

Centre City Tower, 7 Hill Street, Birmingham B5 4UA  
21 Bloomsbury Street, London WC1B 3HF

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By email

Bob Taylor  
Chief Executive Officer  
Portsmouth Water

17 May 2022

Dear Bob,

## **Strategic regional water resource solution: Accelerated gate two final decision for Portsmouth Water**

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

- Hampshire Water Transfer and Water Recycling

The RAPID partner regulators would like to thank Portsmouth 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 final decision document for this solution, which was published alongside this letter. Both this letter and the final decision document were published on our website on 17 May 2022.

The solution owners and other interested parties had the opportunity to respond to the draft decision during the representation period, which followed the publication of the decisions on 1 March 2022. We have taken all relevant representations into account in making our final decision.

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## Solutions funded in PR19 final determination

The table below summarises the elements of our final decision in respect of the Portsmouth Water-sponsored solution. Further details are contained in the accompanying final publication document.

### Final decision summary in respect of Portsmouth Water-sponsored solution

Recommendation item	Hampshire Water Transfer and Water Recycling
Solution owners	Southern Water, Portsmouth Water
Should further funding be allowed for the solution to progress to gate three?	Yes
Is there evidence all expenditure is efficient and should be allowed?	No
Delivery incentive penalty?	Yes – 10% applied to Southern Water
Is there any change to partner arrangements?	No
Is there a need for a remediation action plan?	Yes

### Solution progress and funding

Funding is allowed for the Hampshire Water Transfer and Water Recycling solution to continue to be developed to accelerated gate three.

We are changing the funding of the Hampshire Water Transfer and Water Recycling solution to reflect the substantial change in solution design in the Hampshire Transfer and Water Recycling solution proposed at accelerated gate one and the overlap between it and the Water Recycling solution, the other Southern Water solution in the accelerated gate two process. The revised costs allowances for both solutions are shown below:

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## Final decision funding allowances

	Gate one	Gate two	Gate three	Gate four	Total
<b>Hampshire Water Transfer and Water Recycling</b>					
<b>New Allowance Proposed in Draft Decision</b>	£0.00	£1.13m	£9.48m	£10.83m	£21.44m
<b>Water Recycling</b>					
<b>Previous Allowance</b>	£3.58m	£5.36m	£12.52m	£14.30m	£35.76m
<b>Combined Allowance</b>					
<b>New Allowance (Hampshire Water Transfer and Water Recycling and Water Recycling)</b>	N/A	N/A	£21.99m	N/A	N/A

We expect separate accounting and expenditure reporting for each solution and request this to be provided in an interim update by 14 November 2022. We also expect the interim update to propose how solution funding should be split between the Hampshire Transfer and Water Recycling and the Water Recycling solution for the remainder of gate three. We will review the funding of the two solutions for the remainder of gate three at that point.

Southern Water and Portsmouth Water should propose to RAPID any amendment to the financial arrangements for the Hampshire Transfer and Water Recycling solution by 14 November 2022. Whether the cost sharing proportions remain the same or to change, we expect a thorough rationale for the proposed financial arrangements.

## Evidence of efficient expenditure

The efficient costs allowance for the Hampshire Water Transfer and Water Recycling solution is £1.13m (of £2.29m million claimed). The amount allowed is the full accelerated gate two allowance for this solution. We have not allowed the overspend.

## Submission quality

Our overall classification is that the submission for the Hampshire Water Transfer and Water Recycling solution submission at accelerated gate two is that it is satisfactory (falls short of meeting expectations in some areas).

## Remediation

A list of remediation issues is provided in the Appendix to each final decision document divided into priority actions, actions and recommendations. Priority actions are those that should have been completed at gate two and must now be addressed on a short timescale in order to make sure a solution stays on track.

We have also identified actions that should be completed in full in the gate three submission. The response to these actions will influence the assessment of the gate three submission. Recommendations relate to issues where additional information or clarification could improve the quality of future submissions.

Priority actions have been identified for this solution. We expect the solution owners to resolve priority actions to a suitable quality no later than 30 June 2022.

Should you have any questions about this letter or final 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 Portsmouth Water for the work that it has carried out over the gate two period.

Yours sincerely

**David Black**  
**Chief Executive**

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