

FAO RAPID

by e-mail only

11th May 2023

SEVERN TO THAMES TRANSFER STRATEGIC RESOURCE OPTION (SRO)

RESPONSE TO RAPID'S GATE TWO DRAFT DECISION

This letter forms United Utilities, Severn Trent Water and Thames Water's joint response to RAPID's Gate 2 draft decision published on 30 March 2023 for the River Severn to River Thames (STT) Transfer Strategic Resource Option (SRO).

We are pleased the draft decision proposes that the STT SRO should proceed to Gate 3. We also note RAPID's confirmation that all Gate 2 expenditure has been deemed efficient with no application of a delivery incentive penalty and the STT submission recognised as having the top rating of 'Good'.

We are grateful for the opportunity to provide representations ahead of the final Gate 2 decision, with a number of areas where we have feedback as set out below.

1. Environment Agency draft Water Resources Management Plan Representation

We acknowledge the environmental feedback in the draft decision which recognises both the progress made to Gate 2 and the further work still required in particular to address Habitat Regulations Assessment (HRA) concerns and risks, with priority actions assigned to these issues. We are aware of the need for this work and have further planned activities for Gate 3 which have been agreed through close working with the environmental regulators.

However, we also note the Environment Agency's (EA) representation to Thames Water on its draft Water Resources Management Plan (WRMP) which states that it is *'not convinced this [STT] is a viable solution'* and that *'the River Severn to Thames transfer has not yet been shown to be feasible or environmentally acceptable'*. These comments do not appear to be consistent with the conclusions stated by RAPID in the Gate 2 draft decision, nor with our understanding of the agreed outcomes through our engagement and work with the EA, Natural Resources Wales and Natural England during the process.

We concur with the statement in table 2 of the draft decision, which states that whilst there remain outstanding concerns the *'solution has the potential to provide similar or better value (environmental, social and economic value – aligned with the Water Resources Planning Guideline) compared to other solutions.'*

We request that RAPID's balanced view regarding STT's viability, as expressed within your draft decision, is retained and reinforced within the final decision.

2. Priority actions, actions and recommendations

We accept all the priority actions, actions and recommendations as set-out in the draft decision, subject to the changes proposed below.

Table 1: Summary of priority actions and response

Ref	Area and <i>summary description</i>	Response
1	Solution Design <i>Detailed Stakeholder and customer engagement plan</i>	Accepted. Required by December 2023.
2	Programme and Planning <i>River Severn HRA</i>	Accepted. However, we request an extension to the end of Gate 3 as the actions are dependent on the Minworth bench test and pilot plant trials. We propose an interim updated assessment by December 2023 with final by end of Gate 3 / AMP7.
3	Environment <i>River Severn HRA</i>	Accepted. Required by December 2023.
4	Drinking Water Quality <i>Inclusion of South East Water</i>	Accepted. Required by December 2023.
5	Drinking Water Quality <i>Evidence of consultation including South East Water</i>	Accepted. Required by December 2023.
6	Solution Design <i>Alignment with WRMPs and Regional Plans</i>	Accepted. Required by December 2023.

With regard to priority actions 2 and 3 relating to Severn Estuary HRA compliance, we can only fully complete these priority actions once the Severn Trent Minworth SRO has completed both bench tests and pilot trails for the proposed advanced Minworth and Netheridge treatment processes. The pilot trials are not due to be completed by the Minworth SRO until 2024. We therefore request that the priority actions 2 and 3 recognise that whilst progress should be made by December 2023 based on the results of bench tests, there will be further work required in Gate 3 to fully address the environmental uncertainties identified.

3. Timing of Gates 3 and 4 and Checkpoint

Gate 3 and 4 timing

As noted in section 7 of our Gate 2 report and the Gate 2 Project Delivery Plan annex, the milestones dates provided are earliest delivery with further quantified schedule assessment of risk required as the STT project progresses.

In particular, the timing of Gate 3 and 4 milestones are dependent on the outcome of DCO pre-application planning and WRMP processes.

The DCO involves significant stakeholder engagement and public consultation, with a programme driven by the outcome of the pre-application processes the duration of which is outside the full control of the STT project.

The Gate 3 timing is also contingent on publication of the final WRMPs. Whilst the STT is currently proceeding on a programme where it could be construction ready in AMP8 and commissioned in AMP9, we would not progress STT to be construction ready in AMP8 if it is not specified in the final WRMPs. This is because the Water Resources National Policy Statement states that if the project is included in a company's WRMP, the need for that project is demonstrated in line with government policy and would not be expected to be revisited as part of the application for development consent.

We would therefore request within the final decision that there is RAPID confirmation noting the dates are 'earliest target dates' and that, whilst SROs should seek to maintain the programme, a flexible approach will be applied to these dates acknowledging the uncertainties associated with the DCO pre-application stage of major projects such as STT and also the outcome of the final WRMP.

Whilst noting the general points above, for the Gate 3 assumed target date we have indicated January 2025 in the Gate 2 documentation. It would be helpful if this were acknowledged by RAPID as the first quarter 2025 (i.e. by March 2025) which then coincides with the end of AMP7 and aligns with other STT SRO end of Gate 3 target dates.

4. Gate 2 outturn costs

We are pleased to advise that the final Gate 2 out-turn expenditure is £6.745M compared with a reported estimate at Gate of £7.205M. The reduction arises from changes across a number of workstreams including project management, system engineering, environmental assessments and monitoring, environmental regulator charges, commercial and legal. The total Gate 1 and Gate 2 actual expenditure is summarised in the table below.

Table 2: Summary of Gate 1 and 2 actual expenditure

Activity	Funding allowance (£,000)	Expenditure (£,000)	Underspend (£,000)
Gate 1	£6,660	£4,014	£2,646
Gate 2	£9,990	£6,745	£3,245
Total	£16,650	£10,759	£5,891
All costs at 17/18 price base			

5. Funding

Gate 3 and 4 funding

The draft decision increases Gate 3 funding by 65% of the forecast shortfall, resulting in the position set out in in Table 3.

Table 3: Summary of updated funding provision

Activity	Draft Gate 2 decision funding (£,000)	Gate 2 submission estimated cost. (£,000)	Shortfall against estimated requirement (£,000)
Gate 3	£46,231 ²	£49,500	£3,269
1. All costs are cumulative and at 17/18 price base. 2. £23,310k Gate 3 PR19 allowance + £17,030k increased Gate 3 allowance +£5,891k Gate 1 &2 underspend			

In addition, the cost sharing rate is changing, with the solution owners being responsible for 80% of any overspend at Gate 3. We recognise RAPID’s objectives in making these changes for Gate 3, principally to challenge the more efficient delivery of Gate 3 and to protect the customers interests.

We note that the funding for AMP8 (for any remaining Gate 3 activities, Gate 4 and construction) 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 as this will be essential to enabling us to fund additional work in this area, should it be required.

Changes in timing

We also note that the forecast in Table 3 assumes STT is to be construction ready in AMP 8, with Gate 3 occurring in Q1 2025. Should changes in the STT programme be agreed as a result of WRMP outcomes this could result in significant prolongation, demobilisation and remobilisation costs.

Changes to the STT programme arising out of the WRMP process would be reflected in our PR24 submissions and we would agree a revised schedule and cost forecast with you at the mid-gate 3 Checkpoint in late 2023.

Should such changes in timing occur, we would need to agree a mechanism with you to assess performance at the end of AMP 8 and calculate cost sharing and cost efficiency. To this end you might consider introducing a further Gate 3 Checkpoint at the end of AMP 7.

Changes in Scope

The Gate 3 forecast assumes the scope of the STT project remains as set out in the Gate 2 submission. Should regulators not accept the use of the sources of water currently proposed, or require changes in specification which mean those sources cease to be value for money, then we would seek additional Gate 3 allowances to allow alternative sources to be developed.

6. Partner arrangements

Subject to confirmation that the funding for AMP8 for any remaining Gate 3 activities, Gate 4 and construction will be determined through the PR24 process, we confirm the proposed partner arrangements for Gate 3 remain as set out in the Gate 2 report. This would result in a split of funding to be applied to Gate 3 activities of 80:10:10 between Thames Water, Severn Trent Water and United Utilities customers respectively.

7. Solution Summary

As a minor observation, the solution summary includes the Shrewsbury Redeployment in the solution narrative and schematic. Please note, the Gate 2 report concluded (similar to Mythe) that the Shrewsbury source option should not progress as part of the STT solution scope.

On behalf of all three partners, we would like to take this opportunity to thank RAPID, EA, NRW, NE, Ofwat & DWI for their engagement and collaborative working throughout Gate 2, and for their positive Draft Decision response to our Gate 2 submission.

Sincerely,

On Behalf of:

Severn Trent Water

Bob Stear

Chief Engineer

Thames Water

Nevil Muncaster

Strategic Resources Director

United Utilities

James Bullock

Strategy and Regulation Director