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21 Bloomsbury Street, London WC1B 3HF

By email

Liv Garfield
Chief Executive Officer
Severn Trent Water

1st March 2022

Dear Liv,

Strategic regional water resource solutions: gate one draft decision for Severn Trent Water

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

- Upper Derwent Valley Extension

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

This letter should be read in conjunction with the draft decision document for this solution, which is published alongside this letter. Both this letter and the draft decision document are published on our website on 1st March 2022.

Following the publication of our draft decisions, solution owners 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 6pm on 12 April 2022. All representations will be considered before our final decision, which we intend to publish at 10am on 17 May 2022.

The table below summarises the elements of our draft decisions in respect of the Severn Trent Water-sponsored solution. Further details are contained in the accompanying draft decision document.

Draft decision summary in respect of Severn Trent Water-sponsored solution

Recommendation item	Upper Derwent Valley Extension
Solution owners	Yorkshire Water and Severn Trent Water
Should funding be allowed for the solution to progress to gate two?	Yes
Is there evidence all expenditure is efficient and should be allowed?	Not applicable
Delivery incentive penalty?	Not applicable
Is there any change to partner arrangements?	Not applicable
Are there priority actions for urgent completion?	Yes

Solution progress and funding

Our decision in respect of the Upper Derwent Valley Extension solution is to allow funding for it to join the gate two RAPID programme. Funding is allowed for the Upper Derwent Valley Extension solution to continue to be developed to gate two.

All options should be investigated.

The costs allowance for the Upper Derwent Valley Extension is shown in the table below for gates one to four.

	Gate one	Gate two	Gate three	Gate four	Total
Upper Derwent Valley Extension	N/A	£ 2.78 m	£ 6.49m	£ 7.42m	£ 16.70m
Comment /calculation	N/A	15% of development allowance calculated as 6% of total solution costs for raising 20m dam	35% of development allowance calculated as 6% of total solution costs for raising 20m dam	40% of development allowance calculated as 6% of total solution costs for raising 20m dam	90% of development allowance calculated as 6% of total solution costs for raising 20m dam

Funding will be shared equally between the solution owners, Yorkshire Water and Severn Trent Water, unless sponsors agree and notify RAPID of alternative cost sharing proportions before the end of the representation period.

Submission quality

Whilst not part of the RAPID gated process, a submission was made for the Upper Derwent Valley Extension at gate one. Our overall classification is that the quality of the submission does not meet gate one expectations in many areas.

We consider that a significant amount of work will need to be completed quickly to enable the solution to reach the stage of investigation and development expected at 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 identified ten priority actions in respect of the Upper Derwent Valley Extension, that cover solution and options development, water resource benefit, procurement, environmental programme, drinking water quality and carbon. Solution owners should indicate a date for completion of each of the priority actions, which should not be later than 18 July 2022, in their representations.

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 Severn Trent Water for the work that it has carried out over the gate one period.

Yours sincerely,

David Black
Interim Chief Executive Officer

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