposed approach for future procurement activities.

The intervening period has been a busy one in terms of procurement activity. This activity has closely followed the plans that we have previously set out and has promoted Welsh Water's primary aim of delivering the best value water and sewerage services to our customers. With the letting of the ICT contracts we have largely completed our major procurement programme, save for sampling and laboratory services which is expected to conclude by December this year.

We have also been through a period when we have concentrated on establishing an Asset Management Alliance which includes our newly appointed operating and capital investment partners, and reassessing significant parts of our AMP4 capital investment programme to ensure we can achieve the required efficiency targets and deliver value for money for our customers. Getting this right has been challenging for everyone.

We continue to work hard on developing our Asset Management Alliance. The aim is to build a "one team" approach to all that we do, right across the business. It means long term contracts, joint teams, co-location and enterprise wide incentive arrangements such that our capital investment and operating partners - and their people - are focused on all the performance metrics that matter to our customers, including the ones for which they are directly responsible. One of our top priorities is to nurture the culture we have here that says we all support each other in looking after this crucially important industry to make Welsh Water the best in the sector.

This culture, supported by robust processes and procedures and clear accountabilities, are key to reassuring our stakeholders that Welsh Water is being well managed, and that the performance we report is sound. Being a single purpose company, our Board is only concerned with the performance of Welsh Water and there has been no let up in its interest in the proper governance of the business.

Our delivery is underpinned by the unique model that is Glas Cymru, a not for profit company that facilitates the provision of high quality credit to long term investors in order to secure financing efficiency and the best possible value for money for our customers.

In this Procurement Plan, we show that our procurement activities have:

- complied with the relevant law and regulations;
- been conducted in an equitable manner;
- facilitated the development of a fully competitive market for the provision of out sourced services;

- enabled us to retain the ability to discharge our functions as a water and sewerage undertaker; and
- ensured that our service delivery partners will provide us with all the information that is necessary to enable us to comply with the requirements of the conditions of our appointment as a water and sewerage undertaker.

Through our procurement activities, we believe that we have created an exacting and demanding environment that can deliver market leading results. We and our service delivery partners are all committed to working closely together to ensure that this is achieved.

**Nigel Annett**  
**Managing Director**

# 1. INTRODUCTION

The primary objective of Dwr Cymru Welsh Water (“Welsh Water”) is to deliver high quality water and wastewater services to its customers whilst enhancing the environment at least cost to the communities it services. The procurement of operating and investment functions from third party organisations is now well-established as a cornerstone of Welsh Water’s strategy for meeting this objective.

The previous releases of Welsh Water’s Procurement Plan set out the principles and working arrangements that we had put in place for our previous generation of contracts and explained how they supported the company’s overall service delivery objectives. Those arrangements generally met, and in many respects exceeded, requirements and expectations. Welsh Water has consistently been amongst the best performers in the sector in terms of Ofwat’s annual Overall Performance Assessment (OPA) of customer service, drinking water quality and environmental performance.

## 1.1 Procurement Activity

We have been through a period of intense procurement activity since 2003. We have sought, wherever possible, to build on the experience and successes of our previous partnerships in order to produce further improvements in service delivery performance and efficiency.

In line with Welsh Water’s evolutionary approach to procurement, this document builds upon the second edition which was published in 2003. The primary purpose of this update is to:

- record the results of the procurement activity that has been undertaken;
- demonstrate compliance with Condition F1 of Welsh Water’s Appointment<sup>1</sup>, in particular to show that:
  - we have facilitated the development of a fully competitive market;
  - we retain full control of our assets; and
  - we can obtain all such information as necessary from our partners.

In section 2, we set out our general approach to the competitive tendering of outsourced services. Then, in section 3, we explain our overall approach to contract management and control.

Then, for each area of activity that has been outsourced, the following is presented:

- an explanation of the activities to which each contract relates;
- an assessment of the current contestability of the market;
- an explanation of the number, mix and type of contracts which are let;
- details of the procurement processes;
- evidence of the control mechanisms in place; and
- details, where appropriate, of how we ensure that our assets are properly maintained.

### Notes

1. A copy of Condition F1 is included in Appendix 1.

The structure of the document has been designed to facilitate future updates at regular intervals.

An effective procurement process is key to Welsh Water's continued success. We believe that we are working with the market leaders in the various activities that we have outsourced.

## **1.2 Asset Management Alliance**

A significant development has been the newly established Asset Management Alliance (AMA) which has replaced the Capital Alliance which performed so well for us in delivering the AMP3 Capital Programme.

The AMA has a much wider remit than solely the capital programme. Its remit is to provide a mechanism for delivering market leading results to ensure that we meet the challenging demands of our AMP4 determination.

This combined strength of asset investment partners and asset operations partners enables us to work in a collaborative environment that is well placed to make informed investment decisions around balancing the expenditure between capital investment and asset operation.

The AMA is committed to delivering the Welsh Water Business Plan 2005-10. The manner in which that delivery is approached is set out in Welsh Water's Banner<sup>2</sup>, which shows how the partners will work together for the benefit of Welsh Water's customers.

Note  
2. A copy of The Banner is included in Appendix 2.

## 2. Approach to Competitive Tendering

Welsh Water has developed considerable experience in the competitive tendering and retendering of outsourced services. In total, contracts with an annual value of some £400 million have been let, with terms of between 5 to 15 years. Throughout this process, we have followed a general approach which ensures that we have:

- complied with all relevant laws and regulations;
- conducted the process in an fair and equitable manner; and
- facilitated the development of a fully competitive market for the provision of outsourced services.

The main features of this approach are described in this section. The following sections, relating to the procurement of each particular contract or service, describe how these general principles have been applied in each particular case.

### 2.1 Following “best practice”, consistent with EU procurement regulations

Welsh Water has a team of experienced procurement professionals, supported by independent procurement consultants, who have set out in advance of each procurement exercise a rigorous tendering and appraisal process which follows “best practice”. Each exercise has formally commenced with an OJEU notice. Document management and interaction with bidders has been handled in a co-ordinated and efficient manner through the use of an externally hosted internet based system. A formal sign off process by business managers and directors has been followed at each appropriate stage in the cycle (including, issuance of the ITT, definition of the evaluation process, bid evaluation and contract award). In addition, we have retained these consultants to support the implementation and delivery of our new arrangements.

### 2.2 Timetabling

For the bidding process to be both thorough and fair, sufficient time needs to be allowed at each stage, which requires realistic planning in advance.

Sufficient time needs to be allowed for bidders, especially those who have not worked with Welsh Water before, to be able to understand the business requirements and to put together their best submission. Equally, the detailed and multi-faceted evaluation processes undertaken need sufficient time to be carried out thoroughly, as does the final contract negotiation. Finally, contract transition is vital and needs to be carefully planned and executed.

### 2.3 Clear decision criteria

Welsh Water is seeking to identify the “most economically advantageous” service offering, so that it can fulfil its goal of delivering the best possible value for money to its customers. Bids therefore need to be addressed both in terms of quality criteria (including technical competence, people strategy, service quality, risk, experience, health and safety, and environmental factors) and cost efficiency. It is important

that these criteria are specified in advance and communicated to the bidders. Addressing all of these factors *before* bids have been received is necessary to make the process as objective and as rigorous as possible.

#### **2.4 Appraisal process**

Appraisal needs to be carried out by the requisite number of expert teams, including business users and health and safety, environmental, and commercial specialists. For the larger contracts, it may be appropriate for each appraisal team to act independently and without knowledge of the other aspects of the bid, so as to have as objective an initial view as possible. The views of the teams then need to be verified and co-ordinated to ensure consistency and completeness of the overall evaluation. All of this requires a major input of business resource by Welsh Water, so it has to be given the highest priority within the business.

#### **2.5 Appraisal methods**

Generally, a variety of appraisal methods are required, with more sophisticated methods being used for the largest contracts. These appraisal methods may include evaluation of written submissions, interviews, challenge sessions and interactive workshops, site visits and obtaining customer references. Because of the intensity of such an involved process, both for Welsh Water and for the bidders, it may be appropriate to carry out an initial evaluation and then to make a shortlist on that basis, so as to avoid abortive work for those bidders who can clearly be seen by that stage to be unlikely to secure a final contract of work.

#### **2.6 Competitive Markets**

We wish to ensure that we can maximise the benefit from a competitive supply market. Consideration therefore needs to be given to ensuring that the scope and scale of the potential contracts allows for sufficient market interest and facilitates the inclusion, where appropriate, of specialist functional or geographical based bidders.

#### **2.7 Data rooms and handling information requests**

In order to minimise any information advantage of an incumbent, very extensive "data rooms" have been made available to bidders. Because of the mass of information made available, data rooms have been provided online to all pre-qualified bidders, ensuring that they can make the best use of the information provided.

A formal query answering procedure is followed in all cases. Queries have to be posted onto the externally hosted internet system and answers are provided in the same way, which ensures that the same information is made available to all bidders.

## **2.8 Split the service into component lots**

In some cases, it is not clear whether a single service provider will provide the most “economically advantageous” result. For example, a service might be sub-divided by geography or into separable functions. In these cases, following review of current practice in the relevant market, it may be appropriate to split the service into several lots, with bidders being able to bid for lots separately or in combination. Some bidders may register for only some geographies or services and some may pre-qualify for some of the activities for which they have bid, but not others.

The evaluation process then needs to allow for the comparison both of the bidders and of the optimal service combinations. In this manner, we are able to “let the market speak”, so as demonstrably to achieve the best and most efficient outcome for customers.

## **2.9 Formal contract award process**

The Glas Cymru Board is kept fully informed of progress for each outsourcing exercise. Formal recommendations are submitted to the Board for approval prior to short listing and contract award.

## **2.10 Use of specialist advisers**

Specialist external advisers have been used to provide additional technical expertise and to facilitate project management and commercial evaluation of the bids.

## **2.11 Independent review post contract award**

Following the completion of each contract letting process an independent audit team has carried out a formal review of the process and its application. A written audit report is submitted to the Audit Committee, including an audit grade together with lessons learned and recommendations for future practice. To date, all tendering exercises have received a grade one audit grade, confirming that the operating environment is operating effectively and that management and operational controls have been devised to meet business objectives and that there is evidence that controls are being monitored.

## **2.12 Feedback to unsuccessful bidders**

We are mindful of the fact that such an extensive tendering process imposes significant costs on bidders. For this reason, we encourage unsuccessful bidders to have a formal feedback session with the Welsh Water team involved in the evaluation, so that they can hopefully learn lessons from the exercise. This approach will also help to maintain a competitive market for the provision of services to Welsh Water in the future.

### **2.13 Overall assessment of progress to date.**

Our overall assessment is that the extensive programme of competitive tendering carried out over the last couple of years has been extremely successful.

We have undertaken a fair and equitable process and have complied with relevant legislation. We have undertaken this in a manner that has ensured that, as far as possible, no existing service delivery partner had any competitive advantage over other prospective service delivery partners. We have sought to facilitate the development of a fully competitive market and our resultant arrangements provide for the continued control of our assets within the business and maintain our ability to discharge our functions as a water and sewerage undertaker.

In all cases, a demonstrably competitive bidding process has been achieved, with multiple credible and attractive bids been made for each service tendered. We have undertaken a rigorous assessment process and believe that we have selected the right partners to provide a cost efficient, quality service for the benefit of our customers.

### **2.14 Future procurement activity**

The arrangements we have entered into provide for a period of continued stable and improving operation throughout the remainder of this five year regulatory period. As such, with the exception of the Sampling and Laboratory analysis contract, in the next three charging years we do not envisage undertaking any significant procurement activity of the scale and type undertaken over the last three years. We will continue to procure routine supporting “business as usual” services, such as consultancy and office services through competitive procurement activity as appropriate.

We will continue to closely monitor the performance of our service delivery partners and will undertake such price and performance reviews as are detailed in the contracts or as may be required by good business practice. We will continue to monitor developments in the supply market to maintain our market awareness and to inform our future competitive procurement strategy. We will carry out such benchmarking activity as is necessary to satisfy ourselves of the continued effectiveness and efficiency of our arrangements. Moving forward we would expect to continue to follow our proven approach to retendering services albeit learning lessons and building on our experiences to date.

## 3. Contract Management and Control

### 3.1 Introduction

We recognise that, as an organisation that outsources its key activities, contract management and control are vital elements of ensuring that we deliver the standards of service that our stakeholders expect. Similarly we will ensure that we retain full control of our assets and the ability at all times to discharge our functions as a water and sewerage undertaker.

For this reason, it is of the highest importance that we retain sufficient in-house personnel with the necessary expertise and experience to work closely with our service delivery partners, both to help them in their work and to ensure the necessary degree of contract oversight. Welsh Water retains direct responsibility for strategic functions, including:

- asset planning and programme delivery;
- asset maintenance planning;
- provision of IT systems;
- business planning and setting performance targets;
- performance monitoring;
- customer service strategy and policies;
- internal audit and governance;
- regulatory reporting;
- financial planning and financing; and
- relationships with key external stakeholders.

In addition, we take a leading role in conjunction with our partners in promoting a common approach to crucial aspects of the business, including health and safety, risk management, business security and business continuity.

Over the last five years, we have developed considerable experience and capability in managing a suite of interdependent, outsourced services. This approach is currently being developed further through the development of the AMA, which is designed to achieve even greater co-operation and integration between ourselves and our operations and capital investment partners.

From experience, Welsh Water has determined that key aspects of managing a successful outsourced service arrangement include:

- the right, partnering behaviours;
- clear performance parameters with supportive incentives;
- direct access to all information (“open book”); and
- appropriate contractual terms, governance arrangements and oversight.

The new generation of outsourced service contracts, from 1 April 2005 onwards, will enable the further development of the outsourcing model through providing the opportunity for longer contract durations and enhanced incentivisation, notably through “target cost” remuneration. Welsh Water’s interests are protected in these

longer term contracts through regular price and performance reviews (together with appropriate “step in” powers, as before.)

The following sections explain our general approach to contract management, with further details being given in appendices for each contract area:

Welsh Water’s structure and responsibilities

Development of the AMA

Information requirements

Contract terms

### **3.2 Welsh Water’s structure and responsibilities**

The Welsh Water Head of Contracts and Commercials has been appointed as the Employer’s Representative for the Asset Operations contracts and Project Manager for the Asset Investment contracts, effectively the overall contract manager for Welsh Water. The Welsh Water representative and partners’ contract managers are responsible for the normal contractual duties of the parties. All major aspects of running the contracts are dealt with through regular dialogue in normal day-to-day discussions and, in the case of operational contract management, through the Joint Committee meetings with the appropriate operations partners. A diagram showing the Operations governance arrangements is included in Appendix 3A

Day to day contract management with the asset operations and investment partners is effected through nominated Welsh Water Delivery Managers who report directly to the Head of Contracts and Commercials. Wastewater activities are managed through three regionally based delivery teams – North, South East and South West. Water activities are managed through one central delivery team reflecting the smaller number of partners involved.

The Delivery Managers act as the focal point for day-to-day management and liaison for both asset operations and investment, supporting and facilitating closer integration. This first level management is effected through regular meetings at area level and continual monitoring of finance, performance and other operational and investment issues.

The roles of the Delivery Managers include:

- ensuring that safety issues are addressed;
- providing a direct liaison between Welsh Water and its operations partners in normal operational matters and between Welsh Water and the investment partners in relation to capital investment matters;
- ensuring successful delivery of their respective delivery team’s business plan in terms of cost, performance and outputs;
- discussing with operations partners any operational, performance or capital maintenance issues arising from the provision of the service;
- providing expertise in assessing operational improvement proposals, capital maintenance plans and capital investment schemes;
- ensuring delivery of the capital outputs in line with the Business Plan; and

- promoting and enabling the adoption of an integrated approach to the operation, maintenance and improvement of the asset base.

Dedicated cost and project management teams drawn from our appointed cost consultant partners support the Delivery Managers. Specific responsibilities have been delegated by the Welsh Water Project Manager to nominated project managers in the delivery teams under the terms of the NEC agreements for Asset Investment to support the efficient management of the contract at a local level.

The Delivery Managers are further supported by the Performance and Quality Team which is part of Welsh Water's Assets and Quality group. The team provides specific input on operational performance issues and ensures a consistent approach to quality and asset strategy across the business.

A small central commercial team managed by a Welsh Water Commercial Manager provides commercial advice and guidance to the Delivery Managers. This team is responsible for ensuring that a consistent commercial approach is adopted in all Delivery Teams for both asset operations and investment. The team monitors expenditure against the Business Plan and through liaison with the Delivery Managers and the partners, confirms variances and, where appropriate, develops mitigation strategies.

Contract change notices for the Asset Operations contracts with operations partners are investigated and validated by the commercial team for the Employer's Representative to sign off. Similarly, operational invoice analysis and verification is co-ordinated and agreed by the commercial team.

The main vehicle for Welsh Water to monitor and control the Asset Operations contracts is through the monthly Joint Committee meetings. The meetings follow a standard agenda and are reported through formal minutes. Separate Joint Committee meetings are held with each operations partner. The main issues discussed are:

- quality and performance issues, including KPIs;
- financial performance and change requests;
- asset issues (including problems, condition and data);
- operational issues;
- health and safety issues.

The Joint Committee comprises the Employers Representative, the Head of Assets and Quality, a Delivery Manager, the Commercial Manager and the equivalent personnel from within the operations partners' counterparties.

A further important feature of the Welsh Water structure is the Quality and Environment Committee of the Board (QEC), which is chaired by a non-executive director. QEC is advised by two independent scientific and quality advisers, one for drinking water issues and one for environmental performance issues. Welsh Water's Operations Director and Head of Quality and Assets are members of QEC. Meetings are routinely attended by senior representatives of the operators partners. The committee meets monthly to carry out a detailed review of monthly service

performance measures and to consider investment, health and safety, service and environmental strategies. The Chairman of QEC provides a report to each Board meeting and the committee also publishes an annual report. In addition, the directors of each of the main operations partners are invited to attend a meeting of the Glas Cymru Board, to discuss business performance during the year.

### **3.3 Development of the AMA**

The AMA supports integrated teams where representatives of our various partners and Welsh Water personnel work together in one unit. This integration allows full visibility to Welsh Water of progress and issues on a daily basis. Underpinning this integrated approach is a structure that ensures that our contract management and control is effective.

This combined strength of our asset investment and operations partners enables us to work in a collaborative environment that is well placed to make informed investment decisions around balancing the expenditure between capital investment and asset operation. A diagrammatic representation of this integration is shown in Appendix 3B.

Management of the AMA is led on the water services side by the Water Leadership Team (WLT) and on the waste water services side by the Environmental Leadership Team (ELT).

Both WLT and ELT are attended by senior representatives of all the relevant partner organisations and by a director from Welsh Water. WLT and ELT have oversight of all elements of expenditure within their particular area and ensure that the asset operation partners and asset investment partners clearly understand the issues and challenges that they are facing in delivering within their respective service area. The Welsh Water representation common to both WLT and ELT ensures that common problems are identified and that best practice is shared across the AMA.

For the AMA to function well, it needs to follow a consistent set of partnering behaviours. These behaviours have been developed through AMA workshops and are set out in the Welsh Water “Banner” (see Appendix 2). The AMA continues to use facilitated workshops to review progress and to refine its behaviours, working processes and structures.

To support collaborative behaviours and an optimal balancing of expenditure between capital investment and asset operation, an overall AMA incentivisation mechanism has been developed. This mechanism is designed in particular to give all partners a direct financial incentive in the overall service performance and cost efficiency of the business, including delivery of the AMP4 capital programme within the business plan target. The incentivisation mechanism is included in Appendix 4.

### **3.4 Information requirements**

We retain full ownership of all data generated by our service partners in carrying out their functions. To facilitate the easy access by Welsh Water to this data on an

“open book” basis, our partners are generally required to use our own information systems, including our financial and costing system (SAP), asset information systems (SAP), work management and customer service data systems (Workplanning and STAM), and customer billing and debt recovery systems (CAS and DMS). Contracts include terms that require partners to keep these data systems up to date and set data KPIs. The data systems are maintained for us by ICT partners under a direct contract with ourselves. We are responsible for the provision of the necessary IT systems to our partners and for the development of those systems, in consultation with our partners and at our expense.

We are directly responsible for the provision of all regulatory reporting information to Ofwat and other regulators, using data from our IT systems as appropriate. In all cases, data tables in the June Return are individually assigned to a specific individual within Welsh Water, with appropriate reporting and “sign off” mechanisms.

We have outsourced our Internal Audit function to an independent provider and this contract is managed by our Head of Audit who reports directly to the Managing Director. One of the roles of Internal Audit is to review the accuracy of business data and the appropriateness of the business control environment. To facilitate these tasks, Internal Audit have full access to service delivery partners’ organisations and the information stored on Welsh Water’s IT systems. Internal Audit operates to an annual audit plan agreed in advance with the Audit Committee of the Glas Cymru Board and reports its findings to the Audit Committee at each meeting.

### **3.5 Contract terms**

We select the most appropriate contract terms for the service being procured. General provisions include but are not limited to: term, termination, insurance, indemnities, contract change, payment, force majeure, dispute resolution, reporting, confidentiality.

The inclusion of a “step in” provision is a key feature of our major contracts. It is designed to ensure that we retain the ability to safeguard the performance of our statutory functions. The respective provisions are outlined in more detail in the individual contract sections. We are in the process of updating our “step in manual” and anticipate completing this exercise at the end of this year following the placement of the sampling and laboratory contracts and the completion of our current outsourcing activities. Preparedness to implement the revised “step in” manual will be validated in due course through appropriate “step in” exercises, which will include the involvement of the internal audit function.

## 4. Area of Activity: Asset Operation and Maintenance

Contracts let to:	United Utilities Operational Services Limited (UUOS). Kelda Water Services (Wales) Limited (Kelda).
Contract term:	1 April 2005 - 31 March 2020 Subject to satisfactory Price and Performance reviews at five year review points.
Contract type:	Target cost with a guaranteed maximum price.

### 4.1 Scope of Services

#### Water Services

UUOS provides water services for the whole of Wales.

#### Waste Water Services

Kelda provides waste -water services for South Wales and part of Herefordshire.

UUOS provides waste- water services for North Wales and parts of Cheshire.

#### Environment, Conservation, Access and Recreation Services (ECAR Services)

UUOS is responsible for providing ECAR services throughout Wales.

#### Shared Services

UUOS is responsible for providing services to Kelda relating to the management of customer calls, and maintaining telemetry infrastructure, emergency planning, complaints, transport, claims handling, new business, property and land management, AIS, and billed services.

Details of the services provided by UUOS are included in Appendix 5.

Details of the services provided by Kelda are included in Appendix 6.

### 4.2 Market Contestability

Forty expressions of interest were received in response to our OJEU Notice.

A number of organisations withdrew prior to the date of return of the prequalification document and a number of other organisations formed groupings to submit a combined bid.

Following assessment of prequalification responses, tender documents were subsequently issued to eight organisations. Tenders were received from seven bidders as one organisation withdrew prior to the tender return date.

### 4.3 Procurement Process

The timetable for letting these contracts in accordance with EU Procurement Rules stretched from 7 May 2003, when the OJEU Notice was published, to 11 January 2005, when the contracts were awarded. The objective of the process was to select the most economically advantageous tenders.

The selection criteria used in the process included the following:

Prequalification:

- experience
- capacity to perform
- partnering
- health and safety
- employee relations
- quality management systems
- environmental

Tender

- qualitative
- commercial.

The qualitative assessment included the following criteria:

- collaborative culture
- technical
- quality of delivery
- health and safety
- environmental
- IT
- HR

The commercial assessment included an evaluation of direct costs, overheads, efficiencies and profit.

Tenders were assessed on an individual lot basis, i.e. Water North, Water South, Wastewater North, Wastewater South and across combinations of lots.

### 4.4 Control Mechanisms

The performance of our operator partners is closely monitored by their performance against Key Performance Indicators (KPIs). The KPIs, which are closely linked to

Ofwat's Overall Performance Assessment (OPA) measures, are linked to the commercial rewards available to UUOS and Kelda.

Details of the UUOS's KPIs are included in Appendix 14.

Details of Kelda's KPIs are included in Appendix 14.

The combination of KPI measurement, contractual governance arrangements and the AMA governance structure provides a comprehensive set of control mechanisms to monitor performance. UUOS's and Kelda's contracts contain a mechanism for quinquennial price and performance reviews to be carried out. The extent and direction of the review will depend on our OPA score as measured against other water and sewerage companies and as informed by each partner's performance against the KPIs.

The review will identify whether the service provision is in an upper, middle or lower band. Performance in the upper band will lead to negotiation of a target cost for the ensuing period. Performance in the lower band allows us to terminate the operations agreement. Performance in the middle band gives us the option to negotiate a new target cost or terminate the agreement

There are a number of other termination clauses within the contracts which can be invoked if any situation arises which could adversely affect either UUOS's or Kelda's capacity to delivery a satisfactory standard of service including:

- insolvency of the contractor
- the contractor committing gross negligence or wilful default
- failure to achieve a specified level of performance
- material and persistent breach
- the contractor committing any Prohibited Act

Furthermore, if we reasonably believe that we need to take action in connection with the service because:

- a material risk exists or is likely to exist to the health or safety of person or property or to the environment, and/or
- to safeguard the carrying out of our statutory functions

we may take steps to remedy or mitigate as we consider necessary.

Each of UUOS's and Kelda's contracts provides that they each agree to provide the specified services on an emergency basis if the step-in procedures are invoked.

#### 4.5 Asset Maintenance and serviceability to customers

The key metrics of serviceability to our customers are included in the Asset Operations KPIs referred to in Appendix 14.

These include – pressure, interruptions, bursts, iron compliance, water quality, flooding and pollution. Attention is therefore focused on ensuring that asset

maintenance is targeted at those areas necessary to maintain serviceability to customers.

The overall maintenance strategy developed by Welsh Water aims to utilise the principles of the Common Framework for Capital Maintenance Planning as outlined in MD161 and developed in MD212. Within this overall framework, reactive capital maintenance budgets are agreed with our operations partners, as is an agreed programme of capital maintenance activity.

The delivery managers assess proposals for capital maintenance projects provided by our operations partners, and through the Welsh Water led Maintenance Review Group, will approve projects that are in line with our overall maintenance strategy. We currently employ an electronic risk based prioritisation system – “Web Access Scheme Prioritisation” as an input into this decision making process. A dedicated Maintenance Delivery Manager also takes an overview across all delivery teams to support a consistent approach. The Maintenance Delivery Manager also supports the development and implementation of the overall maintenance strategy.

Target costs are agreed for specific projects and progress is monitored through delivery team meetings and the Joint Committee.

## 5. Area of Activity: Asset Investment

Contracts let to: Amec Group Limited (Amec).  
 Black and Veatch Contracting Limited (B&V).  
 Costain Limited (Costain).  
 Laing Utilities Limited (Laing).  
 Meica Process Ltd (Meica).  
 Morrison Construction Services Limited (Morrison).

Contract term: 1 April 2005 - 31 March 2015  
 Subject to satisfactory review at five year point.

Contract type: Target cost.

### 5.1 Scope of Services

- Laing provides principally water civil engineering works throughout the Welsh Water region.
- B&V provides principally water process engineering works throughout the Welsh Water region.
- Amec provides principally wastewater civil engineering works for the South East programme.
- Costain provides principally wastewater civil engineering works for the North programme.
- Morrison provides principally wastewater civil engineering works for the South West programme.
- Meica provides principally wastewater process engineering works throughout the Welsh Water region.

### 5.2 Market Contestability

The civil engineering and process engineering markets are mature with a large number of well established organisations with a long and successful track record of providing the works and services required for this area of activity.

Seventy six expressions of interest were received in response to our OJEU Notice.

Twenty nine prequalification documents were received and tender documents were subsequently issued to seventeen organisations.

Tenders were received from sixteen organisations.

### 5.3 Procurement Process

The procurement process for Asset Investment commenced in May 2003 with publication of the OJEU notice.

Prequalification questionnaires were issued in August 2003 with responses received on 9 September 2003.

An invitation to tender was sent out on 28 November 2003 and tender documents were returned on 29 January 2004. Following a series of site visits by the assessment team, contracts were awarded on 19 January 2005.

The selection criteria used in the process included the following:

Prequalification:

- experience
- capacity to perform
- partnering
- employee relations
- health and safety
- quality management systems
- environmental

Tender:

- business strategy
- collaborative culture
- commercial
- environmental
- financial
- health and safety
- human resource
- leadership
- quality of delivery

### 5.4 Control Mechanisms

A comprehensive suite of capital investment processes and procedures is used to co-ordinate and control capital investment activity and ensure consistency of approach across the capital partners.

The contract terms are based on the second edition of the NEC Engineering and Construction Contract (June 1998) Option C Target cost with activity schedule. Works are instructed on the basis of a discrete works order for each new scheme that an asset investment partner is required to design and construct.

There are a number of termination clauses within the contracts which Welsh Water can invoke if the relevant asset investment partner has:

- had a winding up order made; had a provisional liquidator appointed; passed a resolution for winding up; had an administration order made against it; made an arrangement with a creditor;.
- substantially failed to comply with its obligations;
- not provided a bond or guarantee that was required;
- appointed a subcontractor for substantial work prior to approval; or
- substantially broken a health or safety regulation.

## 6. Area of Activity: Billing and Income

Contracts let to:	Thames Water Services Limited (Thames).
Contract term:	Commenced on 1 April 2005. Expires on 31 March 2012 unless terminated earlier by Welsh Water.
Contract type:	Lump sum.

### 6.1 Scope of Services

Thames undertakes the billing, income and customer services activities for Welsh Water. Their services include customer contact management, credit and debt management and business system management. Details of the services provided by Thames are included in Appendix 7.

### 6.2 Market Contestability

There was a high degree of market interest generated by the OJEU Notice that was issued in May 2003.

Fifty six applicants were sent prequalification questionnaires on 1 August 2003. By 17 September, fifteen completed prequalification questionnaires were returned.

Business enquiry documents were issued to ten organisations on 29 October 2003 and nine organisations returned completed documents on 27 January 2004.

Invitation to tender documents were issued to four organisations on 3 June 2004 and all four were returned for evaluation on 28 July 2004.

After an evaluation period including site visits to all four organisations, contract award occurred in March 2005.

### 6.3 Procurement Process

The selection criteria employed to identify the most economically advantageous tender/s included the following:-

- Prequalification:
  - financial
  - performance references
  - capacity to perform
  - partnering
  - employee relations
  - health and safety
  - environmental

- Business Enquiry:
  - business awareness
  - transformation
  - collaboration
  - commercial
  - innovation
  - people and resource
  - quality of proposed IT solution
  - quality of service provision
  - technical transformation
- Tender:
  - 'as is' service delivery
  - 'as is' service transition
  - collaboration
  - commercials
  - due diligence and transition planning
  - 'to be' service delivery
  - transformation

## 6.4 Control Mechanisms

In addition to Key Performance Indicators (KPIs), the contract with Thames contains performance indicators and service levels for defined areas such as customer service, financial performance and internal efficiencies. Details of the KPIs are included in Appendix 14.

We retain step in rights if we believe that we need to take action:

- to safeguard the carrying out of its statutory functions;
- as a result of failure by Thames to achieve base performance in relation to any KPI or performance indicator; and/or
- following a Reporter's audit for the purpose of determining Welsh Water's regulatory audit grades being at Grade C1 or below.

The contract allows us to take such steps as necessary to rectify or mitigate any shortfall in performance.

## 7. Area of Activity: Network Development Consultancy

Contracts let to:	Hyder Consulting (UK) Ltd (Hyder).
Contract term:	1 January 2006 - 31 March 2020. Subject to satisfactory Price and Performance reviews to be held at five yearly intervals.
Contract type:	Target cost.

### 7.1 Scope of Services

Hyder provides independent asset guardianship primarily for our sewerage network. In carrying out the services, Hyder:

- performs all tasks necessary for the delivery of the Network Development Consultancy functions to comply with statute, regulation and our objectives, policies and procedures;
- ensures provision of services to customers and developers, and
- ensures that all activity and advice is not detrimental to the condition and performance of the asset network.

Details of Hyder's scope of service are included in Appendix 8.

### 7.2 Market Contestability

An OJEU Notice was placed on 13 April 2005 and seven completed prequalification documents were received on 18 May 2005.

Tender documents were issued to three organisations on 8 July 2005 and all three returned their tender on 26 August 2005.

Following an assessment period including site visits to all three organisations, the contract was awarded on 28 November 2005.

### 7.3 Procurement Process

The selection criterion were as follows:

- Prequalification:
  - environment
  - finance
  - human resource
  - health and safety
  - technical capacity

- Tender:
  - Business strategy and vision
  - commercial
  - health and safety
  - leadership
  - partnership and collaboration
  - service delivery

The procurement process demonstrated that the most economically advantageous offer was from Hyder.

## 7.4 Control Mechanisms

The contract terms are the second edition of the NEC Professional Services Contract (June 1998) Option C Target Cost. The contract incorporates price and performance reviews and “step in” rights for Welsh Water.

The price and performance reviews take the form of a balanced scorecard using measures of performance in order to identify whether the service provision is in an upper, middle or lower band. Performance in the upper band will lead to negotiation of a target cost for the ensuing period. Performance in the lower band allows us to terminate the agreement. Performance in the middle band gives us the option to negotiate a new target cost or terminate the agreement.

We retain “step in” rights if there is a reasonable belief that action is required:

- to meet our governance procedures;
- to safeguard the carrying out of our statutory functions;
- as a result of failure by Hyder to achieve the necessary performance in relation to any KPI.

## 8. Area of Activity: Information and Communication Technology

Contracts let to: Capgemini UK plc (Capgemini).  
LogicaCMG UK Ltd (Logica).  
Tata Consultancy Services Ltd (TCS).

Contract term: Currently in transition period.  
October 2006 – 2013 subject to review

Contract type: Schedule of rates.

### 8.1 Scope of Services

The scope of services to be delivered under the new contracts comprises:

- service management and support
- on site ICT services
- enterprise ICT services
- application development and management
- enterprise voice and data network provision
- provision of off the shelf applications and commodity services

Details of Capgemini's services are included in Appendix 9, details of Logica's services are included in Appendix 10 and details of TCS's services are included in Appendix 11.

### 8.2 Market Contestability

An OJEU Notice was placed in January 2005. Expressions of interest were received from twenty two organisations.

Tender documents were issued to six organisations in July 2005 and six tenders were received in September 2005.

In June 2006, following a detailed evaluation process, three contract awards were made.

### 8.3 Procurement Process

The selection criteria used in the process included the following:

Prequalification:

- financial
- technical capability
- service delivery processes
- human resource
- health and safety
- environmental

Tender:

- collaborative working
- commercials
- disaster recovery
- health and safety
- human resource and TUPE
- outsourcing lifecycle
- scope of service scenarios
- innovation

### 8.4 Control Mechanism

A transition programme has been developed to ensure that risks are managed during the transition process. The programme contains a number of key phases:

Programme initiation:	Welsh Water and existing service provider.
Transition planning:	Welsh Water with existing service provider and new service providers.
Stabilisation:	Welsh Water and new service providers.

A Welsh Water transition steering group has been established to carry out a governance function for the transition programme.

The contracts include detailed suites of KPI's and also reserve a number of "step in" rights to enable us to act in the event of the ICT partner's failure to provide a satisfactory service including:

- a default by the ICT partner that is materially preventing or materially delaying the performance of the services;
- where a Regulatory Body has advised Welsh Water that the exercise by Welsh Water of its step in rights are necessary; or

- a serious risk exists to the health or safety of persons, property or the environment due to the ICT partner's default.

The contracts also provide a detailed governance structure in order to effectively manage the agreement.

## 9. Area of activity: Sampling and Laboratory Analysis

Contracts let to: **Laboratory Analytical Services** – Severn Trent Laboratories Ltd (novated from Hyder Consulting on 1 April 2000).

**Sampling Activities** – Severn Trent Laboratories Ltd (Severn Trent)

Contract term: **Laboratory Analytical Services**  
Commenced on 1 January 2000

To be replaced 1<sup>st</sup> January 2007

**Sampling Activities**  
Commenced on 1 August 2001

To be replaced 1<sup>st</sup> January 2007

Contract type: **Laboratory Analytical Services**  
Schedule of Rates  
**Sampling Activities**  
Lump Sum with Schedule of Rates

### 9.1 Scope of Services

#### Laboratory Analytical Services

- Supply of bottles, crates and sampling kits
- Provision of courier service
- Sample reception
- Quality assured analysis and testing of samples (including formal samples and cryptosporidium samples)
- Provision of a twenty four hour service for responding to and carrying out emergency analysis and testing of samples
- Maintenance and conformity testing of field test equipment
- Provision of help desk

Details of the services provided by Severn Trent in relation to the Laboratory Analytical Services are included in Appendix 12.

#### Sampling Activities

- Provision of services in respect of routine samples
- Provision of services in respect of non-routine samples
- Administrative duties relating to the service
- Liaison/interface with the contracted laboratory

- General activities

Details of the services provided by Severn Trent in relation to the Sampling Activities are included in Appendix 13

## 9.2 Market Contestability

There is reasonable expectation that the re-let of the contract will be subject to keen competition.

The OJEU notice for the tendering of both the Sampling and Laboratory services was issued on 10 March 2006.

Nine expressions of interest have been received in response to the OJEU notice.

The scope of services has been divided into six contract lots:

- Sampling services North
- Sampling services South
- Clean water analysis North
- Clean water analysis South
- Wastewater analysis North
- Wastewater analysis South

The contract lots may be procured separately or in any combination, depending on the results of the tendering process, so as to secure competition and to achieve the most economically advantageous result.

## 9.3 Procurement Process

The procurement process is currently underway.

The tender process is expected to continue to be carried out over the summer of 2006, with the new service provision arrangements coming into effect from 1 January 2007.

## 9.4 Control Mechanisms

The structure of the current contracts for both Sampling and Laboratory Analysis with Severn Trent monitor the contracts through performance against KPIs and service levels.

Details of Severn Trent's KPIs for Laboratory Analytical Services are included in Appendix 12. Details of Severn Trent's KPIs for Sampling Services are included in Appendix 13.

It is envisaged that the replacement contracts will contain similar control mechanisms to those currently in place with Severn Trent.

# APPENDIX 1

## Condition F1 – Procurement of Services

### Purpose

1. This condition is required to ensure that the Appointee achieves effective and fair competitive tendering of whatever services it may, from time to time, decide not to provide for itself in the performance of the Regulated Activities. If, when this condition comes into effect, any relevant service is already being performed by a third party then, unless the contract for it was the result of competitive tendering, that service must be either put to tender or brought in-house.

### Obligations

2. All procurement of services by the Appointee must comply with the law – including the Transfer of Undertakings (Protection of Employment) Regulations 1981, Utilities Contract Regulations 1996 and the Competition Act 1998.
3. The Appointee's procurement of the activities must be such as to ensure, as far as possible, that no existing contractor has any competitive advantage over other prospective contractors.
4. The Appointee's procurement of activities must –
  - (a) facilitate the development of a fully-competitive market for the provision of out-sourced services necessary for the discharge of its functions as a water and a sewerage undertaker;
  - (b) demonstrate that it retains full control of all its assets, and its ability at all times to discharge its functions as a water and a sewerage undertaker (including those occasions when a contractor's performance is in breach of its contractual obligations, or a change of contractor is required for any reason); and
  - (c) ensure that its contractors will give to the Appointee all such information as may be necessary to enable the Appointee to comply with the requirements of the conditions of the Appointments.
- 5.(1) The Appointee shall submit to the Director, not later than 31 January 2002, a Procurement Plan covering in detail at least the following three financial years. Thereafter the Appointee shall submit no less frequently than every 18 months a revised and updated Procurement Plan. Each version of the Plan shall set out how the Appointee intends to comply with the primary obligations in paragraphs 2 to 4 of this condition during the following three Charging Years.

- 5(2) Without prejudice to the second sentence in sub-paragraph (1) above the Director may at any time require the Appointee to submit a revised Procurement Plan if, following any reports submitted under paragraphs 7, 9 or 12 below, it appears to him that the Appointee's performance of its obligations in paragraphs 2 to 4 above is unsatisfactory.
6. The Procurement Plan shall include the following:
- 6(1) an explanation of the activities to which the plan relates;
- 6(2) an assessment of the current contestability of market(s) associated with each of the Regulated Activities to which the Plan relates, as they may be performed in different parts of its Water Supply Area or, as the case may be, its Sewerage Service Area;
- 6(3) an explanation of the number, mix and type of contracts which are currently let or proposed to be let under the plan, which must be clearly linked to and consistent with the assessment required under 6(2);
- 6(4) details of the procurement process(es), terms and conditions of contract. These must be supported by an explanation of how the Appointee intends to ensure that it retains proper and effective control over the prospective contractor's operations. Particular attention must be paid to the regulatory requirements relating to the quality of drinking water (and associated matters), the protection of the environment, the provision of proper service to its customers and conformity with the guidance of the Director as specified for the purposes of paragraphs 6A.1 (1A) in Condition F); and
- 6(5) details of how the Appointee will ensure that its assets, which are to be operated by any contractor, will be properly maintained to deliver stable or improving serviceability to customers.
7. The Reporter shall submit to the Director at the same time as the Appointee submits the Procurement Plan to the Director a report assessing the viability and completeness of the Procurement Plan in the light of the purpose and general provisions of this condition.
8. The Appointee will, at the request of any person or body, supply them with a copy of the current Procurement Plan and a summary of the report on the Plan prepared by the Reporter under paragraph 7.
9. The Appointee shall, at the same time as it complies with sub-paragraph 9.3 of Condition F (submission of Accounting Statements) and at such other times as the Director may require, submit to the Director a written report on its procurement activities.

10. The report required in paragraph 9 shall set out the extent of the Appointee's compliance with the Procurement Plan, together with the full schedule of the number and content of the contracts let or activities that have been brought in-house.
11. In all cases of non-compliance with the Procurement Plan the report must set out a full explanation of the reasons and of the measures taken or proposed to remedy it.
12. Each report submitted under paragraph 9 to the Director shall be reviewed by the Appointee's Reporter, who shall submit his or her written assessment to the Director, copied to the Appointee.
13. The Appointee must co-operate with the Reporter to enable him or her to carry out the activities required of the Reporter under this condition.
14. The Appointee shall not either –
  - (i) make any arrangement (whether contractual or otherwise) whose effect (actual or intended) is that responsibility for the proper performance of any of its functions as a Relevant Undertaker is (or may be) whether wholly or in part, transferred or delegated to any other person; or
  - (ii) if it is prosecuted for any alleged offence contrary to any provision in the Water Industry Act 1991 or the Water Resources Act 1991, or any regulations made under either Act, which is alleged to have been committed in relation to any of its functions as the Appointee whose performance was, at the relevant time, covered by any agreement or arrangement with any other person, raise any defence of due diligence such as that in s.70(3)(b) of the Act (or any provision to similar effect) on the grounds that responsibility for compliance rested with that other person by virtue of that contract or arrangement.

## APPENDIX 2

### Welsh Water Banner



Being "the best" for our customers means more than just being customer focused. Given the nature of the service we provide customers have every right to expect a quality and reliability of service that they can take for granted. To achieve this requires that we aspire to excellence in everything that we do.

Our customers also expect us to play a prominent role in protecting the environment, promoting conservation and supporting the communities we serve. In all these activities we must deliver value for money as perceived by our customers.

Together we can build on the excellent service and financial performance of the last four years and deliver a quality of service and value for money to customers in the future that we can all be genuinely proud of. The unique advantages of the Welsh Water business model mean that we really can deliver such an ambitious goal. We have no competing priorities to distract us from this aim.

### Our goal

To be recognised by our customers as the best water business in the UK.

### Value for money means:

- Meeting the exacting service standards expected by customers
- at the lowest possible price
- whilst ensuring the long-term stewardship of the water and wastewater infrastructure, for the benefit of future generations of customers and the environment.

### WE HAVE THE KEY STRATEGIES IN PLACE TO 'BE THE BEST'

- 1 Through secure access to long-term, low risk capital, Welsh Water can finance investment to improve the business significantly more cheaply than other water companies.
- 2 Welsh Water has selected the most efficient service providers in the industry and, by working together in partnership, we can improve service performance and reduce operating and investment costs to at least match the best companies in the sector.
- 3 By developing all our people, acknowledging their contribution, building long-term relationships and refining incentives, we can ensure that everyone involved with Welsh Water understands its purpose, has the ability to deliver their contribution, and is focused on doing so.

# Welsh Water - forward to 2010

We face exacting regulatory requirements and challenges over the period to 2010. However, the advantages of the Welsh Water business model mean that we have the aspiration to go beyond merely delivering these regulatory requirements.

## Summary

We have successfully come through great challenges over the last three years. The business plan 2005 -10 sets out how we are going to achieve our goal, "to be recognised by our customers as the best water company in the UK".

There is no doubt that this involves considerable new challenges but we can face these with confidence, given our success to date and the commitment of all concerned.

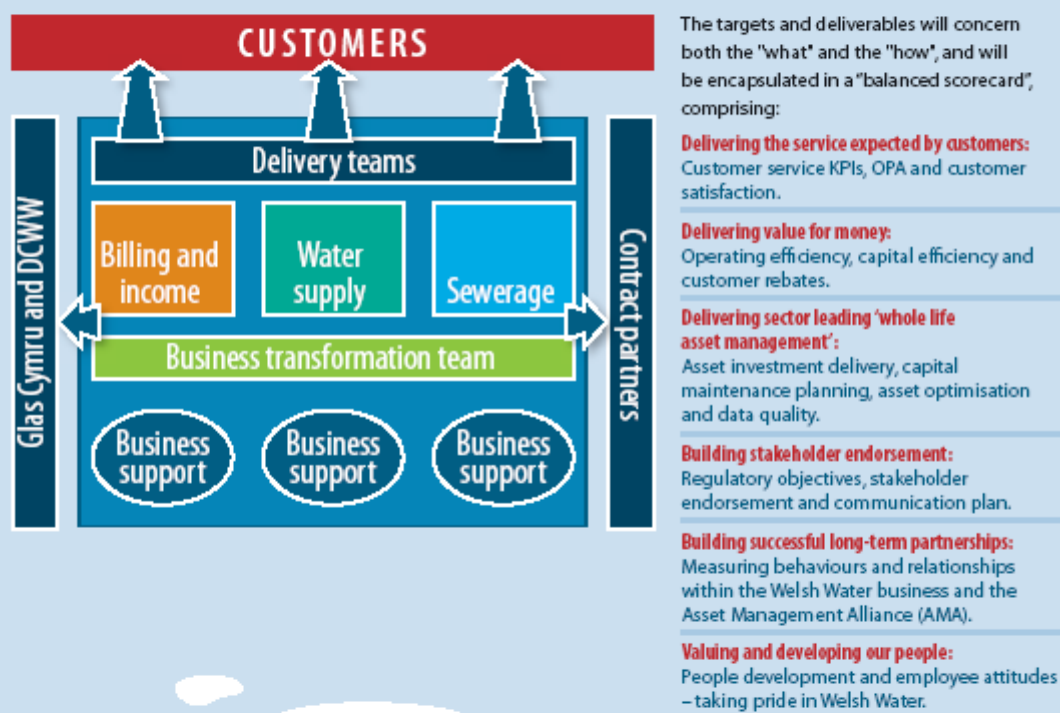
## Beyond regulation - a statement of Intent

- Together, we must deliver everything required by the regulators in the period to 2010
- we can do so more efficiently than the regulators assumed – 'on time and below budget'
- because its owner Glas Cymru has no shareholders, Welsh Water is able to reinvest this out-performance into our business for the benefit of customers
- this means that we will be able to deliver more of the service improvements that customers want, and
- we can deliver the required service to customers more cheaply than Ofwat assumed, through customer dividends, whilst
- Welsh Water's partners will share in this out-performance through improved profitability
- ensuring the health and safety of our employees, partners, contractors, customers and members of the public at all times.



# The Welsh Water Business Plan 2005-10

The Welsh Water Business Plan 2005-10 will set out the key targets and deliverables, through which we will deliver our goal. Welsh Water and its partners will jointly sign up to this plan and will, in turn, translate it into targets and plans for their own organisations. There will also be a rolling five year plan which will be owned by the Asset Management Alliance (AMA).



# How we will achieve our goal

As well as encapsulating our goal, the Banner is a statement of how we will work with each other. The underpinning principle is that of delivery through partnering.

**Values** – Having the right values will guide us in all that we do and are essential to the successful delivery of our purpose. Our values are:

## People values (“torch”)

Trust

Openness

Respect

Commitment

Honesty

## Business values (“aims”)

Achievement

Innovation

Mutual support

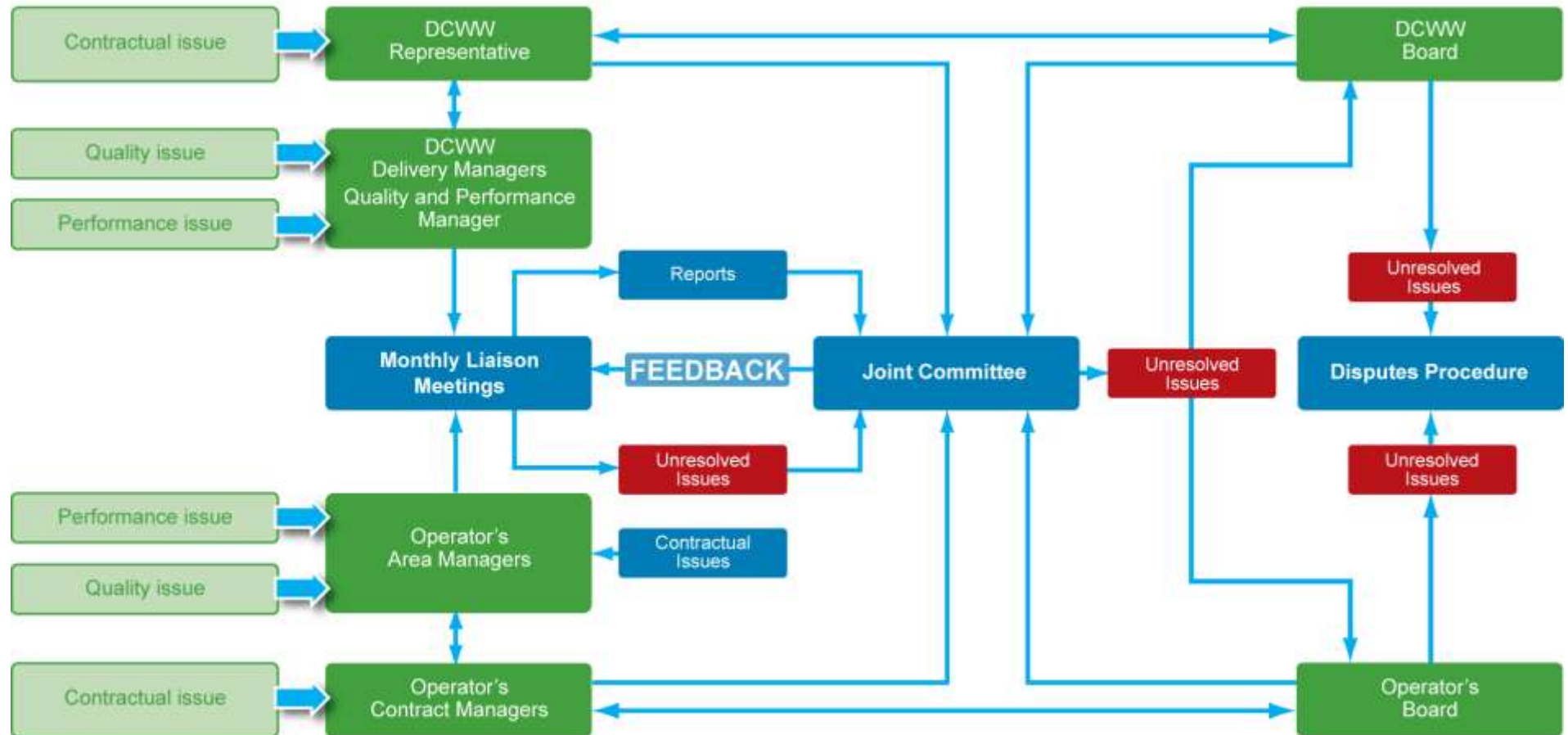
Sustainability

**Behaviours** – We will recognise our core values through the way that we behave in practice. By developing the right values and behaviours, we will create an organisation:

- That defines what it does in customer terms
- that is built on partnering and collaborative working
- where excellence is our aim and no blame our approach
- where continuous improvement is constantly being sought and where learning is captured
- where everyone knows what we are seeking to achieve and understands their role
- where our people are recognised and developed as the key ingredient in our success
- where the health and safety of our people is of utmost importance
- that rigorously measures itself against the best practice in its market and beyond
- that does what it says it is going to do!

## APPENDIX 3A

Diagram illustrating the Operations Governance Arrangements



## APPENDIX 3B

### AMA Diagram

#### Wastewater North Team

CSO's, Sewerage & Process Works  
Costain Ltd,  
Meica Process Ltd,  
United Utilities.

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#### Wastewater South West Team

CSO's, Sewerage & Process Works  
Meica Process Ltd,  
Morrison Construction,  
Kelda.



#### Water Team

Water Network & Process Works  
Black & Veatch Ltd,  
Laing Utilities Ltd,  
United Utilities.

#### Wastewater South West Team

CSO's, Sewerage & Process Works  
AMEC Group Ltd,  
Meica Process Ltd,  
Kelda.

## APPENDIX 5

### Asset Operations Agreement – United Utilities Operational Services Ltd

#### Services Provided

UUOS undertake Water activities and services for the whole of the North and the South operating areas and the Waste Water activities and services for the North Operating area.

The services are categorised as follows:

- Principal Activities
  - Day to day operation and maintenance of the Assets.
  - Permanent and continuous provision of supplies to customers.
  - Ensuring that the services are not detrimental to the condition of the Assets.
  
- Business Specific Activities
  - Facilitating access to Assets in accordance with Health and Safety and Business Management System (BMS) requirements.
  - Providing resource to support development of Centres of Excellence across a range of business functions including but not limited to IT, procurement and logistics.
  - Undertaking obligations and duties pertaining to interfaces with Shared Services.
  - Operating an approved Environmental Management System across all elements of Asset operations.
  - Operating and maintaining site security in consultation with the Employer.
  - Implementing and managing emergency contingency planning.
  - Identifying further investment requirements.
  - Maintenance and continual development of works and systems manuals.
  - Providing data for statutory, regulatory and all business requirements.
  - Managing customer relations and related correspondence.
  - Managing guaranteed standards compensation and making of ex-gratia payments.
  - Working closely with sampling and laboratory provider.
  - Disposing of waste arising from operational and maintenance activities.
  - Managing and developing Asset operation in accordance with BMS.
  - In consultation with Welsh Water, engaging in co-ordinated and proactive liaison with national, regional and local government, statutory undertakers, as well as obtaining land entry consents from third party land owners and their representatives.

- In consultation with Welsh Water, liaising with and responding to queries from the Environment Agency and other regulatory organisations.
  - Ensuring all activities are undertaken by suitably qualified and trained personnel.
  - Ensuring all activities are undertaken in accordance with relevant Health and Safety legislation and Welsh Water Policy.
  - Complying with obligations of novated contracts.
  - Complying with the requirements of third party Welsh Water agreements.
  - Undertaking any other activities as may be required for the safe operation of the Assets throughout the term of this agreement.
- Water Specific Activities.
    - Planning, management and collection of non-regulatory potable and operational samples
    - Management of water supply sources.
    - Reservoir safety inspections
    - Complying with bulk water supply agreements
    - Developing and delivering longer term strategies involving but not limited to leakage, metering, water quality and water efficiency.
    - Rechargeable works including but not limited to ships water, standpipes, hydrants and tankered water.
    - Regulating and carrying out new connections for new properties/developments.
    - Undertaking obligations and duties in the Hydrogeneration Agreement with United Utilities Green Energy.
- Wastewater Specific Activities.
    - Planning, management and collection of environmental quality samples.
    - Trade effluent control.
    - Supporting development and managing delivery for longer term strategies.
    - Inspection of the forming of connections to sewers by others.
    - Operating reception centres for liquid waste.
    - Inter-works tankering of sewage sludge.
- Capital Maintenance and Associated Activities.
    - Reactive maintenance.
    - Emergency maintenance.
    - Planned maintenance.
    - Water rechargeable services.
    - Waste water rechargeable services.
    - Capital works.
- Asset Maintenance Activities.
    - Construction Design Management (CDM).
    - Maintenance Planning.

- Reporting.
- Environment, Conservation, Access and Recreation (ECAR)
  - Maximising public relations benefits to Welsh Water from all ECAR activities.
  - Discussing and addressing issues arising from Welsh Water's omnibus tracking survey.
  - Undertaking effective liaison with appropriate organisations and bodies.
  - Undertaking an independent objective "Visitor Satisfaction Survey" at least every two years.
  - Providing an annual work plan with measurable objectives.
  - Accessing and managing to and managing of premises and sites.
  - Conservation.
  - Recreation.
  - Land and property management.
  - Land Management Trust – Welsh Water requires that ECAR functions are maintained as a stand alone business with all associated records and accounts in order to facilitate the potential establishment of a land management trust.
- Shared Services
  - Control room/alarm handling/telemetry and telecommunications.
  - Emergency planning co-ordination.
  - Customer complaints.
  - Streetworks co-ordination.
  - Support of income, billing and collections.
  - Transport.
  - Claims handling.
  - Property and land management.
  - New Business.
  - Asset Information System.
- Ancillary Services, Related Services, Replacement Services
  - Provision of any associated support and ancillary services necessary to deliver the contract and the regulatory and business requirements of Welsh Water.
- IT Services
  - Overall IT Strategy through the IT Centre of Excellence.
  - Service Delivery.
  - Program development and delivery.
  - IT Procurement process.

## APPENDIX 6

### Asset Operations Agreement – Kelda Water Services (Wales) Ltd

#### Services provided

Kelda undertake Waste Water activities and services for the South Operating area.

The services are categorised as follows:

- Principal Activities
  - Day to day operation and maintenance of the Assets.
  - Permanent and continuous provision of supplies to customers.
  - Ensuring that the services are not detrimental to the condition of the Assets.
  
- Business Specific Activities
  - Facilitating access to Assets in accordance with Health and Safety and Business Management System (BMS) requirements.
  - Providing resource to support developments of Centres of Excellence across a range of business functions including but not limited to IT, procurement and logistics.
  - Undertaking obligations and duties pertaining to interfaces with Shared Services.
  - Operating an approved Environmental Management System across all elements of Asset operations.
  - Operating and maintaining site security in consultation with the Employer.
  - Implementing and managing emergency contingency planning.
  - Identifying further investment requirements.
  - Maintenance and continual development of works and systems manuals.
  - Providing data for statutory, regulatory and all business requirements.
  - Managing customer relations and related correspondence.
  - Managing guaranteed standards compensation and making of ex-gratia payments.
  - Working closely with sampling and laboratory provider.
  - Disposing of waste arising from operational and maintenance activities.
  - Managing and developing Asset operation in accordance with BMS.
  - In consultation with Welsh Water, engaging in co-ordinated and pro-active liaison with national, regional and local government, statutory undertakers, as well as obtaining land entry consents from third party land owners and their representatives.
  - In consultation with Welsh Water, liaising with and responding to queries from the Environment Agency and other regulatory organisations.
  - Ensuring all activities are undertaken by suitably qualified and trained personnel.
  - Ensuring all activities are undertaken in accordance with relevant Health and Safety legislation and Welsh Water Policy.
  - Complying with obligations of novated contracts.
  - Complying with the requirements of third party Welsh Water agreements.
  - Undertaking any other activities as may be required for the safe operation of the Assets throughout the term of this agreement.

- Wastewater Specific Activities
  - Planning, management and collection of environmental quality samples.
  - Trade effluent control.
  - Supporting development and managing delivery for longer term strategies.
  - Inspection of the forming of connections to sewers by others.
  - Operating reception centres for liquid waste.
  - Inter-works tankering of sewage sludge.
  - Operations call handling, dispatch and scheduling – waste water.
  - Customer complaints.
  
- Capital Maintenance and Associated Activities.
  - Reactive maintenance.
  - Emergency maintenance.
  - Planned maintenance.
  - Water rechargeable services.
  - Waste water rechargeable services.
  - Capital works.
  
- Asset Maintenance Activities.
  - Construction Design Management (CDM).
  - Maintenance Planning.
  - Reporting.
  
- Shared Services – Under the contract Kelda are obliged to accept services from UUOS in the following areas.
  - Control room/alarm handling/telemetry and telecommunications.
  - Emergency planning co-ordination.
  - Customer complaints.
  - Streetworks co-ordination.
  - Support of income, billing and collections.
  - Transport.
  - Claims.
  - Property and land management.
  - New business.
  - Asset information system.
  
- Ancillary Services, Related Services, Replacement Services
  - Provision of any associated support and ancillary services necessary to deliver the contract and the regulatory and business requirements of Welsh Water.
  
- IT Services
  - Overall IT strategy through the IT Centre of Excellence.
  - Service delivery.
  - Program development and delivery.
  - IT procurement process.

## APPENDIX 7

### Billing and Income Contract – Thames Water Services Ltd

Thames undertake the Billing, Income and Customer Services activities for the whole of the Welsh Water operating area.

#### Services Provided

- Customer set up
  - customer record maintenance
  - void inspections
  - unbilled properties
  - meter optants.
- Meter reading.
- Billing services
  - unmeasured billing
  - measured billing
  - billing queries
  - trade effluent billing
  - raw water and special agreements
  - guaranteed agreement.
  - schedule billing/composite billing.
- Allowances and refunds.
- Accounting information.
- Guaranteed standards of service and compensation payments.
- Payment processing.
- Credit management/debt recovery.
- Debt management.
- Customer contact management
  - billing and income call management
  - operations call management.
- Customer correspondence management
  - complaints management.
- Key customers.
- Quality and training.
- Business system management.
- Open book approach to management information.

## APPENDIX 8

### Network Development Consultancy – Hyder Consulting UK Ltd

Hyder Consulting provide the services across the whole of the Welsh Water area.

#### Scope of Services

- Principal activities
  - Performing all tasks necessary for the delivery of the NDC functions.
  - Ensuring that the provision of services to customers and developers achieve the performance levels indicated.
  - Ensuring that all activities and advice are not detrimental to the condition and performance of the assets.
  
- Town and country planning
  - Managing and developing other network control services.
  - Answering and resolving verbal and written complaints related to development control.
  - Answering and resolving developer's pre-planning and other customer enquiries.
  - Providing planning application advice to planning authorities.
  - Responding to unitary authority development plan consultations.
  - Dealing with joint land availability study schedules.
  - Tracking of development.
  
- Sewerage Technical
  - Dealing with S102 Water Industry Act (WIA) enquiries and applications.
  - Dealing with S104 Adoption Water Industry Act.
  - Carrying out sewer record edits, as discovered.
  - Dealing with new sewerage connections.
  - Maintaining records of all sewer connections, all new assets vested as public assets.
  - Building over sewers vetting and management.
  - General advice on drainage arrangements and public sewer related aspects of building Regulation enquiries.
  - Providing support to Welsh Water's legal department of sewerage enforcement matters.
  - Providing advice and processing sewer requisitions, diversions and abandonment.
  - Providing advice to customers and developers on Welsh Water's policies.
  - Use and subsequent updating of hydraulic models.
  - Identifying and arranging hydraulic modelling investigations and feasibility studies.
  - Managing hydraulic models and drainage/zonal catchment area reports.
  - Dealing with sewerage related appeals referred to OFWAT.
  - Making map of Welsh Water's asset information available to the public.
  - Submitting a report quarterly, of assets adopted, abandoned, diverted, H&S file and details of staff training and professional development.
  - Income collections, processing and banking associated with development and sewerage
  - Managing the abandonment of sewers.
  - Providing reports on complaints, appointments, KPIs and other management information
  - Working alongside the AMA.
  - Receiving, storage and transmittal of H&S files in respect of assets vested with Welsh Water.

- Dealing with sewerage or planning related enquiries from the press or media.
- Adoption taskforce tackling the significant number of outstanding adoption agreements.
  
- Other core services
  - Providing responses to CON 29 drainage and water enquiries.
  - Maintaining and updating the Developer's Guide.
  - Ensuring data accuracy and adequate records.
  - Complying with and achieving all relevant regulatory standards of service compliance with Welsh Water's policies and guidelines in relation to customer complaints.
  - Supporting Welsh Water in the implementation of a Developers Account System.
  - Participating in the Product, Policy and Working Groups.
  - Managing and implementing of Welsh Water's SuDs policy.
  - Representing Welsh Water at public meetings.
  - Attending meetings with various organisations.
  - Investigating status of culverted watercourses.
  - Developing CON29 drainage and water enquiry strategy.
  - Supporting Welsh Water in facilitating development.
  - Developing quality services.
  - Termination of S104 agreements and notification.
  - Strategy advice.
  
- Business Support Activities
  - Supporting Welsh Water in Centres of Excellence.
  - Interfacing with the Operations Partners in relation to shared services.
  - Identifying future investment requirements and opportunities.
  - Providing data and information for statutory, regulatory and business reporting requirements.
  - Managing customer and developer relations.
  - Supporting any developments in Welsh Water's IT infrastructure specifically in relation to NDC services.
  - In consultation with Welsh Water, engaging in co-ordinated proactive liaison with national, regional and local government.
  - In consultation with Welsh Water, liaising with and responding to queries from regulatory organisations.

## APPENDIX 9

### Information and Communication Technology – Capgemini UK plc

#### Services Currently Provided

##### IT Centre of Excellence Collaboration

- Strategy and improvement
- Programme and service integration

##### Lot 1 – Service Management

- Service implementation and decommissioning
- Service support including Help Desk provision and management
- Service delivery
- Service Integration

##### Lot 2 – On site ICT services

- On site PC and peripheral provision and management
- On site server provision and management
- On site voice and data network provision and management
- On site computer room provision and management

##### Lot 4 – Application Development and Management

- Enterprise application development
- Specialist application development

##### Lot 6 – Off the shelf Applications and Commodity Services

- Off the shelf applications
  - Providing licenses for off the shelf applications
  - Providing and managing hosted application services
  - KPI, SLA, OLA and financial reporting
  - Provide disaster recovery facilities – continuity of service

##### Other Responsibilities

- Providing a consolidated view of information relating to capacity, availability, configuration, change, incident, problem and release data.
- Providing a consolidated view of service performance.
- Passing on all incidents relating to other ICT partners and notifying them of incidents which may impact their service delivery.
- Providing a current view of service level performance.
- Providing relevant details relating to problems associated to the other ICT partners service delivery.
- Providing a schedule of service tests.
- Facilitating, coordinating and management of service tests.
- Informing the other ICT partners of any changes in availability requirements derived from changes in business requirements.
- Implementing any recommendations made as a result of impact assessments through the change and release processes.

- Informing the other ICT partners of any changes reasonably deemed to affect their delivery of service.
- Expediting the inclusion of any change activity requested by the other ICT partners.
- Informing the other ICT partners of any releases reasonably deemed to affect their delivery of service.
- Providing the other ICT partners with a current view of the agreed Welsh Water security policy.
- Informing the other ICT partners of any threat or breach in security policy which might reasonably be deemed to affect the other ICT partners delivered services.
- Providing appropriately skilled resource to contribute to the planning and scheduling of changes.
- Working collaboratively with the other ICT partners to deliver an analysis of capacity utilisation data in order to develop appropriate strategies to protect agreed service levels.
- Working collaboratively with the ICT partners to provide appropriate resource to plan release activities.
- Working collaboratively with the ICT partners to provide appropriately skilled resource to contribute to post release view.
- Providing the other ICT partners with web based access to appropriate, jointly agreed components of the ICT partners service management tools for the provision of services to Welsh Water.
- Providing business transformation consultancy.

## APPENDIX 10

### Information and Communication Technology – LogicaCMG UK Ltd

#### Services Currently Provided

##### IT Centre of Excellence Collaboration

- Strategy and improvement.
- Programme and service integration.

##### Lot 3 – Enterprise ICT services

- Providing and managing an enterprise data centre.
- Providing and managing an enterprise server and storage solution.
- Other responsibilities.
- Responsibility for the backup and recovery of the other ICT partners servers and storage located in the data centre facility.
- Joint responsibility with the other ICT partners for the design of the identity and directory services.
- Managing the other ICT partners servers located in the data centre up to the operating system including rebooting/button pushing.

##### Lot 4 – Application Development and Management

- Enterprise application management
- Specialist application management
- Support to Enterprise and Specialist application development

##### Lot 5 – Enterprise Voice and Data Network Provision and Management

- Enterprise Voice and Data Network Provision and Management
  - Providing and managing an enterprise data network.
  - Providing and managing an enterprise voice network.
  - Providing and managing virtual meeting services.
  - On site preventative maintenance.
  - On site/remote fix management service.
  - Decommissioning and disposal of the voice and data network.
  - KPI, SLA, OLA and financial reporting.
  - Provide disaster recovery facilities – continuity of service.

##### Lot 6 – Off the shelf Applications and Commodity Services

- Providing bulk printing services
  - KPI, SLA, OLA and financial reporting.
  - Provide disaster recovery facilities – continuity of service.

## APPENDIX 11

### Information and Communication Technology – Tata Consultancy Services Ltd

#### Services Provided

##### IT Centre of Excellence Collaboration

- Strategy and Improvement
- Programme and Service integration

##### Lot 4 Application Development and Management

- Enterprise Application Development
- Specialist Application Development

##### Other Responsibilities

- Providing strategic business transformation consultancy

## APPENDIX 12

### Laboratory Analytical Services – Severn Trent Laboratories Ltd

#### Scope of Services

Severn Trent undertakes to supply the following services to Welsh Water:

- Supply of bottles, crates and sampling kits
  - Severn Trent will, as part of the testing and analysis services supply Welsh Water with bottles, crates and sampling kits. Bottles, crates and sampling kits will be supplied to sites in accordance with orders placed by Welsh Water by facsimile.
  - Bottles, crates and sampling kits shall be delivered to the sites identified in the relevant order within three working days of the relevant order.
  
- Provision of Courier Service
  - Severn Trent will provide a secure courier service to collect samples from the sites and to transport samples to the laboratories and to return clean, empty and, where applicable, sterile or autoclaved bottles and crates to the sites.
  - All samples will be delivered to the relevant laboratories on the same day as they are collected from the sites
  
- Sample Reception
  - Severn Trent will provide a sample reception and data entry service.
  - Severn Trent's sample reception and data entry service will operate Monday to Friday 8.00 am – 8.00 pm and Saturdays and Sundays 8.00 am – 2.00 pm provided always that where samples collected by the courier from the sites are received at the laboratories outside these hours through no fault on the part of Welsh Water, Severn Trent will at no additional cost to Welsh Water, operate the sample reception and data entry service outside such hours.
  
- Quality Assured Analysis and Testing of Samples (excluding Formal Samples and Cryptosporidium Samples)
  - Severn Trent will provide quality assured analysis and testing of samples by adequately trained, qualified and competent personnel for those determinants specified by Welsh Water.
  - The results of analysis of determinants (including failures, no results and results outside reporting thresholds) shall be made available to Welsh Water in accordance with the Procedures.
  
- Quality Assured Analysis and Testing of Cryptosporidium Samples
  - Severn Trent will provide quality assured analysis of testing of cryptosporidium samples.
  
- Provision of a twenty four hour service for responding to and carrying out emergency analysis and testing of samples
  - Severn Trent will provide a twenty four hour service each and every day during the term (including public and bank holidays) for responding to and carrying out emergency analysis and testing of samples.
  - Severn Trent will prepare and provide to Welsh Water Incident Kits.

- Quality Assured Analysis and testing of formal samples.
  - Severn Trent will provide quality assured analysis and testing of formal samples and reports suitable for use as evidence in legal proceedings.
  
- Maintenance and Conformity Testing of Field Test Equipment
  - Severn Trent will maintain and conformity test the field test equipment.
  
- Provision of Help Desk
  - Severn Trent will provide a help desk to manage all enquiries, queries and complaints from Welsh Water concerning the services.
  - The help desk will operate from 9.00 am to 5.00 pm on working days.
  
- Quality Assured Analysis and Testing of Regulatory Cryptosporidium Samples.

## APPENDIX 13

### Sampling Activities – Severn Trent Laboratories Ltd

#### Scope of Services

Severn Trent undertakes to supply the following services to Welsh Water.

- General Activities
  - Identifying technological and commercial opportunities for improvement in respect of existing services and known future requirements.
  - Ensuring that all sampling technicians used in the provision of the services are appropriately trained in the taking, handling and on-site testing of samples.
  - Supervising and monitoring the performance of all sampling technicians used in the provision of the services and keep full and accurate records of the procedures and processes relating to the training, supervision and monitoring of sampling technicians.
  - Ensuring that it has at all times sufficient competent sampling technicians trained in the taking of regulatory cryptosporidium samples to enable Severn Trent to meet its obligations in full.
  - Providing and regularly updating a list of personnel employed by Severn Trent as sampling technicians.
  - Providing sampling technicians with identification, vehicles and uniforms all bearing the trade marks.
  - Reporting in a timely fashion any observations and/or communication with members of the public or other service providers contracted to Welsh Water which might demonstrate that health, safety, water quality, site access or security, asset condition, the environment, or customer satisfaction is compromised.
  - Reporting to Welsh Water within one hour any observations and/or communications with members of the public, customers, authorised contractors, the contracted laboratory and/or any other service providers contracted to Welsh Water which might demonstrate that the routine sampling programme has been or may be compromised in any manner.
  - Directing customer queries to the call centre detailed on the customer's bill.
  - Identifying and communicating good practice to Welsh Water, and apply it in respect of all of its work except where prevented from doing so by.
  - Scheduling Samples only in response to a documented request from Welsh Water or authorised contractors.

- Ensuring that all samples requiring taste determinations are accompanied by a bacteriological sample.
- Utilising sampling technicians vans and uniforms solely for the provision of the services unless specifically agreed with Welsh Water.
- Ensuring that the sampling technicians do not undertake other activities during the course of supplying the services unless specifically agreed with Welsh Water.
- Where requested, providing assistance in the formulation of Welsh Water's business case.
- Providing specialist advice and guidance when requested by Welsh Water.
- Responding promptly to Welsh Water's telephone calls and written correspondence use reasonable endeavours to resolve Welsh Water's requests and inquiries at the first point of contact.
- Performing the Services at all times in accordance with all Welsh Water Policies and QMS, relevant legal and regulatory requirements; and good industry practice.
- Maintaining and complying with a formal procedure to record and respond to complaints from Welsh Water, customers, authorised contractors and the contracted laboratory.
- Maintaining internal controls relevant to the services.
- Taking all reasonable steps to ensure that all customer addresses are correctly assigned and can be referenced to such list of addresses as may be held by QDB from time to time.
- Participating in all audits by Welsh Water, Welsh Water's agents, regulators, accreditation and statutory bodies.
- Representing Welsh Water at meetings, industry workshops, seminars and other similar events, where appropriate and requested to do so by Welsh Water.
- Allocating a named individual to act as Account Manager.
- Managing the security and integrity of data through the use of virus checking software and unauthorised access procedures.
- Liaising with authorised contractors with regard to security and health and safety to arrange access to facilities, collection points and sites and comply with the authorised contractors' requirements for issue of keys, intruder alarms, recording attendance at sites, securing unattended sites on leaving and restriction of access to other parts of the facilities, collection points and sites.
- Being able to demonstrate compliance with statutory duties and have effective occupational health and safety management systems in place to manage risks.

- Measuring performance against standards to reveal when and where improvement is needed.
- Auditing and reviewing performance.
- Prioritising samples.
- Providing and maintaining suitable and sufficient sampling and refrigeration equipment in accordance with QMS to support the services.
- Ensuring that appropriately trained sampling technicians are available twenty four hours per day 365/366 days per year to provide the services.
- Procuring all goods and services and committing all equipment, vehicles, personnel and other resources necessary to enable Severn Trent to comply at all times with all of its obligations.
- Reporting on-site readings or test results to Welsh Water or authorised contractor on an immediate or daily basis as requested by Welsh Water or authorised contractors as the case may be.
- Obtaining and maintaining in force throughout the term accreditation and all requisite consents and use all reasonable endeavours to ensure that any such accreditation and requisite consents can be transferred to Welsh Water or any successor service provider on the expiry or earlier termination of this agreement howsoever arising.
- Not do anything which could adversely affect the sites or facilities.
- Not in the performance of the services, by its act, omission or default, knowingly diminish, discharge, release or in any other way cause Welsh Water to breach its obligations under the Licence or to breach any of its legal and regulatory requirements.
- Ensuring that it does not, through its acts or omissions in the course of performing the services, harm the Trade Marks or Welsh Water's goodwill or reputation as a water and sewerage undertaker.
- Ensuring that it does not through its acts or omissions in the course of performing the services cause Welsh Water to be in breach of any contracts with the authorised contractors, contracted laboratory, customers or other persons.
- Notifying Welsh Water immediately if the requirements for non-routine samples may affect the daily samples.
- Providing the services at all times in accordance with the sampling deadlines.
- Provision of Services in Respect of Routine Samples
  - The efficient taking of Routine Samples and accurate recording of associated data on the accompanying log sheets in accordance with QMS.
- Provision of Services in respect of Non-Routine Samples

- The taking of non-routine samples as requested by Welsh Water and/or authorised contractors to include a twenty four hour a day 365/366 days per year quick response service for the taking and transportation of urgent samples.