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By email

Peter Simpson
Chief Executive
Anglian Water

30 March 2023

Dear Peter,

Strategic regional water resource solution: gate two draft decision for Anglian Water

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

- Anglian to Affinity Transfer (A2AT)
- Fens Reservoir
- South Lincolnshire Reservoir (SLR)

The RAP D partner regulators would like to thank Anglian Water for submission timeliness, collaborative approach and positive engagement which has helped drive the quality and speed of progression of these solutions.

This letter should be read in conjunction with the draft decision documents for these solutions, which were published alongside this letter. Both this letter and the draft decision documents were published on our website on 30 March 2023.

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 11 May 2023. All representations will be considered before our final decisions, which we intend to publish at 10am on 28 June 2023.

Where we have identified issues requiring urgent remediation, we expect the solution owners to resolve them to a suitable quality no later than the dates provided in the Appendix to each draft decision document.

Solutions funded in PR19 final determination

The table below summarises the elements of our draft decision in respect of each of Anglian Water-sponsored solution. Further details are contained in the accompanying draft decision documents.

Draft decision summary in respect of Anglian Water-sponsored solutions

Recommendation item	Anglian to Affinity Transfer	Fens Reservoir	South Lincolnshire Reservoir
Solution owners	Anglian Water Affinity Water	Anglian Water Cambridge Water	Anglian Water Affinity Water
Should further funding be allowed for the solution to progress to gate three?	Yes	Continued development funding will be available to progress the solution up to the Conditional Review Point referred to in the section below. The funding for progression of the solution to gate three will depend on the outcome of the conditional review.	Yes
Is there evidence all expenditure is efficient and should be allowed?	Yes	Yes	Yes
Delivery incentive penalty?	No	No	No
Is there any change to partner arrangements?	Yes	No	Yes
Are there priority actions for urgent completion?	Yes	Yes	Yes

Solution progress and funding

Anglian to Affinity Transfer

We have reviewed your letter to RAP D on the 14 November 2022, and supporting note, setting out your proposed next steps for this solution. We agree that the Peterborough to Grafham transfer element of the solution can continue to be developed to gate three with Anglian Water as the sole solution partner.

We have changed the funding of the solution to reflect its revised scope. The revised total allowance is £8.66m.

	Gate one	Gate two	Gate three	Gate four	Total
Anglian to Affinity Transfer gated allowance	£1.15m	£1.72m	£3.08m	£2.71m	£8.66m
Comment	10% of development allowance calculated as 6% of total solution costs	15% of development allowance calculated as 6% of total solution costs	Allowance has been changed to reflect that Anglian will be the only solution owner at gate three and will keep 59% share of the scheme based on the revised scope. Furthermore, 65% of the forecast overspend has been added on top of this revised allowance.	Allowance has been changed to reflect that Anglian will be the only solution owner at gate four and will keep 59% share of the scheme based on the revised scope.	Total development allowance following changes to funding allowance.
Previous Allowance	£1.15m	£1.72m	£4.01m	£4.59m	£11.47m
Change from Previous Allowance	£0.00m	£0.00m	−£0.93m	−£1.88m	−£2.81m

Fens Reservoir

The evidence suggests that the solution is a potentially valuable way of supplying water to customers. However, based on our assessment of a wide range of areas that could concern the progression of the solution, we have concluded that we should not confirm in this decision that the solution can progress through the gated process to gate three, due to Fens reservoir having notably high unit costs. This is a large project which will require significant investment. We would like to see clear and robust evidence around the selection of Fens reservoir as a best value option. On that basis we will allow the solution owners to continue to be funded to develop the solution up to a conditional review point of 29 January 2024 (“Conditional Review Point”), after which partner regulators will make a final recommendation on progression beyond the Conditional Review Point to Ofwat. A decision will then be issued regarding funding beyond the Conditional Review Point to gate three as part of the standard gate track.

South Lincolnshire Reservoir

Funding is allowed for SLR to continue to be developed to gate three. Anglian Water will become the sole solution partner on SLR as Affinity Water cease to be a formal partner on the solution from gate two onwards. Anglian Water will take full responsibility for the development costs associated with SLR. Affinity Water's share of the development allowance for SLR will be reallocated to Anglian Water from gate two onwards. This will be given effect through the revenue reconciliation that will take place at the 2024 price review (PR24).

Fens Reservoir and SLR

We note that Anglian Water and Cambridge Water set out that to continue to develop the solution to the standard required to achieve a successful Development Consent Order (DCO) and to enable water to be brought into supply between 2035 and 2037 is subject to confirmation of adequate funding of the development costs being made available by Ofwat.

The solution sponsors have identified a shortfall of around £34.3m for Fens Reservoir and a shortfall of around £36.3m for SLR to develop the scheme to gate four.

Funding has been revised to account for forecast costs at gate three. We have determined that across all solutions gate three costs have risen due to factors such as increases in solution design costs, changes in scope and additional funding required to develop the environmental impact assessment (E A), water quality assessments, ground investigations and other environmental field studies and assessments. We determine that providing the original gate three allowance combined with 65% of their projected overspend at gate three is appropriate. We do not feel that it would be appropriate to provide solutions with their complete projected overspend at gate three as these projections are not fully mature, and we want to ensure that solutions are still incentivised to keep costs as low as possible.

Evidence of efficient expenditure

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.

- Anglian to Affinity Transfer - £0.83 million
- Fens Reservoir - £3.70 million
- South Lincolnshire Reservoir - £5.18 million.

Submission quality

Our overall classification of the submissions for the following solutions is that they are "Good (meets expectations)".

- Anglian to Affinity Transfer (A2AT)
- Fens Reservoir
- South Lincolnshire Reservoir (SLR)

Remediation

A list of remediation issues is provided in Appendix A of each draft 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 or at an alternative or earlier date when shown in Appendix A of each draft decision document. The response to these actions will influence the assessment of the gate three submission.

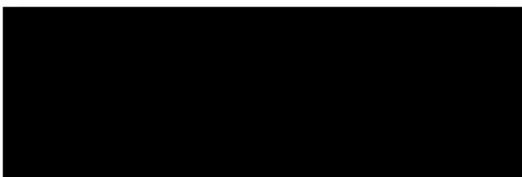
Recommendations relate to issues where additional information or clarification could improve the quality of future submissions.

We conclude that there are issues for remediation for all three solutions. Priority actions have been identified, and where we have identified issues requiring urgent remediation, we expect the solution owners to resolve them to a suitable quality no later than the dates provided in Appendix A of each draft decision document.

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 Anglian Water for the work that it has carried out over the gate two period.

Yours sincerely



David Black
Chief Executive

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