



## Thames Tideway Tunnel – cost claims

### Thames delivered element of the Thames Tideway Tunnel

#### Introduction

Thames' business plan included £655 million for its activities on the Thames Tideway Tunnel (TTT) in AMP6 (2015-20) in order to:

- deliver an infrastructure provider (IP);
- carry out enabling and interface works for the project; and
- comply with the outcome of the project's development consent order and also to manage uncertainty around the timing of the appointment of an IP.

As the Tideway is outside the scope of our wholesale cost modelling the implicit allowance for this expenditure in our cost thresholds is zero.

#### Assessment criteria not fully passed

##### Need

At an overall project level, we recognise the need for the activities Thames expects to carry out between 2015 and 2020. However, at an individual cost component level Thames has not sufficiently justified some areas of its plan in terms of our four cost assessment categories of need, value for money for customers, efficient cost and customer protection.

##### Robustness of cost estimates

Of the £655 million requested by Thames for its activities on the TTT, we assess it has only adequately justified £324 million of expenditure.

Of the total gap between us, 65% relates to only two challenges, which should be resolvable with further information from Thames. They are in relation to expenditure to keep the overall TTT project to timetable if the appointment of the IP is delayed until October 2015 and Thames' approach to its risk estimate.

- **Delay to the appointment of the IP (Resilience):** Thames requested £110 million to carry out additional activities it would need to undertake should the appointment of the IP be delayed until October 2015. However, it did not commit to what activities it needed to carry out. We understand the need for additional costs under this scenario (some of which would otherwise be incurred by the IP). However, we will not include any costs until Thames commits to what activities it intends to do and provides a robust cost estimate for the work.
- **Risk estimate:** Thames has included £136 million for risk in its cost estimate. It has arrived at this provision by allocating risk from the total risk estimate for the project in AMP6. However, it has done this without any reference to the activities it will carry out in AMP6 and without considering how this overlaps with its proposed treatment of uncertainty in AMP6. We have therefore challenged Thames on its approach and not included £106 million in our view of efficient costs.

The rest of the cost challenge<sup>1</sup> (£-115 million) relates to:

- inflation;
- construction;
- land-related activities; and
- indirect costs

Our challenge to these cost items relates mainly to evidence of efficient costs. Within the land related activities and indirect cost categories, there was also insufficient evidence to demonstrate need for the expenditure requested.

## Summary

Based on the information provided to us by Thames so far, there is insufficient evidence to fully justify its request for £655 million. We will consider further information from Thames in relation to our challenges for the final determination.

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<sup>1</sup> Numbers may not add due to rounding