

South Lincolnshire Reservoir

Gate two report
representation

May 2023



Introduction

This is the Statement of Response from Anglian Water and Affinity Water to RAPID's draft decision of the gate two submission, published 30th March 2023, for the Lincolnshire Reservoir (previously known as the South Lincolnshire Reservoir).

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 Anglian Water's actions and recommendations.

Executive Summary

Gate 3 Budget and Cost Sharing

Whilst we understand the decision to restrict the additional funding to 65%, this inevitably means constraining necessary development activities over the next 18 months. We are reforecasting our DCO submission and gate four dates to accommodate for programme impact, now indicatively between spring 2026 and autumn 2026 (from October 2025), to be further reviewed and confirmed in our Gate three submission in September 2024.

Given the complexity and magnitude of the project, we will still ultimately require 100% of the additional funding requested in our gate two submission. Therefore, the remaining 35% of the additional funding requested, which has not been secured as part of the gate three allowance, will be forecast within the gate four requirement and included in the PR24 application process. We would appreciate the opportunity to agree with RAPID the alignment and content of future gates, specifically alongside the primary DCO and delivery stage procurement milestones.

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 back by six months 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.

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, with clarification provided in an early response to Action 12 and Recommendation 5.

Solution assessment

DRAFT DECISION	DETAIL	RESPONSE
Progression criteria – concerns with solution’s inclusion in WRMP or regional plan	Sufficient evidence is needed to demonstrate to regulators’ satisfaction that SLR is a ‘low regret’ and ‘must do’ option and to give regulators confidence that SLR is a better value option than others.	We are confident that the SLR is a low regret, must do option, having been selected as such in the WRE regional plan as well as the Anglian Water dWRMP (note it has also been selected in national-scale modelling conducted independently from the WRE and Anglian Water teams). As requested in representations on the WRE regional plan and the Anglian Water dWRMP, further information on the regional decision-making process will be provided, along with additional explanation regarding option availability, sizing and costs. It would be useful to understand the criteria regulators will be using to judge that sufficient evidence has been provided and that this meets regulators’ satisfaction.
Progression criteria – outstanding concerns that have not been address through the strategic planning processes	There remains a significant programme of environmental monitoring, assessment and modelling required to determine potential environmental impacts with confidence. Work is also required to develop the design in detail and on mitigation measures. Flood risk assessments will be complex and the timescales within which all of the necessary environmental work will need to be completed are ambitious.	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.
Solution funding to gate three	We determine that providing the original gate three allowance combined with 65% of their projected overspend at gate three is appropriate. We do not feel that it would be appropriate to provide solutions with their complete projected overspend at gate three as these projections are not fully mature, and we want to ensure that solutions are still	Solution Funding: Whilst we understand this change, we note that by introducing it RAPID is constraining certain necessary development activities that will have a degree of overall programme impact. This is reflected in our revised DCO submission date (now indicatively forecast between spring 2026 and autumn 2026). We also 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. We would appreciate the opportunity to agree with

	<p>incentivised to keep costs as low as possible.</p>	<p>RAPID the alignment and content of future gates, specifically alongside the primary DCO and delivery stage procurement milestones. This alignment exercise will assist with managing deliverables within approved cost ceilings, timeframes and the PR24 application process.</p> <p>In some instances, especially during the period March'24 to September'24 (the six-month period by which the gate three milestone will be extended), it may be necessary to start gate four activities ahead of the revised September'24 gate three milestone. Per RAPID's draft decision below under efficient spend, we support the proposal for flexibility (i.e. to bring forward relevant items of gate four period expenditure into the gate three period). We anticipate that change will continue to occur as we deliver and further optimise the programme and react to emerging risks/opportunities. We will keep RAPID informed of any potential programme and cost changes.</p> <p>We note for clarity that in our gate two submission budget for gate three we had already accounted for the forecast underspend at gate two rolling forward to support gate three activities. As such, the 35% disallowed component means that we are required to deliver our gate three submission with 65% of the extra allowance requested.</p> <p>Property acquisition and compensation: Regarding property acquisition, we note that whilst RAPID has allowed an element of gate three funding to be used for compensation to land owners for survey access and site investigations, that this does not extend to any land or property acquisition or compensation associated with implementing an early Property Support Scheme. We note that these costs will therefore need to be incorporated into the gate four / PR24 application process.</p> <p>Post gate three funding: As per our gate four estimate provided in our gate two submission, we estimate that a significantly higher gate four allowance (than included for in the original PR19 allowance) will be required to deliver a successful DCO and delivery phase procurement. This is exacerbated by the 35% of the additional requested funding that has not been provided in gate three. We are including for this in Anglian Water's PR24 submission for additional spend that is forecast in AMP7 and will need to be reconciled in AMP8.</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</p>	<p>We question the proposed change in cost sharing rate. 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</p>

	<p>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>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 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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Efficient spend	SLR has therefore underspent its combined gates one and two allowance by £2.09m and may take this underspend forward to gate three, increasing the allowance available to them at gate three to £24.47m.	<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 £5,391,744 for gate two work, which results in a total underspend of £1,887,781 for gates one and two, to be carried over for gate three work.</p> <p>The differences in values above compared to our gate two report efficient spend table 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>
Efficient spend	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.	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 that we intend to start some gate four activities in the six-month period leading up to the revised gate 3 submission.

Actions and Recommendations

RAPID PRIORITY ACTION	DETAIL	RESPONSE
Evaluation of Costs and Benefits	Engage with the WRE regional group to provide regulators with the technical evidence that has informed the inclusion of the solution in the draft WRE regional plan and the selection of the South Lincolnshire Reservoir and Fens Reservoir as low regret and must do. This must include evidence that the timing and sizing of the reservoirs represent best value for the region. The scope and content of the information required should be worked up with RAPID and its partner regulators, and information to the regulators’ satisfaction presented to RAPID and its partner regulators by 30 October 2023.	<p>As above – we are confident that the Lincolnshire Reservoir is a low regret, must do option, having been selected as such in the WRE regional plan as well as the Anglian Water dWRMP (note it has also been selected in national-scale modelling conducted independently from the WRE and Anglian Water teams). As requested in representations on the WRE regional plan and the Anglian Water dWRMP, further information on the regional decision-making process will be provided, along with additional explanation regarding option availability, sizing and costs. This will take the form of a new regional decision-making report.</p> <p>We will include further evidence in the updated regional plan and in the revised draft WRMP. The further evidence will be provided by the end of October 2023. We will also continue liaison regarding the update of national-scale modelling.</p>

Programme and Planning	Engage with the Environment Agency on abstraction licensing as soon as possible. By 01 October 2023, share a consenting strategy (including but not limited to abstraction licensing) with RAPID and its partner regulators for review.	A strategic meeting has since been held with the Environment Agency covering Abstraction Licencing, to develop a strategy on how this will be consented. We will share an updated Consenting Strategy by 1 October 2023 as requested.
Drinking Water Quality	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.	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.

We would like to offer an early response to the below action:

Number	Recommendation	Response
12	More work is needed on the Flood Risk Assessment to properly explore the dynamic flood defence system this project will be reliant upon and how it will support its maintenance. Emergency drawdown options need to be developed in consultation with the Environment Agency and Natural England	<p>The project will develop proposals for the development and maintenance of emergency drawdown and open channel transfer options that interact with the dynamic flood defence system.</p> <p>Flood modelling tasks have commenced for Gate 3 to feed into the formal Flood Risk Assessment. This includes the assessment of an undefended scenario alongside possible future flood defence scenarios from current flood management strategies and credible worst-case defended assumptions for each source of flood risk.</p> <p>A meeting is required with the EA to agree a consistent baseline and future scenarios assumptions for flood defences for the reservoir that can then be applied as a process for all other assets affected by flood defences. The full appraisal of the Emergency Drawdown options is currently underway and we have been consulting with Environment Agency and Natural England teams (in coordination with the NAU).</p>

We would like to offer an early response to the below recommendation:

Number	Recommendation	Response
5	<p>Gate three activities – We recommend including a reference in this list to the Systems work and further exploration (and funding) of the system report recommendations. The companies should still have a key role in this.</p>	<p>In Gate two, Annex D, we presented a system concept which extends beyond the geography and scope of the Lincs SRO. The SRO Project Team, and the wider Anglian Water team, are continuing to champion the system concept in various ways, including:</p> <ul style="list-style-type: none"> a) working with Water Resources East, the South Lincs Water Partnership and Future Fens: Integrated Adaptation to maximise the potential synergies of bringing programmes of work together e.g. Fens 2100+ b) co-funding a role (with the Environment Agency) dedicated to realising benefits of integrated water management. c) The SRO project team is leading the evaluation and development of those elements of the concept that are integral to the SRO, such as open water transfers. d) The majority of potential interventions identified in the system concept will need to be funded and led by third parties and a dedicated post is being recruited to focus on securing third party funding <p>We do not consider it appropriate to take forward all of the recommendations from the systems report by funding them from the SRO RAPID budget, rather we are exploring alternative routes to achieve the same outcome and encouraging representatives from those sectors who will benefit to take a lead in championing specific opportunities.</p>

We acknowledge all other actions and recommendations and will respond to each as part of our gate three submission and monitor progress as part of our monthly checkpoint meetings.

Gate three activities and timing

DRAFT DECISION	DETAIL	RESPONSE
Gate three timing	We have decided that the SLR 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. We will provide early visibility of such activities, that will draw down on gate four funding, within our monthly checkpoint meetings.</p>
Gate four timing	This is proposed alongside a forward programme of gate four in November 2025, proposed planning application submitted in 2025, solution construction ready in 2029, and solution operational between 2039 and 2041..... We agree with the forward programme for gate four.	Reflecting the amendments proposed in the draft decision and the associated representation herein, and having further matured the development schedule since the gate two submission, we are now indicatively proposing revised DCO submission and gate four dates between spring 2026 and autumn 2026 (from October 2025), to be further reviewed and confirmed in our gate three submission in September 2024. This accommodates for the revised gate three delivery programme and budget, and allows for the time required to deliver on the DCO requirements. This also allows us to maximise the broader system opportunities such as the open channel transfers.

Other

ITEM	DETAIL	CLARIFICATION
Name change	The project is referred to as South Lincolnshire Reservoir (SLR).	<p>To reflect the strategic nature of this project and the regional benefits it will bring, we request a name change from South Lincolnshire Reservoir to Lincolnshire Reservoir. This has been adopted in our consultation process and has also been proposed for the WRMP and Regional Planning process.</p> <p>We will engage with the local community on the final name for the reservoir as part of a future consultation.</p>
Efficient spend determination between SROs	The development allowance for Fens Reservoir is significantly less than for Lincolnshire Reservoir, recognising that some of the project core team is already provided for by the Lincolnshire Reservoir, and that protocols and lessons are being established on Lincolnshire Reservoir SRO that the Fens Reservoir SRO will benefit from.	Efficiencies enabled by the Lincolnshire Reservoir will then be generated on the Fens Reservoir, resulting in differing development costs for the two reservoirs.

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.