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By email

Ian McAulay  
Chief Executive Officer  
Southern Water

14 September 2021

OFFICIAL

Dear Ian,

## **Strategic regional water resource solutions: Standard gate one draft decision for Southern 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 South Southern Water Transfer
- Thames to Southern transfer

The RAPID partner regulators would like to thank Southern 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 Southern Water-sponsored solutions. Further details are contained in the accompanying draft decision documents.

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## Draft decision summary in respect of Southern Water-sponsored solutions

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

### Solutions' progress and funding

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

In regard to the West Country South Sources and Transfers and West Country South Southern Water Transfer solutions, 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.

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 South Southern 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.

For the Thames to Southern transfer we determine that all expenditure of £0.80 million is efficient and appropriate, and we allow it in full.

## Submission quality

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

## Application of penalty to total efficient gate spend

The largest penalty across a company's suite of solutions is applied to the company's total gate one allowed efficient expenditure. For Southern Water, this results in a potential delivery incentive penalty of 10% of its efficient expenditure, which was the incentive penalty applied to the desalination and water recycling solutions at accelerated gate one.

Southern Water had the opportunity to avoid the incentive penalty through provision of a remediation action plan for the desalination and water recycling solutions by 31 March 2021 and delivery of the action plan in full by 26 July 2021. We have received Southern Water's remediation action plan and will make a decision regarding whether it was delivered in full at accelerated gate two.

## 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, West Country South Southern Water Transfer or Thames to Southern transfer and therefore Southern Water does not need 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 Southern Water for the work that it has carried out over the gate one period

Yours sincerely,

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

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