



FAO RAPID

by e-mail only

11th May 2023

SOUTH EAST STRATEGIC RESERVOIR OPTION (SESRO) STRATEGIC RESOURCE OPTION (SRO) – RESPONSE TO GATE TWO DRAFT DECISION

This letter follows the recommendation by RAPID in its draft decision published on 30 March 2023 that the South East Strategic Reservoir Option (SESRO) Strategic Resource Option (SRO) solution should progress through the gated process to Gate 3. It forms Affinity Water and Thames Water’s joint representations on the draft decision.

We are pleased to see the draft decision proposes that further funding be allowed for the solution to progress to Gate 3; confirms that all Gate 2 expenditure has been deemed efficient and allowed; and recognises the quality of the SESRO submission as having the top rating of ‘Good’. We also note it is proposed that neither Affinity Water nor Thames Water will receive any delivery incentive penalty and that there is no requirement for a remediation action plan.

This response makes a number of representations in relation to the draft decision for RAPID’s consideration; in particular on costs, Water Resource Management Plan (WRMP) commentary, timing of Gates 3 and 4, partner arrangements and actions/recommendations.

Costs

Section 3.3 of the draft decision refers to the amount of expenditure published in our Gate 2 submission. At the time of submission, this included an estimate for the final few months of Gate 2 activities as costs were reconciled and invoices received. Having finalised the assessment of Gate 2 costs, the actual costs were less than the estimated figure. As a result, the total Gate 2 expenditure has been reduced from the £7.23M estimate at Gate 2 to an actual final cost of £6.01M.

By taking this amended underspend forward to Gate 3, as endorsed in the draft decision, this should enable an adjustment to our Gate 3 allowance to £65.49M.

We note that the funding for AMP8 will be determined through the PR24 process and that is expected to include mechanisms for managing uncertainty across the SRO portfolio. We request that RAPID’s final response confirms this principle.

WRMP commentary

We note RAPID's comment that *"As gate two reports are based on a 150Mm³ option, the companies need to show the resilience of the 100Mm³ option compared to the 150Mm³ option and how the 100Mm³ option performs environmentally against the 150Mm³ option. This is also a recommendation for the WRMP and we expect this to also be picked up through that route."*

We confirm that additional commentary will be provided in our respective draft WRMPs and associated Statements of Response to confirm and justify the choice of the SESRO option required within the WRMP reported pathway.

Timing of Gates 3 and 4

In our Gate 2 submission we proposed that Gate 3 would be scheduled for January 2025. However, as noted in the submission, *"Our recommendation is that Gate 3 is based upon the achievement of the outcomes listed in Table 7.1. Should a programme delay cause any of these outcomes to be delayed (for example, delay through the need to re-consult on the final WRMP24) then we would propose the Gate 3 and Gate 4 target dates be adjusted accordingly."* If it is considered that a delay to the timing of Gate 3 is required, we will seek to discuss and agree this with RAPID at the earliest possible opportunity.

We note your clarification that Gate 4 should be scheduled to be a minimum of a month after the acceptance of planning applications and suggestion that Gate 4 should be November 2026. We will keep this under review and provide a more detailed forward programme to RAPID as part of our Gate 3 submission.

Partner arrangements

Our Gate 2 submission set out our proposed approach to funding arrangements from Gate 2, namely that there would be no proposed funding change ahead of Gate 3. However, in accordance with our Gate 2 submission, Southern Water will be joining as co-sponsor of the SESRO project from Gate 3 onwards (including a proportionate contribution to funding during AMP 8), and as shadow sponsor (akin to an observer) before then. We expect these arrangements (including any changes to them) to be finalised and implemented as part of our respective PR24 submissions.

Actions / Recommendations

We are pleased to note that RAPID has not identified any priority actions for the SESRO SRO.



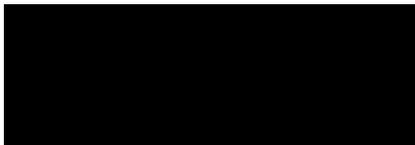
There are no concerns with the actions and recommendations in the draft decision and we will work to resolve each item for Gate 3. We will engage closely with Natural England and the Environment Agency to ensure resolution of the two environment focused actions associated with landscape and visual and flood risk issues.

We will continue to provide regular updates on our responses to the proposed actions and recommendations, and on our other Gate 3 technical workstreams through the next gated process, so that RAPID can have confidence that we are on track to a resolution.

Summary

We would like to take this opportunity to thank RAPID, EA, Ofwat & DWI for their engagement and collaborative working throughout Gate2, and for their positive draft response to our Gate 2 submission.

Regards,



Steve Plumb (Director of Asset Strategy, Affinity Water)



Nevil Muncaster (Strategic Resources Director, Thames Water)