

Regulators' Alliance for Progressing  
Infrastructure Development

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# Strategic regional water resource solutions: Standard gate one draft decision for Thames to Southern Transfer



## Contents

1. Introduction	2
2. Solution assessment summary	4
2.1 Solution progression and funding to gate two	4
2.2 Evidence of efficient expenditure	4
2.3 Quality of submission	5
2.3.1 Solution Design	5
2.3.2 Evaluation of Costs & Benefits	6
2.3.3 Programme and Planning	6
2.3.4 Environment	7
2.3.5 Drinking water quality	7
2.3.6 Board Statement and assurance	8
3. Proposed changes to partner arrangements	9
4. Actions and recommendations	10
5. Gate two activities	11
6. Next steps	12
Appendix: Actions and Recommendations	13

# 1. Introduction

The purpose of this publication is to set out our draft decision in respect of the Thames Water to Southern Water transfer (T2ST) strategic regional water resource solution submitted for the standard gate one assessment by solution sponsors Southern Water and Thames Water<sup>1</sup>. The solution includes six feasible options within it, each with three different capacities. Further information concerning the background and context of the Southern Water and Thames Water T2ST can be found in the T2ST publication document on the [Southern Water](#)<sup>2</sup> and [Thames Water](#) websites<sup>3</sup>.

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](mailto: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](http://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

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<sup>1</sup> Referred to in PR19 final determination as “Thames to Southern transfer”

<sup>2</sup> [Southern Water – Gate One Submission \(southernwater.co.uk\)](http://southernwater.co.uk)

<sup>3</sup> [Thames Water – Gate One Submission \(thameswater.co.uk\)](http://thameswater.co.uk)

to us why you regard the information you have provided as confidential. If we receive a 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 Southern Water and Thames 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	Thames Water to Southern Water transfer
Solution sponsors	Southern Water and Thames 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 £0.80m (of £0.80m claimed).

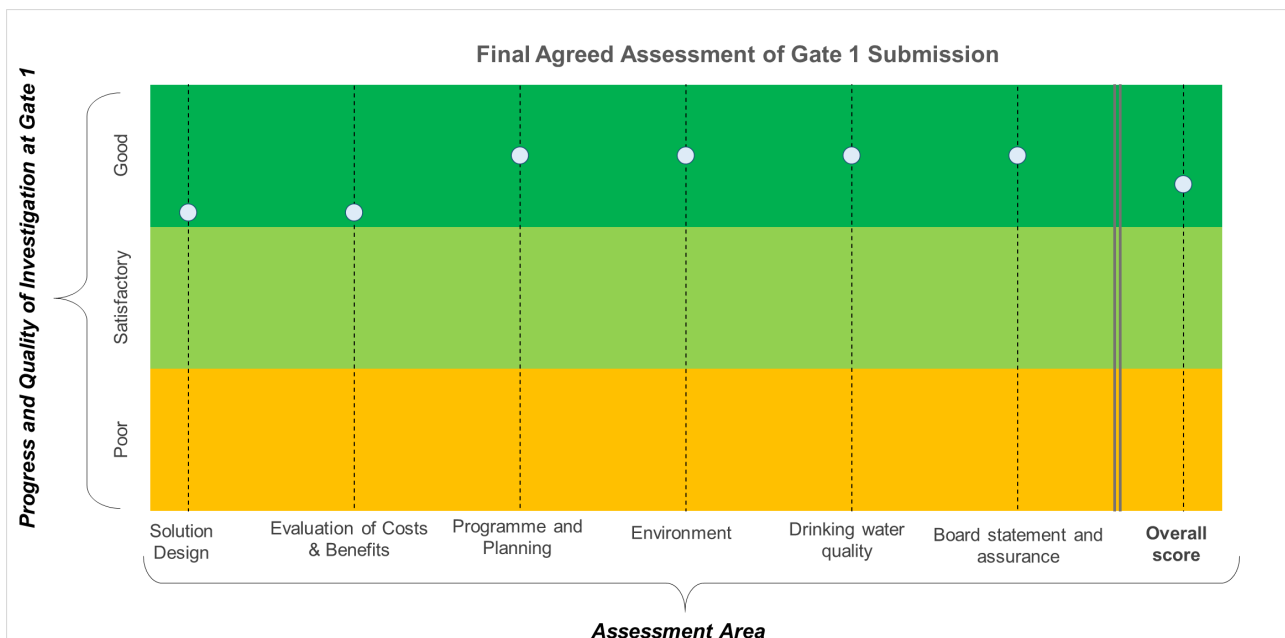
We have made no adjustments to the costs claimed.

## 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](#). 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 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 Southern 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, and the submission fell short of expectations in some areas of solution design and solution interactions.

In particular, the submission provided a limited justification for the chosen capacities and the need for the solution in terms of the future demand deficit and potential environmental flow requirements. The submission also provided limited detail on how regional modelling will integrate spur connections such as the Kennet Valley spur and transfers to Portsmouth Water and Wessex Water.

### **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 Southern 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 gate two submission, and the submission fell short of expectations in the areas of water resource benefits and wider resilience benefits.

In particular, the submission did not present the deployable output (DO) of the solution. We note that the submission was underspent on its gate one allowance and could have used the underspend to undertake its own modelling to progress the solution further. It also did not discuss how the solution could improve regional resilience to other water companies such as Portsmouth, Bournemouth and Wessex Water, as well as other wider benefits including those other than from resilience in water supply and economic benefits, such as environmental, flood, and multi-sector benefits.

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 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 Southern Water and Thames 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 the progress and quality of the gate one investigation completed by Thames Water and Southern Water regarding the programme and planning, risks and issues and the procurement and planning route strategy for T2ST 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 Southern Water regarding the environmental assessment, potential mitigations, future work programmes and embodied and operational carbon commitments has been good.

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 refining environmental assessments. 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 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 T2ST, therefore we do not require the solution sponsors to provide us with a remediation action plan. The full list of other actions 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 Southern Water and Thames Water to complete the activities listed in [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](mailto: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	Complete regional modelling to determine the preferred SRO capacity.
2	Solution Design	Fully identify and assess the impacts of pipeline routes and construction on the environment, particularly on designated sites and river crossings.
3	Solution Design	Consider requirements for maintenance flows from the River Thames.
4	Solution Design	Update Table 3 (Inter-related schemes affecting need and timing of T2ST) to reflect the current understanding of the Havant Thicket delivery timing, and the requirement and timing of other strategic resolution solutions and other solutions when they are on differing timescales. Include the new Havant Thicket+ strategic resource solution in this table and update it at gate two to reflect the decision at Southern Water's accelerated gate two.
5	Solution Design	Ensure regional modelling considers the full range of spur connections and transfers to Portsmouth and Wessex Water. Potential supplies to Thames Water's Kennet Water Resource Zone and to South East Water should also be included in the scope of work.
6	Solution Design	Provide a detailed assessment of interdependencies and in-combination impacts with other strategic resource solutions and other solutions required for gate two following the outputs of regional modelling.
7	Evaluation of Costs & Benefits	Undertake regional modelling to quantify the water resource benefits of the solution. As outlined in the response to query TST008, this is expected to be a two-stage process, with an initial phase in late 2021 to model the solution, followed by an update where the updated solution is submitted into a second round of regional modelling in early 2022. The DO should be set out in terms of meeting the deficit.
8	Evaluation of Costs & Benefits	Further investigate how the solution could improve regional resilience to other water companies such as Portsmouth, Bournemouth, and Wessex Water. Include benefits other than from resilience in water supply and economic benefits, such as environmental, flood, and multi-sector benefits.



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**OGI**