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By email

Andy Willcott  
Managing Director  
Cambridge Water

30 March 2023

Dear Andy,

## **Strategic regional water resource solution: gate two draft decision for Cambridge Water**

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

- The Fens Reservoir

The RAPID partner regulators would like to thank Cambridge 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 was published alongside this letter. Both this letter and the draft decision document were published on our website on 30 March 2023.

Following the publication of our draft decision, solution owners and other interested parties have the opportunity to respond to the draft decision. Representations are invited by email to [rapid@ofwat.gov.uk](mailto:rapid@ofwat.gov.uk) and the representation period will close at 6pm on 11 May 2023. All representations will be considered before our final decision, 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.

## Fens Reservoir

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

### Draft decision summary in respect of Cambridge Water-sponsored solution

Recommendation item	Fens Reservoir
Solution owners	Cambridge Water Anglian Water
Should further funding be allowed for the solution to progress to gate three?	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.
Is there evidence all expenditure is efficient and should be allowed?	Yes
Delivery incentive penalty?	No
Is there any change to partner arrangements?	No
Are there priority actions for urgent completion?	Yes

### Solution progress and funding

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.

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 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 (EIA), 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**

For the Fens Reservoir we determine that all expenditure of £3.70 million is efficient and appropriate, and we allow it in full.

### **Submission quality**

Our overall classification of the submissions for Fens Reservoir is that it is "Good (meets expectations)".

### **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. 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 this solution. 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](mailto:rapid@ofwat.gov.uk) and someone from the team will be in touch.

Once again, Ofwat would like to thank Cambridge Water for the work that it has carried out over the gate two period.

Yours sincerely

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

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