

Regulators' Alliance for Progressing Infrastructure Development
Ofwat
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Severn Trent Water Ltd
Minworth Offices
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Date: 11 May 2023

Dear RAPID,

Severn Trent S [REDACTED] Resource Option (SRO) – Response to 'Gate 2' Draft Decision

This letter follows the recommendation by RAPID that the STS SRO should progress through the gated process towards 'Gate 3'. It forms Severn Trent Water's 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. We are equally pleased that the quality of the STS SRO submission is recognised as having the top rating of 'Good', with five out of seven progression areas scoring 'Good'.

We note that it is proposed that Severn Trent Water will not receive any delivery incentive penalties and that there is no proposed need for a remediation plan. We do appreciate that STS SRO have been given six priority actions.

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

Section 2: Solution summary

- In section 2.1, we would like to clarify that STS 'discharges' treated final effluent from Netheridge wastewater treatment works at a location near to Deerhurst, rather than 'uses' treated final effluent, as stated in your text. We would be grateful if this can be updated in the Final Decision

Section 3 – Solution assessment summary

- We are pleased to note that we have not been given a Delivery Incentive Penalty.
- We note that RAPID have interpreted our proposed 'Gate 3' submission date as January 2025, to align with other solutions. In our 'Gate 2' submission we proposed a 'Gate 3' date in the first quarter of 2025, with an assumed backstop of March 2025, upon which our project plan was based. This better aligns this project with the STT SRO end of 'Gate 3' dates. We would request that the final decision on 'Gate 3' remains aligned to the end of March 2025 and that 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:
 - **Pilot plant outputs** - will not be complete until late in 2024 at the earliest. The pilot plant will require a precursor of 12 weeks of bench trails, which is necessary to define the processes to be modelled in the pilot plant. This allows more efficient and effective procurement. The pilot plant, once procured, will then need to operate for 12 months. This period will permit assessment over the full range of seasonal variation which will impact upon the processes under study. This data will then input into the final engineering design.
 - **Engineering Outline Design** - contractual completion date has been aligned to the proposed March 2025 G3 date. Whilst significant progress will have been made, the design will not be completed and assured by RAPID's proposed G3 date.
 - **DPC** [REDACTED] to reassessment of technical discredetness, utilising revised guidelines published [REDACTED]. As per the 'Gate 3' guidance, we must engage with RAPID on market engagement [REDACTED] 'Gate 3' submission with stage two engagement expected 6-9 months prior to [REDACTED] [REDACTED]. Ofwat's guidance for DPC requires us to have completed Stage 2 activities ahead of 'Gate 3'. The proposal to move to an earlier 'Gate 3' submission date reduces our ability to meet these deliverables. In addition, the added complexity of source and transfer SROs, with water companies and third-party involvement, means we have additional activities to achieve prior to market engagement which extends the programme.
 - **'Gate 4'** – The STS SRO team proposed 'Gate 4' as being early 2028, owing to the DCO timeline as this SRO is "Associated Development" as part of the STT DCO. We have assumed 'Gate 4' would be upon award of the DCO, rather than upon submission. RAPID suggest 'Gate 4' should now be October 2026, as per the STT SRO.
 - **'Gate 5'** - In the PR19 final determination appendix, there is mention of a phase five and 'Gate 5'. We note this is not represented in any of the current funding, for example table three currently 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. These discussions should explicitly link to the stages of both the DCO and DPC processes and clarify respective timelines and expectations, versus the RAPID stage gates. We would request this clarification as a matter of urgency, due to the need to align with ongoing PR24 inputs and its demanding timeline.

Section 3.2 – Solution funding to standard 'Gate 3'

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 STS team and RAPID that the additional budget request made in our 'Gate 2' submission was an accurate representation of the cost of taking the STS 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.

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 [REDACTED] finding efficiency while maintaining customer protection.

Section 3.3 – Efficiency Expenditure

- The STS Gate 2 financial reconciliation is as follows (presented in 2017/18 prices):

G2 budget	795,000.00
G1 underspend	262,000.00
Revised G2 budget	1,057,000.00
‘Gate 2’ spend	673,015.00
‘Gate 2’ underspend	383,985.00
G3 original budget	1,860,000.00
Additional 65%	2,930,000.00
G2 underspend	383,985.00
Revised G3 budget	5,173,985.00

- 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.

General Comments for Consideration:

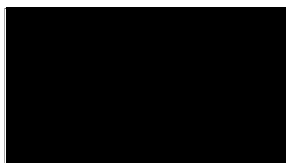
- Regarding priority actions two and three, we would request RAPID confirmation that we are required to undertake ‘Best Value Analysis’ using the WRW analysis tool in order to demonstrate that

Netheridge represents the best means of conveying water to the Thames; STS is a raw water input to STT and therefore we would expect Best Value Analysis to be completed at WRSE level. In terms of STS SRO in isolation, we feel that 'Best Value Analysis' would not be appropriate at this stage, as we have only one viable solution.

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



Date 11 May 2023