



Simon Moody, Environment Agency and Paul Hickey, RAPID

.Your ref

Our ref

Date
1 October 2021

Dear Simon and Paul,

Water for Life-Hampshire Programme (Programme)

Strategic Resource Option (SRO)

I am writing to you in relation to the Gate 2 submission scheduled for 27 September 2021 to request your agreement by way of your affirmative reply to this letter:

1. that we cease work on the three desalination options currently within the Programme with effect from the date of your reply to this letter;
2. that Gate 2 is rescheduled to later in the year to provide more time for us to test, in the context of the move to a 1 in 500 year drought standard required for WRMP24, the outcome of the options appraisal work we have undertaken since Gate 1; and
3. that the section 20 agreement be amended to reflect the revised timelines and deliverables approved at Gate 2

I deal with each of those matters in turn below.

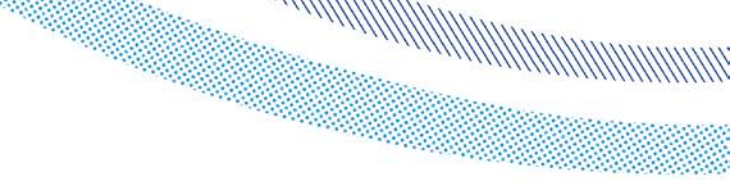
No further work to be carried out on the desalination options within the Programme

As you know, the desalination options we have been considering are as follows:

- A.1: 75 MI/d desalinated water direct to Testwood WSW (the current Base Case);
- A.2: 61 MI/d desalinated water direct to Testwood WSW; and
- D.1: 40 MI/d of industrial water supplied to a large coastal industrial facility by desalination plant situated within the site boundary of the industrial facility.

Option D.1 ranked towards the bottom of the hierarchy at Gate 1 and after further work was considered unviable in July but Options A.1 and A.2 have recently been taken through our options appraisal process, including the Consenting Evaluation and the MCDA, in advance of Gate 2. We have made very good progress with this and the clearly emerging and consistent 'direction of travel' is that all of the non-desalination options are ranking considerably higher than the two remaining desalination ones.

In addition the results of our non-statutory consultation earlier this year, evidence from our continuing development work and feedback from our regulators and other stakeholders all firmly point to the very real difficulty, if not impossibility, of managing effectively the environmental and other impacts and risks of these two particular desalination options, at this time and location.



In view of this we propose and ask for your agreement now that (a) with effect from the date of your affirmative reply to this letter, those options A.1 and A.2 should not be taken any further by us for the purposes of our Gate 2 submission; and (b) we submit to you on 27 September by way of an 'Interim Update' evidence of our technical development, options appraisal work and stakeholder engagement on all of the options for your consideration and publication. More specifically we would submit at this Interim Update:

- **Submission Summary** – Level 1 documentation to summarise: the outcomes of our options appraisal; our proposal to cease development of the desalination options; and the highest ranking other options;
- **Level 2 Detailed Feasibility and Concept Design Report (Desalination)** – evidence supporting our proposal to cease development of the desalination options;
- **Level 3A Technical documents (Desalination)** – evidence supporting our proposal to cease development of the desalination options;
- **Options Appraisal Annex** – setting out the options appraisal work undertaken since Gate 1 in respect of the desalination options and the other options;
- **Activity Plan to Gate 2** – planned activities for testing, particularly in the context of the move to a 1 in 500 year drought standard required for WRMP24, the outcome of the options appraisal work we have undertaken since Gate 1;
- **Regulatory Plan** – our intentions for liaising with regulators up to Gate 2 in respect of the work to be covered by our Gate 2 submission; and
- **Efficiency of Expenditure information** (to be submitted at the Interim Update but assessed at Gate 2).

We would expect you to respond within 20 working days of your receipt of our Interim Update submissions, so on or by Monday 25 October, with your views on the evidence submitted and with your final agreement to our proposal to cease development of the desalination options.

Rescheduling Gate 2

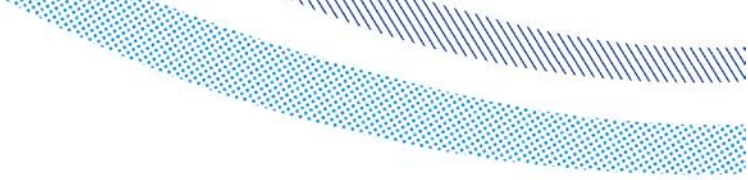
Your guidance *PR19: Final Determinations: Strategic Regional Water Resource Solutions* says:

“As gates two and three are aligned to the water resources management plan statutory process, namely the publication of draft and final plans, there is flexibility in these gate timings to acknowledge that external factors may cause the planned dates to change.”

That alignment is the case for the standard gates but not for our accelerated gates. Our options appraisal process to date has all been undertaken through a 1:200 year lens but one of our three strategic objectives is adaptability, to ensure suitability to meeting long term water supply requirements and therefore sustainability of supply. This means that the option we select must be sustainable by being flexible and adaptable, including in terms of its:

- (a) capacity and scalability;
- (b) ability to contribute to strategic reinforcement of the regional and national network;
- (c) ability to rely on appropriate transitional measures to manage risks around delivery timescales; and
- (d) ability to allow for technological innovation.

We have not yet been able to fully test, particularly in the context of the move to a 1 in 500 year drought standard required for WRMP24 (which would be prudent to do), the outcome of the options appraisal work we have undertaken since Gate 1, and therefore do not yet have definitive confidence as to which of the



options for the selected SRO at Gate 2 is/are the right one(s) for Southern Water (and indeed Portsmouth Water), our regulators, stakeholders and our customers in that different context.

Having regard to that indication in your Guidance of flexibility we therefore propose and ask for your agreement now that the arrangements for Gate 2, currently set for 27 September 2021, are modified as follows:

- a) Gate 2 is rescheduled to 6 December 2021, with there being no penalty imposed by RAPID for this rescheduling; and
- b) RAPID will agree to expedited determination timescales in respect of the rescheduled Gate 2, to enable SW to get on at pace with progressing the selected option towards Gate 3. We suggest a date in early 2022 (preferably January) for a Provisional Determination, and seek your confirmation of that Response Date by return. This is on the basis that we commit to share the evidence we are developing for Gate 2 with the relevant regulators in good time before the gate and that their advice is incorporated.

At this gate the highest-ranking option or options will be confirmed by SW as our 'Selected Option', and if appropriate a further option will be confirmed as a 'Back-Up Option', to be taken forward to Gate 3 in the manner described in our submission. SW will detail how our 'Selected Option' is planned to evolve to meet the challenge of a 1:500 water resource planning world by submission at Gate 2 of a 'Selected Option Evolution Plan' and a similar approach will be taken with any Back-Up Option selected.

The rescheduling of Gate 2 will, of course, impact on the Gate-based funding arrangements. As a result of the rescheduling of Gate 2, the activities between the submission of the Interim Update and the rescheduled Gate 2 submission will comprise of elements that would have been required for a 1:200 year drought standard as well as new scope associated with addressing the 1:500 year drought standard and should therefore be considered as Gate 2 – 3 activities from a funding and efficiency of expenditure perspective. There will need to be detailed engagement with RAPID on this point specifically following agreement to the re-scheduling of Gate 2.

Section 20 agreement

Given that the Selected Option at Gate 2 will be different to the current Base Case, and that none of the other options can be delivered to the original section 20 timescale, it will be necessary, and the Agency has agreed, to a limited change to the section 20 agreement to reflect the revised timelines and deliverables approved at Gate 2 and to ensure that SW can continue to meet its supply duty after 2027. We also ask the Agency to confirm that any agreed decision for SW to progress an option different to the current Base Case will not give rise to any enforcement action under the current section 20 agreement.

WRMP implications

We think the above has implications for water resource management planning. We would like to reach an agreed approach for incorporating the SRO selected at Gate 2 in SW's water resource management plans, to the extent it is not already incorporated.

Changes to the WRMP19 position will need go through a transparent engagement process with stakeholders albeit undertaken in a proportionate way. So, as we have been doing before the Interim Update was submitted, we will continue engaging with regulators and other statutory bodies before Gate 2 in accordance with our Interim Update Engagement Plan. We will also engage with the Agency and Natural England on a revised draft of our WRMP19 Annual Review in October / November and in any event we will publish it once submitted. We will of course be engaging with wider stakeholders on an ongoing basis both before and after Gate 2, after publication of the WRMP19 Annual Review and as part of the consenting process for the Selected Option at Gate 2.

We would welcome the opportunity to discuss the details of this further with RAPID, the Agency and Defra as soon as possible, and hopefully in the week commencing 4th October.

Conclusion

I hope that the matters set out above are sufficiently clear and we trust that they accord with your own thoughts. Please confirm by affirmative reply, if we are in agreement, that this exchange of correspondence is sufficient to formalise the Agency and RAPID's agreement with our proposal to cease development of the desalination options, the modification to the accelerated gated process and the amendment to the section 20 agreement.

SW would also appreciate the Agency's and RAPID's assistance in communicating our ceasing development of the desalination options and this modification to the accelerated gated process to key stakeholders including Defra, Natural England, local authorities and others.

We have agreed that this letter and your reply will be published on RAPID, the Agency and Ofwat's website to record the agreement we have reached and those matters upon which we are to make further progress.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'G. e.', is written over the 'Yours sincerely,' text.

Director Wastewater & Asset Management