Thames Water to Affinity Water Transfer SRO

27 May 2022

Attention: [redacted]

Managing Director
Regulators' Alliance for Progressing Infrastructure Development

Ofwat
City Centre Tower
7 Hill Street
Birmingham
B5 4UA

Thames Water to Affinity Water Transfer (T2AT) SRO
Request for additional funding for Gate 2 and beyond

Dear [redacted]

Further to the conversations that we have held with your colleagues [redacted], we are pleased to present our proposals covering development of the T2AT:

i) The need for the T2AT to be considered as two schemes,
ii) The extension to the funding allowances to cover this need for further work, for the periods between Gate 1 and Gate 2 and for future Gates, if required.

This extension of funding, to increase the Development Allowance for this specific SRO, beyond that given in the Final Determination (PR19 final determinations: Strategic regional water resource solutions appendix - Ofwat), is required as the capital value of the Thames Water to Affinity Water Transfer has now increased to a level well beyond the original estimates at PR19. This is due to the inclusion of an additional solution within this SRO.

When originally conceptualised at WRMP19 and PR19, the Thames Water to Affinity Water Transfer consisted of a raw water transfer from the River Thames to Affinity Water, augmented by an additional raw water storage reservoir in the upper Thames catchment. As this option was developed for Gate 1, a number of alternative water sources were also considered, including the Severn to Thames Transfer SRO and various options from the London Reuse SRO. This robust reassessment of alternatives resulted in 8 feasible options being proposed at Gate 1 and offered to the WRSE regional resilience modelling and into the WRMP24 feasible options list for Affinity Water.

As noted at Gate 1, these alternatives are not all mutually exclusive.

The emerging draft regional plan published by WRSE in January 2022 included two of the Thames Water to Affinity Water Transfer options; one linked to Beckton Reuse SRO and required by 2034/35 and one linked to the SESRO SRO and required by 2039/40. Therefore, both leading options need to be developed in detail for Gate 2, to ensure that either or both could be progressed to be 'construction ready' in AMP8, as required by RAPID. This requirement drives additional work at Gate 2, especially regarding engineering feasibility, environmental assessment, modelling and water quality analysis. The two solutions being developed are very different, and not alternative options of the same scheme, and are located in different river catchments and use totally different sources of water to supply the transfer.

The combined capex of these two solutions is now much greater than the original transfer scheme that was used to determine the funding requirements at PR19. Using the same calculation approach as applied by Ofwat at PR19 (i.e. 6.4% capex value, indexed against an industry average value and adjusted for Affinity Water PR19 efficiency challenge of 6.1%) a revised Development Allowance of £20.04m (2017/18 prices) is derived compared to the PR19 FD Allowance of £10.9m. This is based upon the latest capex data supplied to WRSE (February 2022 data upload) for the two solutions selected by the WRSE emerging draft plan. A detailed breakdown of the calculations is provided in Appendix A.

This adjusted total Development Allowance may be split across the remaining Gates, in accordance with the original funding split, to provide the new Allowances shown below. The Gate 1 allowance is excluded as that Gate was passed in July 2021, within the original Allowance.

	Allowance (£M)
Gate 1	N/A
Gate 2	**£ 3.01**
Gate 3	**£ 7.01**
Gate 4	**£ 8.02**

On this basis, we request the extension of the Gate 2 base allowance from £1.635m to £3.01m with the additional amounts to be provided in the PR24 reconciliation using any underspend of our overall SRO funding. There is also an approved underspend at Gate 1 of £235k which has been carried forward to Gate 2, providing a total Gate 2 allowance of £3.24m (2017/18 prices).

We note that both schemes will only need to be progressed beyond Gate 3 if the WRSE regional model continues to select Thames Effluent Re-Use with the associated eastern transfer above the Grand Union Canal (GUC) Transfer, and that position is confirmed with regulators following consultation on the dWRMP. It will also only be required if the Anglian to Affinity Transfer scheme continues to be excluded by the regional reconciliation process (in which case the A2AT would stop at Gate 2). The increases indicated for Gates 3 above will only be required in the absence of A2AT, and the increase in Gate 4 only required in the absence of both A2AT and GUC.

We would be pleased to discuss this matter with you further to confirm the two subjects in this letter, and look forward to hearing from you shortly.

Yours sincerely

[redacted]
Director of Regulation and Strategy, Affinity Water

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Director of Strategic Resource Options, Thames Water

APPENDIX A: Detailed breakdown of revised Development Allowance

(all costs in 2017/18 prices)

Table 1 : Calculation of development allowance by option	PR19		SRO, Wraysbury Solution	SRO, Beckton Solution	
Option Name	**Thames to Affinity Transfer**		**Thames to Affinity Transfer**	**Thames to Affinity Transfer**	
Option Type	Bulk Raw Water Transfer		Bulk Raw Water Transfer	Bulk Raw Water Transfer	
Benefit Ml/d	100		100	50	
Construction costs specified £m	182		177	157	
Unit Construction Capex	1.8		1.8	3.1	
WRMP Industry Average Option-Type Unit Cost	6.8		6.8	6.8	
Industry average construction cost estimate	680.0		680.0	340.0	
Investment proposed in 2020-25 (£m)	0		0	0	
% development allowance	6.4%		6.4%	6.4%	
Proposed by	Affinity Water		Affinity Water	Affinity Water	
Development allowance overall £m (proposing company efficiency applied)	10.9		**10.62**	**9.42**	
	10.9M in FD				
			TOTAL REVISED FUNDING	**20.04**	
			ADDITIONAL FUNDING	**9.1**	
Gate 1	1.09	10%	N/A	N/A	
Gate 2	1.64	15%	1.59	1.41	**3.01**
Gate 3	3.82	35%	3.72	3.30	**7.01**
Gate 4	4.36	40%	4.25	3.77	**8.02**