

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

[DRAFT] REASONS NOTICE

SPECIFICATION OF THE THAMES TIDEWAY TUNNEL PROJECT

This reasons notice is given in accordance with section 195A of the Water Industry Act 1991 (as applied and modified by the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013¹ ("the SIP Regulations") and sets out the Secretary of State's reasons for the giving of a notice under regulation 4(1) of the SIP Regulations specifying the Thames Tideway Tunnel Project as an infrastructure project.

The Secretary of State has, before exercising the power, prepared a draft of this reasons notice and consulted as required by regulation 4(4) of the SIP Regulations.

BACKGROUND

The legislative framework

1. The Flood and Water Management Act 2010 amended the Water Industry Act 1991 ("the Act") by inserting a new Part 2A, which conferred powers on the Secretary of State to make regulations about the provision of infrastructure for the use of water undertakers or sewerage undertakers.
2. Pursuant to the above powers, the SIP Regulations were made on 27 June 2013 and came into force on 28 June 2013. Regulation 4(1) of the SIP Regulations allows the Secretary of State (or the Water Services Regulation Authority ("Ofwat")) to specify an infrastructure project as a "specified infrastructure project". An infrastructure project is a project or part of a project in connection with designing, constructing, owning or operating infrastructure². It is a project which an incumbent water or sewerage undertaker must ordinarily undertake to fulfil its statutory duties under section 37 (general duty to maintain water supply system etc.) or section 94 (general duty to provide sewerage system) of the Act.
3. Regulation 4(3) of the SIP Regulations provides that the Secretary of State may only exercise the power to specify an infrastructure project if he is of the opinion that:-
 - a) the infrastructure project is of a size or complexity that threatens the incumbent undertaker's ability to provide services for its customers (referred to in the rest of this notice as the 'Size or Complexity' condition); and

¹ S.I. 1582/2013

² See section 36A of the Act, which was inserted by the Flood and Water Management Act 2010.

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

- b) specifying the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project were not specified, including taking into account:
- (i) the charges fixed or likely to be fixed under Chapter 1 of Part 5 of the Act (financial provisions, charges); and
 - (ii) the powers of the Secretary of State under section 154B of the Act (financial assistance for major works).
4. The condition in (b) above is referred to in the rest of this notice as the “Value for Money condition” or “VfM condition”.
5. Once specified, the incumbent undertaker is prohibited from undertaking that infrastructure project, although the Secretary of State or Ofwat may permit or require it to undertake certain preparatory work³. The incumbent undertaker is also required to put the specified infrastructure project (including the financing) out to tender⁴. Once the project has been put out to tender, the Secretary of State or Ofwat has the power to designate by notice as an “infrastructure provider” a company which appears to be wholly or partly responsible for the specified infrastructure project⁵. The infrastructure provider may then be licensed and regulated under a modified version of the regulatory regime set out in the Act⁶.
6. Regulation 4(9) of the SIP Regulations requires Ofwat to publish guidance to be followed by it in determining whether to issue, vary or revoke a specification notice. This [draft] guidance was published on [XXXX]. It is generic in nature and has been designed to apply to infrastructure projects generally. In deciding whether to exercise the power to specify this Project, the Secretary of State has had regard to this [draft] guidance.

The Thames Tideway Tunnel Project

Project Description

7. The sewerage system in central London is a combined sewer system in which both surface water runoff and foul sewage enter the same drainage system and are conveyed to sewage treatment works for treatment. It is estimated that on

³ See regulation 5(1) and (3) of the SIP Regulations

⁴ See regulation 6(1) of the SIP Regulations.

⁵ See regulation 8(1) of the SIP Regulations

⁶ See Schedule 1 of the SIP Regulations, which applies and modifies the Act in relation to specified infrastructure projects..

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

average 39 million tonnes per year of untreated sewage and surface water have been overflowing into the Thames Tideway (the River Thames and the River Lee) from these combined sewers as a result of their capacity being exceeded because of rain. While the system was designed to overflow into the River Thames during heavy rainfall, it currently overflows even during modest rainfall, due to an increased population, higher water use per capita and increased development, leading to greater runoff of surface water.

8. The Court of Justice of the European Union, in its judgment of 18 October 2012 (Case C-301/10 *Commission v United Kingdom*⁷), found the UK to be in breach of its obligations under the Urban Waste Water Treatment Directive (Directive 91/271/EEC, the "UWWTD"). In particular, the level of sewage discharge into the River Thames was unacceptable.
9. Current improvements to the main sewage treatment works and the construction of the Lee Tunnel are expected to reduce the current annual volume of overflows to 18 million tonnes, but this level remains unacceptable and is not compliant with the UWWTD.
10. A variety of solutions have been investigated over the past ten years, with the conclusion that a full-length Tunnel is the preferred solution. Government's support for the Tunnel as a solution was originally set out in March 2007, when Defra published its *Regulatory impact assessment – sewage collection and treatment for London*. This publication drew on the conclusions of the independent 2005 Thames Tideway Strategic Study ("TTSS"), which described the problem with combined sewage outflows into the Thames and assessed a number of options for delivering improvements; the Tunnel was central to the option recommended by the TTSS. Government commitment to the Tunnel was reiterated in Ministerial Statements in 2010 and 2011; in the November 2011 Defra publication *Creating a River Thames fit for our future: A strategic and economic case for the Thames Tunnel*; and in Defra's *National Policy Statement for waste water* published in February 2012. Reviews in 2012 and 2013 found that the evidence supporting the case for the Tunnel, and hence the case itself, was still valid.
11. The Thames Tideway Tunnel Project is planned to have a minimum capacity of 1.24m cubic metres (tonnes) and to extend for approximately 25 km along the length of the River Thames between Acton and Abbey Mills. It will sit between 20m and 70m below the surface and have a diameter of approximately 7m. Along its course it will intercept 34 of the Combined Sewer Outflows (CSOs) which currently connect the existing sewerage network to the river. The interception of the CSOs allows for overflow of surface water and sewage to be diverted from the river to treatment and subsequently discharged as treated water.

⁷ <http://www.bailii.org/eu/cases/EUECJ/2012/C30110.html>

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

12. As the undertaker for the area, the responsibility for compliance with the Urban Waste Water Treatment (England and Wales) Regulations 1994 (S.I. 1994/2841) (which implement the UWWTD) lies with Thames Water Utilities Ltd ("TWUL"). If the Thames Tideway Tunnel Project is specified under the SIP Regulations as described above, TWUL will be prohibited from undertaking the works necessary to achieve compliance. Instead, it will be required to put those works out to tender.

Project Costs

13. The Thames Tideway Tunnel Project is a project whose current estimated cost is £4.2 billion at 2011 prices and at a 'P80' level, i.e. where it is estimated that there is an 80% chance the final cost of the Project will be £4.2 billion or less. That project cost, in accordance with normal practice, excludes financing costs and taxation costs.

The extent of the works included in the specification notice

14. The Secretary of State [has specified] the design, construction, operation and ownership of the Thames Tideway Tunnel. However there are some elements which have a risk profile that is similar to TWUL's existing business and are likely to be best delivered by TWUL. These elements amount to approximately £1.4bn of expenditure on the project (at P80 and at 2011 prices, excluding financing costs) and TWUL will continue to undertake them subject to any changes arising from the detailed design work that is yet to be undertaken.

15. This leaves £2.8bn of expenditure (on the same P80 2011 prices basis) to be undertaken potentially by an Infrastructure Provider (IP). In practical terms, this £2.8bn represents the higher-risk tasks of building the main Tunnel and the connection shafts to the Combined Sewer Outflows, but not the work inside TWUL's existing infrastructure, or other works that are preparatory to the main Tunnel works. The precise arrangements in relation to these works vary on a site by site basis to take into account the requirements of each particular site.

16. For the rest of this notice, the works requiring £4.2bn worth of expenditure to deliver the Thames Tideway Tunnel are referred to as the 'Project'; this is the infrastructure project specified in the specification notice. It is intended that a separate Preparatory Works Notice given under regulation 5(3) of the SIP Regulations (and also subject to consultation) will permit TWUL to undertake the £1.4bn of works referred to above. It is envisaged (subject to changes of circumstance) that the remaining £2.8bn of work described above and the operation of the Thames Tideway Tunnel will be delivered by a new regulated company following the tendering exercise required by regulation 6(1) of the SIP Regulations and its designation as the infrastructure provider under regulation 8(1).

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

17. Including the whole £4.2bn of expenditure within the scope of the Project is a practical step intended to contribute to the efficiency of the interface between TWUL and the infrastructure provider. Because the exact boundaries between the infrastructure provider and TWUL are liable to change as the contractors refine the design. This construct allows sufficient flexibility to ensure that the party that is best able to carry out particular works is enabled to do so.

[Outcome of consultation

18. In accordance with regulation 4(4)(a) of the SIP Regulations, the Secretary of State has consulted [list of persons to be inserted]. The outcome of the consultation was [to be inserted].

CONSIDERATION OF EXTENT TO WHICH THE CONDITIONS OF THE SIP REGULATIONS ARE MET FOR THE PROJECT

Size or complexity – Thames Water Utilities Ltd and the Thames Tideway Tunnel

19. In approaching the Size or Complexity condition, the Secretary of State has discounted the ability of the incumbent undertaker, subject to price review control by Ofwat, to pass on the costs of the Project to customers. He has also discounted the availability of financial support being made available under section 154B of the Act. Otherwise, in the Secretary of State's opinion, there would be no project which would threaten the incumbent undertaker's ability to provide services for its customers and the condition in regulation 4(3)(a) would be rendered ineffective.

20. Whether the Size or Complexity condition is satisfied in any particular circumstances is a matter of fact and degree. A variety of risks may affect whether an incumbent undertaker will have the ability to provide services to its customers if it undertakes an infrastructure project. The Secretary of State has identified the following risks as being particularly relevant to the Project:

- scale risk, arising from the size of the Project in the context of the whole of the incumbent undertaker's business;
- construction risk, arising from the nature of the Project's construction works in the context of the works usually undertaken by the incumbent undertaker;
- management risk, arising from the type and scale of management resource necessary to manage the Project in the context of the management

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

resources necessary to manage the rest of the incumbent undertaker's business; and

- regulatory risk, arising from the duration of the Project in the context of the usual duration of capital works in the incumbent undertaker's business.

Scale risk

21. TWUL's investment programme for 2010-2015 was £5.5bn, leading to a Regulated Capital Value for TWUL at the end of this period of £11bn, funded approximately 75% by debt and 25% by equity. The largest single project was the Lee Tunnel at £635m, or 12% of the overall capital expenditure in that period. The Lee Tunnel amounts to 6% of TWUL's total RCV. If it were to fail, it is likely that TWUL's balance sheet could accommodate the failure.
22. The Project would, by contrast, form 30% of RCV, with peak annual expenditure of £500-£900m. Such a concentration of risk in a single project would increase the risk profile of TWUL by comparison with the normal profile in an undertaker, with a portfolio of projects that are significantly smaller than the Project and which would spread the risk.

Construction risk

23. The capital programmes of water and sewerage companies ("WASCs") typically involve assets of lesser scale than the Project, and with limited and well understood technical risks. While the evidence of tunnel works being delivered on time and to cost is mixed, and tunnelling techniques have improved over the years, underground construction carries higher risks than construction above ground. This is partly due to the consequences to above-ground structures if things go wrong and partly due to the difficulty of assessing all of the geological risks before tunnelling starts.
24. The Project is approximately 25km long, passes through central London and goes under a large number of both underground and above-ground assets, the disruption of which would entail significant costs. This means that its construction risk profile is higher than TWUL's normal construction works, and is higher - both in total and per km of construction - than the Lee Tunnel, whose course takes it under fewer valuable assets. This risk is concentrated in the £2.8bn of work that is proposed for the IP.

Management Risk

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

25. The size of the Project is also likely to lead to increased management risk, as the size and rapidity of expansion of capital expenditure would put significant stress on TWUL's management and governance. TWUL would have to seek increased management capacity and its governance structures would need to ensure it gave sufficient attention to the project. Given the very different nature of a construction project from its normal business, these requirements would pose an increased risk to TWUL's ability to manage its business to a satisfactory standard.

Regulatory risk

26. Typical capital works in the sector can usually be completed within any one five year Price Review period. However, the duration of construction of the Project will extend beyond a single regulatory period. This would mean that unless adaptations to the regulatory regime were made, TWUL would need to commit to a substantial proportion of the investment without knowing what return it could expect.

Risk Summary

27. The Secretary of State considers that if the Project were to be undertaken within TWUL, the foregoing factors would increase the company's risk profile to the extent that it would threaten its ability to provide services to its customers.

28. To illustrate this, it is helpful to consider the likely consequence for TWUL's credit rating should it undertake the Project. It is likely that TWUL's rating would be downgraded, with a significant risk that it could lose its investment grade rating in the absence of mitigating action.

29. It is also likely that this downgrade would take place at the time TWUL was trying to access the markets for the large quantities of capital required to build the Project. Without remedial action to restore TWUL to investment grade, those capital markets would almost certainly be closed to TWUL. The market for sub-investment grade debt would be unlikely to meet the need.

30. In this situation, it is likely that TWUL would breach an appointment condition (such as the requirement to use reasonable endeavours to ensure that it maintains an investment grade credit rating) or statutory duty, which could, in turn, lead to its being placed in special administration. The reasonable possibility that undertaking the Project within an established WaSC could lead to special administration illustrates one threat to TWUL's continued ability to provide services to its customers.

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

Possible Mitigants

31. The Secretary of State has also considered whether there are any mitigants to lessen the threat to TWUL's ability to provide services to its customers. Two possible remedies are:

- a) *Changes to Ofwat's regulatory regime.* For the purposes of the Size or Complexity condition, the Secretary of State has considered the possibility that Ofwat could make reasonable and proportionate modifications to the regulatory regime governing TWUL (by way of changes being made to TWUL's conditions of appointment) as a potential means of mitigating the threat to TWUL's ability to provide services to its customers. For example, to ensure that the Project was funded over the period of its construction rather than just for the next five years, as is the case for the rest of the sector. The Secretary of State accepts that such regulatory change would serve to reduce some of the regulatory risk associated with the Project. However, even if regulatory modifications could, as a matter of law, form part of the analysis in determining whether the Size or Complexity condition is satisfied (as to which the Secretary of State has formed no concluded view), he does not consider that it would address the other significant risks identified above and is of the view that the size and complexity of this Project would still threaten TWUL's ability to provide services to its customers.
- b) *Injections of equity.* The Secretary of State has also considered whether, in the event of a TWUL credit rating downgrade to sub-investment grade, it might be possible for TWUL to deliver the Project by raising sufficient new equity to restore its credit rating. In this situation, however, TWUL would no longer have the risk profile of a typical utility: it is likely that some existing investors might wish to withdraw their equity; and new investors would need to be found both to replace those investors that left and to put in the additional equity for the Project. In the absence of Government support, TWUL would be likely to face very considerable difficulties in raising sufficient equity. Even if it could do so, the higher risk profile of TWUL would lead to higher costs of equity and the cost implications for customers would be significant.

Size or Complexity - conclusion

32. The scale and risk profile of the Project make it likely that if it were undertaken by TWUL without Government intervention, TWUL would have its credit rating downgraded, probably to sub-investment grade, and would be unlikely to be able to raise sufficient finance to remedy this and meet its licence conditions at a cost that would be acceptable to customers. The analysis is not materially affected by the proposal to enable up to £1.4bn of the Project to be undertaken by TWUL through a Preparatory Works Notice.

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

33. The Secretary of State has therefore concluded that the Project is of a size or complexity that threatens TWUL's ability to provide services to its customers and so meets the Size or Complexity condition set out in the Regulations.

Value for Money (VfM) Condition

34. The VfM condition, set out above, requires the Secretary of State to compare the likely VfM of the Project delivered within TWUL with the likely VfM of the Project delivered by an Infrastructure Provider. It requires the Secretary of State to take into account the likely costs to customers and the likely costs to taxpayers.

35. It is assumed that the construction costs of the Thames Tideway Tunnel itself would be the same under either scenario. It is also assumed that Government support would be available to the Project under either scenario.

36. The potential implications for the taxpayer if the UK were subject to fines due to non-compliance with the UWWTD have not been considered in this analysis, as it is assumed that it would be possible to deliver the Project under either scenario, albeit at different costs.

37. The wider VfM case for proceeding with the Project is not considered, as it is set out elsewhere (see the references above).

38. As the Project costs would be the same whether or not the Project was specified, the main considerations from a customer perspective are:

- the cost of financing the Project (which is not included within the Project costs);
- any impact on cost of financing for other TWUL investments
- any differential in management and transaction costs between the two scenarios.

39. Ofwat determines the Weighted Average Cost of Capital (WACC) for the water industry for a five year period at each Price Review. The WACC must allow investors an appropriate rate for the risks they face while delivering value for money for customers. To achieve this Ofwat uses a variety of techniques and tools to determine a competitive market price derived from looking at market comparators for similar projects.

40. In the case of the Project, the sector WACC is unlikely to be appropriate because the risk profile of the Project differs significantly from typical investments in the sector. Therefore a separate WACC would need to be determined and applied to the Project.

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

41. If delivered through an Infrastructure Provider, the SIP Regulations require the project and its financing to be put out to competitive tender. Provided that there are sufficient bidders to achieve competitive tension, it can be reasonably assumed that the resulting financing costs will represent the fair market price and both Ofwat and investors will recognise this as an appropriate WACC. Ring-fencing the risks in an IP will assist this price disclosure role by giving investors greater clarity on the risks they are exposed to.
42. If the Project is delivered through TWUL, Ofwat will need to determine an appropriate WACC to apply across the whole of TWUL's business, reflecting the risk of the whole business. It will be based among other things on a blend of the risk of the Project and the risks of TWUL's normal business. Determining this WACC will be difficult, as Ofwat has no comparators for equivalent projects through which to determine a fair WACC. However, assuming Ofwat can determine a fair WACC, this blended WACC will reflect a higher risk than just the sum of the Project risks and normal TWUL risks. This is because the Project increases the risk profile of TWUL as a whole as described earlier.
43. In summary, if the Project were to be delivered through TWUL this would be expected to increase the costs of financing TWUL's wider investments, resulting in higher customer charges.

Management & transaction costs

44. There will be costs associated with establishing an Infrastructure Provider, e.g. Senior Management, Finance and Treasury, HR, IT and general overheads. However, it is likely TWUL will also have to expand its capacity in these areas. Analysis suggests that while there could be some additional management costs for the IP option over and above the TWUL option, these are insignificant compared to the other costs considered above and therefore will not affect the VfM assessment.
45. There will also be transaction costs associated with the Project. Most of these costs are likely to be not dissimilar between the two scenarios (e.g. development costs, costs of procuring main contractors etc). But the costs of procuring the IP as required under the Act will be additional, as there will be no similar process associated with delivery inside TWUL. These costs are likely to be of the order of tens of millions of pounds.

Exclusion from this analysis of costs arising in the event of TWUL needing to inject additional equity

46. The Size or Complexity section above refers to additional costs that would arise if TWUL were required to raise additional equity in order to deliver the Project itself without Government support (see para 31(b) above). However, in this Value for

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

Money assessment, the Secretary of State has assumed that Government support would be available under either scenario and that this support would enable TWUL/the IP to maintain an investment grade credit rating. These costs are therefore omitted from the Value for Money analysis.

Possible Mitigants

47. The above analysis assumes that delivery within TWUL would see the Project delivered as if it were any other capital project delivered by TWUL. If the Project were to be delivered within TWUL, the greater the degree of structural or regulatory ring-fencing of the Project from the rest of TWUL's business, the less the differential is likely to be in terms of costs of capital.

Taxpayer support

48. In November 2011 the Government said:

"The Government believes that the private sector can and should finance this project but accepts that there are some risks that are not likely to be borne by the private sector at an acceptable cost. It is willing in principle to provide contingent financial support for exceptional project risks where this offers best value for money for customers and taxpayers. However, I will want to be assured that when offering this contingent support, taxpayers' interests remain a top priority and that the taxpayer is appropriately protected by measures that minimise the likelihood and impact of these exceptional risks".

49. Any Government support to the Project would be provided under section 154B of the Act (*financial assistance for major works*). This allows the Secretary of State to give financial assistance in connection with the construction of sewerage infrastructure which involves exceptionally large or complex works.

50. Taxpayers may also be at risk if either TWUL or an Infrastructure Provider is placed in Special Administration and the special administrator seeks financial assistance from the Government under section 153 of the Act (*Government financial assistance where special administration orders made*). This gives the Secretary of State the power, with the consent of the Treasury, to give grants or loans to a company in special administration for the purpose of facilitating the achievement of the purposes of the special administration order.

51. The assumption for this analysis is that the sorts of Project risks that require contingent Government support in an Infrastructure Provider are not likely to be materially different within TWUL given the stress the Project will place on TWUL's balance sheet.

52. However the consequences for the taxpayer of any support under section 154B are likely to be easier to manage if the Project is specified. This is because there

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

would be a clear separation between the Project and TWUL, meaning that any Government support could be limited to the Project. If the Project were to be delivered by TWUL, there are a number of steps that could be taken to limit the scope of any Government support to the Project rather than the wider TWUL business. But the assessment is that the risk to the taxpayer would nevertheless be greater in this scenario than if the Project were specified.

Possible Mitigants

53. As with the financing costs, the greater the degree of structural or regulatory ring-fencing of the Project from the rest of TWUL's business, the less the differential in value for money between the two scenarios, i.e. by ensuring that taxpayer support was limited to the greatest extent possible to the Project. However, it is unlikely that the ring-fencing would be complete and the IP approach is likely to remain better value for money.

Value for Money – Conclusion

54. It is likely that delivery of the Project through an Infrastructure Provider would lead to better value for money for customers than if the Project were delivered through TWUL. The main reason for this is that if the Project were delivered through TWUL, the Project's higher than usual risks would affect the entirety of TWUL's business and so would increase the cost of financing for all of TWUL's investments. This risk is concentrated in the works associated with the £2.8bn of costs proposed for the IP and the analysis is not materially affected by the proposal to enable up to £1.4bn of the Project to be undertaken by TWUL through a Preparatory Works Notice.

55. It is also likely that delivery of the Project through either scenario would require the Taxpayer to take on similar contingent liabilities. But the consequences of those risks materialising would be likely to be greater if the Project were delivered through TWUL with the taxpayer exposed to greater costs.

56. The Secretary of State has therefore concluded that specifying the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project were not specified, including taking into account:

- (i) the charges fixed or likely to be fixed under Chapter 1 of Part 5 of the Act (financial provisions, charges); and
- (ii) the powers of the Secretary of State under section 154B of the Act (financial assistance for major works).

OVERALL CONCLUSION

This Reasons Notice has been prepared in draft for consultation in accordance with regulation 4(4)(a) of the SIP Regulations. It reflects the Secretary of State's current view of the reasons for specifying the Thames Tideway Tunnel as an infrastructure project. It is subject to change in light of the responses received from the consultation.

57. Accordingly, for the above reasons and having regard to all other relevant considerations, the Secretary of State is of the opinion that:

- a) the Project is of a size or complexity that threatens the ability of Thames Water Utility Ltd to provide services for its customers; and
- b) specifying the Project is likely to result in better value for money than would be the case if it were not specified, including taking into account:
 - (i) the charges fixed or likely to be fixed under Chapter 1 of Part 5 of the Act (financial provisions, charges); and
 - (ii) the powers of the Secretary of State under section 154B of the Act (financial assistance for major works).

The Secretary of State for Environment, Food and Rural Affairs

Dated [to be inserted]