

## Gate two query process

Strategic solution(s)	South East Strategic Reservoir Option (SESRO)
Query number	SER001
Date sent to company	22/11/2022
Response due by	24/11/2022

### Query

Efficiency of expenditure:

- Can you provide more detail regarding these activities: Programme Manager, Programme Director and Exec, and PMO support and can these activities be broken down any further
- Can you provide more information regarding the category of Feasibility Assessment and Concept Design
- Can the category of Option benefits development and appraisal be broken down into activities
- Can you provide more detail and information regarding the category of Environmental Assessment as a whole but in particular Third party costs – EA (can this activity be broken down further)
- Can we have more information regarding Procurement strategy
- Can the category of Legal be broken down further into activities

### 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 and Affinity 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's and Affinity Water's 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.*

Extensive information on the cost breakdown of all categories of work where the cost was in excess of £500k, aligned with the RAPID guidance for Gate 2<sup>1</sup>, was provided in the Gate 2 submission, detailed in Supporting Document F-2, Efficiency of Spend. This response seeks to further explain the breakdown of certain costs as requested by RAPID, noting that this is at a level of detail beyond the Gate 2 Guidance.

As discussed in the Gate 2 report, all costs submitted are based on actual costs to the end of September 2022 and estimated forecast costs to the Gate 2 submission in November 2022. The final account for Gate 2 will be confirmed to RAPID, as requested, as representation on draft Gate 2 Assessment. As a result the reported forecast costs at Gate 2 do include for a residual contingency/risk allowance as part of the forecast, which will be reconciled for final Gate 2 account.

## **Programme Manager, Programme Director and Exec, and PMO support**

### **Programme Manager**

The “Programme Manager” costs shown in Table 2.3 of Supporting Document F-2 are made up of two key elements:

1. The provision of a part-time Programme Manager, who is responsible for the day-to-day management and control of both the SESRO and the Thames to Affinity Transfer (T2AT) SROs. Costs are split between the two projects, reflective of the relative scale and complexity and the level of effort and cost required to manage them. This accounts for approximately 70% of the Gate 2 forecast cost for the “Programme Manager” line item.
2. The provision of a part-time assistant Project Manager, to provide more cost-effective support for elements such as project controls, cost monitoring, schedule and progress updates for governance groups and day to day contract management of technical workstreams. Costs were

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<sup>1</sup> RAPID, April 2022, “Strategic regional water resource solutions guidance for gate two”, page 10 – *“Incurred costs for the gate activity should be presented in the 2017-18 price base and provided aligned to the agreed gate activities within each category listed above. These costs should be further broken down if any cost line is greater than £0.5 million in value.”*

also split across SESRO and T2AT. This accounts for approximately 30% of the Gate 2 forecast cost for the “Programme Manager” line item.

### **Programme Director and Exec**

The “Programme Director and Exec” costs shown in Table 2.3 of Supporting Document F-2 are made up a proportion of the costs for Thames Water’s SRO Executive Director and a proportion of the costs for Thames Water’s SRO Programme Director.

These roles are both critical to the long-term success of the SESRO project within the SRO portfolio. The Executive Director role is accountable at Board level for SESRO and the other Thames Water SROs, although the role carries a range of other responsibilities, hence the split of costs. This role ensures Board level ownership and governance across the SROs.

The SRO Programme Director has been brought in to ensure day-to-day direction over the SRO programme on behalf of the Thames Water Executive. This role oversees all governance decisions and direction at a project level, ensuring that Board level direction is translated into efficient delivery at a project level by the SRO programme. Both roles are crucial for the sustainable management of risk and efficiency for a long-term project of such scale and complexity as SESRO.

### **PMO Support**

The “PMO Support” costs shown in Table 2.3 of Supporting Document F-2 are made up of a number of elements. The rationale for the mobilisation of this Programme Management Office (PMO) support function, with associated costs at Gate 2, is that the proposed G2 to G4 activity is dominated by complex consents and procurement processes. To help mitigate the risk to those processes, and ensure we are prepared for the next phase of development, there are a number of activities that were required in advance of the Gate 2 submissions, as noted below. These activities make-up the costs of the PMO support category listed in the Gate 2 submission.

- Further planning of the development phase to identify risks and opportunities for efficiency;
- More detailed development of proposals to change the governance arrangements with our partners following Gate 2;
- Producing the design maturity and information management plans;

- Establish an integrated portfolio management baseline (requirements, scope, cost, schedule and risk), with scalable control processes;
- Establishing the organisational capability, and starting the procurement process for key contracts, necessary to commence Gate 3;
- Benchmarking required levels of risk and contingency for each stage of the project lifecycle against historic similar projects, to ensure adequate allowances for future phases of work; and
- Establishing a Regulation lead to ensure smooth interfaces with RAPID, Ofwat and other regulators as the project progresses. This role was mobilised before Gate 2, to enable regulatory review of our submission and also to ensure a smooth transition into Gate 3. A proportion of the costs of this role are applied to SESRO.

An initial PMO team has been established to support these activities. As noted in Supporting Document F-2 within our Gate 2 submission, *“The PMO support costs at Gate 2 reflect the complexity of the SESRO project. For a scheme the scale, duration, cost and complexity of SESRO, it is necessary to mobilise and operationalise a whole series of ‘client-side’ governance, management and control functions. These will be established by the promoters to ensure that the project is delivered safely, to time, budget and at the required level of quality and to ensure that it can be operated safely and effectively in the long-term. These systems and teams need to be in place at Gate 2, to ensure that the challenging delivery timescales outlined in this document can be achieved.”*

## Feasibility Assessment and Concept Design

The breakdown of the costs for the category “Feasibility Assessment and Concept Design” have been provided in Supporting Document F-2, SESRO – Efficiency of Spend, Table 2.4. This provides the breakdown of the costs into the major spend items less than £250k, and the associated justification and need for each aspect.

## Option benefits development and appraisal

The activities that make up the overall costs for the “Option benefits development and appraisal” category are shown in Table 1 below.

*Table 1 Option benefits development and appraisal, breakdown of Gate 2 activities*

Activity	Spend	% total
Hydrological analysis of losses in River Thames, to inform DO analysis	£42,485	11%
Investment modelling work (by WRSE) to support sensitivity analysis on choice of SESRO in draft Regional Plan, including associated additional software and IT costs	£190,471	48%
Technical expert to oversee WRSE sensitivity modelling and provide insight and reporting into SRO	£36,799	9%
Water resources modelling using PyWR, including DO analysis, climate change impacts, utilisation (drawdown, refill, discharge analysis) and conjunctive use analysis with T2AT, T2ST and STT.	£90,430	23%
Additional water resources modelling using PyWR, including conjunctive use analysis with T2AT, T2ST and STT.	£36,271	9%
<b>TOTAL</b>	<b>£396,457</b>	<b>100%</b>

## **Environmental Assessment and in particular Third party costs – EA**

The breakdown of the costs for the category “Environmental Assessment” have been provided in Supporting Document F-2, SESRO – Efficiency of Spend, Table 2.5. This provides the breakdown of the costs into the major spend items of approximately £250k or less, and the associated justification and need for each aspect.

The “Third-Party Costs – EA”, which account a large single line item in the table, account for the costs that the SRO pays to fund the EA’s involvement in the SRO programme, including a part share of the NAU costs and also meeting local (Area level) costs, as required for meetings, technical review and the like.

The NAU costs have been agreed with the EA on a lump sum basis, payable quarterly. The local Area costs are agreed on the basis of actual (timesheet recorded) hours and costs incurred. This agreement stems from an overarching agreement reached between the NAU and all SROs at Gate 1<sup>2</sup>, which was then subsequently extended to cover the period to Gate 2 in a subsequent letter<sup>3</sup>.

In addition, for SESRO, we have also agreed an additional funding allowance for the EA’s Thames Sustainable Places team. This takes the form of a cost recovery framework agreement between the Environment Agency and Thames Water for the Environment Agency’s attendance at various meetings with regard to flood risk issues and the review and provision of planning advice on documentation relating to the South East Strategic Reservoir Option (SESRO) NSIP.

The breakdown of the forecast costs presented in the Gate 2 documentation are as shown in Table 2 below, adjusted from the actual invoiced values to 2017/18 prices to align with the efficiency of spend data previously submitted for Gate 2.

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<sup>2</sup> Letter from Phil Lodge, Deputy Director Operations, Operations Catchment Services, Environment Agency, dated 17 November 2020.

<sup>3</sup> Letter from John Giles, Deputy Director, Operational Catchment Services, Environment Agency dated 9 November 2021

**Table 2 Breakdown of EA costs at Gate 2 (adjusted to 2017/18 prices)**

Invoice No.	Date	Description	Type	Period	NAU	Area	Total
2173392	22/10/2021	NAU and Local costs, quarterly charge	Actual (invoiced) costs	July - Sept 2021	55,759	468	56,227
2177083	18/02/2022	NAU and Local costs, quarterly charge	Actual (invoiced) costs	Oct - Dec 2021	81,909	6,228	88,137
2178772	29/04/2022	NAU and Local costs, quarterly charge	Actual (invoiced) costs	Jan - Mar 2022	81,909	2,791	84,700
2181105	12/08/2022	NAU and Local costs, quarterly charge	Actual (invoiced) costs	Apr - Jun 2022	76,123	9,452	85,575
2183032	04/11/2022	NAU and Local costs, quarterly charge	Actual (invoiced) costs	Jul - Sept 2022	76,123	16,102	92,225
Not yet received	Jan-23	NAU and Local costs, quarterly charge	Forecast, estimate	Oct - Nov 2022	61,219	8,518	69,737
			Residual contingency	To account for full value of EA proposal	22,463	99,079	121,542
<b>Sub-Total</b>					<b>455,506</b>	<b>142,637</b>	<b>598,143</b>
EA Thames Sustainable Places			Forecast, estimate	Services to Gate 2		46,393	46,393
<b>Sub-Total</b>					<b>455,506</b>	<b>189,030</b>	<b>644,536</b>
TW OH recovery (applies to all external costs)			Estimate				85,483
			Residual contingency				63,865
<b>TOTAL</b>							<b>793,884</b>

We would expect to be able to omit the contingency items from the final Gate 2 cost reconciliation, to be issued to RAPID after draft Gate 2 assessment. These contingency items were retained in the Gate 2 submission, as the costs were based upon a forecast estimate taken in September 2022. This will be done once the final invoices have been received from the EA for NAU and local costs for the period Q3 2022/23 and for the inputs from the Thames Sustainable Places team.

## Procurement strategy

The “Procurement Strategy” costs shown in Table 2.6 of Supporting Document F-2 are made up of a range of different aspects, as follows:

- A significant proportion of the costs are made up by the procurement of an external consultancy, who produced an overarching commercial and procurement review of SESRO (as part of a wider study across a number of Thames Water SROs) and a quantified analysis of the procurement and commercial delivery strategy for the project. This work is reported under Supporting Document E-1.
- Thames Water has employed a full-time Commercial Advisor, to oversee, guide and lead all commercial aspects of the Thames Water SRO portfolio on behalf of Thames Water. A proportion of these costs are assigned to SESRO. This role will ensure corporate ownership of the commercial aspects of procurement, direct and manage all of the work required to secure Ofwat’s approval under DPC / SIPR control points B – F and, ultimately, oversee the development of the procurement and commercial contract documents for the scheme.
- A number of support activities were also needed to ensure the Gate 2 submission met commercial and procurement expectations and set-up the project for the future delivery of the SESRO programme. These included:
  - Procurement of a cost manager into the PMO, with development of associated risk management procedures for Gate 2 and beyond
  - Development of a framework to better define Sponsors’ requirements for the SROs, with a proportion of the costs being met by SESRO
  - Development of a dedicated procurement team within Thames Water, who would oversee all SRO related procurement for support services and consultancy advice
  - Procurement of additional support on project estimating, both on scheme capex / opex estimating to assist with Gate 2 submissions and also to assist with forecasting costs for future Gates and project stages.

The activities that make up the overall costs for the “Procurement Strategy” category are shown in Table 3 below.

*Table 3 Option benefits development and appraisal, breakdown of Gate 2 activities and costs (2017/18 prices)*

Activity	Spend	% total
Procurement and commercial options study	£143,260	28%
Partner company technical guidance	£142,974	28%
Establishment of PMO commercial support		
<ul style="list-style-type: none"> <li>• Cost manager and development of risk management processes</li> </ul>	£56,061	11%
<ul style="list-style-type: none"> <li>• Development of sponsors' requirements framework for SROs</li> </ul>	£14,395	3%
<ul style="list-style-type: none"> <li>• Development of dedicated SRO procurement lead and team</li> </ul>	£66,430	13%
<ul style="list-style-type: none"> <li>• Estimating support and advice</li> </ul>	£82,617	16%
<b>TOTAL</b>	<b>£505,736</b>	<b>100%</b>

## Legal

The activities that make up the overall costs for the “Legal” category are shown in Table 4 below.

*Table 4 Legal, breakdown of Gate 2 activities and costs (2017/18 prices)*

Activity	Spend	% total
Legal advice on inter-relationship of wider water resource planning processes including regional and company plans and compliance with future consenting processes.	£46,521	12%
Legal advice on land access for surveys	£17,942	4%
Various legal advice on environmental (technical) regulations compliance	£289,764	72%
Water Co governance, procurement, technical and consenting advice	£48,963	12%
<b>TOTAL</b>	<b>£403,190</b>	<b>100%</b>

We would like to ensure that all residual queries are addressed prior to Draft Assessment of the Gate 2 submission. Therefore, if you require any further information or clarification on any of the preceding matters, please let us know.

Date of response to RAPID	24/11/22
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