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By email

Liv Walton  
Director of Regulation and Strategy  
Affinity Water

Nevil Muncaster  
Director of Strategic Resource Options  
Thames Water

8 September 2022

Dear Liv and Nevil

## **Thames Water to Affinity Water Transfer (T2AT) SRO – Request for additional funding for Gate two and beyond – RAPID Response**

Thank you for your letter dated 27 May 2022 in which you requested development funding for a second additional transfer option within the Thames to Affinity Transfer (T2AT) solution. As part of the evaluation of the T2AT, a range of transfer options have been considered as alternates. However, two distinct options have emerged as feasible. These have both been put forward to WRSE for consideration as part of the regional water resources planning process. The WRSE emerging regional strategy published in January selected both options to support the water resource needs of the South East.

RAPID recognises that the solution partners have done additional work to ensure that both options are developed to the appropriate standard for gate two. However, we do not consider it appropriate to increase the funding for the T2AT solution, as set out in your letter.

### **Reasons behind our decision**

The request to extend the funding does not provide sufficient evidence around the new solution to enable us to determine the efficient level of costs. More importantly, it did not set out the evidence of the cost exposure to the partners and the potential synergies given the work done on both options already, when they were evaluated as alternatives.

The request also does not acknowledge the cost sharing mechanism that was put in place to manage uncertainty around the solutions, given the uncertainties around scope of activities

and associated costs of developing options. There is cumulative cost sharing for solutions that progress beyond gate two. The PR19 revenue reconciliation means that you would be able to recoup 50% of any overspend for T2AT if it progresses through gate two.

Additionally, and in line with the RAPID gated programme structure, the funding could not be provided, as T2AT is not set up to deliver two solutions. Increasing the solution allowance in the suggested way could jeopardize customer protections by having one large pot for distinct solutions.

### **Next steps**

Dependent on evidence of need, we suggest that you set out in your gate two submission the need for a second solution and explain potential splitting off in to two separate solutions. We would expect a breakdown of incremental costs to be included, as well as a robust cost impact assessment. If a needs case is successfully made for the new solution at gate two, post gate two it could then be entered into the RAPID gated process for assessment as a new solution; the solution would not get allowances for gates one and two in line with the new solution criteria.

We have held meetings with the T2AT project team, and we consider the exposure to unfunded costs is probably around £200k given likely cost sharing adjustments. Given the unique circumstances of this solution, we would not apply gate penalties for overspending for doing additional work to explore this second transfer.

### **Conclusion**

Increasing the RAPID funding for T2AT solution, in this case, is not appropriate. You are welcome to present further work in your gate two submission on needs cases for separate solutions if you consider this appropriate. The new solution could then enter the RAPID process for assessment as a new solution going forward. We hope that by making our expectations clear, the ongoing work and resource to gate two can be better focused.

We recognise the pro-active engagement by solution partners with regulators and encourage you to continue to engage to resolve any emerging issues. We also encourage ongoing liaison with the WRSE regional planning group to develop a robust evidence base to demonstrate the best value options at gate two.

This response letter has been published on RAPID's website today and we look forward to receiving and reviewing the solution submissions at gate two.

Yours sincerely

**Paul Hickey,**  
**Managing Director of RAPID**