



FAO RAPID

by e-mail only

11th May 2023

THE THAMES TO AFFINITY TRANSFER (T2AT) STRATEGIC RESOURCE OPTION (SRO) – RESPONSE TO GATE TWO DRAFT DECISION

This letter follows the recommendation by RAPID in its draft decision published on 30 March 2023 that the Thames to Affinity Transfer (T2AT) Strategic Resource Option (SRO) solution should progress through the gated process towards Gate 3. It forms Affinity Water and Thames Water's joint representations on the draft decision.

We are pleased to see that the draft decision proposes further funding be allowed for the solution to progress to Gate 3; confirms that all Gate 2 expenditure has been deemed efficient and allowed; and recognises the quality of the T2AT submission as having the top rating of 'Good'. We also note it is proposed that neither Affinity Water nor Thames Water will receive any delivery incentive penalty and that there is no requirement for a remediation action plan.

This response makes a number of representations in relation to the draft decision for RAPID's consideration; in particular on costs, Gate 3 funding, timing of Gates 3 and 4, partner arrangements and actions / recommendations.

Costs

Section 3.3 of the draft decision refers to the amount of expenditure published in our Gate 2 submission. At the time of submission, this included an estimate for the final few months of Gate 2 activities as costs were reconciled and invoices received. Having finalised the assessment of Gate 2 costs, the actual costs were less than the estimated figure. As a result, the total Gate 2 expenditure has been reduced from the £1.82M estimate at Gate 2 to an actual final cost of £1.607M.

By taking this amended underspend forward to Gate 3, as endorsed in the draft decision, this should enable an adjustment to our Gate 3 allowance to £6.78M.

Gate 3 funding

We are pleased to note the assessment in Table 3 of the draft decision which states that the cost allowance for Gate 3 should be increased.



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 AMP8 will be separately determined through the PR24 process, and reflect any changes to project schedules arising from the WRMP process. We note that the 65% will provide a larger proportion for most Gate 3 delivery investment, when carry-over funding from Gate 2 is added.

In addition, we note the cost sharing rate is changing, with the solution owners being responsible for 80% of any overspend at Gate 3. 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 there is a possibility that by constraining funding at this point, additional risk could be imported into the subsequent phases of the project, and ultimately increase costs 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 endorse the statement in the draft decision that *“across all solutions gate three costs have risen due to factors such as increases in solution design costs, changes in scope and additional funding required to develop the environmental impact assessment (EIA), water quality assessments, ground investigations and other environmental field studies and assessments”*.

Overall, we agree with your assessment that costs for the T2AT project are likely to exceed the PR19 Development Allowance and an uplift to Gate 3 is likely to be required. We would expect such an uplift to be part of the discussions at the PR24 determination, but in the interim accept your draft assessment that the base funding is increased to £6.52M, plus the £0.26M underspend from Gates 1 and 2.

Timing of Gates 3 and 4

In our Gate 2 submission we proposed that Gate 3 would be scheduled for December 2029.

With regard to agreeing the timing of Gate 3 Checkpoint 1, we welcome your invitation to *“bring this discussion to a regular checkpoint meeting at an opportune time and formalise any requests relating to scheme progression with associated reasoning through a letter to RAPID.”* We will engage with RAPID at a suitable time before our proposed timing for Checkpoint 1 (currently June 2024) to agree any such details.



Partnering arrangements

Our Gate 2 submission set out our proposed approach to future partnering arrangements. We proposed that these should continue to reflect PR19 assumptions, including joint funding from both Thames Water and Affinity Water, for the remainder of AMP 7.

Our submission also set out that, from AMP 8 onwards, Thames Water would exit from the management and funding of T2AT, which would be developed by Affinity Water. However, we note your requirement for changes in partner arrangements to occur at Gates and would like to agree with you how that might work in practice, and how to reflect those changes in our respective PR24 submissions. An interim gate at the end of AMP7 may be something to be considered. Noting that, in all circumstances Thames Water would continue to maintain an interest in the scheme, as supplier of water and operator of the Lower Thames Reservoirs.

Actions and Recommendations

We note that RAPID has not identified any priority actions for the T2AT SRO.

We have no concerns with the actions and recommendations in the draft decision and we will work to resolve each item for Gate 3.

However, we would welcome clarification on recommendation 7, which states a requirement to *“Include Chalk Streams First in the WRMP process, because this has not been assessed as part of the gate two process.”* It would assist if RAPID could clarify the request, i.e. what the ultimate outcome is anticipated to be and what activity is envisaged as being required to fulfill it.

As set out in Affinity Water’s draft WRMP, the Chalk Streams First (CSF) concept is being delivered through three of Affinity Water’s initiatives, namely:

- 1) The ‘Connect 2050’ network elements that deliver in AMPs 8 and 9. These elements allow Affinity Water to fully utilise any additional water that is made available in the Colne and Lee through the adoption of the Cockfosters and Perivale potable water connections to Thames. This allows up to 15ML/d of additional transfer in that early period of the draft WRMP. In this way, the CSF concept has already been partially included within this aspect of Affinity Water’s draft WRMP.



2) The licence relocation proposals (14MI/d) that Affinity Water has identified in AMP8.

3) The construction of the Thames to Affinity transfer, which will enhance our ability to make use of increased flows in the Thames.

All of the above initiatives make use of the CSF concept in different ways within the options considered by Affinity Water's draft WRMP and incorporate existing water resource and supply systems to increase efficiency and value for money to customers.

One of the concerns raised by stakeholders in response to our draft WRMP submission was that T2AT was too far into the future to make early use of the CSF concept. In Affinity Water's Statement of Response to the draft WRMP we will clarify the strategy and how we will effectively be accessing increased flows in the Thames and Lee which would result from the CSF concept, both in the short and medium to long term. For Gate 3 we propose to outline the WRMP24 strategy to incorporate the CSF concept and clarify how the T2AT fits into this, along with the Deployable Output benefits that might be expected from the T2AT stage of the strategy.

We will continue to provide regular updates on our responses to the proposed actions and recommendations, and on our other Gate 3 technical workstreams through the next gated process, so that RAPID can have confidence that we are on track to a resolution.

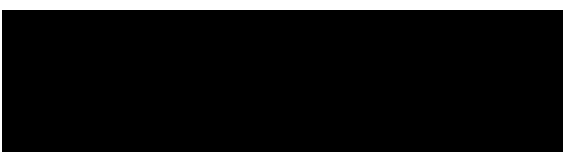
Summary

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 response to our Gate 2 submission.

Regards,



Steve Plumb (Director of Asset Strategy, Affinity Water)



Nevil Muncaster (Strategic Resources Director, Thames Water)