

Anglian to Affinity Transfer (A2AT)

Gate two report
representation

May 2023



Introduction

This is the Statement of Response from Anglian Water and Affinity Water for RAPID's draft decision of the gate two submission, published 30th March 2023, for the A2AT.

The representation is structured to mirror the RAPID draft decision document, extracting the points that request a response from us. The first section outlines responses to the overall solution assessment, followed by the actions and recommendations.

Executive Summary

Gate 3 Solution Funding

We support the decision that Anglian will be the only solution partner at gate three and will keep a 59% share of the scheme funding allocation to reflect the revised scope.

We also acknowledge that 65% of the additional funding requested is being provided, but note that by withholding 35% of the forecast, RAPID is generally constraining certain necessary development activities over the next 18 months. To accommodate for the programme impact we expect at gate three to propose a revised gate four submission date to align with the Lincolnshire Reservoir SRO.

We question the change in cost sharing rate proposed for gate three, as it significantly increases development risk to the promoting companies and does not recognise the uncertainties of major project development often caused by external and third-party events. We believe that customers have existing suitable protection mechanisms built in, particularly in relation to 'efficient spend'. Additionally, we are developing assets for others to ultimately finance, design, build and own – thus penalising the development stage promoting companies is, we feel, counterproductive. We recommend that instead of the introduction of a new proposed 'pain/gain' mechanism between companies and customers, rather that existing customer protections are further enhanced with RAPID being furnished with regular monthly budget status updates and a new quarterly third-party validated cost assurance report.

We highlight that appropriate funding for the development phase of major projects is essential to ensure ultimate delivery stage success, including against time and cost. UK infrastructure has instructive learning and numerous historic examples whereby insufficient budget during early phases has led to programme and cost overruns. Our SROs, as currently funded, remain well below Ofwat's nominal 6% metric of 'development budget against total scheme budget'. With constrained development investment and the introduction of unbalanced risk sharing mechanisms, we are concerned that there is a high risk that project delivery success may be compromised which, in turn, will not serve the interests of customers well over the long term.

Gate 3 Timing

We support the decision to move the gate three date from March'24 to September'24. We recognise the benefit this brings to both the delivery and assessment of the gate three submission, but note that the additional 6 month period will require funding. In order to deliver efficiently, and to retain programme float, this requires that we start key gate four activities during the gate three period between March'24 and September'24. We will provide early visibility of such activities, that will draw down on gate four funding, within our monthly checkpoint meetings.

We accept the decision to move the gate three date from March'24 to September'24. We recognise the benefit this brings to both the delivery and assessment of the gate three submission, but note that the additional 6 month period will require funding. In order to deliver efficiently, and to retain programme float, this requires that we start key gate four activities during the gate three period between March'24 and September'24. We will provide early visibility of such activities that potentially draw down on gate four funding within our monthly checkpoint meetings.

Actions and Recommendations

We acknowledge the priority actions and will develop and deliver the requested data in line with the Draft Decision. We will take on board the remaining actions and recommendations set out in the Draft Decision.

Solution assessment

DRAFT DECISION	DETAIL	RESPONSE
<p>Progression criteria – outstanding concerns that have not been address through the strategic planning processes</p>	<p>The solution owner should develop robust environmental assessments, comprehensive water quality monitoring and refine the routing to minimise environmental impacts.</p>	<p>This work is planned prior to gate three and an Environmental team has been established made up of subject matter experts to drive this workstream. We will provide updates for this work as part of our monthly Checkpoint meetings.</p>
<p>Solution funding to gate three</p>	<p>Allowance has been changed to reflect that Anglian will be the only solution partner at gate three and will keep a 59% share of the scheme to reflect the revised scope. Furthermore, 65% of the forecast overspend has been added on top of this revised allowance. Revised allowance: £3.08million compared to original combined allowance of £4.01m.</p>	<p>We accept this funding change.</p> <p>We accept that Anglian Water will retain 59% share of the scheme budget.</p> <p>With regard to 65% of the additional forecast being added to the scheme allowance, this inevitably means constraining necessary development activities that will have a degree of overall programme impact. Where applicable we propose to initiate early gate four activities to mitigate for this. We will provide early visibility of such activities, that will draw down on gate four funding, within our monthly checkpoint meetings. Please note that we still require the full 100% of the identified increase, therefore remaining monies which have not been secured as part of the gate three allowance will be moved forward into the gate four / PR24 application process.</p>
<p>Solution funding to gate three</p>	<p>We are changing the cost sharing rate that is applied to the solution. At gate three, the solution owners will be responsible for 80% of any overspend. Furthermore, solution owners will be able to retain 25% of any total underspend at gate three, while the remaining 75% will be returned to customers. This diverges from the 50% cost sharing that was outlined in the PR19 final determinations</p>	<p>We question the proposed change in cost sharing rate.</p> <p>The SRO programme represents a step change for the industry in scale, scheme value, complexity and risk profile for major project delivery with few comparable benchmarks (the most similar recent scheme, although unique, probably being the Thames Tideway Tunnel). Over multi-year development timeframes there will be considerable uncertainty, often generated by external third-party events that are not within the sole gift of the promoter to manage or mitigate. That is why government and independent industry experience data/analysis suggest that reasonable estimate ranges are preferred to exact point and time figures, particularly during uncertain development phases. The proposed cost sharing change penalises the promoter when risk or change occurs to cost and programme and is, we believe, unhelpful.</p> <p>RAPID’s proposal seeks to open up this mechanism for review from a well-established symmetrical 50:50 position. We would expect that the true risk and opportunity position for both customers and</p>

		<p>companies would be properly evaluated.</p> <p>Customers already have two additional built-in protections (i) via the 'efficient spend' mechanism described below and (ii) via the 'up to 30% of efficient spend' binary penalty mechanism for late or poor-quality deliverables. A headline balanced 50:50 cost sharing rate is therefore in fact significantly already in the customers' favour when considered collectively alongside both customer protection mechanisms.</p> <p>We recommend that a new 'pain/gain' mechanism between companies and customers is therefore not suitable in this instance for ensuring efficiency and customer protection. In order to aid confidence in our gate three spend commitments, we propose to update RAPID within our regular monthly checkpoint meetings on potential material movements within our budget. Further, that we additionally provide RAPID with a new quarterly third-party validated cost assurance report of actual spend to date, remaining budget/forecast and emerging risks/opportunities to give visibility of our spending plans.</p> <p>Rather than employ a cost sharing mechanism for underspend, we also propose that any underspend in gate three be rolled forward as an addition to the gate four allowance. This will reduce the requirement for gate four costs and for a true up at PR24.</p> <p>By changing the cost sharing rules at this point, RAPID risk undermining confidence in the SRO programme, the promoting companies, our engaged supply chains and ultimately the scheme financiers.</p> <p>Finally, we note that we are developing assets for others to ultimately finance, design, build and own under the proposed delivery stage arrangements – thus penalising the development stage promoting companies is, we feel, counterproductive.</p>
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<p>Efficient spend</p>	<p>Our assessment of the efficient costs as spent on standard gate two activities results in an allowance for this solution of £0.83m (of £0.83m claimed). A2AT has therefore underspent its combined gates one and two allowance by £1.46m and may take a 59% share of underspend forward to gate three, increasing the allowance available to them at gate three to £3.95m (when rounded up).</p>	<p>We note RAPID's position that expenditure was deemed to be efficient.</p> <p>We have submitted our final accounts for gate two separately. These show a total spend of £940,211 for gate two work, which results in a total underspend of £1,329,093 for gates one and two, to be carried over for gate three work.</p> <p>We have submitted our final accounts for gate two separately. These show a total spend of £940,210.88 for gate two work, which results in a total underspend of £1,329,092.55 for gates one and two, to be carried over for gate three work.</p> <p>The reason for this difference in spend is a result of resolving any difference between accruals and final accounts with our suppliers, as well as ongoing project management and consultancy support during the RAPID query process.</p>
<p>Efficient spend</p>	<p>From gate two, we will move to look at the cumulative gate spend against the cumulative total allowance, across all gates consistent with the activities being undertaken. For example, any gate four allowance that is brought forward towards gate three should be for the purpose of early gate four activities.</p>	<p>We support this change and the flexibility it provides to enable us to spend gate four allowance early for gate four activities, not least given we intend to start some gate four activities in the six-month period leading up to the revised gate 3 submission.</p>

Actions and Recommendations

<p>RAPID PRIORITY ACTION</p>	<p>DETAIL</p>	<p>RESPONSE</p>
<p>Drinking Water Quality</p>	<p>Emerging contaminants must be included in the water quality monitoring programme from gate two onwards. Provide a monitoring programme to RAPID and its partner regulators by 30 June 2023.</p>	<p>Our water quality monitoring programme is regularly reviewed, and we are routinely sampling for the specific considerations as set out on the DWI long term planning guidance (July 2022), recently incorporating monthly sample for PFAS (full 47 compounds). We are currently in consultation with external laboratories to understand the available analytical capability for Endocrine Disrupting Chemicals and trace chemical (as detailed in the guidance). We will provide a full update of our monitoring programme by 30 June 2023, as requested.</p>

Gate three activities and timing

DRAFT DECISION	DETAIL	RESPONSE
Gate three timing	We have decided that A2AT gate three should be September 2024. This is to align gate three with solutions on a similar programme, and for RAPID to efficiently assess progress of activities, ahead of the solutions proposed planning application.	<p>We recognise the benefit to both the delivery and assessment of the gate three submission, to move gate three back from March '24 to September '24.</p> <p>As above this does mean in some instances that we will need to start key gate four activities during the gate three period. We will provide early visibility of such activities that potentially draw down on gate four funding within our monthly checkpoint meetings.</p>
Gate four timing	We have decided that A2AT gate three should be September 2024. This is to align gate three with solutions on a similar programme, and for RAPID to efficiently assess progress of activities, ahead of the solutions proposed planning application. We agree with the forward programme for gate four.	<p>We are indicatively proposing a DCO submission date on the linked Lincolnshire Reservoir SRO between spring 2026 and autumn 2026, which accommodates for the revised gate three delivery programme and budget, and which allows for the time required to deliver on the DCO requirements.</p> <p>Whilst the consenting approach for A2AT itself is under review, we currently propose to align the timing with the Lincolnshire Reservoir timing. We will therefore offer a revised gate four date within our gate three submission, likely 3 months after our proposed DCO submission for Lincolnshire Reservoir.</p>

Other

ITEM	DETAIL	CLARIFICATION
Name change	The project is referred to as Anglian to Affinity Transfer (A2AT).	To reflect the change in scope for this SRO, we request the name is changed to 'Peterborough to Grafham Strategic Transfer' (P2G).
Efficient spend determination between SROs	Some of the core SRO project team is already provided for by the Lincolnshire Reservoir, and protocols and lessons are being established on Lincolnshire Reservoir SRO that the P2G SRO will benefit from.	<p>Efficiencies generated by the Lincolnshire Reservoir will continue to be applied to the P2G Strategic Transfer.</p> <p>We acknowledge that the P2G Strategic Transfer continues to have synergistic benefit from our core team, central delivery and learnings provided by the Lincolnshire Reservoir.</p> <p>However, we note that P2G Strategic Transfer continues to require dedicated resources for successful development and delivery.</p>

Thank you for the feedback received and your guidance for future work. We look forward to continuing to work with you as we progress to gate three.