

Gate three query process

Strategic solution(s)	SESRO
Query number	SER009
Date sent to company	22/09/2025
Response due by	24/09/2025

Query

This query relates to the A3 Cost Report.

1. In Section 5, you have outlined your methodology for calculating whole life costs, noting this has been spread over an 80 year period and includes development costs to operational costs as expected. However no figure has been provided. Can you please provide this figure as well as a breakdown of the calculation and each components associated cost? This should include the total capital expenditure, operating expenditure and replacement expenditure.
2. Within the context of the assessments made for Price Review 2024 (PR24), including the major projects incentives framework and commercial delivery allowance, the whole life totex provided to us for SESRO was calculated over a 250 year period. As published in the final determinations, this equated to £7.5 billion.

In order for us to understand how the costs of the project have evolved and make a direct comparison, please could you provide us a whole life totex figure with the same asset life assumptions used for PR24? Alongside this please provide a breakdown of the calculation and each component's associated cost including capital expenditure, operating expenditure and replacement expenditure as well confirming assumptions on asset life and any other relevant assumptions.

Solution owner response

This response covers part 2 of the query only as we have already issued our response to part 1.

Query Part 2: PR24 Whole Life Totex

Within the context of the assessments made for Price Review 2024 (PR24), including the major projects incentives framework and commercial delivery allowance, the whole life totex provided to us for SESRO was calculated over a 250 year period. As published in the final determinations, this equated to £7.5 billion.

In order for us to understand how the costs of the project have evolved and make a direct comparison, please could you provide us a whole life totex figure with the same asset life assumptions used for PR24? Alongside this please provide a breakdown of the calculation and each component's associated cost including capital expenditure, operating expenditure and replacement expenditure as well confirming assumptions on asset life and any other relevant assumptions.

Response Part 2:

To make a direct comparison to the whole life totex submitted in PR24 SUP12 Table as requested, the basis of the Gate 3 calculation needs to change to meet Ofwat PR24 requirements. These requirements are different to Ofwat WRMP24 requirements prescribed in the Gate 3 guidance with the main changes summarised below:

- Operational period: is based on the most significant asset with the longest useful life which for SESRO is the reservoir embankments at 250 years.
- Utilisation: is changed to 38% of the maximum deployable output.

The following table presents a summary of whole life totex components in line with Ofwat PR24 whole life totex requirements updated for RAPID Gate 3.

Item	Period	Cost (£m FY22/23 prices)
Capex	2025-26 to 2039-40	6,604.03
Opex	2040-41 to 2289-90	1,259.50
Replacement Capex	2040-41 to 2289-90	6,791.22
Total		14,654.75

The subsequent tables provide further breakdown of how each key component has been calculated.

Capex

The Capex is unchanged from that presented at RAPID Gate 3 and there is no difference between Ofwat WRMP24 and Ofwat PR24 requirements.

Item	Cost for period 2025-26 to 2039-40 (£m 22/23 prices)
Capex	4,293.84
Capex: Costed Risk	1,212.03
Capex: Optimism Bias	1,098.17
Total (£m 22/23 prices)	6,604.04

Opex

The Variable Opex rate is changed from that presented at RAPID Gate 3 to reflect 38% average annual utilisation.

Item	Days	Max DO (MI/d)	Average DO (38%) (MI/d)	£/MI	Total £/year	Total £m/year
Variable Opex	365	271	102.98	22.9	860,007	0.86

The Fixed and Variable Opex is changed to reflect the 250-year operational period.

Item	Qty	Unit	Rate	Total for 250 years (£m FY22/23 prices)
Fixed Opex	250	Years	4.18	1,044.50
Variable Opex	250	Years	0.86	215.00
Total				1,259.50

Replacement Capex

The Replacement Capex is changed to reflect the 250-year operational period.

It is assumed that there will be no renewal costs incurred in the final year of operation, this assumption is consistent with the whole life totex calculations provided at PR24

Table 5b Cost Metric (Asset Description)	Asset Life (in years)	Qty (replacements in 65-year period)	Rate (cost per replacement based on)	Total Replacement Capex (£m 22/23 prices)	Comment
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			initial Capex estimate & OB)	(for 65-year period)	
Fencing (10)	10	24	8.26	198.19	
Building Services (10)	10	24	4.52	108.42	
ICA (Instrumentation, Control & Automation) (10)	10	24	25.68	616.22	
Plant and Machinery (15)	15	16	0.37	5.84	
M&E (Mechanical and Electrical) Works on Pumping Stations and Treatment Works (20)	20	12	100.03	1200.31	
Power Supply (25)	25	9	22.42	201.81	
Steel/Timber/GRP Structures (30)	30	8	38.54	308.34	
Landscaping/Environmental Works (30)	30	8	140.81	1126.49	
Bridges (40)	40	6	9.12	54.74	
Brick/Concrete Office Structures (50)	50	4	60.63	242.51	
Treatment and Pumping Station Civils (incl. Intakes) (60)	60	4	254.94	1019.76	
Roads and Car Parks (60)	60	4	220.49	881.95	
Headworks/Valves (60)	60	4	11.52	46.09	
Reinforced Concrete Tanks / Service Reservoirs (80)	80	3	0.66	1.99	
Pipelines (100)	100	2	181.75	363.50	
Tunnels (100)	100	2	207.53	415.05	
Embankment Works (250)	250	0	1,682.80	0.00	Asset not replaced in 250 years
Non Depreciating Assets	n/a	n/a	3,633.97	n/a	
Total			6,604.04	6,791.22	

Date of response to RAPID	29/09/2025
Strategic solution contact / responsible person	