

Regulators' Alliance for Progressing Infrastructure Development
Ofwat
7 Hill Street
Birmingham
B5 4UA

Date: 11 May 2023

Dear RAPID,

Grand Union Canal (GUC) Strategic Resource Option (SRO) – Response to ‘Gate 2’ Draft Decision.

This letter follows the recommendation by RAPID that the GUC SRO should progress through the gated process towards ‘Gate 3’. It forms Affinity Water, Severn Trent Water, and the Canal & River Trust’s joint representation in respect of the ‘Gate 2’ draft decision, published on 30 March 2023.

We are pleased to note that the draft decision proposes that ‘Gate 3’ funding be allowed and confirms that all ‘Gate 2’ expenditure has been deemed efficient and allowed, and that the quality of the GUC submission is recognised as having the top rating of ‘Good’, with all seven progression areas scoring ‘Good’.

We are equally as pleased to note that it is proposed that neither Affinity Water nor Severn Trent Water will receive any delivery incentive penalties and that there is no proposed need for a remediation plan nor any priority actions.

The following sections of this representation provide section specific representation to points made within the draft decision document.

Section 3 – Solution assessment summary:

- We are pleased to note that we have not been given a Delivery Incentive Penalty, nor any priority actions for urgent completion.
- We note RAPID have recommended a ‘Gate 3’ date of September 2024 to align with other solutions. We would request that the final decision on ‘Gate 3’ remains aligned to the end of December 2024 and there is an acknowledgement that this date is the ‘earliest target date’ and that whilst SROs should seek to maintain programme, a flexible approach will be applied to these dates, within reason, acknowledging the uncertainties associated with the pre-application stage of major infrastructure projects.
- The following points highlight the rationale to supports our proposal:
 - **DPC implications.** As per the ‘Gate 3’ guidance, and action five within appendix A of the draft decision document, we must engage with RAPID on market engagement prior to our Gate 3 submission with stage two engagement expected six-nine months prior to market engagement. Additionally, Ofwat’s guidance for DPC requires us to have completed stage two activities ahead of ‘Gate 3’. The shift to an earlier ‘Gate 3’ submission date reduces our ability to meet these deliverables.
 - **Summer 2024 Environmental Data Collection.** By moving ‘Gate 3’ earlier, this prevents data collection during a critical period for the SRO, as we would need to spend the summer working through our external assurance processes ahead of board sign off as per the ‘Gate

3' guidance. Continued data collection during summer is important for us as it is when the scheme would most likely be utilised to the greatest extent. We have flagged this with the NAU prior to this representation and they support this position and would like to see summer monitoring in our gate submission, therefore we believe advancing the 'Gate 3' submission date will impact the quality of the submission.

- **Point of Correction** – Within the draft decision document, section 7.1 states “proposed a gate three of October 2024.” Our proposal for the 'Gate 3' period within our 'Gate 2' submission (table 7.1) states “'Gate 3' period from December 22 – Q3 2024”. We appreciate that our proposed Q3 2024/25 for the 'Gate 3' submission was a period rather than a specific date. This was to reflect that the timing of the gate three and four dates are dependent upon an initial review of the DCO pre-application planning process and linked to the case of need within the fWRMP24, to determine the extent of the work required to achieve a strong DCO submission.
- **'Gate 4'** – The GUC SRO team proposed 'Gate 4' as being 'early 2027' owing to the fixed DCO timeline (14-16 months). We had assumed 'Gate 4' would be upon award of the DCO, rather than upon submission. RAPID suggest 'Gate 4' should now be November 2025. We do not believe that this would provide sufficient time for us to produce a DCO application of sufficient quality and we would like to request our 'Gate 4' date remains in early 2027.
- **'Gate 5'** – In the PR19 final determination appendix, there is mention of a 'phase 5' and 'Gate 5'. We note this is not represented in any of the current funding, for example table three of the final determination (PR19) SRO appendix shows gates one to four. We would welcome a discussion with RAPID about the potential need for a 'Gate 5', what that may involve, what the funding would look like and any immediate next steps. If 'Gate 4' is to be upon submission of the DCO, 'Gate 5' in our view would sit following award. The funding through Phase 5 leading up to the 'Gate 5' date would support the SRO through the extensive examination phase which contains detailed planning and legal involvement.

Section 3.2 – Solution funding to standard gate three:

Additional funding request:

- We note that the draft decision increases 'Gate 3' funding by 65% of the forecast shortfall. We would be grateful if you could confirm in the final decision that funding for AMP 8 will be separately determined through the PR24 process and reflect any changes to project schedules arising from the WRMP process.
- We note that only 65% of the additional funding request has been approved as RAPID consider the estimates “are not fully mature”. If it becomes clear through conversations between the GUC team and RAPID that the additional budget request made in our 'Gate 2' submission was an accurate representation of the cost of taking the GUC SRO to 'Gate 3', it would be helpful to know what the mechanism for allowing the additional 35% would be?
- We fully appreciate and accept the need to evidence that all procurement is efficient, something which we have successfully achieved through gates one and two to date.
- We would like to make it clear that Grand Union Canal SRO is working through DCO pre-application phase in 'Gate 3' and looking to submit a DCO by 'Gate 4' to align with the case of need requirement which is to be set by WRSE regional planning and the fWRMP24. Any limitations with regard to funding could impact this programme timeline and therefore the

required date for delivery of Deployable Output as we would not submit a DCO application until it was of sufficient standard.

Cost sharing change:

- We note that RAPID are proposing to “changing the cost sharing rate.”
- We recognise RAPID’s objectives in making these changes for ‘Gate 3’, principally to challenge the more efficient delivery of ‘Gate 3’ and to protect the customers’ interests. However, we believe that this arrangement does not allow the project to make a judgement on key risks and incentivises project teams to defer work which may damage the success of the project. This may ultimately result in an increased cost to customers.
- We would welcome further conversations about this issue, which might include whether cost sharing is a suitable mechanism for major projects at this stage of development - given the uncertainty that exists around schedule, scope, and costs.
- We welcome the ongoing dialogue about alternative approaches to managing uncertainty in AMP 8, with the objective of enabling funding efficiency while maintaining customer protection.
- We are surprised to have heard about this substantial change for the first time in this publicly facing draft decision document, given emphasis placed on a ‘no-surprises approach’ and that it may have benefitted from pre-discussion.

Section 3.3 – Evidence of efficient expenditure:

- The GUC ‘Gate 2’ financial reconciliation is as follows (presented in (£) 2017/18 prices):

‘Gate 2’ budget	2,700,000.00
‘Gate 1’ underspend	310,131.00
Revised G2 budget	3,010,131.00
‘Gate 2’ spend	2,777,299.00
‘Gate 2’ remaining	232,832.00
‘Gate 3’ original budget	6,300,000.00
Additional funding (65%)	1,270,000.00
G2 underspend	232,832.00
Revised G3 budget	7,802,832.00

- We are pleased to note that the draft decision proposes that ‘Gate 3’ funding is allowed and confirms that all ‘Gate 2’ expenditure has been deemed efficient and allowed. We are equally pleased to see early G4 spending in G3 is allowed, subject to it being for early G4 activities.

Section 3.4.4 (Programme and Planning):



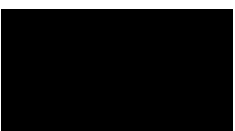
- We would like to ask for clarification regarding the following statement: “We consider the evidence provided by Affinity Water, Severn Trent Water and the Canal and River Trust regarding the programme and planning for the Grand Union Canal to be of sufficient detail and quality for gate two. The submission however falls short in relation to risks and issues and the procurement and planning route strategy – actions are included in relation to these.”
- We assume these actions are ‘Action 4’ and ‘Action 5’ as they are listed with an ‘Area’ called Programme and Planning.
 - Action 4 – *“risk remains to the solution from the potential impact on water quality and compliance with the Water Framework Directive and environmental standards”*.
 - We agree that a risk remains, and are working via ACWG, with NAU and EA, to develop a methodology which ensures consistency regarding substances to be mitigated. We have a meeting scheduled in May 2023 with the NAU to explore permitting requirements.
 - The action also states that *“Delivery of this mitigation should be completed by December 2023. For the treatment programme, this means the bench trial package should be completed by this date.”* We are planning bench trials for Minworth to be completed by December 2023 but are not planning the same for GUC at this stage.
 - Action 5 – *“further engage with Ofwat on the proposed commercial arrangements”* and *“We expect for gate three you will also be carrying out market engagement on this approach”*.
 - We agree and this is a very important part of our ‘Gate 3’ programme. It was not a requirement of the ‘Gate 2’ programme nor the ‘Gate 2’ guidance so we would like to discuss the ‘satisfactory’ score awarded to this item with RAPID to understand if this score refers to anything else.

General comments for consideration:

- We note that the ‘Gate 2’ draft decision document (recommendation No.3) specifically asks for the GUC SRO team to engage with the Forestry Commission. We will add this to our stakeholder engagement plan.

Summary:

We would like to take this opportunity to thank RAPID, EA, Ofwat & DWI for their engagement and collaborative working throughout ‘Gate 2’, and for their positive draft decision response to our Gate 2 submission.

Signed	(Affinity Water)	Date: 11 May 2023
Signe		ern Trent Water)	Date: 11 May 2023
Sig		Canal & River Trust)	Date: 10 May 2023