

Gate two query process

Strategic solution(s)	Thames to Affinity Transfer
Query number	TAT007
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Query

On your submission of Table 5a total NPC is reported as 405.24 for the LTR 100Ml/d. However, in your submission of Technical Supporting Document A2a, NPV for the same option is reported as 462. Could you please explain this discrepancy.

Solution owner response

As part of our response to this query, we think it's worth clarifying the difference between the NPV and NPC terms:

- We use Net Present Value (NPV) as a generic term for aggregating discounted values of any type (cost, volume, environmental metric)
- Net Present Cost (NPC) is specifically a discounted cost.

Either is considered a valid way to describe the overall 'cost' of an option for comparative purposes.

The Total NPV values provided in Technical Supporting Document A2a (Table 6-1) of £462M (2020/21 prices) are derived as the simple summation of the capex NPV and the opex NPV values. This data takes no account of financing costs, but is based upon a discounted NPV of both capex (including optimism bias and costed risk) and opex, analysed over an 80 year time horizon.


The NPC value shown in Table 5a (£405.24) is derived using the NPV of the financing costs, rather than the capex costs, in combination with operating

costs. This NPC value is the sum of the annual NPC for each year, with each year's NPC calculated as opex + financing cost, then discounted. In this calculation, financing cost is calculated as mid year RCV multiplied by WACC and then added to depreciation incurred on active assets. *Note, this calculation formulae has not been changed from the template provided to the Water Companies by the EA, for use in WRMP24, on 21st February 2022.*

The use of NPC is consistent with the WRMP24 data tables, which is financed capex plus opex, which is the reason why that value is used in Table 5a. We believe that this is the approach that has been presented in the documentation for a number of other SROs, for consistency with the WRMP options.

However, for the Gate 2 document submission on T2AT, we chose to report the total NPV calculation (i.e. NPV capex + NPV opex, taking no account of financing cost). This approach was adopted in order to use the same methodology as that applied at Gate 1. In light of the upward cost drivers associated with land acquisition, as highlighted and discussed in the Gate 2 submission, we felt that this approach allowed us to show direct comparison to Gate 1 and hence show the scale of cost change on a more 'like for like' basis.

We apologise for the confusion, but the choice of different presentational approaches was for valid reasons. In summary, we believe that the data within the Gate 2 submission documents (i.e. total NPV) and that that within the Table 5a / 5b submission spreadsheets (i.e. total NPC using financing costs) are both correct.

Date of response to RAPID	19-12-22
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