

Regulators' Alliance for Progressing
Infrastructure Development

September 2021



Strategic regional water resource solutions: Standard gate one draft decision for South East Strategic Reservoir Option



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1. Introduction

The purpose of this publication is to set out our draft decision in respect of the South East Strategic Reservoir Option (SESRO) strategic regional water resource solution submitted for the standard gate one assessment by solution sponsors Thames Water and Affinity Water¹. The solution includes six options within it. Further information concerning the background and context of the Thames Water and Affinity Water SESRO can be found in the SESRO publication document on the [Thames Water](#)² and [Affinity Water](#)³ websites.

This publication should be read in conjunction with the draft decision letter issued to each solution sponsor. Both this document and draft decision letters have been published on our website today.

The assessment process is overseen by RAPID, with input from the partner regulators Ofwat, the Environment Agency and the Drinking Water Inspectorate. The Environment Agency together with Natural England and, where a solution impacts Wales, Natural Resources Wales, have reviewed the environmental sections of the submissions, and provided feedback to RAPID. The Consumer Council for Water provided input to the assessment on customer engagement.

The solution sponsors and other interested parties can now respond to the draft decision. Representations are invited by email to rapid@ofwat.gov.uk and the representation period will close at 5pm on 8 October 2021. All representations will be considered before our final decision is published on 16 November 2021.

We will publish representations on our website at www.ofwat.gov.uk/regulated-companies/rapid, unless you indicate that you would like your representation to remain unpublished. We will also share representations with our partner regulators, Ofwat, the Environment Agency and the Drinking Water Inspectorate and with Natural England and Natural Resources Wales. Information provided as representations, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a

¹ Referred to in PR19 final determination as “South East Reservoir Option”.

² [Thames Water - Gate One submission - SESRO \(thameswater.co.uk\)](#)

³ [Affinity Water - Gate One submission - SESRO \(affinitywater.uk.engagementhq.com\)](#)

request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

We would like to thank Thames Water and Affinity Water for the level of engagement, collaboration, and innovation that they have exhibited during this stage in the gated process.

2. Solution assessment summary

Table 1. Draft decision summary

Recommendation item	South East Strategic Reservoir Option
Solution sponsors	Thames Water and Affinity Water
Should further funding be allowed for the solution to progress to gate two?	Yes
Is there evidence all expenditure is efficient and should be allowed?	Yes
Delivery incentive penalty?	No
Is there any change to partner arrangements?	No
Is there a need for a remediation action plan?	No

2.1 Solution progression and funding to gate two

The evidence suggests that the solution is a potentially valuable way of supplying water to customers. Based on our assessment of the potential solution costs and benefits we have concluded that the solution should progress through the gated process to gate two, and that further funding be allowed.

We are not changing the funding of this solution. This solution's total allowance and gate allowances remain the same as the final determination.

2.2 Evidence of efficient expenditure

The PR19 final determination specified that any expenditure on activities outside the gate activities for the identified solutions (or solutions that transfer in) will be considered as inefficient and be returned to customers. We will consider whether gate activity is efficient by considering the relevance, timeliness, completeness, and quality of the submission which should be supported by benchmarking and assurance.

Our assessment of the efficient costs as spent on gate one activities results in an allowance for this solution of £1.75m (of £1.75m claimed).

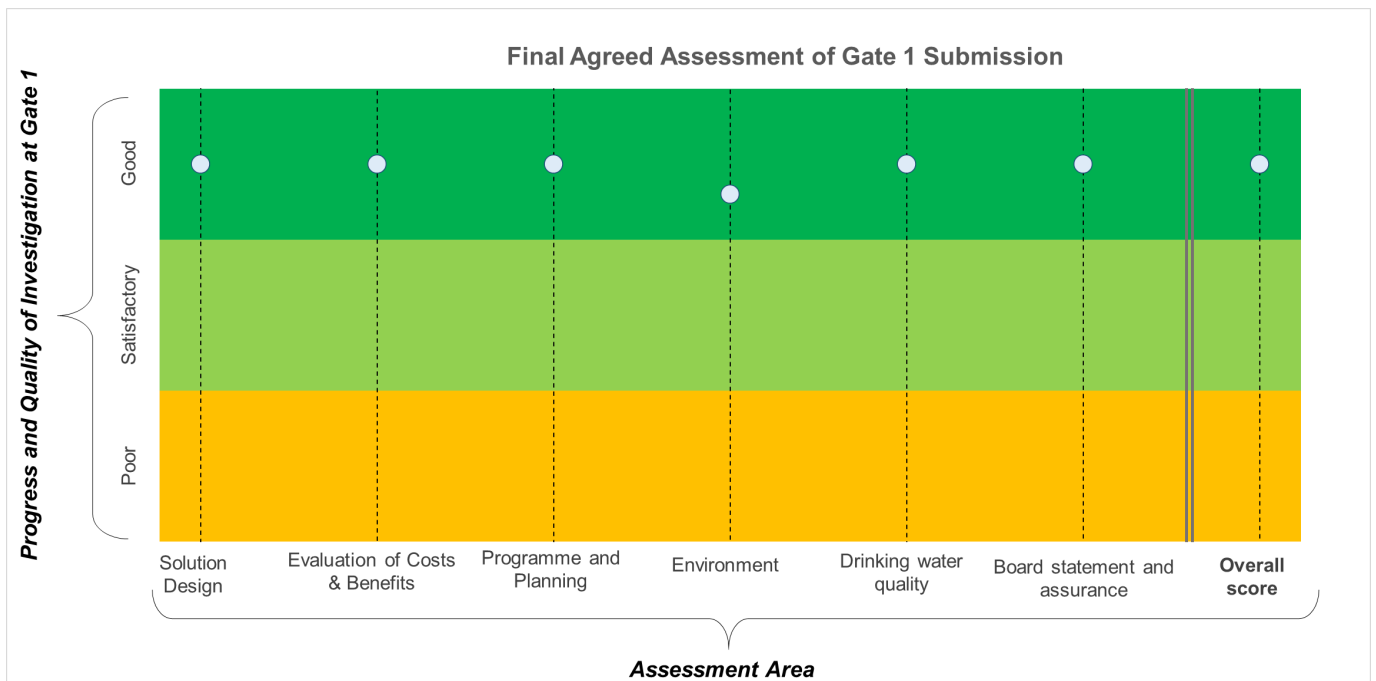
We have made no adjustments to the costs claimed.

2.3 Quality of submission

The aim of the assessment was to determine whether appropriate progress has been made towards delivery of the solution. We recognise at this stage solutions may be at different development points and the assessment takes this into account.

Figure 1 shows our assessment of the work completed on the solution, which was presented in the submission. Our assessment was made against the criteria of robustness, consistency, and uncertainty to grade each area of the submission as good, satisfactory, or poor in accordance with [our guidance published on 22 February 2021](#).⁴ We also assessed the Board assurance provided.

Figure 1. Submission Assessment



Our overall assessment for the solution submission is that it is good (meets expectations).

2.3.1 Solution Design

Our assessment of the solution design considered the quality of the evidence provided on the initial solution and options; the anticipated operational utilisation of solutions; the interaction of the solution with other proposed water resource solutions and stakeholder and

⁴ <https://www.ofwat.gov.uk/wp-content/uploads/2021/02/Strategic-regional-water-resource-solutions-guidance-for-june-2021.pdf>

customer engagement. The assessment also considered whether information was provided on the context of the solution's place within company, regional and national plans.

We consider that the progress and quality of the investigation completed by Thames Water and Affinity Water in developing the solution design at gate one has been good, although we expect to see this expanded upon with more detail in the gate two submission. For gate two, the companies should also refine the preferred option and reassess and refine solution operational utilisation following the outputs of regional modelling.

2.3.2 Evaluation of Costs & Benefits

Our assessment of the evaluation of costs and benefits considered the quality of the information provided on initial solution costs; the societal, environmental and economic cost and benefits, water resource benefits and wider resilience benefits. The assessment also considered whether evidence was provided on how the solution delivers a best value outcome for customers and the environment.

We consider that Thames Water and Affinity Water's evaluation of the costs and benefits of the solution for gate one has been good, although we expect to see this expanded upon with more detail in the gate two submission.

Natural capital assessments, and biodiversity net gain assessments need to be reassessed at gate two. Following outputs of regional modelling, wider benefits will need to be refined for the preferred sub-option and the size and yield of the option will need to be confirmed.

2.3.3 Programme and Planning

Our assessment of the programme and planning considered whether Thames Water and Affinity Water presented a programme with key milestones and whether its delivery is on track. The assessment also considered the quality of the information provided on risks and issues to solution progression, the procurement and planning route strategy and subsequent gate activities with outcomes, penalty assessment criteria and incentives.

We consider that the progress and quality of the gate one investigation completed by Thames Water and Affinity Water regarding the programme and planning, risks and issues and the procurement and planning route strategy for SESRO has been good. Going into gate two, a full risks register should be shared with the Environment Agency to ensure a work programme is in place to address environmental risks.

2.3.4 Environment

Our assessment of environment considered the initial environmental assessment; the identification of environmental risks and an outline of potential mitigation measures; the detailed programme of work used to address environmental assessment requirements and the initial outline of how the solution will take into account the carbon commitments.

We consider that the progress and quality of the work presented in the gate one submission provided by Thames Water and Affinity Water regarding the environmental assessment, potential mitigations, future work programmes and embodied and operational carbon commitments has been good, but the submission evidence fell short of expectations in the area of environmental risks as the risk around landscape impacts and engagement with the Area of Outstanding Natural Beauty Board were not reflected in the submission.

In working towards gate two, sponsor companies should work with the Environment Agency and Natural England to ensure potential risks are addressed through a detailed work programme, including a review of the scope of monitoring and environmental assessment. Where impacts are identified appropriate mitigation should be investigated and agreed with environmental regulators.

2.3.5 Drinking water quality

Our assessment of drinking water quality considered drinking water quality and risk assessments; evidence that the solution has been discussed with the drinking water quality team and a plan for future work to develop Drinking Water Safety Plans (DWSPs).

We consider that the information provided in this submission on drinking water quality risks, stakeholder engagement and DWSPs for gate one was good. We expect to see further development of DWSPs, water quality monitoring, including for emerging contaminants, and wider stakeholder engagement with ongoing dialogue with the respective water quality teams in gate two.

2.3.6 Board Statement and assurance

The evidence provided relating to assurance has been assessed as good.

The solution sponsors have provided Board statements that indicate:

- their support of submission recommendations for solution / option progression;
- they are satisfied that progress on the solution is commensurate with the solution being construction ready for 2025-30;

- they are satisfied the work carried out to date is of sufficient scope, detail and quality as would be expected for a large infrastructure project of this nature at this stage;
and
- that expenditure has been incurred on activities that are appropriate for gate one and is efficient.

These statements are accompanied by an explanation of the approach to assurance and a description of the evidence and information that the Boards have relied on in giving the statements.

3. Proposed changes to partner arrangements

There are no proposed changes to partner arrangements.

4. Actions and recommendations

Where the submission has not been assessed as ‘meeting expectations’ we have provided feedback on where we will seek remediation of the issues. We have also identified specific steps that solution owners should take in preparing for gate two.

We have categorised these remediation issues and steps into priority actions, actions and recommendations.

Priority actions are those that should have been completed at gate one and must now be addressed on a short timescale in order to make sure the solutions stay on track. They require urgent remediation in full and for this reason directly relate to the assessment of delivery incentives set out in this publication. The response to the priority actions will determine whether a delivery incentive is imposed; and the extent to which the delivery incentives can be mitigated by the solution sponsors. If all priority actions are satisfactorily completed then the penalty will not be imposed. If one or more of the priority actions are not satisfactorily completed then the whole of the penalty will be imposed.

We have also identified actions that should be addressed in full in the gate two submission. The response to these actions will influence the assessment of the gate two submission.

Recommendations are issues where additional information or clarification could improve the quality of future submissions.

No priority actions have been identified for SESRO, therefore we do not require the solution sponsors to provide us with a remediation action plan. The full list of other actions and recommendations can be found in the appendix.

5. Gate two activities

The solution will continue to be funded to gate two as part of the standard gate track.


For its gate two submission, we expect Thames Water and Affinity Water to complete the activities listed in the [PR19 final determinations: strategic regional water resources solutions appendix](#) as expanded on in Section 15 of its gate one submission.

6. Next steps

Following publication of this gate one draft decision, solution sponsors and other interested parties are invited to respond to the draft decision. Representations can be made by email to rapid@ofwat.gov.uk and will close at 5pm on 8 October 2021. All representations will be considered before our final decision is published on 16 November 2021.

Appendix: Actions and Recommendations

Actions – to be addressed in gate two submission		
Number	Section	Detail
1	Solution Design	Determine deployable output (DO) benefits when the South East Strategic Reservoir Option–Severn to Thames Transfer (SESRO–STT) joint options are combined with Thames to Southern transfer (T2ST) rather than supplying London only, as outlined in response to query SER004.
2	Solution Design	Provide a detailed assessment of interdependencies and in-combination impacts with other strategic resource solutions and other options following the outputs of Water Resources South East (WRSE) modelling.
3	Environment	Provide a landscape and visual impact assessment, the project team should engage with and work with the AONB Board on this.
Recommendations		
Number	Section	Detail
1	Solution design	Continue investigation of combined SESRO–STT modelling to determine any additional DO benefits and report on findings.
2	Costs & Benefits	Revise environmental findings of WRSE in-combination assessment
3	Costs & Benefits	Further investigate the DO conjunctive use benefits associated with the Thames to Affinity transfer (T2AT).
4	Costs & Benefits	Further consider the conjunctive use benefits of the SESRO and STT solutions, we note that SESRO and STT submissions at gate one differ on this point.
5	Environment	Provide further detail on how the Thames Water Asset Planning System aligns with or diverges from other standard carbon footprinting methods as this would improve the consistency of the submission.



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