



# Bioresources narrative disclosure on market activity

30 June 2020



## Introduction

Alongside the bioresources data table, we've provided a narrative which covers:

- A. **Assurance:** a summary on what assurance has been undertaken to ensure that the information is accurate and complete, which highlights any issues identified as part of this process
- B. **Bidding activity:** the provision or publication of details of the main success criteria that has been used to assess bids from third parties, including a summary (where applicable) of reasons not to award a contract to any third party, particularly where the activity continues to be provided by our own internal bioresources service
- C. **Market development:** information on how the market has changed over the last year and how it's likely to change over the next reporting period
- D. **Risks, issues and barriers:** any risks, issues or barriers we've identified that could hinder the market developing or cause other unintended consequences
- E. **Engagement activities/initiatives:** any engagement activities or initiatives undertaken to stimulate interest from third parties who could provide bioresources services

This narrative is intended to help understand in more detail how the market is developing, what factors are driving the market and any issues that may be hindering the development of the market.



## A Assurance

To build trust and confidence in our Bioresources Market Information, we designed our regulatory reporting assurance plan to ensure:

- compliance with reporting guidance and appropriateness of processes for timely preparation
- the accessibility, accuracy, reliability, completeness and consistency of information

We therefore put in place multiple internal assurance checks and balances. This included a submission plan and data method statements with information prepared by an appropriate person, reviewed by a competent person, signed-off and approved by a senior accountable manager. In addition, our Regulatory Reporting Team and final submission Gate provided data and process support.

Given the importance of this submission, we requested PwC to independently review our reported information in accordance with the International Standard on Related Services (ISRS) 4400 - Engagements to perform agreed-upon procedures regarding financial information. In terms of ISRS 4400, we agreed a set of procedures to be performed by PwC with the objectives of reviewing:

- the completeness and consistency of methodology with policy, rules and guidance;
- the governance process and operation of controls; and
- the accuracy and completeness of data and compliance to methodology.

This review did not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the non-financial data. As a result, PwC do not express such assurance. The aim of this review was to receive factual results regarding the information we reported based on a set of procedures agreed with PwC.

PwC raised a small number of actions on our data accuracy, all of which were addressed prior to publication.

## B Bidding Activity

From April 2019 to March 2020, no new bioresources specific contracts have been let and we have not identified anywhere we could provide our service to others.

The existing contracts for sludge cake transport, treatment (of untreated cake) and disposal (to agriculture and restoration) were all awarded in 2016 and are due to expire in 2021. We'll carry out market analysis prior to the expiry date to ensure that these activities are still more beneficially delivered via the existing routes. This will also include an assessment of the associated activities carried out in house (such as biosolids farm sales). When these contracts were last awarded, this was advertised through the OJEU (Open Journal of the European Union); we anticipate that the



same method will be employed in the future to ensure we obtain the widest service offerings to seek the best outcome for our customers.

We brought 'Intersite tankering' back in house in September 2018. We've continued to utilise our own fleet since then. These tankers have been supported by a framework agreement for 'compliance tankering and network operations' when additional tankers have been needed. Between April 2019 and March 2020, two companies approached us offering their tankering services; these were not exclusively for sludge tankering, and we didn't add the companies to our framework agreement. However, we've added them to a list of approved suppliers should we ever need more support than our existing frameworks can provide.

We'll periodically review the commercial arrangements of tanker use to ensure that an in-house service remains the best solution. This will be done at least once every five years but also on an ad-hoc basis should we be offered a service from a third party.

These contracts are all detailed on the 'contracts' tab of the "Bioresources-locations-and-successful-contract-market-info" spreadsheet.

## C Market development

The bioresources market can provide us with opportunities to treat other companies' waste (either sludge or potentially other organic materials) and to send our sludge to be treated by others. Any opportunities could be part of our ongoing operations or used in the event of short-term capacity constraints and emergencies. We've continued our dialogue with neighbouring Water and Sewerage Companies (WaSCs) to maintain understanding of their available capacity and potential need for treatment services.

Between the period of April 2019 and March 2020, we didn't identify any opportunities to trade with our neighbours. Our previous assessment identified that some sites around our borders are closer to other WaSCs treatment sites, so it could be marginally beneficial to trade sludge out of region. However, none of those sites currently have capacity to accept our sludges. We also identified some opportunities to accept sludge into our region if capacity allowed, but due to several ongoing operational issues with assets out of service for maintenance, capacity was not available during this period.

In principle, third parties may also offer treatment opportunities in the same way as WaSCs are able to. In practice, however, it can be the case that waste treatment infrastructure – particularly anaerobic digestion (AD) facilities – doesn't offer sufficient capacity or at least close enough to make it commercially viable. Furthermore, some third-party AD operators have told us, as detailed in our Business Plan, that they're concerned about the potential adverse impact on their 'end-of-waste' status caused by co-digestion with sludge. Nonetheless, we're maintaining discussions with commercial operators in our region should regulation change. In light of the ongoing EA Sludge Strategy proposals, this may be the case in the near future.

We currently manage all biogas in-house, using it within our combined heat and power (CHP) plants and boilers. The improved efficiency of our treatment facilities now means we have four



sites where we expect the amount of biogas produced to exceed the installed renewable energy generation capacity. On these sites, we're evaluating options to consider alternative uses of biogas. As discussed in our return last year, we have two exciting options in development. The first is with a 'biogas to grid' company in Enfield to use excess gas from Deephams and inject it into the national gas grid. The second opportunity is at our Hogsmill site, where we're collaborating with the local authority, Kingston-Upon-Thames, to evaluate a district heating system. The proposals at Deephams are now progressing and an OJEU notice to provide 'biogas upgrading services' was issued in June 2020 with the view to setting up a biogas upgrading framework by August 2020.

## D Risks, issues and barriers

We do not foresee any issues with inter-company trading between WaSCs based on marginal costs. Current discussions with respect to long-term trades and shared investment opportunities have identified limited opportunities due to uncertainty over potential stranded assets and around long-term gate fee costs.

Discussions with external industry third parties are still being hindered by current regulations around co-digestion. We're working with the Environment Agency as part of their sludge working group to evaluate perceived risks to co-treatment so that we can address these regulatory barriers.

## E Engagement activities/initiatives

We're continuing to work with third-party technology providers to find innovative solutions that will help reduce our operational costs and improve our productivity. This is predominantly being led by our Research and Development teams and through technology horizon scanning research.

Commissioning of our trial of advanced thermal disposal using low temperature drying and pyrolysis has been delayed due to COVID-19, but we're hopeful it will be operational later in 2020. The results will help inform our future disposal strategy and help mitigate land bank disposal risks.

