

## Gate two query process

Strategic solution(s)	Severn Thames Transfer
Query number	STT004
Date sent to company	09/12/2022
Response due by	13/12/2022

### Query

**Procurement:**

1. Please provide an assessment of the top risks & issues associated with the preferred delivery route for example, risks around capacity in the market, procurement timelines, SIPR etc.

### Solution owner response

The procurement delivery risks associated with the STT Scheme depend on the delivery route chosen, as well some common risks, and are presented below. We anticipate with further work these risks can be mitigated, but have provided a indication of risk level at this stage prior to further development of the commercial approach through Gate 3. These have been developed working with the STT commercial procurement lead consultant, focusing principally on the interconnector.

*(Please note that our Gate 2 submission assumes delivery of the Interconnector via DPC, but recommends that the potential for procurement under SIPR be reviewed in the event that legislation around the eligibility for SIPR changes.)*

## Common Risks – under DPC and SIPR

1. Construction Market Appetite – The scheme is relatively large (>£1bn) and so the depth of the market for credible construction counterparties may be focused on larger contractors. Depending on the timing of the construction programme it may coincide with a substantial increase in construction demand in the infrastructure sector as a whole and so there is a risk of not attracting sufficient market interest. (low risk)
2. Planning and delivery risks– The planning processes may be subject to delay or challenge based on environmental and other concerns. If the planning process is run concurrently with the tendering process (as our Gate 2 proposals assume), there is a risk that the planning process may also introduce additional, more onerous planning requirements than is contemplated in the tender documents, adding risk and complexity to the process. (medium risk)
3. Novelty - There is not a lot of precedent for the development of large cross boundary infrastructure. This ‘novelty’ may impact on investor or construction party appetite – Discussed further in Specific Delivery Model considerations (low risk)

## DPC Considerations


1. While DPC progress is substantial on other projects they have yet to complete and conclusively demonstrate investable solutions for the delivery of water assets, at least in the eyes of investors (medium risk)
2. There is a risk that multiple consumers of the final asset’s capacity complicates the commercial model and reduces perception of financability (medium risk)
3. The ability of the investors to attract effective construction counterparties (low risk– links to common risk above)
4. Risks associated to long construction programmes may require specific mitigation eg through the use of interest rate hedging or other compensation, and project scale mitigations as used in HARP (low risk)

## SIPR Considerations

1. SIPR as currently couched in legislation does not permit designation only on the basis of value for money, and so may not apply to STT. There is a risk of keeping an alternative SIPR based solution on the table, in parallel with DPC, that risks confusing the market and abortive costs (low risk)
2. Scale of the project – The establishment of a c£1bn Infrastructure Provider relies on the attraction of utility focused investors. The scale of the project may be on the small side for such investors to be interested.

This would be subject to further market engagement and testing.  
(medium risk)

3. The role of the licence in the IP and the allocation of licensed revenues to beneficiary water companies, will be more complex than for Thames Tideway Tunnel and may require some additional development of regulatory mechanisms to meet investor requirements on a high quality revenue model. (low risk)

<b>Date of response to RAPID</b>	13/12/22
<b>Strategic solution contact / responsible person</b>	 askSTT@jacobs.com