

Gate one query process

Strategic solution(s)	LTWLR
Query number	LTW002
Date sent to company	13/02/2026
Response due by	19/02/2026

Query

This query relates to Section 8 of your Gate 1 Submission, specifically the supporting cost templates that you have submitted. If your response confirms that there are errors within these templates, we ask that you resubmit the corrected versions to us accordingly.

Efficiency of Expenditure

- Please explain why the template has been populated on the basis of your Gate 1 allowance being equal to £0 million, despite agreement from Ofwat to revise this figure to £1.21 million to support the activities required in AMP8?
- Please explain why the early Gate 2 expenditure of £449k has not been included in your template? As part of our communications on this matter, we requested that these activities be incorporated and clearly delineated as Gate 2 within the Efficiency of Expenditure table for Gate 1.

Expenditure by AMP

- Please confirm whether there has been an error in populating the expenditure figures in the Gate 1 rows. For clarity, these values should be entered in £000s. Please subsequently confirm whether the figures populated for Gate 2 are correct.

- Following the agreement to revise your Gate 1 allowance, it was also agreed that your Gate 2 allowance would be updated to £4.10 million. Based on our review of your Gate 2 expenditure, and assuming the figures have been populated correctly at £11.87 million, this indicates a shortfall of £7.77 million.

We have not been able to locate any supporting commentary to explain this difference. Please therefore provide a detailed breakdown and clear justification of the expenditure required, including the key drivers behind the proposed increase in allowance.

Solution owner response

Efficiency of Expenditure

- Please explain why the template has been populated on the basis of your Gate 1 allowance being equal to £0 million, despite agreement from Ofwat to revise this figure to £1.21 million to support the activities required in AMP8?

TW response:

In Ofwat's final determination (FD), LTWLR was not awarded any funding for Gate 1 activities. At the time of FD publication, the LTWLR Gate 1 submission was scheduled for March 2025, meaning no funding was provided for Gate 1 activities in AMP8. We subsequently requested the rescheduling of the LTWLR submission to January 2026.

In our letter dated 11 June 2025, we requested the reprofiling of £136k from LTWLR's AMP8 funding to Gate 1 to fund the National Appraisals Unit ('NAU') and Natural England ('NE') advisory services during the gate. RAPID agreed to this request in its letter dated 27 June 2025. Therefore, we acknowledge that the Expenditure by AMP template should note this agreed reprofiling.

We also acknowledge the revision of LTWLR's gated allowance to £1.21 ahead of the submission of its Gate 1 report. This is helpful to set LTWLR's allowable costs at Gate 1. However, we should have been explicit that Gate 1 was predominantly funded through non-SRO allowances, continuing the approach set out at the start of Gate 1. In summary, of the £1.21m spent on Gate 1 activities:

- £0.14m is funded from LTWLR's AMP8 allowances (provided in the FD); and
 - £1.07m is funded through non-SRO allowances.
- Please explain why the early Gate 2 expenditure of £449k has not been included in your template? As part of our communications on this matter, we requested that these activities be incorporated and clearly delineated as Gate 2 within the Efficiency of Expenditure table for Gate 1.

TW response:

The £449k for early Gate 2 expenditure was include in the 'Expenditure by AMP' tab of the template as part of the forecast Gate 2 spend. However, it was omitted in error from the 'Gate 1 EoE Template' tab. This has now been corrected, and revised versions of both templates have been reissued with this response.

The early Gate 2 expenditure has been delineated within the Efficiency of Expenditure template, with separate subtotals provided to show both the total expenditure and the Gate 1 only expenditure up to the end of January 2026.

Expenditure by AMP

- Please confirm whether there has been an error in populating the expenditure figures in the Gate 1 rows. For clarity, these values should be entered in £000s. Please subsequently confirm whether the figures populated for Gate 2 are correct.

TW response:

The Gate 1 values in the 'Expenditure by AMP' tab were entered with the wrong units (£ rather than £'000). This was an error, which has been corrected and a revised version of the template reissued with this response.

- Following the agreement to revise your Gate 1 allowance, it was also agreed that your Gate 2 allowance would be updated to £4.10 million. Based on our review of your Gate 2 expenditure, and assuming the figures have been populated correctly at £11.87 million, this indicates a shortfall of £7.77 million.

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TW response:

Drivers behind increase in allowance:

We confirmed that LTWLR's Gate 2 forecast is £11.87m (2022/23 prices), which is inclusive of the early Gate 2 activity. We recognise that this represents an increase on the forecasts previously provided to RAPID; however, we consider the updated figure to be a realistic assessment of the expenditure required to deliver a high-quality Gate 2 submission.

At PR24, the LTWLR scheme was new to our SRO portfolio. As a result, the AMP8 forecast at that time carried a high degree of uncertainty and was primarily on the outputs of several early-stage feasibility studies.

For LTWLR's Gate 1 submission, we benchmarked LTWLR's Gate 2 forecast against Teddington Direct River Abstraction's (TDRA's) Gate 2 expenditure as a comparable scheme. TDRA's Gate 2 expenditure has been adjusted to reflect:

- The LTWLR scheme being complex, with options entailing a 13km pipeline or tunnel solution, within a heavily build-up part of London, crossing the River Thames and interfacing with Victorian era legacy assets.
- The LTWLR Gate 2 programme being longer than TDRA's, meaning time related costs are higher.
- The LTWLR Gate 1 level of development being less than that of TDRA's, meaning there is additional development required to get to a comparable Gate 2 output.

A detailed breakdown of Gate 2 costs will not be available until the Technical Partner has returned its prices as part of the current procurement exercise. However, to provide further granularity, key activities estimated over £0.5m are:

Category	Overarching tasks	Key Tasks/Deliverables
Programme & Project Management	Building the collaborative management team that will develop the Gate 2 Output	<ul style="list-style-type: none"> • Develop and implement the Service Execution Plan, build the Gate 2 P6 programme, co-ordinate the resources, monitor progress, manage the budget and cost forecast. Produce internal and external reporting. • Confirm the preferred procurement model.
Engineering, Design and Site Investigations	Engagement with Thames Water operations and asset management teams to develop the feasibility design	<ul style="list-style-type: none"> • Evaluate the outputs and recommendations from Gate 1. • Undertake gap analysis, scope surveys and investigations to refine the output required for Gate 2. • Undertake multidisciplinary optioneering in accordance with RAPID Gate 2 guidance and

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		<p>make recommendations on preferred option(s) or sub-option (s).</p> <ul style="list-style-type: none"> • Undertake further water resource modelling will be undertaken to confirm the benefit of the preferred solution. • Author the Gate 2 report, this also includes making recommendations for work to be completed for Gate 3.
Environmental/Water Quality Investigations	Engagement with the EA & NEA and desktop studies for WFD, HRA, BNG and ecological assessments	<ul style="list-style-type: none"> • Produce an updated environmental feasibility statement and report that includes potential risks, barriers and mitigation measures. The statement shall be informed by the following: <ul style="list-style-type: none"> ○ Drinking Water Safety Plan ○ Drinking Water Quality Risk Assessment ○ WFD Assessment ○ HRA assessment ○ Environmental Appraisal.
Stakeholder Engagement and Planning	Both internal and external consultation	<ul style="list-style-type: none"> • Undertake a range of engagement activities in close liaison the internal External Affairs team. • Liaison with EA & NEA, LPA's & other regulatory bodies.
Data Collection	Asset condition appraisal & testing	<ul style="list-style-type: none"> • Collate current asset information, development of a Common Data Environment, and acquisition of operational expertise.

Due to the inherent uncertainty associated with the forecast at this stage, a contingency allowance as been included within the Gate 2 forecast. We will keep RAPID updated on LTWLR's progression through Gate 2, including project expenditure, through quarterly reporting.

Justification of the Expenditure:

The Price Review methodology for setting RAPID gate budgets for schemes at an early development stage is a top-down percentage approach. The percentages for Gate 1 (0.6%) and Gate 2 (0.9%) are applied to the anticipated project Capex to determine the corresponding gate allowances.

The table below replicates this methodology from PR24, applies it to the Gate 1 indicative proposed solution Capex, and compares the resulting allowances with our actual Gate 1 expenditure and our Gate 2 forecast.

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		Gate 1		Request	
Capex	PR24	Low	High		
	597.4	550.0	980.0	n/a	
Gate 2	0.6%	3.6	3.3	5.9	1.2
Gate 2	0.9%	5.4	5.0	8.8	11.9
Gate 1 & 2	1.5%	9.0	8.3	14.7	13.1

This comparison evidences that our proposed expenditure for Gates 1 and 2 sits within the range when using the Gate 1 indicative proposed solution Capex range of £550m to £980m. The four alternative solutions have a range of £610m to £1,790m indicating both the uncertainty in the project at this stage and the potential for development stage costs to increase for future gates.

Date of response to RAPID	[REDACTED]
Strategic solution contact / responsible person	[REDACTED]