

Regulators' Alliance for Progressing  
Infrastructure Development

September 2021



# Strategic regional water resource solutions: Standard gate one draft decision for West Country South Water Transfer



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# 1. Introduction

The purpose of this publication is to set out our draft decision in respect of the West Country South Southern Water Transfer strategic regional water resource solution submitted for the standard gate one assessment by solution sponsors South West Water, Wessex Water and Southern Water. The solution includes two options within it. Further information concerning the background and context of the South West Water, Wessex Water and Southern Water West Country South Southern Water Transfer can be found in the West Country South Southern Water Transfer publication document on the [South West Water](#)<sup>1</sup>, [Wessex Water](#)<sup>2</sup> and [Southern Water](#)<sup>3</sup> website.

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unless you indicate that you would like your representation to remain unpublished.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](#).

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<sup>1</sup> [South West Water – West Country South – Southern Water transfer SRO gate 1 report July 2021](#)

<sup>2</sup> [Wessex Water – West Country South – Southern Water transfer SRO gate 1 report July 2021](#)

<sup>3</sup> [Southern Water – West Country South – Southern Water transfer SRO gate 1 report July 2021](#)

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 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 South West Water, Wessex Water and Southern 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	West Country South Southern Water Transfer
Solution sponsors	South West Water, Wessex Water and Southern Water
Should further funding be allowed for the solution to progress to gate two?	Yes – Southern Raw Water Transfer No – Southern Potable Water Transfer
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

#### Southern Raw Water Transfer

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.

#### Southern Potable Water Transfer

The evidence suggests that the solution is not a potentially valuable way of supplying water to customers due to the high investment required for a low water resource benefit under a 1 in 500 drought scenario involving a transfer of over 200km. Based on our assessment of the potential solution costs and benefits we have concluded that the solution should not progress through the gated process to gate two, and that further funding should not be allowed.

We would like to reiterate that discontinuation of options within the RAPID gated process should not prevent continued investigation and development of potential transfer solutions which can then be appraised within regional and company water resources plans.

We also propose to combine the West Country South Sources and Transfers and West Country South Southern Water Transfer solutions into a new single solution. The two solutions are intrinsically interdependent, with either solution becoming unfeasible if they both do not progress. Combining the two solutions also brings potential working and reporting efficiencies as the solutions both have the same solution sponsors, under which the same teams work on both solutions.

The removal of Southern Potable Water Transfer results in a 50% funding reduction from the total for the West Country South Southern Water Transfer. To reflect this reduced solution scope, we propose to halve the final determination allowance for gate two onwards because we consider that each option received an equal allocation of the allowance i.e. 50% (based on the assumed benefits of each option). Evidence to suggest alternative funding levels should be provided during the representation period. As set out in the PR19 final determination, any money spent during the gate one assessment stage on these options can be claimed at PR24. The new solution's total allowance and gate allowances will be formed by combining the two solutions' reduced allowances and gate allowances from the final determination as shown below. A name for the new single solution should be proposed during the representation period.

**Table 2 New solution's total allowance and gate allowances (£million 2017-18 prices)**

		Gate 1	Gate 2	Gate 3	Gate 4	Total
<b>Gate allowance</b>		10%	15%	35%	40%	100%
<b>Original funding allowance</b>	<b>West Country South Sources and Transfers</b> - Poole sewage treatment works effluent reuse - Roadford reservoir pumped storage	0.55	0.83	1.93	2.21	5.52
	<b>West Country South Southern Water Transfer</b> - Southern Raw Water transfer - Southern Potable Water transfer	0.40	0.59	1.39	1.58	3.96
	<b>Total</b>	0.95	1.42	3.32	3.79	9.48
<b>50% funding adjustment from gate two</b>	<b>New combined solution</b> - Poole sewage treatment works effluent reuse - Southern Raw Water transfer	n/a	0.71	1.66	1.90	4.74

## 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 £0.31m (of £0.31m claimed).

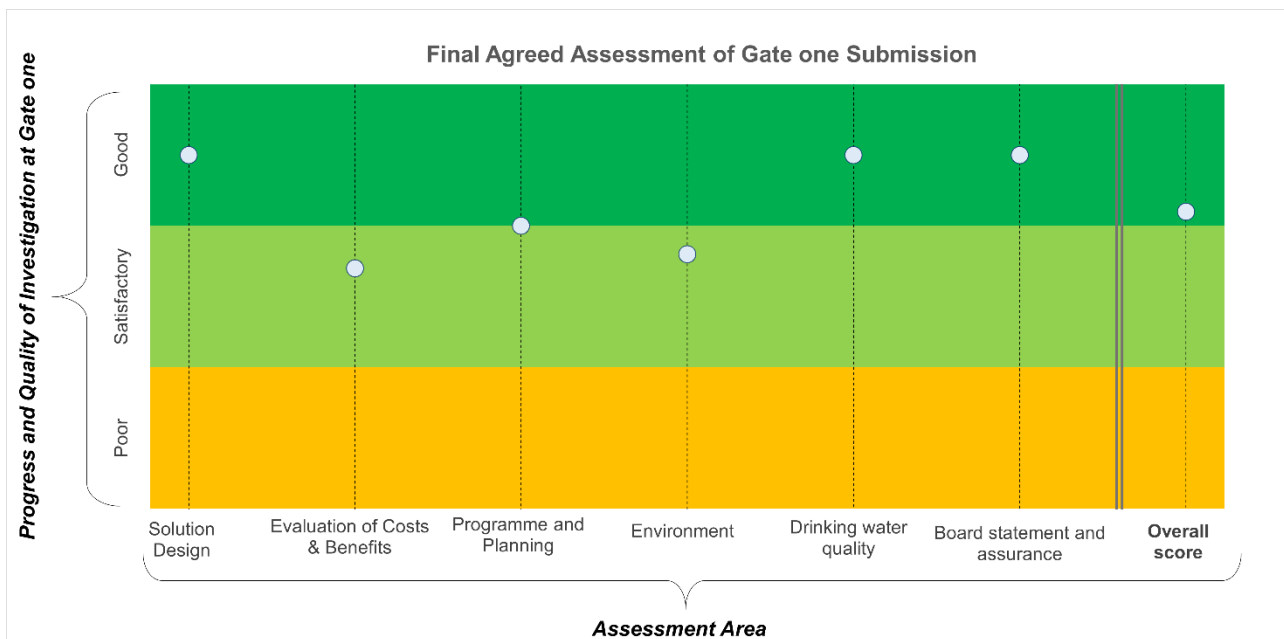
We have made no adjustments to the costs claimed.

## 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<sup>4</sup>](#). 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).

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

### **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 South West Water, Wessex 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 particularly regarding operational utilisation and engagement activities 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 South West Water, Wessex Water and Southern Water's evaluation of the costs and benefits of the solution for gate one is satisfactory but has fallen short of expectations in some areas including the development of a best value discussion comparing the options of this solution and assessment of deployable output of the solution under 1 in 500 drought resilience.

### **2.3.3 Programme and Planning**

Our assessment of the programme and planning considered whether South West Water, Wessex Water and Southern 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 South West Water, Wessex Water and Southern Water regarding the programme and planning, risks and issues and the procurement and planning route strategy for West Country South Southern Water Transfer has been satisfactory at gate one but has fallen short of expectations in some



areas including the assessment of whether elements of the solution are eligible for Direct Procurement for Customers (DPC) and a need for openness to legal solutions to address regulatory barriers.

### **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 South West Water, Wessex Water and Southern Water regarding the environmental assessment, potential mitigations, future work programmes and embodied and operational carbon commitments is satisfactory, it has fallen short of expectations in some areas as detailed below.

The site specific Habitats Regulations Assessment (HRA) has not incorporated developments in the West Country Water Resources (WCWR) Regional Plan HRA.

In terms of the option level environmental assessment, the assessment of the transfer to Southern Water does not adequately consider the implications of exporting water out of the region given that the River Avon Special Area of Conservation (SAC) is currently not compliant with flow requirements set out its conservation objectives. Furthermore, the draft regional water resources plan identifies future significant deficits of supply and demand across the West Country when climate change and environmental destination needs are taken into account. Currently it is unclear how far this deficit will affect the restoration of affected Habitats sites or Sites of Special Scientific Interest ("SSSIs") going forward.

In relation to the programme and monitoring plan, environmental modelling, monitoring plans and an approach to in-combination assessment is lacking.

In relation to carbon, policy, frameworks and methodologies used and to link through to greenhouse gas emissions are unclear.

In working towards gate two, sponsor companies should work with the Environment Agency and Natural England to ensure that 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 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 West Country South Southern Water Transfer 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

### **Southern Raw Water Transfer**

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

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

### **Southern Potable Water Transfer**

The solution will not continue to be funded to gate two as part of the standard gate track for the reasons set out in section 2.1.

## 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	Costs & Benefits	Include metric benefits associated with the options and how the solution provides best value to customers beyond cost as part of the gate two submission. Ensure social and economic metric benefits are considered. Biodiversity Net Gain assessment to be repeated and refined and include an assessment of the depleted reach on River Exe.
2	Costs & Benefits	Ensure wider resilience benefits are investigated and quantified as part of the gate two submission. Include WRSE resilience metric benefits associated with the option and how this contributes to the solution providing best value to customers beyond cost as part of the gate two submission.
3	Costs & Benefits	Compare costs and benefits of the options considered and demonstrate which of the solution options are considered to provide best value for customers as part of the gate two submission. Include both WCWR and WRSE regional plan Best Value Plan outputs in the gate two submission.
4	Programme and planning	A detailed consideration of how DPC might impact on the delivery timetable due to the solution not passing the discreteness test a requirement for the full analysis against the six technical criteria.
5	Programme and planning	Keep open the possibility for legal solutions (contractual) to be developed to address regulatory barriers. Further investigation of regulatory barriers and how one might overcome these to deliver a best value outcome for customers.
6	Programme and planning	Provide the full discreteness test analysis against the six technical criteria in respect of the discreteness test. To review whether elements of the solution could be delivered by DPC, eg interconnectors/pipelines/treatment works etc.
7	Environment	In terms of the option level environmental assessment:  There is a need to explore how to ensure the River Avon is compliant with flow requirements set out in its Conservation Objective. Investigate whether the solution owners will be able to satisfy their obligations under the Habitats Regulations and under the Wildlife and Countryside Act 1981 in respect of the West Country South Southern Transfer (given that the draft regional water resources plan identifies future significant deficits of supply and demand when climate change and environmental destination are taken into account and it is currently unclear how this deficit will affect Habitats sites and SSSIs going forward).
8	Environment	The site specific HRA should incorporate developments in the WCWR Regional Plan HRA.

<b>Recommendations</b>		
<b>Number</b>	<b>Section</b>	<b>Detail</b>
1	Solution design	Ensure utilisation is determined through regional modelling as part of gate two, including uncertainty and sensitivity. Provide detailed explanation of the methodology for defining utilisation from the regional modelling at gate two.
2	Solution design	Ensure outputs of further engagement activities included for gate two. Need to ensure Consumer Council for Water are included in WCWR regional plan stakeholder engagement going forward and is consulted on any plans for customer research.
3	Costs & Benefits	Reassess and refine solution Deployable output (DO) benefits under 1 in 500 drought resilience and the best value metrics and assessment following the outputs of regional modelling with uncertainty and sensitivity and methods explained
4	Costs & Benefits	Interactions and possible positive synergies of each plan with other strategic plans and projects delivering environmental and societal benefits should be identified eg. Dorset Heaths Planning Framework, Stour Valley Park, Solent Nutrient Neutral Development.
5	Environment	Develop as a priority environmental modelling, monitoring plans and approach to in-combination assessment.
6	Environment	Relating to carbon, be clearer in the main submission on relevant greenhouse gas emissions frameworks, methodologies, and industry and national policy commitments and ambitions used. Clearly explain how these have been used to determine and manage greenhouse gas emissions of project.





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