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By email

Susan Davy  
Chief Executive Officer  
South West Water

14 September 2021

OFFICIAL

Dear Susan,

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

I am writing to inform you of our draft decisions in respect of the following strategic regional water resource solutions:

- West Country South Sources and Transfers
- West Country to Southern Water Transfer

The RAPID partner regulators would like to thank South West Water for submission timeliness, collaborative approach and positive engagement which has helped drive the quality and speed of progression.

This letter should be read in conjunction with the draft decision documents for each of these solutions, which are published alongside this letter. Both this letter and the draft decision documents are published on our website on 14 September 2021.

Following the publication, solution sponsors and other interested parties have the opportunity to respond to the draft decisions. 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, which we intend to publish on 16 November 2021.

The table below summarises the elements of our draft decisions in respect of the South West Water-sponsored solutions. Further details are contained in the accompanying draft decision documents.

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## Draft decision summary in respect of South West Water-sponsored solutions

Recommendation item	West Country South Sources and Transfers	West Country South Southern Water Transfer
Solution sponsors	South West Water, Wessex Water and Southern Water	South West Water, Wessex Water and Southern Water
Should further funding be allowed for the solution to progress to gate two?	Yes – Poole sewage treatment works effluent reuse  No – Roadford reservoir pumped storage	Yes – Southern Raw Water Transfer  No – Southern Potable Water Transfer
Is there evidence all expenditure is efficient and should be allowed?	Yes	Yes
Delivery incentive penalty?	No	No
Is there any change to partner arrangements?	No	No
Is there a need for a remediation action plan?	No	No

### Solutions' progress and funding

Funding is allowed for the West Country South Sources and Transfers and West Country South Southern Water Transfer solutions to continue to be developed to standard gate two.

The following options are to continue to be investigated:

- Poole sewage treatment works effluent reuse
- Southern raw water transfer

The following options are not to continue to be investigated as part of the RAPID gated process:

- Roadford reservoir pumped storage
- Southern potable water transfer

Future funding is not allowed for these two options 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.

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Ofwat's green economic recovery final decisions<sup>1</sup> has approved funding for Roadford reservoir pumped storage scheme to be delivered, and RAPID has concluded that an inter-regional transfer based on the evidence provided is unlikely to be a good value solution to be investigated within the RAPID gated process. To reflect this reduced solution scope, we propose to halve the Final Determination gate two allowance for both solutions.

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.

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

We also propose to combine 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; the solutions both have the same solution sponsors, under which the same teams work on both solutions.

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.

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<sup>1</sup> <https://www.ofwat.gov.uk/wp-content/uploads/2021/07/Green-economic-recovery-final-decisions.pdf>

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

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

A name for the new single solution should be proposed during the representation period.

### Evidence of efficient expenditure

For West Country South Sources and Transfers and West Country Southern Water Transfer we determine that all expenditure of £0.52 million for the former and £0.31 million for the latter is efficient and appropriate, and we allow it in full.

### Submission quality

Our overall classification of the submissions for West Country South Sources and Transfers and West Country South Southern Water Transfer is that they are "Good (meet expectations)".

## Remediation

A list of remediation issues is provided in the Appendix to each draft decision document divided 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 a solution stays on track.

We have not identified any priority actions in respect of West Country South Sources and Transfers and West Country South Southern Water Transfer and therefore there is no need for Wessex Water to submit a remediation action plan for these solutions.

Should you have any questions about this letter or draft decision, please e-mail [rapid@ofwat.gov.uk](mailto:rapid@ofwat.gov.uk) and someone from the team will be in touch.

Once again, Ofwat would like to thank South West Water for the work that it has carried out over the gate one period.

Yours sincerely,

**David Black**  
**Chief Regulation Officer**

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