
Gate two query process

Strategic solution(s)	London Water Recycling SRO
Query number	LOR002
Date sent to company	30/11/2022
Response due by	02/12/2022

Query

1. Value for money assessment

- In the gate two guidance, we asked companies to assess value for money of delivery via DPC using Ofwat's prescribed standard assumptions. Please explain how you have used the prescribed assumptions in the assessment, and where you have deviated from the assumptions provide rationale for the different approach and any underpinning analysis to support that approach, for example, current market rates etc.

2. Procurement route:

- In the gate two guidance we ask solutions to provide a high-level consideration of the different procurement routes available under the Utility Contract Regulations that may be appropriate for the project including whether separating the procurement of the main work contracts from the procurement of finance (as seen on the Thames Tideway Tunnel project) may be appropriate and offer benefits. Please identify where in the submission you have provided this information relating to the three options proposed to be taken forward to Gate 3. Where this information is not provided in the submission, please explain how you are addressing these points by response to this query.
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Solution owner response

This response has been written in line with the requirements of the RAPID Gate 2 Guidance and to comply with the regulatory process pursuant to Thames Water's statutory duties. The information presented relates to material or data which is still in the course of completion. Should the solution presented in the Gate 2 documents be taken forward, Thames Water will be subject to the statutory duties pursuant to the necessary consenting process, including environmental assessment and consultation as required. This response should be read with those duties in mind.

Background

The London Water Recycling SRO comprises four potential schemes of which three are recommended to be progressed beyond Gate 2:

Scheme	dWRMP status	Gate 2 Procurement assessment
Teddington Direct River Abstraction ('DRA')	Selected to be in service from 2031 .	Does not meet discreteness criteria; should follow a conventional procurement track
Beckton water recycling scheme	Not selected in the WRSE regional plan; retained in the dWRMP as a potential alternative, in case selected schemes (including Teddington) cannot be progressed	Potentially suitable for DPC, subject to confirming vfm at future Control Points
Mogden water recycling scheme	As above	As above

(Mogden South Sewer scheme was recommended to be removed from the SRO process at Gate 2)

1. Value for money assessment

Initial vfm modelling (looking at conventional, DPC and SIPR procurement routes) was undertaken in respect of the Beckton scheme, which at the time was considered most likely to be taken forward (before the results of the best value regional water resource modelling emerged relatively late in the Gate 2 process) and to act as a proxy to other recycling schemes of similar nature and scale.

This modelling used standard Ofwat assumptions – set out in Table 7 (page 24) of Annex E (Procurement Strategy Report). The conclusions from the Beckton vfm modelling informed our high level vfm assessment of the Mogden scheme, and our conclusion (page 2) that:

‘DPC offers potential to deliver value for money for customers. We therefore recommend that DPC procurement should be adopted as the central procurement assumption should these schemes [i.e. Beckton or Mogden] be progressed, subject to confirming value for money at future control points.’

In light of our conclusions in relation to the discreteness of Teddington DRA (set out in detail in section 4.1), it was considered that adapting the Beckton vfm modelling for the Teddington scheme would add little value:

“We have not presented quantitative modelling outputs for the Teddington scheme here, as we have concluded that this scheme is not ‘discrete’ and so not suitable for DPC. However, we have used the quantitative modelling undertaken for the Beckton scheme, presented in Section 4.2, to inform a qualitative assessment.” (4.1.3, page 15).

2. Procurement route:

Teddington DRA

As set out in section 6.1 (Annex E), under a conventional procurement approach, Teddington would follow ‘Runway 3’ under Thames Water’s capital procurement routes (compliant with UCR regulations) with detailed packaging and tendering strategy, contract form and risk allocation to be determined based on the project’s characteristics and informed by market testing and IPA guidance.

Further consideration of procurement routes available under UCR will form part of the detailed Procurement Strategy to be developed as part of Gate 3, once there is agreement on the conventional approach recommended at Gate 2. At this point consideration will be given to whether open, restricted, or negotiated procedures would be suitable, including whether competitive dialogues and innovation partnerships may bring any benefit to the project. Additional considerations during development of the procurement strategy will be given for the most suitable procurement methods i.e. traditional design-bid-build, design & build or a managed contracts option. These will be dependent on project characteristics, design maturity and procurement objectives identified during the development stages.

Finance would be provided through capex allowances determined as part of the Price Review process. Separation of the procurement of finance from procurement of the main works contracts is therefore considered not applicable.

Beckton and Mogden water recycling schemes

These schemes were assessed as potentially suitable for DPC procurement as set out in Annex E, with the Late DPC variant identified as most suitable (page 17 and page 21, section 4.2.3).

Table 7.2 in the main Gate 2 submission sets out that no further work on procurement strategy is envisaged for these schemes, ahead of the mid-Gate 3 checkpoint. Should either of these schemes be taken forward, the detailed packaging and tendering strategy will be developed as part of the Procurement Plan to be developed for Gate 3, noting that regulations are expected to change over the coming years.

Beckton was not considered eligible for SIPR under current regulations. However, initial modelling indicating potential benefits under SIPR from a lower cost of capital (which could potentially be enabled by a separate procurement of finance from main works, which was delivered for Thames Tideway Tunnel under SIPR). Should the Beckton scheme be progressed and SIPR eligibility criteria be broadened (as recommended by Ofwat in the Competition Stocktake) then a SIPR procurement model will be considered further, informed by appropriate market engagement.

If you require any further information on the above, please contact the strategic solution contact below.

Date of response to RAPID	30/12/2022
Strategic solution contact / responsible person	