

Gate two query process

Strategic solution(s)	Severn Thames Transfer
Query number	STT002
Date sent to company	29/11/2022
Response due by	01/12/2022

Query

Procurement:

Interconnector element:

1. Please confirm whether the scope of the interconnector project that you have assessed as suitable for delivery via DPC is the same as that shown in figure 3-3 on page 8 of the main submission document. If it is not, please provide further detail of the scope identified as suitable for delivery for DPC, and set out the rationale for any parts excluded.

Vyrnwy bypass

2. On page 39 of the main document, you have concluded that based on current cost of this element of the STT system is unlikely to offer enhanced value for money. You note this is particularly the case if the PR24 Methodology limits of £200m totex were applied. However on page 43, table 8-1 reports the capex cost as £198.5m with fixed annual opex costs of £0.21m, which suggests the £200m threshold would be met. Please provide supporting analysis to demonstrate why you have concluded the Vyrnwy Bypass may not be suitable for DPC, including any value you for money analysis you have carried out.
3. Should the Vyrnwy bypass not be suitable for delivery by DPC, please provide further on the preferred procurement route for the project, including underlying rationale.

Solution owner response

Interconnector element:

1. We confirm the scope of the interconnector element assessed is the same as that described in section 3 of the Gate 2 report, as illustrated in Figure 3-3.

Vyrnwy bypass:

2. Considering the DPC eligibility criteria of size, discreetness and value for money for customers we would respond as below.

Size (approximately £200m or more of whole life Totex)

We concur with RAPID's observations that the preferred Vyrnwy Bypass option, as currently estimated, is at the DPC threshold of £200m (Totex). The project therefore passes this eligibility criteria.

(For context of the Gate 2 report and Annex E narrative, various smaller lengths and capacities of bypass pipeline option were assessed during the Gate 2 development with the larger pipeline option selected towards the end of the Gate 2 process. The narrative in some sections of the report may reflect the design development and optionality associated with these smaller sizes)

Discreetness of the project

The project is discreet in nature and could be developed and then connected with the existing system and other water assets. Therefore, the project would pass this eligibility test.

Value for Money for customers

The bypass pipeline may meet the eligibility criteria but more work will be required at the appropriate time to validate this.

The bypass is both a relatively small asset and simple in nature (gravity pipeline). Given these characteristics there is likely to be limited opportunity for additional design, construction and operational innovation over and above what may be achieved through


conventional water company procurement and operational integration. We will review the Value for Money further during Gate 3. Market Engagement, at the right time, will be needed to inform a final decision.

Please also refer to section 5 on Annex E, procurement, ownership and commercial operation report which expands on some of these points.

Conclusion

In principle based on the above three eligibility tests the Vyrnwy Bypass may be suitable for DPC. However, it is proposed that Vyrnwy Bypass procurement model remains under review. At the appropriate time, in future stages of the project, further market testing and a value for money assessment would be required to determine whether DPC is an appropriate method of delivery.

3. In the event the Bypass is considered not suitable for DPC, the alternative method of procurement and delivery would be through a 'business as usual' company approach, whereby the water company taking the project forward would design, build, operate and maintain, the asset as part of their infrastructure delivery conventional procurement process. This is likely to be through a Design & Build construction contract for the detailed design and construction of the asset, with operation by the company.

Date of response to RAPID	1 December 2022
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