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29 May 2019

Dear Nigel

Follow-up to company DPC Meeting 24 May 2019

Further to our constructive meeting on 24 May, I wanted to write to convey our further views on potential Direct Procurement Schemes (DPC) within our PR19 Business Plan.

Reviewing the DPC submission within our Plan

As outlined in our September Plan, and our IAP Response, the assessments we have carried out demonstrate that the Elsham and Pyewipe Schemes that we discussed are less suitable for DPC. We have tested all potentially eligible DPC schemes against the three tests set out in Ofwat's Guidance for scale of investment, discreteness and value for money.

The Elsham scheme is of sufficient size, but is considered less suitable for DPC under the discreteness criteria due to being a critical supply demand asset, and highly integrated with other Anglian operations and is also only marginal (-£0.3million or 0.3% of total costs in NPV terms) on Value for Money (VfM).

The Pyewipe scheme is of sufficient size but is considered less suitable for DPC under the discreteness criteria due to the combination of two elements requiring different capabilities and characterised by different risk profiles. It also failed the VfM assessment (+£3.0m of total costs in NPV terms)

Reflections on our meeting

At our meeting you explained that Ofwat is keen to ensure that opportunities for fully testing the DPC process are being taken. As you know, in AMP7 we are planning to commence the development for the South Lincolnshire Reservoir.

Following our discussions with you, we have considered further internally and agree that there may be merits for the sector as a whole in learning lessons and testing the efficacy of the approach to filtering suitable DPC schemes on a smaller project too.

Therefore, notwithstanding that our assessment demonstrates that Elsham and Pyewipe are less suitable for DPC, we propose a way to test the Elsham Treatment Plant as a stand alone project through DPC assessment process.

For the Elsham Treatment Plant, we have thought further in the light of your challenge to us during our meeting, and feel that, if we were to move the new treatment plant away from the existing site, this could give us operational resilience by having a discrete parallel treatment stream. In such circumstances, the Competitively Appointed Provider could become more self sufficient.

Taking the Elsham Treatment Plant project through DPC

If our proposal, to test the Elsham Treatment Plant project through DPC, is one that you agree would be beneficial to take forward, then we would propose to operate a very late procurement model. This would allow us to work with Ofwat to agree how to overcome the interface issues.

In order to achieve an Outline Business Case before proceeding to the Final Business Case, our business plan cost would need to be agreed in full for the Elsham Treatment Project (£40.98m initial capex), and a further development allowance would be required.

Working on the assumption of a very late procurement we estimate 7.7% or £3.15m of additional costs would need to be allowed in our plan to achieve the late procurement gateway criteria, £1.6m of which would be required as transition expenditure. This would need to be agreed in our Draft Determination to ensure we meet our critical need dates.

The indicative timescales and cost for procurement decision point are:

Outline and Final Business Cases: August 2019 – September 2020

Outline Design Complete: September 2020

Decision Point: September 2020 incremental cost £3.15m

Procurement Commencement: January 2021 – April 2022

Detailed Design and Construction Commencement: April 2022

Full operational and commissioned: 31 December 2024

Obligation date: 31 March 2025 (Restoring Sustainable Abstractions)

I trust you find this a constructive response to the issues we discussed last week, and I hope that this proposal will be welcomed by Ofwat.

I look forward to hearing from you.

Yours sincerely



Alex Plant
Director of Strategy & Regulation

Copy : Aoife McNally, Bart Schoonbaert