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By email

Sarah Bentley
Chief Executive Officer
Thames Water

14 September 2021

OFFICIAL

Dear Sarah,

Strategic regional water resource solutions: Standard gate one draft decision for Thames Water

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

- Thames to Southern transfer
- South East Strategic Reservoir option
- Thames to Affinity transfer
- River Severn to River Thames transfer
- London Reuse

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

Draft decision summary in respect of Thames Water-sponsored solutions

Recommendation item	Thames to Southern transfer	South East Strategic Reservoir option	Thames to Affinity transfer	River Severn to River Thames transfer	London Reuse
Solution sponsors	Thames Water, Southern Water	Thames Water, Affinity Water	Thames Water, Affinity Water	Thames Water, Severn Trent Water, United Utilities	Thames Water
Should further funding be allowed for the solution to progress to gate two?	Yes	Yes	Yes	Yes	Yes
Is there evidence all expenditure is efficient and should be allowed?	Yes	Yes	Yes	No	Yes
Delivery incentive penalty?	No	No	No	No	No
Is there any change to partner arrangements?	No	No	No	No	No
Is there a need for a remediation action plan?	No	No	No	No	No

Solutions' progress and funding

Funding is allowed for the Thames to Southern Transfer, South East Strategic Reservoir option, Thames to Affinity transfer, River Severn to River Thames transfer and London Reuse solutions to continue to be developed to standard gate two. All options should continue to be investigated.

Evidence of efficient expenditure

We have not received sufficient evidence to assess whether two elements of the costs ("tripartite company activity" and "programme management & delivery") for the River Severn to River Thames transfer solution are efficient and appropriate. Until we receive sufficient evidence to assess these elements in full, the efficient costs allowance for the River Severn to River Thames transfer is £3.66 million of £4.49 million claimed. Further evidence should be submitted during the representation period.

We determine that all expenditure on each of these solutions is efficient and appropriate, and we allow it in full. The efficient costs allowance for the solutions are given below.

- South East Strategic Reservoir Option - £1.75 million
- Thames to Affinity transfer - £0.86 million
- Thames to Southern Transfer - £0.8 million
- London Reuse - £2.78 million

Submission quality

Our overall classification of the submissions for the Thames to Southern Transfer, South East Strategic Reservoir Option, Thames to Affinity Transfer, and London Reuse is that they are "Good (meet expectations)".

Our overall classification of the submission for River Severn to River Thames transfer is that it is "Satisfactory (falls short of meeting expectations in some areas)". We have decided not to impose a delivery incentive penalty for this solution.

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 any of the above named solutions and therefore Thames Water does not need to submit a remediation action plan for any of these solutions.

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

Once again, Ofwat would like to thank Thames 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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