

31 July 2024

Dear RAPID,

### **Strategic regional water resource solutions: Gate Three submission for Southern Water**

Please find enclosed our submission for RAPID Gate Three in respect of the Hampshire Water Transfer and Water Recycling Project (HWTWRP).

Following an informal submission in March 2024 which was subject to RAPID review, this constitutes Southern Water's formal Gate Three submission which incorporates some initial feedback received from Regulators.

Southern Water would like to thank the RAPID partner regulators for their ongoing collaboration and continued engagement with HWTWRP in the period to RAPID Gate Three, which is the first project in the industry to reach this milestone.

The HWTWRP solution has progressed significantly since Gate Two, with some key project milestones having been met. These include receiving confirmation from the Secretary of State that a Development Consent Order (DCO) should be used to consent the scheme, undertaking Non-Statutory Consultation, submitting an EIA scoping request to the Planning Inspectorate, and completing almost 200 ground investigation surveys and almost 5,000 ecological and environmental surveys. The feedback and findings of these processes have been incorporated into engineering design, and a pre-Gate Three design freeze was implemented in November 2023.

It should be noted that with RAPID's agreement in the July 2024 Checkpoint, the data and costings from the informal submission were used within the formal submission to protect the external independent assurance that had been undertaken for the original Gate Three date of end March 2024. It should be noted that with RAPID's agreement in the July 2024 Checkpoint, the data and costings from the informal submission were retained within the formal submission to protect the external independent assurance that had been undertaken for the original Gate Three date of end March 2024.

In line with our Gate Four activity milestones, since the informal submission the HWTWRP delivery team have consulted in relation to the Statutory Consultation and Preliminary Environmental Impact Report (PEIR) for the scheme, undertaken as part of the DCO pre-application activities.

### **DPC**

We have held recent discussions with Ofwat regarding the progress of our Stage 2 DPC submission including the option for the DPC Stage 2 submission requirement to be dissociated from the RAPID Gate Three submission, and a pragmatic way forward has been agreed. We assume that our submission will be assessed in that light. Notwithstanding this, for stakeholder transparency, in this submission we are sharing with RAPID the way in which our commercial and procurement strategies are evolving for delivery of the HWTWRP through DPC. The Southern Water Board have also added an additional Board statement, since agreed with RAPID (July 2024), to demonstrate their commitment to closing out this variance from the Gate Three guidance.

### **Gate Three milestone**

As Gate Three lays out the solution ahead of our formal application for consent, the maturity of the information available at the time of this submission for particular workstreams (e.g. Environmental, Planning, Water Quality, Procurement) is directly related to how developed each workstream is, in the context of achieving a DCO and securing relevant regulatory approvals.

For example, a fully developed Drinking Water Safety Plan (DWSP) to fully protect the end consumer from "source to tap" is not yet available for the scheme, which is commensurate with the progress of the scheme in the context of its engineering design maturity at this stage. The DWSP will continue to be matured in conjunction with Portsmouth Water and will be available in good time to ensure the availability of the new source is both compliant with DWI regulations to provide wholesome water and that customers are engaged throughout the process to provide confidence in this safe, sustainable source of water.

As RAPID is aware, much of the progress on the delivery of HWTWRP has and will continue to be reported with external stakeholders through the required consenting activities (i.e. the recently completed Statutory Consultation incorporating the PEIR, and other planned engagement supporting the pathway to DCO

submission) rather than through the Gate Three submission itself. We trust this will provide reassurance to RAPID and confirm that we are making competent progress in the delivery of the project.

### **Alignment with other statutory processes**

Southern Water submitted the PR24 business plan in October 2023 and is working through the draft determination received from Ofwat in July 2024. We continue to work on aligning the process of providing the required data to RAPID and to Ofwat through PR24, managing the challenge of differences in timing as far as possible.

We recognise that the cost values provided for the Gate Three submission vary from those submitted for PR24 (and revised draft WRMP24) as the design has matured since those data submissions were made, resulting in more accurate cost calculations from those provided in 2023. We continue to work with RAPID through the All Company Working Group to provide further alignments in cost data to support the PR24 process.

Owing to the timing of Gate Three submission preparation and assurance, costs reported do not align with those costs presented earlier in 2024 to Ofwat by Portsmouth Water for the Havant Thicket Reservoir (HTR) Cost Adjustment Mechanism submission relating to alignment works between HWTWRP and HTR. These costs were not available to Southern Water at the time of assuring the Gate Three cost data.

As shared with RAPID at recent checkpoints, Southern Water's WRMP team is working to deliver a published WRMP24 by Q2 2025, and in advance of the DCO application. We are fully aware of the importance of developing a scheme which is in line with the outcomes and conclusions of the WRMP process, given the emphasis in the National Policy Statement on Water Resources Infrastructure on "need" for schemes flowing through water companies' final published WRMP. We will continue to work with the Environment Agency and Defra to deliver a compliant WRMP24 as soon as possible.

Southern Water remains fully committed to designing and delivering a scheme which meets the supply need for our customers in the Western Area and delivers the environmental benefits of protecting the rivers Test and Itchen as quickly as possible. We are therefore continually working to optimise delivery of the HWTWRP as the long-term water resources scheme for the Western Area. The current expected delivery date for the scheme is March 2034 (with 80% confidence as described in chapter 6 of the submission), which aligns with our revised draft WRMP24, but we are continually looking at ways to expedite this while delivering a high-quality low-risk scheme.

### **Planning and Consenting**

We have made good progress in developing the DCO application for the HWTWRP and have met a major milestone in the consenting of the project in carrying out our Statutory Consultation. As RAPID is aware, in partnership with Portsmouth Water we are pursuing an opportunity for delivery of a combined tunnel (referred to as the Preferred Tunnel Option) that can be utilised by both Southern Water and Portsmouth Water with the objective of minimising cost to customers and reducing impact on local communities and the environment. We are also continuing to pursue a Backup Tunnel Option in preparedness for a scenario where the Preferred Tunnel Option planning application should not be granted, thus reducing the risk on programme delivery timescales. Further detail on this has been communicated through the Statutory Consultation and will be further communicated as part of Portsmouth Water's planning activities in support of the combined tunnel.

### **Desalination and Back-up Option B.5.**

In the accelerated Gate Two final decision, published 17th May 2022, RAPID requested that Southern Water and Portsmouth Water provide an Interim Update to include shared activities relating to both HWTWRP and the Water Recycling SRO Back-up Solution (Option B.5). An Interim Update was made to RAPID in May 2023, confirming that work to progress the Back-Up Option B.5 had paused, and delivery would be focused on HWTWRP. The Interim Update documentation is included as Annex 8C: Interim Update, within this submission.

The Desalination SRO was deselected at Gate Two as it was demonstrated as part of the Options Appraisal Process as being significantly less viable than the HWTWRP solution. At the same time, it was removed from the WRMP24 activities as the HWTWRP was the preferred solution with Back Up Option B.5.

## Gate Three Formal Submission Cover Letter

Within our Gate Two Interim Update (27 September 2021) we flagged that there had been early Gate Three expenditure in relation to Desalination which would need to be recovered at Gate Three, as agreed with RAPID in January 2024 Checkpoint.

For both the Desalination SRO and the Back Up Option B.5 SRO there is not a separate Gate Three submission given both were deselected or paused prior to Gate Three. PR24 contains data tables which highlight the RAPID expenditure relating to these two SROs, covered within separate allowances to the HWTWRP SRO.

| SRO (all costs 2017/18 prices)                    | Early G3 expenditure £m's | Gate 3 expenditure post Gate 2 submission £m's | Total £m | Evidence provided to RAPID                                    |
|---|---------------------------|--|----------|---|
| Desalination SRO                                  | 1.06                      | none   | 1.06     | Gate 2 Interim Update Sept 2022, closing the Desalination SRO |
| Water Recycling SRO Back-up Solution (Option B.5) | 1.523                     | 0.28   | 1.80     | Gate 3 Interim Update 31st May 2023, pausing the SRO          |
|   |                           | Total expended                                 | £2.86m   | Separate to HWTWRP Allowance                                  |

## Gate Four Allowance discrepancy

The current allowance for Gate Four is £10.8m (2017/18 prices) however, as reflected in Southern Water's PR24 data tables, it has already been indicated that this is not sufficient funding to achieve the maturity of planning required for a DCO application (a major deliverable for Gate Four). Southern Water will continue to work with RAPID and Ofwat to confirm a revised allowance for Gate Four for HWTWRP through the PR24 process.

## Navigation of the Gate Three submission

As described in Checkpoints and agreed with RAPID prior to submission Southern Water has taken a pragmatic approach to aligning the Gate Three template with the Gate Three Guidance (Version 3) to minimise the risk of duplicated information and to make the documentation more user-friendly. We have included a table in the annex of this letter which indicates the structure of the submission and its supporting annexes.

## Board Assurance Statement

Southern Water's Board have reviewed the status of the Gate Three report and have provided the required assurance statement in support of the "formal" submission. Considering the status of the Direct Procurement for Customer (DPC) Stage 2 deliverable, the Board have made an additional statement of commitment to expediting this work. Furthermore, reference to the risk assurance work conducted has been added to the statement on schedule delivery. The Board assurance statements that support the formal submission are provided below.

| Board Statement  |
|--|
| The Board supports the recommendations for solution progression made in the submission at Gate Three and the recommendations for which option within the solution should be progressed.  |
| The Board is satisfied that a realistic and achievable programme for the solution is in place, there are no insurmountable obstacles to the delivery of the solution in accordance with that programme and that taking account of its risk analysis progress on the solution at Gate Three in accordance with that programme is commensurate with the solution being "construction-ready" for 2025-2030 and "operational-ready" for 2030-2035; |
| The Board is satisfied that significant risks to the delivery of the solution in accordance with the programme and within current cost projections have been identified and that those risks are managed well.   |

Gate Three Formal Submission Cover Letter

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| <p>The Board is satisfied that the work carried out at Gate Three is of sufficient scope, detail and quality to ensure that applications can be made for development consent orders, planning applications and other necessary statutory consents and permits in accordance with the programme and the work carried out at gate three is commensurate with the solution being “construction-ready” for 2025-2030 and “operational-ready” for 2030-2035;</p> |
| <p>The Board is satisfied that expenditure has been incurred only on activities that are appropriate for Gate Three and is efficient and cost effective.</p>  |
| <p>The Board is satisfied that the solution will be delivered to meet the needs of the region as set out in the revised draft WRMP24.</p>   |
| <p>In addition to the RAPID Gate Three requirements above, the Southern Water Board acknowledges that further work is required to complete the DPC Stage 2 deliverables and provides assurance that this task will be given due attention to expedite completion.</p>   |

We look forward to continuing the journey with RAPID to Gate Four, and afterwards with the Ofwat Major Projects team as we bring HWTWRP through to operational delivery.

Yours sincerely

redacted  
Chief Finance Officer, Southern Water

## Annex

| Submission Chapter | Description   | Annex | Description   |
|--------------------|---|-------|---|
| 1                  | Summary of Key elements (RAPID format)  | 1A    | RAPID Gate Three requirements and location within the submission  |
|                    |   | 1B    | Gate Two Non-Priority Actions & Recommendations   |
|                    |   | 1C    | Glossary of key words and abbreviations   |
| 2                  | Solution Design description, including changes since Gate Two plus WRMP24 alignment | 2     | Additional evidence on solution design and revised draft WRMP24<br><i>NB: SEMD specifications have been redacted in the published version of the submission</i>   |
| 3                  | Drinking Water Quality  | 3     | Additional evidence on Drinking Water Quality and Environmental activity  |
| 4                  | Environmental   |       | No Annex  |
| 5                  | Carbon  | 5     | Detail on carbon methodology and changes since Gate Two   |
| 6                  | Programme and Planning  | 6     | Additional evidence on programme and planning information   |
| 7                  | Procurement and Operation   |       | No Annex  |
| 8                  | Solution Costs and Benefits   | 8A    | Detail on cost methodology and changes since Gate Two   |
|                    |   | 8B    | ACWG template for total costs (Capex, Opex etc) of SRO<br>Efficiency of expenditure template for Gate Three costs and Gate Four forecast  |
|                    |   | 8C    | Gate Three Interim Update (May 2023) as provided to RAPID   |
| 9                  | Stakeholder and Customer Engagement   | 9     | Additional information on engagement  |
| 10                 | Board Statement and Assurance   | 10    | Description from Southern Water and Portsmouth Water on Assurance and Board Statement, including signatures (redacted for security purposes)<br><i>NB: Board members names and signatures have been redacted in the published version of the submission</i> |
| 11                 | Conclusions and Recommendations   |       | No Annex  |