



Water Resource Management Plan Annual Review 2024-25

Cost Sensitivity Annex

May 2026

In our Water Resources Management Plan Annual Review 2024-25¹ (WRMP AR25) we noted that the estimated cost of the South East Strategic Reservoir Option (SESRO)² had increased substantially, as documented in the SESRO Gate 3 report³. We also stated that our review of the impacts of the change in estimated cost was ongoing.

Since the publication of WRMP AR25 we have undertaken further work to establish whether we consider the revised estimated cost of SESRO to cause a “material change of circumstances”⁴ within the context of our WRMP.

The principal elements of further work have been:

- Production of updated cost estimates for the different components of the Severn Thames Transfer⁵ (STT), which will be summarised in an interim cost report⁶.
 - This work was required because option selection decisions need to be made on the basis of a “like for like” comparison. Some of the factors which caused the estimated cost of SESRO to increase will apply to the STT, and elements of the STT cost estimate used in WRMP24 needed to be updated to reflect the updates to the scheme since Gate 2.
- A cost sensitivity analysis was completed by the Water Resources South East (WRSE) regional group⁷. This analysis tested whether key option selection decisions within the WRSE Regional Plan would be impacted by the revised cost estimates for SESRO, STT, and other strategic options.
 - The primary aim of this study was to test whether SESRO remains the preferred option in the regional plan over alternatives such as the STT given the updated cost estimates for these options. In Section 11 of the TW WRMP24 we established that either a new reservoir or the STT must be constructed to maintain a positive supply-demand balance in all Water Resource Zones within the WRSE Region, and so the sensitivity testing focuses on the choice between these options.

The WRSE sensitivity analysis was undertaken according to a methodology⁸ which was shared with our regulators (Environment Agency, RAPID and Defra) in September 2025.

¹ Thames Water, 2025, Water Resources Management Plan Annual Review 2024-25, <https://www.thameswater.co.uk/media-library/bolnxdid/wrmp-annual-review-2025.pdf>

² Since renamed the White Horse Reservoir (WHR), but referred to as SESRO throughout this document

³ Thames Water, 2025, Gate 3 Submission for South East Strategic Reservoir Option, <https://www.thameswater.co.uk/media-library/meii3tda/gate-3-submission-for-south-east-strategic-reservoir-options.pdf>

⁴ Which would require that we prepare and publish a revised WRMP, following the procedure set out in Section 37B of the Water Industry Act 1991

⁵ Including a revised cost estimate for the STT interconnector, and the provision of revised prices for support which would be provided from United Utilities and Severn Trent Water

⁶ Thames Water, Severn Trent Water, United Utilities, 2026, SRO-STT Project, Whole System Interim Estimate Update

⁷ Water Resources South East, 2026, Cost Sensitivity Phase 3 Modelling Report

⁸ Appended to the WRSE sensitivity analysis

In the WRSE analysis, a series of scenarios were explored using the WRSE Investment Model⁹. The scenarios included different combinations of cost estimates for key strategic options, including SESRO and the STT, reflecting the current range of cost estimates for the different options. In each scenario, the WRSE Investment Model was used to determine the least cost plan (in net present terms) which satisfied the supply-demand balance challenge across the region; the model also presented wider “best value” metrics for each plan.

The conclusions of the WRSE analysis were:

- SESRO is selected in all model runs in which the investment model may freely select options to form a least cost plan¹⁰, irrespective of the combination of cost uplifts applied.
- Overall, for those adaptive plans with SESRO selected, the average net present whole life cost of the programme increases by between approximately £2.2bn and £3.3 bn, compared to the cost of the final best value programme at Regional Plan 2024 of £17.8 bn.
- The adaptive plans with SESRO selected continue to show much better best-value plan metrics than those with STT selected, largely driven by relatively higher performance across the resilience and environmental metrics and whole-life carbon emissions. This is consistent with the conclusions made during the development of the current regional plan, which was published in June 2025.
- None of the scenarios considered freely selects STT in preference to SESRO, although one scenario selected STT when SESRO was excluded from the option choice. This selection was also dependent on all other reservoir options being set at a maximum cost uplift compared to WRMP24.

The key conclusions we have drawn are:

- We do not consider that a revised estimate of cost for a scheme included in our WRMP could, on its own, be considered a “material change of circumstances”. The drivers of need in our WRMP (population growth, environmental destination, increased resilience standards, and climate change) are either set by policy requirement or are exogenous factors over which we do not have control. Our WRMP is required to set out how we intend to maintain the balance between supply and demand, taking account of these factors. As such, we have focussed on whether the increased cost of SESRO would result in us taking different decisions regarding the selection of water resources options to ensure a balance between supply and demand, on the assumption of an unchanged WRMP24 supply-demand balance forecast.
- While there have been updated assessments regarding factors other than cost for SESRO (e.g., updated carbon emissions and environmental assessments undertaken in the production of SESRO Gate 3 and PEIR), “like for like” updated assessments for other options, principally the STT, are not currently available and so a true comparison is not possible. The WRSE sensitivity analysis gives some consideration to the increased carbon emissions estimate for SESRO, concluding that the monetised impact of the increase in carbon emissions estimate is smaller than the programme-level difference in cost between SESRO-centred and STT-centred plans. Other than this consideration of monetised

⁹ See Thames Water WRMP24 Section 10 for further details regarding the WRSE Investment Model

¹⁰ In some model runs the choice of options is constrained, and where WHR is excluded from the available options it is not selected

carbon emissions, our consideration of change is limited to changes in the estimated costs for different options and our consideration of factors other than cost is the same as detailed in our WRMP24¹¹.

- The WRSE cost sensitivity study undertaken in May 2026 concludes that “the WHR (SESRO) is still considered to be the overall best value strategic option (compared to available alternatives) within the RP24 regional plan, despite the scale of cost escalations.”
- As a result, our overall conclusion is that the option selection decisions made in the WRMP24 would not be amended given the new information received for the cost estimates. Therefore, we do not consider this new information results in a “material change of circumstances” for our plan and WRMP24 remains robust as a basis for planning.

¹¹ Our assessments in WRMP24 concluded that, as plans including SESRO had lower whole life carbon emissions than plans excluding SESRO, scored more highly on environmental criteria, and resulted in a more resilient plan, SESRO should be preferred to STT



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