
Gate two query process

Strategic solution(s)	London Water Recycling SRO
Query number	LOR005
Date sent to company	14/12/2022
Response due by	16/12/2022

Query

Please outline how indirect costs have been accounted for in your calculations of CAPEX.

Have you considered annual operational maintenance costs by considering common assumptions used across the water industry for such infrastructure? E.g. with civil maintenance being calculated as 0.30% of the infra and non-infra civil costs, whilst mechanical and electrical (M&E) maintenance being calculated as 1.5% of infra and non-infra M&E costs. If not could you explain your methodology, including what assumptions you have used and how these were applied

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.

Indirect CAPEX costs

Indirect costs typically include both contractor indirect costs such as preliminaries (supervision, site accommodation, welfare, common plant, security, commercial management, safety management, etc.), overheads &

profit, temporary works, standard contractor risks and client indirect costs such as development, design, surveys, procurement, overheads, consultation, planning applications, etc.

At this early stage of the project indirect costs are typically estimated as a percentage of the direct construction work costs. The percentages utilised are based on historic project cost data and deemed to allow for all the items identified above. The percentage allowances are standard across all Thames Water WRMP schemes (SRO and non-SRO). There is no detailed build-up available at this stage. As the project proceeds through the Gateways and sufficient development work and planning has been carried out it will be possible for the project to prepare a more detailed bottom-up indirect cost estimate.

Annual operational maintenance costs

We have included operational maintenance costs for the schemes on the following basis;

- M&E maintenance - Based on 1.5% of the M&E capital costs
- Civil maintenance - Based on 0.25% of the civil capital costs

These allowances for operational maintenance are consistent with Thames Water's Engineering Estimating System (EES) and Asset Planning System (APS) methodology and consistent for all Thames Water WRMP24 costings (non-SRO and SRO).

The use of high-level percentages for operational maintenance aligns with the RAPID and OFWAT guidance document titled "*Approaches for estimating and benchmarking costs for large scale water infrastructure projects*" published in August 2022

If you require any further information please contact the strategic solution contact below

Date of response to RAPID	16/12/12
Strategic solution contact / responsible person	

